

Market Strategy

Unveiling the flow: Liquidity dynamics at PSX

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Best Securities House: 2023
Best Investment Bank: 2023



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
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Top 25 Companies
(2019, 2018 & 2017)



Excellence Award
Leading Brokerage House for RDA 2021



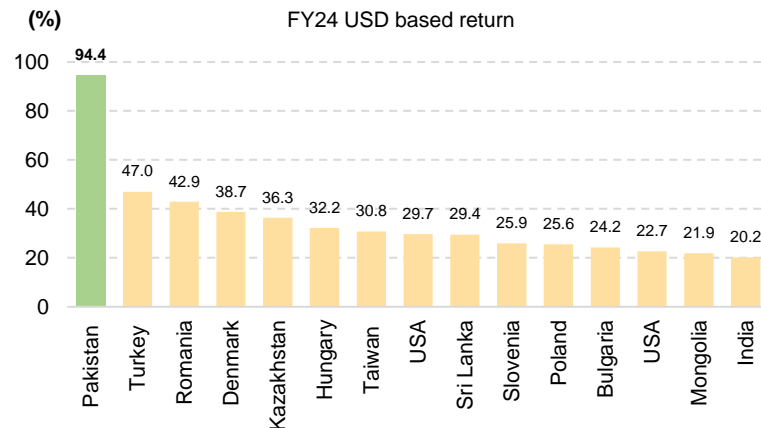
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Market Strategy

Liquidity Dynamics at PSX

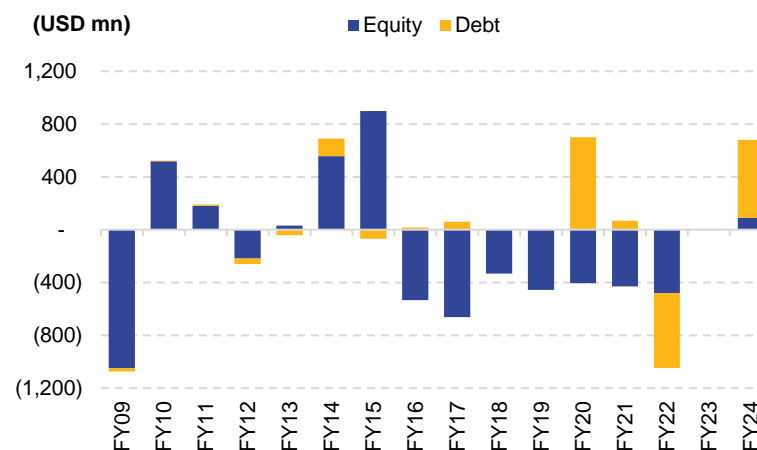
- The KSE-100 Index emerged as the world's best-performing equity market in FY24, delivering an extraordinary return of 94% (89% in PKR terms). Pertinently, the local bourse attracted foreign inflows amounting to USD 141mn during the year, marking the highest level of foreign investment in a decade.
- Cumulatively, foreign inflows through SCRA into Pakistan's equity and debt markets during FY24 amounted to USD 90mn and USD 589mn, respectively. The majority of these flows were directed towards T-bills, which received USD 575mn, while PIBs attracted USD 15mn.
- The improvement in Pakistan's macroeconomic conditions, driven by government stabilization measures, played a significant role in bolstering market performance and attracting foreign interest. Key contributors included the completion of the USD 3bn IMF Stand-By Arrangement in FY24 followed by the successful signing of USD 7bn worth new IMF Extended Fund Facility.
- It is important to highlight several crucial measures taken by the government for economic stabilization and consolidation, comprising 1) Hikes in energy tariffs including power and gas sectors, 2) achieving the tax collection target for FY24, improving the tax-to-GDP ratio from 9.2% to 9.5%, 3) attaining a primary surplus of 0.9% of GDP in FY24 after a gap of 20 years, 4) narrowing the current account deficit to -0.2% of GDP, the lowest in 13 years and 5) reducing inflation from a high of 38% in May'23 to 11.1% in Jul'24. These measures enabled the government to successfully complete the IMF SBA facility, attracting capital flows and securing rollovers. This contributed to the stabilization of the PKR, which appreciated by 4% YoY in FY24, and positively influenced the revival of foreign sentiment in both, equity and debt markets.

Exhibit: World's best performing markets in FY24



Source (s): PSX, SBP, AHL Research

Exhibit: Historical trend of SCRA's flow



Source (s): SBP, PSX, AHL Research

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Historical perspective of foreign flows

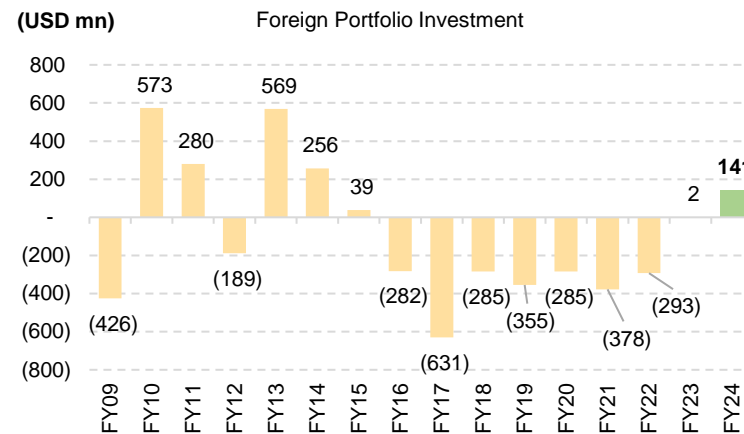
- Following its transition from an Emerging Market (EM) to a Frontier Market (FM) in 2009, the PSX saw an impressive inflow of foreign investment, with USD 573mn pouring in during FY10. This influx set off a substantial period of foreign investment, culminating in total inflows of USD 1,717mn over the next six years, barring FY12, extending until FY15. However, from FY16 to FY22, the PSX saw significant foreign outflows amounting to USD 2,266mn, predominantly affecting sectors such as banking, exploration and production (E&P), cement, and others.
- It is important to note that foreign ownership as a % of free float market capitalization has significantly declined to its lowest level in the past decade, currently at ~3.7% compared to 28.7% in 2017. In value terms, excluding strategic holdings, this figure has dropped to USD 491mn in FY24, down from USD 2,977mn in FY17.
- Despite the impressive performance of the KSE-100 index in FY24 and Pakistan's presence in the frontier market, the index continues to trade at an attractive PE ratio of 4.1x. This represents a huge discount of 77% compared to its peers. Going forward, we anticipate another surge in buying by foreign investors in the coming years.
- The KSE continues to stand out, offering substantial discounts compared to its FM peers—boasting a 77% discount on P/E and a 38% higher dividend yield. It's not just the cheapest market in terms of P/E and P/B ratios, but also the most rewarding, delivering the highest dividend yield.

Exhibit: Valuation metrics

	Peer Avg	Pakistan	Prem/(Disc)
P/E (x)	17.5	4.1	-76.6
P/B (x)	1.9	0.8	-57.7
DY (%)	7.5	10.4	38.4

Source: Bloomberg, AHL Research

Exhibit: Historical trend of foreign portfolio investment



Source (s): NCCPL, AHL Research

Exhibit: Sector Wise LIPI FY24

USD mn	Gross Buy	Gross Sell	Net
Insurance	362.0	(235.7)	126.3
Companies	809.6	(774.0)	35.7
NBFC	7.6	(8.6)	(1.0)
Brokers	2,719.2	(2,740.0)	(20.8)
Other Org.	184.4	(217.6)	(33.2)
Mutual Funds	491.9	(538.8)	(46.9)
Individuals	13,112.0	(13,171.6)	(59.6)
Banks/DFI's	505.1	(646.4)	(141.3)
LIPI Net	18,201.0	(18,341.7)	(140.8)

Source: NCCPL, AHL Research

State life remains the anchor investor in the market

- Looking at the local flows during FY24, insurance companies remained the largest net buyer with USD 126mn in FY24. The other companies remained at second position with a net buy of USD 36mn. All other local market participants remained net seller with highest offloading by Banks/DFIs and individuals amounting to USD 141mn and USD 60mn, respectively.
- Analysing the insurance flows, we view that State Life Insurance played an anchor role by increasing its stake into the market and going long when overall market and stocks were available at throw away prices.
- According to our estimates, State Life increased its market exposure by investing PKR 40bn (USD 142mn), which not only maximized its overall portfolio returns but also positively influenced market direction.
- We also highlight that in comparison with the last highs of the market back in 2017, only State Life Insurance managed to increase its holding in market which is currently at ~6.2% of the free-float as compared to 4.2% in 2017. On the other hand, Banks, Mutual funds and Insurance companies (excluding State Life) are still lower than their 2017 levels and are currently at 6.9% (2017: 7.7%), 7.1% (2017: 12.0%) and 1.6% (2017: 4.0%) respectively.
- Also, important to mention that currently, individuals, companies, NBFCs, and others currently holds 72.6% of KSE All free-float as compared to 43.4% in 2017.
- We reiterate that a 1% shift from fixed income to equities by mutual funds and insurance companies (excluding State Life) is expected to generate inflows of PKR 26.8bn and PKR 3.7bn, respectively. For SLIC, this shift is projected to result in an inflow of PKR 15.0bn.

Exhibit: KSEALL Ownership

	KSE ALL Ownership	
	2017	2024
Mutual Funds	12.0%	8.9%
Banks	7.7%	6.9%
State Life Insurance (SLIC)	4.2%	6.2%
Insurance (ex. SLIC)	4.0%	1.6%
Foreign	28.7%	3.7%
Other	43.4%	72.6%

Source (s): MUFAP, FMR, Company Financials, AHL Research

Exhibit: Sensitivity of additional funds allocation in equities

(PKR bn)	Additional			
	Current	1.0%	3.0%	5.0%
Mutual Funds	259.6	26.8	80.5	134.2
Equity AUMs %	9.7%	10.7%	12.7%	14.7%
State Life Insurance Corporation (SLIC)	180.9	15.0	45.0	75.0
Equity AUMs %	12.0%	13.0%	15.0%	17.0%
Insurance (Ex. SLIC)	46.0	3.7	11.2	18.7
Equity AUMs %	12.3%	13.3%	15.3%	17.3%
Total	486.5	45.6	136.8	227.9
% of FF Mkt Cap	18.1%	1.7%	5.1%	8.5%

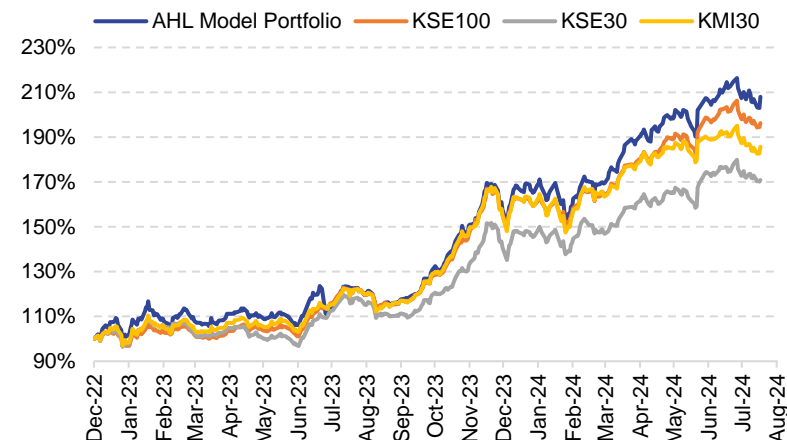
Source (s): MUFAP, FMR, Company Financials, AHL Research

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Outlook and recommendation

- At any given time, the level of the KSE-100 Index is a combination of corporate performance as well as investors' confidence in Pakistan's economy. We believe that the government's economic reforms under IMF EFF should aid investors' confidence in the market. More importantly, the new IMF program will also support inflows from multilateral partners, and rollover from bilateral partners and will help bridge the external financing gap.
- The KSE-100 index is currently trading at an attractive PE of 4.1x (2025) compared to last 5-years average of 5.9x, while offering DY of ~10.4%.
- From an investment perspective, we recommend AHL model portfolio which includes OGDC, PPL, LUCK, MARI, MEBL, HUBC, FFC, MLCF, UBL, NBP, INDU, FCCL and FFBL.
- AHL model portfolio has outperformed the benchmark KSE-30, KMI-30 and KSE-100 indices by 37.2%, 22.4% and 11.7% respectively since inception (Jan'23). From the last rebalancing (Jun'24), the AHL model portfolio outperformed KSE-100, KSE-30 and KMI-30 index by 1.7%, 2.3% and 2.9%, respectively.

Exhibit: AHL Model Portfolio Performance (since inception)



Source (s): Bloomberg, PSX, AHL Research

Exhibit: Proforma AHL Model Portfolio (FY25 basis)

Company	Model Portfolio Weight	Benchmark Index weight	PE (x)	PB (x)	DY (%)
OGDC	10.0%	3.65%	2.83	0.40	11.57
PPL	10.0%	3.12%	2.72	0.42	8.96
LUCK*	10.0%	3.12%	3.52	0.66	5.03
MARI	5.0%	3.12%	4.41	1.33	9.15
MEBL*	10.0%	4.43%	4.60	1.47	10.78
HUBC*	5.0%	5.77%	2.71	0.75	16.83
FFC	5.0%	4.81%	5.00	2.79	14.87
MLCF	10.0%	0.66%	3.48	0.62	8.91
UBL*	7.5%	4.88%	4.84	1.03	15.81
NBP*	7.5%	0.97%	2.48	0.23	19.59
INDU	5.0%	0.97%	6.38	1.76	9.14
FCCL	10.0%	0.73%	3.15	0.57	10.00
FFBL	5.0%	0.84%	3.35	1.02	15.20

Source (s): AHL Research, *Consolidated

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Jun 2025 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

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)

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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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