

# Pakistan Market Strategy

**KSE-100 Index gains 4% in 1H2018 (down 6% in US\$)**  
**One of the worst performing in FY18**

**ASIAMONEY**

Best Local Brokerage House  
Brokers Poll 2011-14, 2016-17

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[www.jamapunji.pk](http://www.jamapunji.pk)

**Topline Research**

research@topline.com.pk

Tel: +9221-35303330

**Topline Securities, Pakistan**

# 1H2018 KSE 100 down 6% in US\$ terms; one of the worst performing in FY18



- KSE-100 index returned 4% in 1H2018 with major gains seen in 1Q2018 of 13% while 2Q2018 saw loss of 8%. In US\$ terms, the KSE-100 index is down 6% during 1H2018 after two rounds of devaluation of around 10%.
- The benchmark index also posted loss during FY18 as index yielded negative return of 10% after a lag of 8 years when market last saw decline of 42% in FY09. In US\$ terms, market posted 22% decline after Pak Rupee depreciation of ~15% in FY18.
- This makes Pakistan one of the worst performing markets in world in FY18 with third consecutive year of foreign outflow at US\$262mn, taking cumulative outflow to US\$1.12bn in last three fiscal years (FY16-18).
- Market performance during FY18 is in sharp contrast to last 8-years (FY10-FY17) when market posted average annual gain of 23%.
- We attribute this below par performance to increased political noise amid upcoming general election, deterioration in external account and continued foreign selling.

## Foreign Flows on FY basis

US\$m	G-Buy	G-Sell	Net flow
FY14	2,111	(1,855)	256
FY15	2,758	(2,720)	39
FY16	2,457	(2,739)	(282)
FY17	4,685	(5,316)	(631)
FY18	2,617	(2,878)	(262)

Source: NCCPL, Topline Research

## KSE-100 Semi Annual Return

	PKR	US\$
1HFY14	17%	25%
1HFY15	7%	6%
1HFY16	15%	15%
1HFY17	-3%	-3%
1HFY18	4%	-6%

Source: PSX

## KSE-100 Return on FY basis

	PKR	US\$
FY09	-42%	-51%
FY10	36%	29%
FY11	29%	28%
FY12	10%	0.5%
FY13	52%	44%
FY14	41%	43%
FY15	16%	13%
FY16	10%	7%
FY17	23%	23%
FY18	-10%	-22%

Source: PSX

# 1H2018 witnessed slight recovery

- In 1H2018, market witnessed slight recovery of 4% as against index decline of 3% in 1H2017. However, currency weakness marred returns in U.S dollar terms.
- The market saw a buoyant start to the year as market returned 8.8% in month of Jan 2018 where largest gains were contributed by banks (996 points or 10%) and cement sector (640 points or 18%) with former due to expected rise in inflation/discount rate and latter due to higher domestic demand of cement coupled with court's ban on construction of new cement plants.
- Later on after posting high of 46,637 points on Apr 6, 2018, index witnessed pressure amid concerns on depleting foreign exchange reserves. Foreign Exchange reserves depleted to US\$9.7bn as of Jun 22, 2018 (import cover of 1.9x), which is down US\$4.4bn from US\$14.1bn during 1H2018.
- During 1H2018, foreigners remained net sellers of US\$133mn vs. US\$332mn selling in 1H2017, as market had witnessed heavy foreign selling of US\$141mn in May 2017 ahead of MSCI Emerging market reclassification. We believe that continued outflow of foreigners since last three years is due to 1) expectation of currency devaluation, 2) depleting foreign exchange reserves & 3) continued global sell off from Emerging Markets.
- On the domestic front, Insurance remained net buyers of US\$140mn in 1H2018 whereas Banks were net sellers of US\$65mn.

## Monthly Sector wise FIPI net position (US\$m)

	E&P's	Fertilizer	Cement	Food	Textile	Tech	Power	Banks	OMC's	Others	Total
Jan-18	3.9	4.3	28.0	-0.2	1.8	0.9	4.8	25.0	4.0	13.1	85.7
Feb-18	-9.5	-4.8	0.0	0.4	-1.5	-0.7	0.7	-24.4	3.6	4.2	-32.0
Mar-18	0.5	-4.8	6.3	0.3	-0.5	0.0	-18.1	-8.3	-2.3	4.5	-22.4
Apr-18	-31.8	3.6	-1.4	0.7	-2.0	-0.6	0.1	3.8	-6.8	16.9	-17.4
May-18	-6.0	-1.7	-18.3	0.8	-2.8	0.4	-2.1	-55.4	-3.0	14.8	-73.2
Jun-18	-6.4	-3.0	-18.5	-1.4	-4.9	1.9	-0.6	-39.9	-2.8	1.8	-74.0
<b>Total</b>	<b>-49.3</b>	<b>-6.4</b>	<b>-3.7</b>	<b>0.6</b>	<b>-9.9</b>	<b>1.9</b>	<b>-15.4</b>	<b>-99.2</b>	<b>-7.4</b>	<b>55.4</b>	<b>-133.3</b>

Source: NCCPL, Topline Research

# Market participation declined during 1H2018

- Market participants preferred to remain on the sidelines amid concerns on both economic and political front, where total traded volume and value were down by 39% and 49% respectively.
- Among sectors, OMCs and Fertilizers remained in the list of top performers of the market posting return of 12% each. OMCs rallied in 1H2018 due to increase in OMCs margins and restoration of furnace oil sales. While, Fertilizer gained on the back of diminishing urea inventory and attractive urea sales growth of 29% YoY in 5M2018.
- On the other hand, Automobile assemblers and Engineering (mainly steel) sector were among worst performers in 1H2018 with negative return of 13% and 9% respectively during 1H2018. Automobile sector was hammered by new budgetary measures of FY19, where non filers were barred from purchasing any vehicle. Similarly, dismal performance of Engineering sector could be attributed to poor economic outlook going forward, resulting in contained aggregate demand coupled with thinner spread in flat steel.

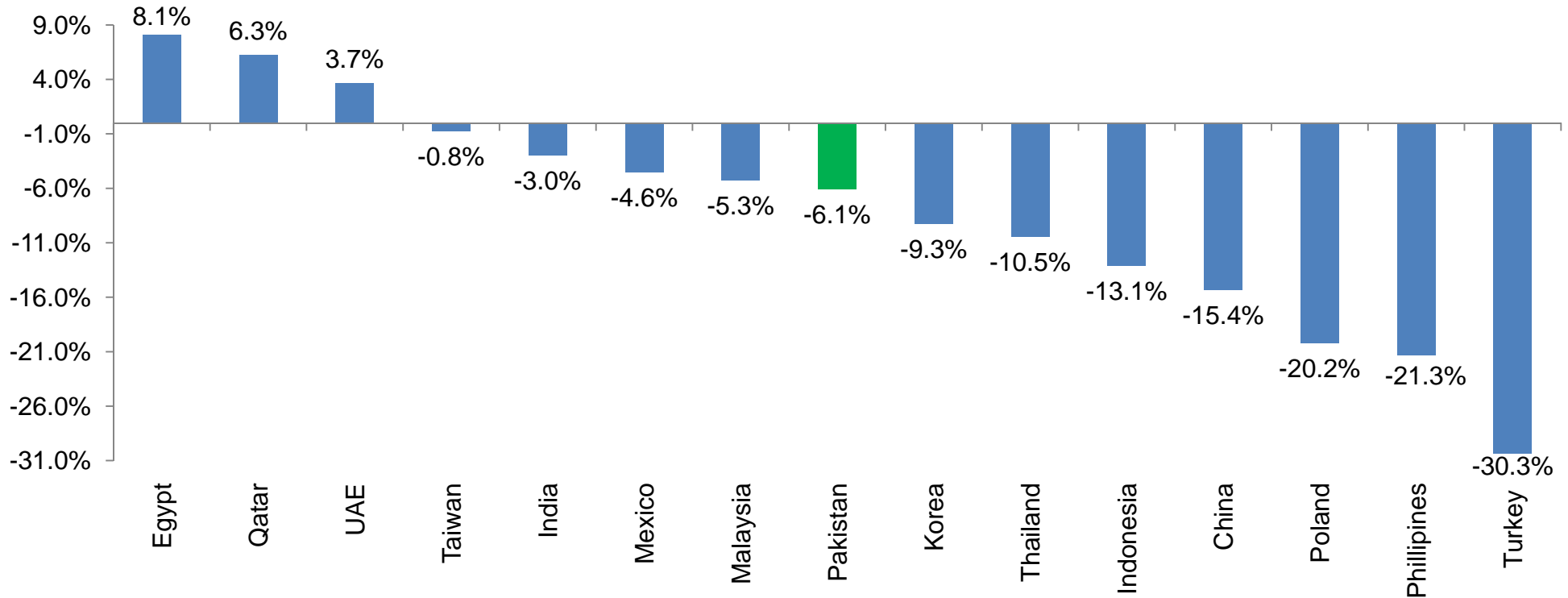
Historical Monthly Average Daily Volume & Value				
Month	Avg.Vol. (share mn)	Cash Avg. Val. (Rsbn)	Fut. Avg. Vol. (share mn)	Fut. Avg. Val.(Rsbn)
Jan-18	237.2	10.4	68.6	3.8
Feb-18	203.7	8.3	65.8	3.3
Mar-18	192.7	8.0	60.4	2.8
Apr-18	209.6	9.5	62.8	2.9
May-18	134.5	5.7	53.1	2.2
Jun-18	161.7	7.3	61.5	2.6

Source: PSX, Topline Research

# MSCI EM down 10% vs. KSE-100 down 6% in 1H2018

- Pakistan's benchmark index outperformed its peers by ~4%, where MSCI EM index fell by 10% vs. 6% decline in KSE100. Egypt and Qatar remained among top performers with return of 8.1% and 6.3% respectively. While, Turkey and Philippines remained worst performers with decline of 30.3% and 21.3% respectively.

## Benchmark indexes CYTD performance



Source: Bloomberg, Topline Research

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Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

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Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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