

Pakistan Economy

MPS Preview (Jan'24) - Status quo likely

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ASIAMONEY

Best Securities House: 2023
Best Investment Bank: 2023

FinanceAsia

Best Investment Bank: 2022



Best Equity House: 2022



Best Equity Advisor: 2021



Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
Best Equity Sales Person (Runner up): 2023



Top 25 Companies
(2019, 2018 & 2017)



Excellence Award
Leading Brokerage House for RDA 2021



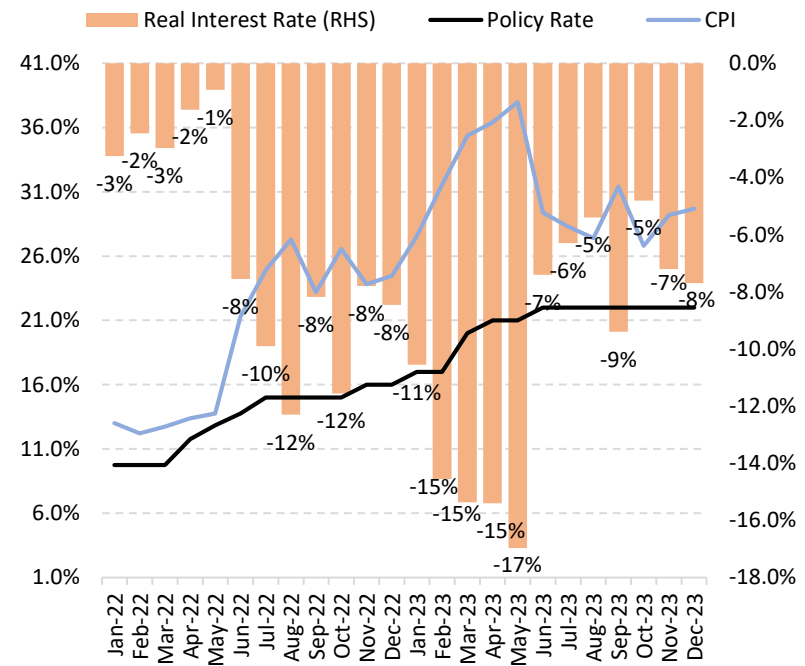
Best Money Market Broker
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MPS Preview

Status quo likely

- The MPC is scheduled to convene its upcoming session in Jan'24, marking the first meeting of CY24. It is anticipated that the SBP will maintain the policy rate at 22% during this meeting.
- To recall, in the last scheduled meeting of Dec'23, SBP maintained the policy rate unchanged at 22% citing that the decision took into consideration the impact of the surge in gas prices in Nov'23, which exceeded the MPC's initial projections for inflation. The MPC acknowledged that this could have repercussions for the inflation outlook, but also noted certain mitigating factors, such as the recent decline in international oil prices and improved availability of agricultural produce. Additionally, it also evaluated that the real interest rate remained positive when assessed on a 12-month forward-looking basis.
- Our projections point towards a downward trajectory in headline inflation during the latter half of FY24. The average MoM rate is projected to hover around 0.6% in 2HFY24, a significant decrease from the 1.7% average witnessed in 1HFY24. This forecast culminates in an estimated annual average of ~24% for headline inflation in FY24 (FY23: 29.2%). Several contributing factors, including the substantial base effect, stabilization of global commodity prices, support from the stability of the PKR against the USD, and efforts to curtail the current account deficit, underpin these expectations.
- Moreover, the recent LSM data published indicates a downtick of 4.08% YoY in Oct'23. However, on a MoM basis, LSMI recorded a decline of 2%. With this, during 4MFY24, LSM achieved a negative growth of 0.44% YoY. In our opinion, the easing of import restrictions remained crucial for driving the growth of LSMI. We believe, this has contributed to the improved availability of key production inputs.
- On the external front, during 5MFY24, CAD saw a remarkable 64% YoY decline, amounting to USD 1.16bn. This stands in stark contrast to the corresponding period in the prior year, where a deficit of USD 3.26bn was recorded, on the back of a 28% YoY reduction in trade deficit. Additionally, the improvement in SBP reserves, rising from USD 4.4bn at the end of Jun'23 to USD 7.76bn (22-Dec-23), contributed to a 1.47% strengthening of the PKR against the USD. This, in turn, played a role in controlling imported inflation to a certain extent.

Exhibit: CPI and Policy Rate

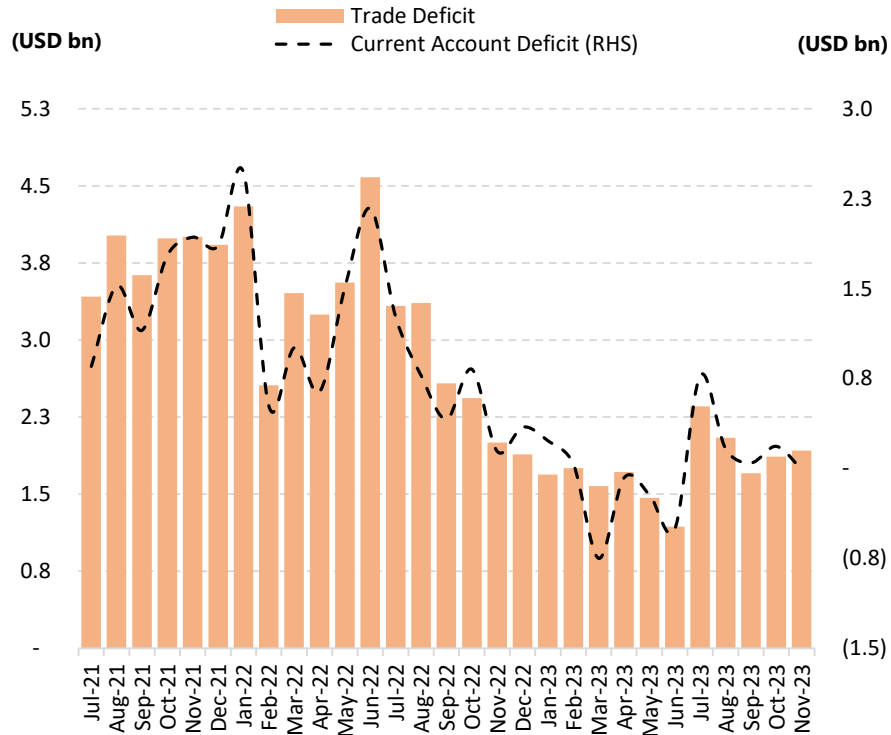


Source (s): SBP, PBS, AHL Research

MPS Preview

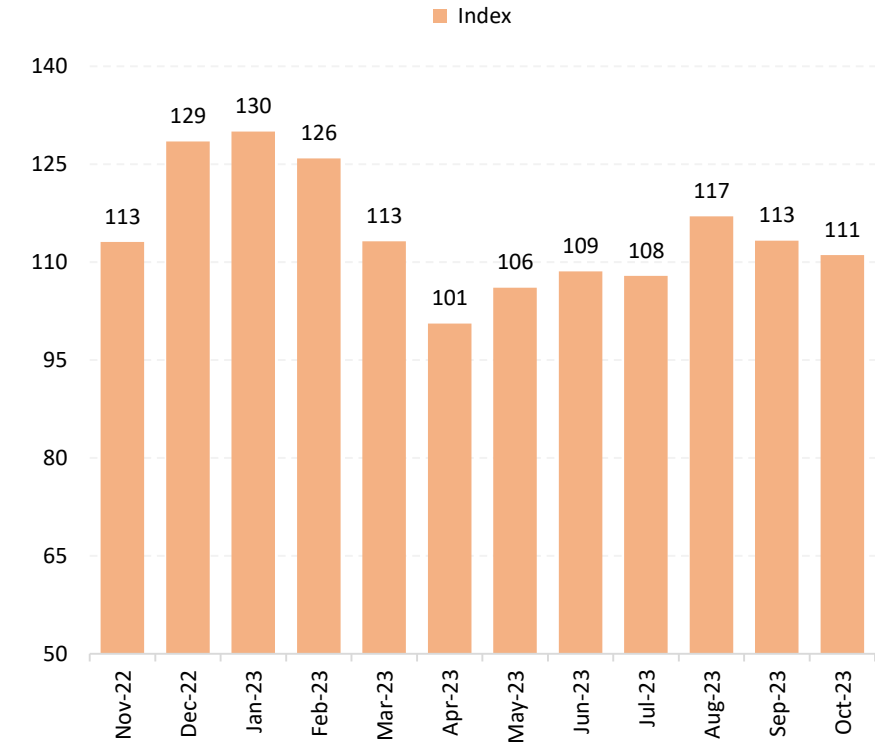
Status quo likely

Exhibit: Current Account Balance



Source (s): SBP, AHL Research

Exhibit: LSMI Index



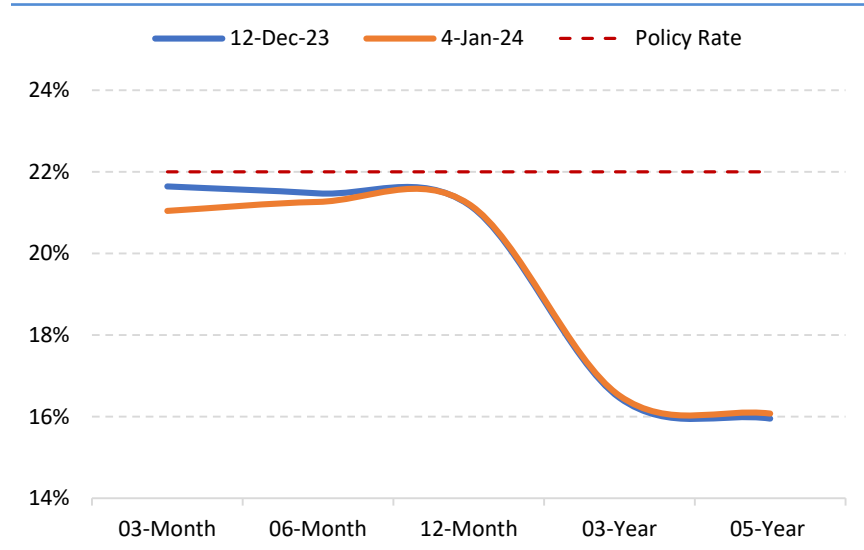
Source (s): SBP, AHL Research

MPS Preview

Money Market yields

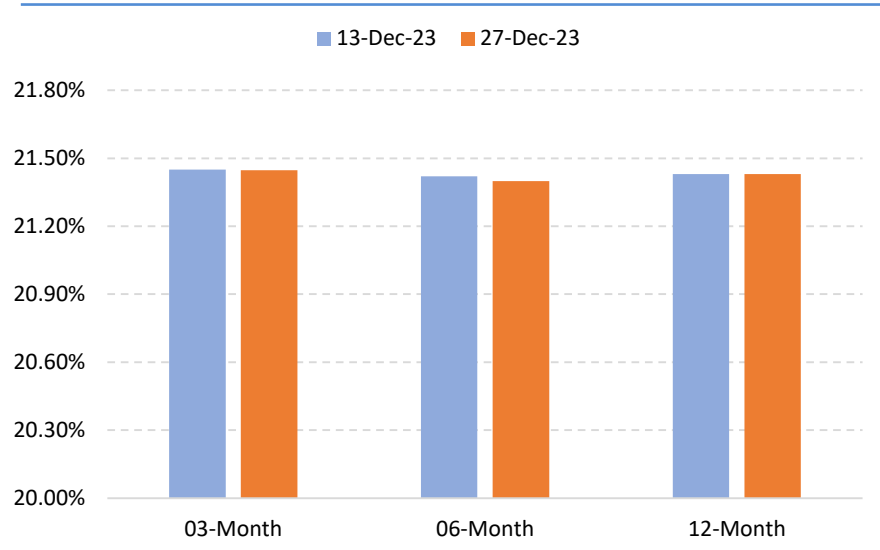
- Both the primary and secondary markets of government securities have not shown any major change in the yields since the last monetary policy announcement that was in Dec'23.
- However, we hold the view that the SBP might consider adjusting interest rates once there is a clear downward trajectory in inflation, a trend expected to materialize towards the end of 1QCY24. Current projections indicate that inflation is likely to remain slightly elevated in Jan'24 due to expectations of another gas tariff hike. Therefore, we anticipate that the SBP may exercise caution before implementing any rate adjustments in this MPS.
- T-bills in the primary market have maintained stability with no changes in rates for all three tenors (3 months, 6 months, and 12 months) since the last MPS.
- In the secondary market, T-bill rates for all three tenors have fluctuated within the range of -60 bps to +2 bps during this period.
- PIBs have experienced a slight uptick, ranging between 5 bps to 12 bps.

Exhibit: Yield Curve



Source (s): SBP, AHL Research

Exhibit: Primary market yields (latest vs. previous)



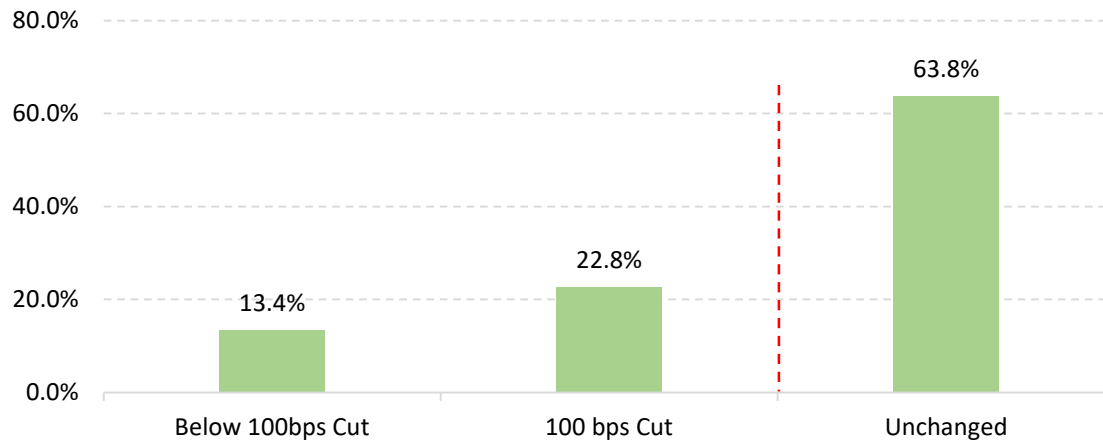
Source (s): SBP, AHL Research

MPS Preview

AHL Survey

- In order to find out what the market is expecting in the upcoming monetary policy scheduled in the current month (Jan'24), we conducted a survey (poll) taking feedback from various sectors. Our respondents belong to sectors such as:
 - Financial services: Banks, AMCs, Insurance, and DFIs
 - Non-Financial Services/Manufacturing: E&Ps, Cement, Fertilizers, Steel, Textiles, and Pharmaceuticals.
- Following are the results of the survey (poll):
- A majority of the total respondents, comprising 64%, believe that the SBP will keep the policy rate unchanged.
- On the other hand, the remaining 36% of the total respondents hold the view that the policy rate will decrease from its current level of 22%. Out of this, 23% see a 100bps cut while the remaining 13% expect below 100bps cut.

Exhibit: AHL Survey Poll Results



Source (s): AHL Research

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Rating	Description
BUY	Upside of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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