

Market Strategy

Feb'21: Market down by 1.1%

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KSE-100 lost 521 points in Feb'21

The benchmark equity bourse remained range bound in the outgoing month, posting a decline of 1.1% / 521 points (USD-based return arrived at -0.1%) to close at 45,865 points. Although Pakistan emerged as the 2nd best performing market in the region in Jan'21, market performance could not display the same riveting momentum and remained dull during Feb'21 amid nervousness over FATF's plenary meeting and profit taking. With that said, FYTD return continues to impress at 33.2% while CY21TD return compressed to 4.8%.

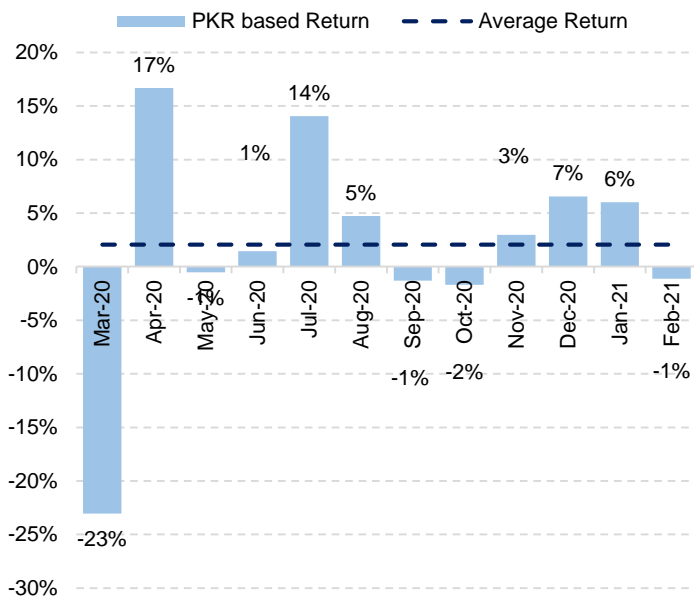
During mid-month, Pakistan and the International Monetary Fund (IMF) reached staff level agreement on the previously suspended USD 6bn Extended Fund Facility (EFF). Albeit, this could not translate into a rally as market participants cautiously awaited FATF's plenary meeting (scheduled 22nd to 25th Feb'21). Although expectations were ripe of finally exiting the Grey List, Pakistan retained its status and has until Jun'21 to meet the remaining 3 of the 27 initial action points.

On the economic front, external account performance remained subdued as expected; Current Account Deficit (CAD) in the month of Jan'21, was down by 55% YoY to USD 229mn. Though robust Remittances by overseas Pakistanis (registering an increase of 19% YoY) to USD 2,274mn during Jan'21, aided the 65% decline MoM in CAD. This, alongside higher than expected inflows in the Roshan digital accounts (RDA) at North of USD 550mn in just five months, allowed the Pak-Rupee to appreciate to its 3-month high against the USD.

Major News

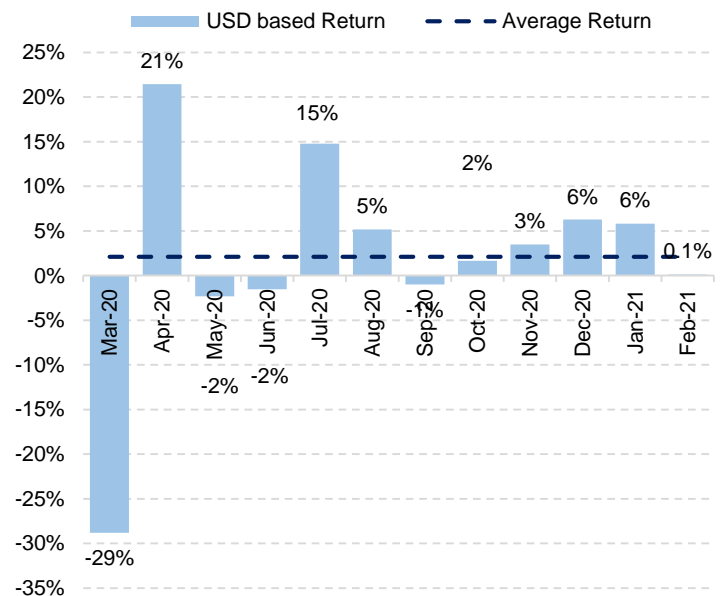
Will have to address three remaining points till June: FATF keeps Pakistan in grey list, Roshan digital accounts attract more than USD 550mn in five months, Government expects USD 1bn from dollar-denominated Eurobonds next month, Jan CA plunges 65% MoM, Jul-Jan FDI down 27% YoY, LSM output up 8.16% in 1HFY21, car sales jump 44% to 14,543 units in Jan, OGRA allows SNGPL to raise average price of gas, Income tax on debt profit through Roshan Digital Accounts waived, Fiscal deficit recorded at 2.5% of GDP, Revised power tariff: All 47 IPPs sign Master Agreements, and January exports cross USD 2bn mark fourth time in a row.

Fig: KSE100 historical returns (PKR based)



Source (s): PSX, AHL Research

Fig: KSE100 historical returns (USD based)



Source (s): PSX, Bloomberg, AHL Research

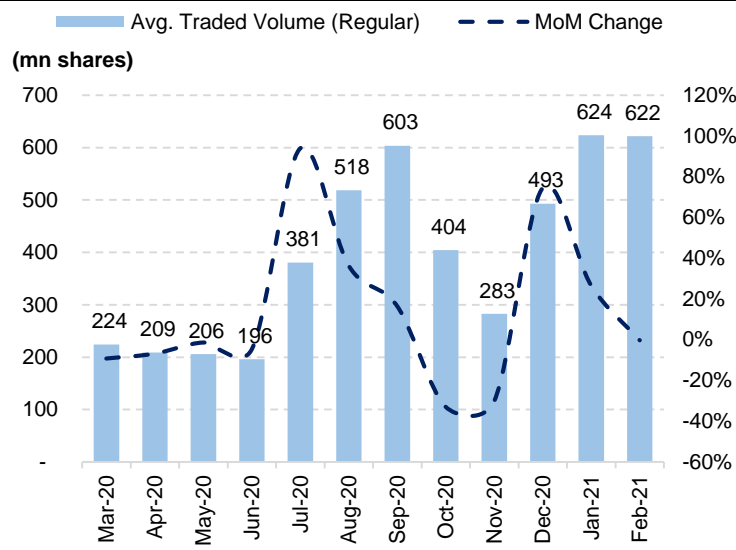
Economic Developments

- Current Account, in the month of Jan'21, was down by 55% YoY to USD 229mn compared with deficit of USD 512mn during Jan'20. On MoM basis, deficit down by 65%, mainly due to 12% (USD 697 mn) decline in the total imports. On YoY basis, the primary reason behind the decline in deficit was 2% YoY (USD 52mn) and 19% YoY (USD 367mn) rise in total exports and remittances, respectively. However, total imports also increased by 10% YoY (USD 471mn) during the same period. During 7MFY21, country's surplus has decreased to USD 912mn compared to a deficit of USD 2,544mn during the same period last year.
- During 7MFY21, remittances were up by 24% YoY to USD 16,477mn as the strong momentum of inflows continued to take the cumulative figure to an unprecedented level. Remittances by overseas Pakistanis registered an increase of 19% YoY to USD 2,274mn during Jan'21 compared to USD 1,907mn during Jan'20. The country wise data reveals that inflow from KSA, UAE, USA and UK amounted to USD 554mn (+4% YoY, -11% MoM), USD 492mn (+6% YoY, -4% MoM), USD 203mn (+37% YoY, +0% MoM) and USD 303mn (+50% YoY, -7% MoM), respectively.
- Foreign direct investment (FDI) during Jan'21 witnessed a net inflow USD 193mn (-12% YoY) compared to net inflow of USD 220mn during Jan'20. During 7MFY21, FDI witnessed a decrease of 27% YoY to USD 1,145mn. China remained the largest investor with net FDI of USD 403mn during 7MFY21 compared with USD 503mn during same period last year. Netherlands remained the second largest investor with net FDI of USD 122mn during 7MFY21 compared with USD 61mn during same period last year. During 7MFY21, major investment was made in the Power sector (USD 476mn) followed by Financial Business Sector (USD 181mn) and Oil & Gas Explorations Sector (USD 137mn).
- Large Scale Manufacturing Industries (LSMI) output witnessed an increase of 11.4% YoY during Dec'20 with the index reaching a 23-month high (Jan'19: 170.16). The index is now at its highest level since the outbreak of the novel coronavirus. On MoM basis, it went up by 13.5%. The LSM index has now seen a MoM increase for the fourth consecutive month (last seen during Dec'16-Mar'17). The YoY jump during Dec'20 is led by, Food (+17.7% YoY), Non Metallic Mineral Products (+17.5% YoY), Autos (43.9% YoY), Coke (+23.9% YoY), Pharmaceuticals (+13.8% YoY), Textile (+3.5% YoY), Fertilizer (+12.0% YoY), Iron (+11.8% YoY), Chemicals (+17.0% YoY) and Paper & Board (+8.9% YoY). However, Electronics, Leather Products, Rubber, Engineering Products and Wood Products witnessed a decline of 35.6% YoY, 40.6% YoY, 29.1%, 23.9% and 30.2% YoY, respectively.
- Pakistan's fiscal balance in the current fiscal year to date has weakened over prior year, with the deficit arriving at PKR 1.14trn in 1H FY21 (2.5% of GDP) compared to PKR 995bn in 1H FY20 (2.3% of GDP), up by 14.4% YoY. With that said, the primary surplus during the period at PKR 337bn (0.7% of GDP in 1H FY21) fares better compared to a primary surplus of PKR 286bn witnessed last year (0.7% of GDP), which is slightly above the IMF's initial target at 0.6% of GDP. Primarily, total revenue growth at 3.7% in 1H FY21 to PKR 3.4trn (1H FY20: PKR 3.2trn) aided the fiscal operations, translating into 7.4% of GDP vs. 7.3% last year. The total tax revenue collection remained almost flat at PKR 2.5trn (-0.4% YoY). Indirect taxes (+5.4% YoY to PKR 1.38trn), sales tax (+6.9% YoY to PKR 918bn), and direct taxes (+5.9% YoY to PKR 831bn; higher number of tax payers), contributed to the overall collection.

Improvement in volumes

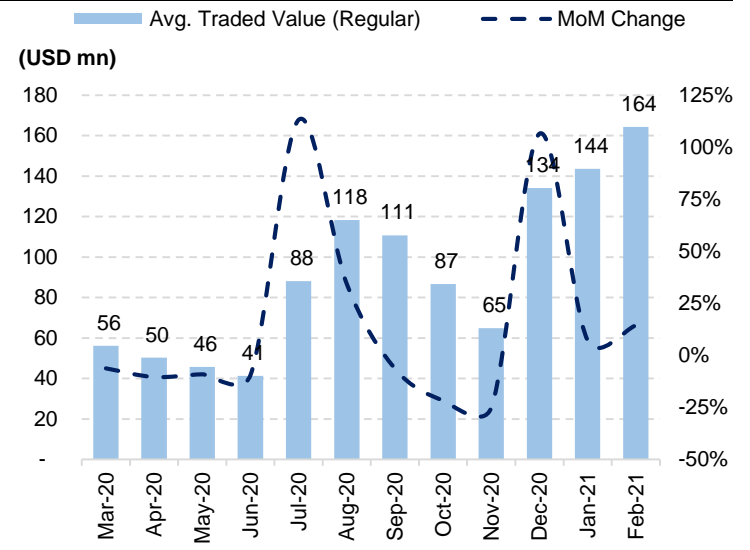
- Average traded value during Feb'21 went up by 14% to USD 164mn (45 months high, May'17: USD 183mn), however average traded volume went slightly down by 0.3% to 622mn shares.

Fig: Traded Volume decreased by 0.3% during Feb'21



Source (s): PSX, AHL Research

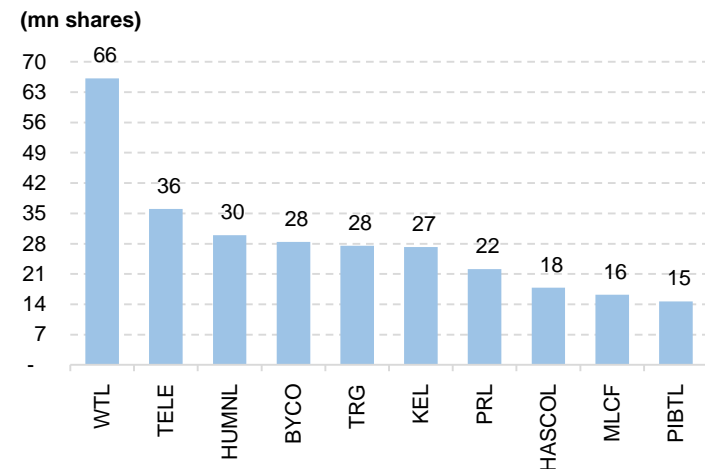
Fig: Traded Value Increased by 14% during Feb'21



Source (s): PSX, AHL Research

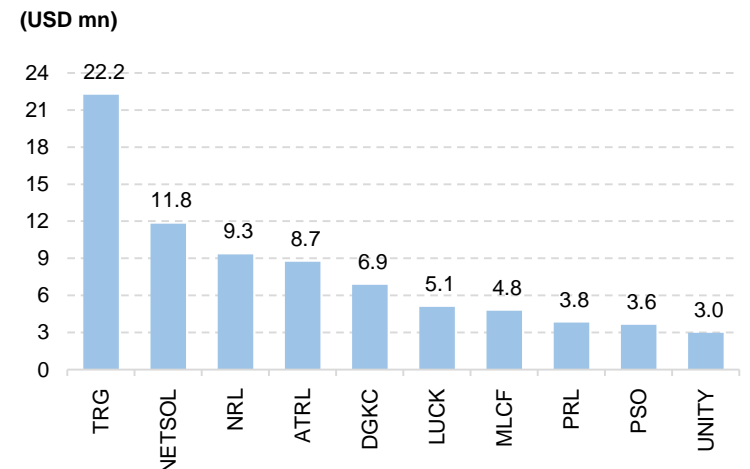
- During Feb'21, scrip-wise volumes were led by WTL (66mn shares), TELE (36mn shares) and HUMNL (30mn shares).
- Scrip-wise value was led by TRG (USD 22mn), NETSOL (USD 12mn) and NRL (USD 9mn).
- On sector-wise basis, volumes were led by Technology (188mn shares), Refinery (60mn shares) and Cement (57mn shares).
- Sector-wise value was led by Technology (USD 42mn), Refinery (USD 24mn) and Cement (USD 24mn).

Fig: Scrip wise volume leaders



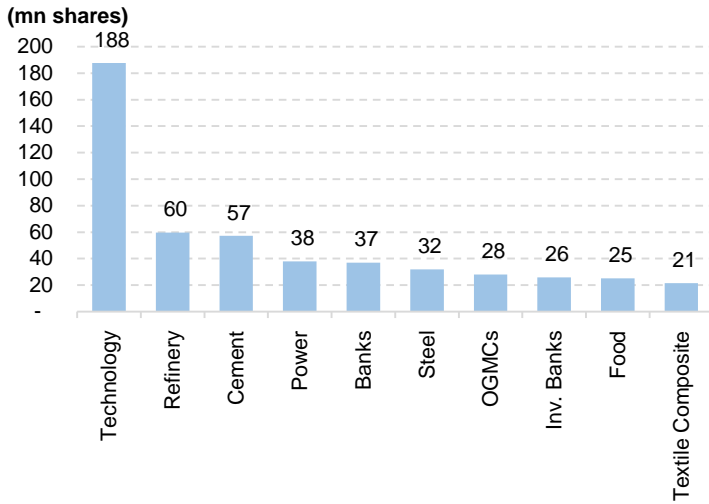
Source (s): PSX, AHL Research

Fig: Scrip wise value leaders



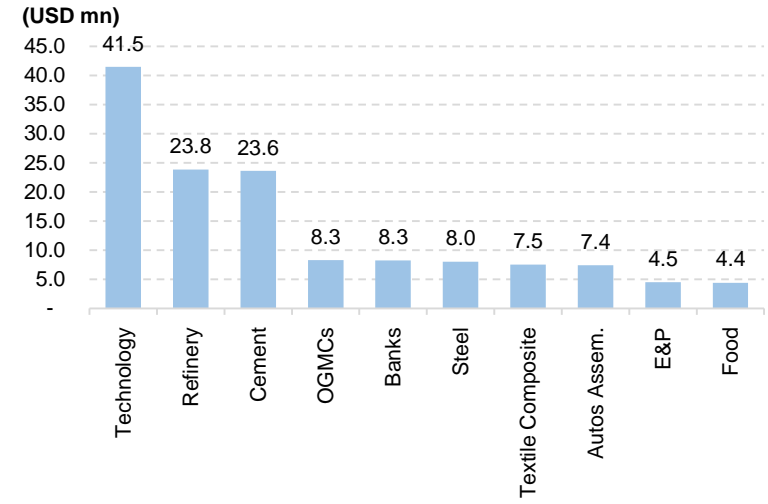
Source (s): PSX, AHL Research

Fig: Sector wise volume leaders



Source (s): PSX, AHL Research

Fig: Sector wise value leaders

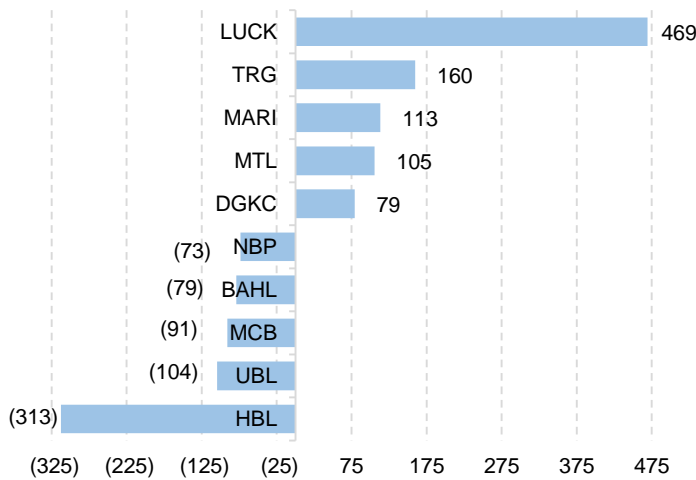


Source (s): PSX, AHL Research

Index Contribution

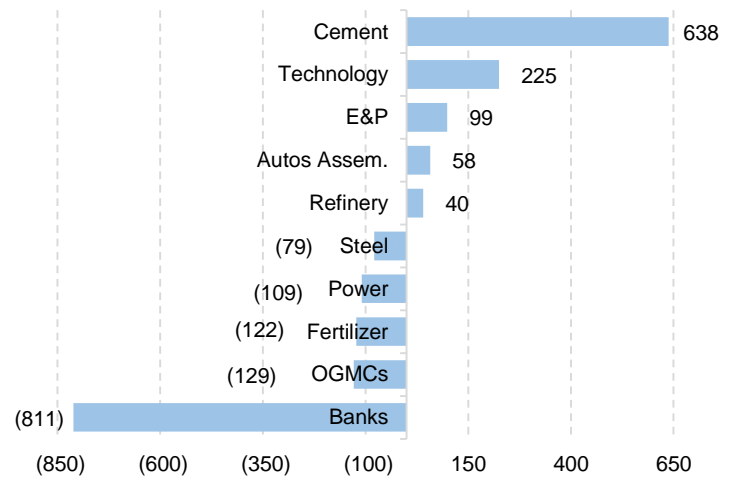
- Negative index contribution was led by Banks (-811pts), OGMCs (-129pts), Fertilizer (-122pts), Power (-109pts) and Engineering (-79pts).
- Whereas, gainers dominating the index contributions included Cement (638pts) followed by Technology (225pts), E&P (99pts), Automobile assemblers (58pts) and Refinery (40pts).
- Scrip-wise negative contributors during Feb'21 were i) HBL (-313pts) amid lower than expected payout, ii) UBL (-104pts) given foreign selling, iii) MCB (-91pts), iv) BAHL (-79pts) and v) NBP (-73pts).
- Meanwhile, scrip-wise positive contributions were led by LUCK (+469 pts, 74% of total cement sector contribution) owing to stunning performance by KIA, TRG (160pts, 71% of total Tech sector contribution) mainly due to re-rating of the technology sector, MARI (+113pts), MTL (+105pts) and DGKC (+79 pts).

Fig: Company wise top index contributors



Source (s): PSX, AHL Research

Fig: Sector wise top index contributors

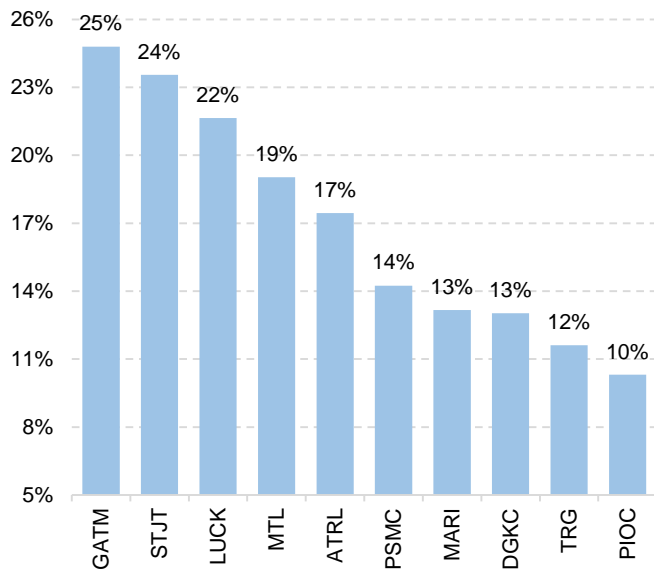


Source (s): PSX, AHL Research

Major Gainers and Losers

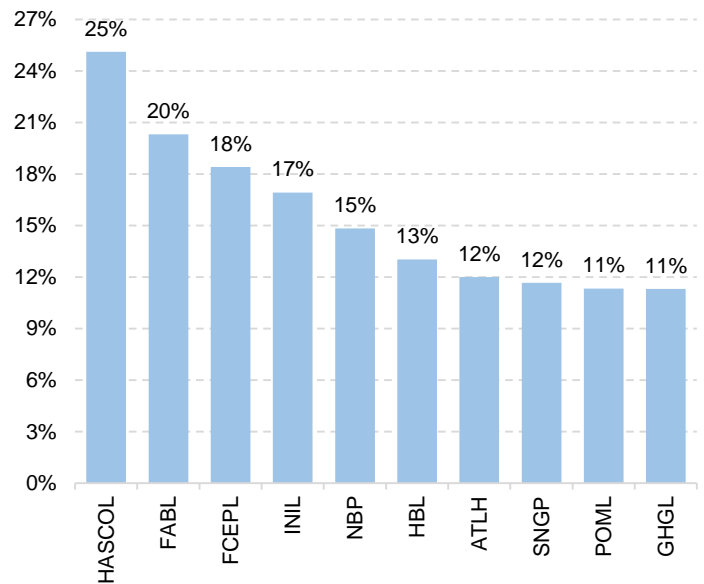
- Scrip-wise performance chart during the month was led by GATM, STJT, LUCK, MTL and ATRL, each posting positive returns of 25%, 24%, 22%, 19%, and 17% respectively. On the flip-side, HASCOL, FABL, FCEPL, INIL and NBP posted the most negative returns (25%, 20%, 18%, 17% and 15% respectively).
- In terms of sectors, Textile weaving sector was the best performing, posting a return of +24%, followed by Cement (+13%), Refinery (+13%) and Technology (+10%). Negative returns were led by Steel (-12%), Vanaspati (-11%), Glass (-11%) and Transport (-9%).

Fig: Scrip wise major gainers (KSE-100)



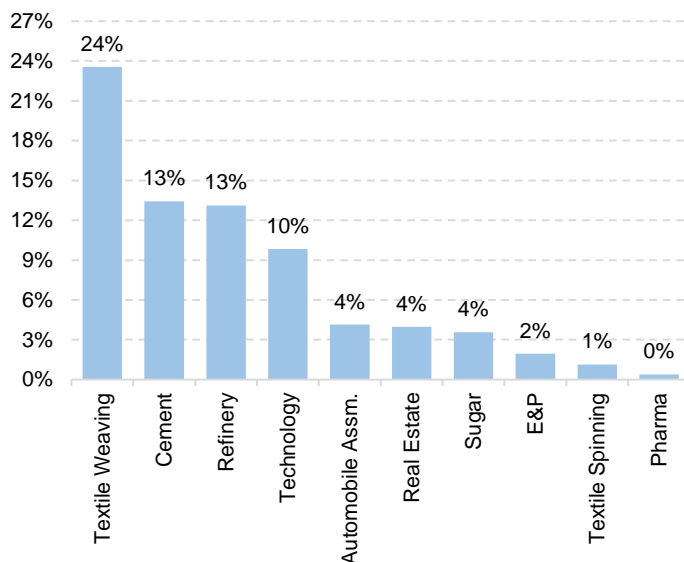
Source (s): PSX, AHL Research

Fig: Scrip wise major losers (KSE-100)



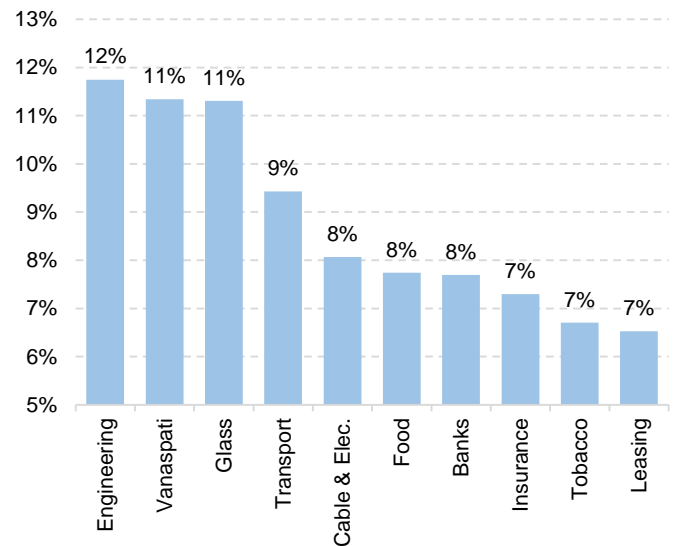
Source (s): PSX, AHL Research

Fig: Sector wise major gainers (KSE100)



Source (s): PSX, AHL Research

Fig: Sector wise major losers (KSE100)

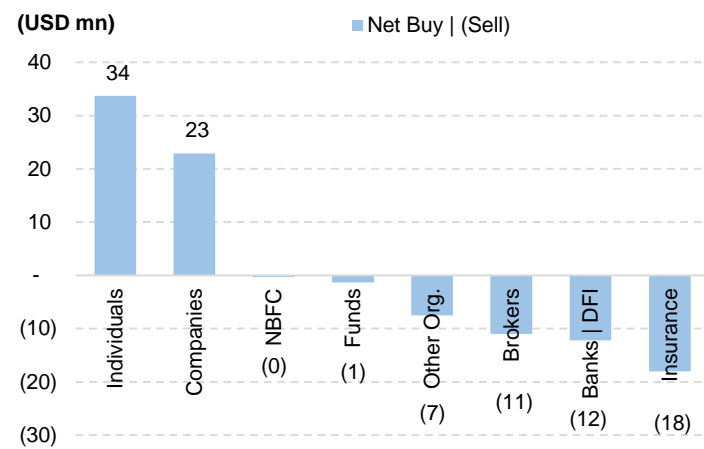


Source (s): PSX, AHL Research

Regional Portfolio Investment

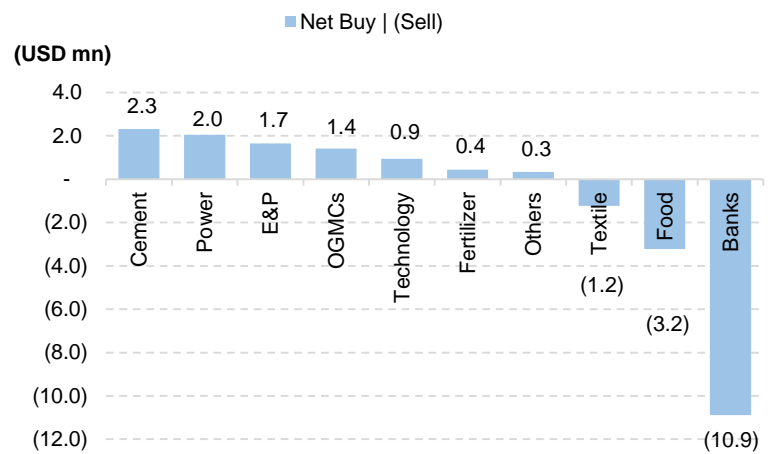
- Regional sell-off continued as investors rushed to Bonds where Yields in the US rose to nearly a one-year high this past month. Expected economic recovery in anticipation of corona vaccines roll-out – with the ensuing inflationary reading to push interest rates higher, aided bond yields. Major outflows were witnessed in Taiwan (USD 3,232mn), South Korea (USD 1,806mn) and Thailand (USD 621mn). In Pakistan, foreigners also remained net seller in the month of Feb'21, selling equities worth USD 6.2mn (Jan'21 net sell: USD 1.8mn / Feb'20 net sell: USD 56.4mn). Outflows were observed in i) Banks (USD 10.9mn), ii) Food (USD 3.2mn) and iii) Textile (USD 1.2mn). Whereas inflows were witnessed in i) Cement (USD 2.3mn), ii) Power (USD 2.0mn), iii) E&P (USD 1.7mn), iv) OGMCs (USD 1.4mn) and v) Technology (USD 0.9mn).

Fig: Local investors portfolio investment during Feb'21



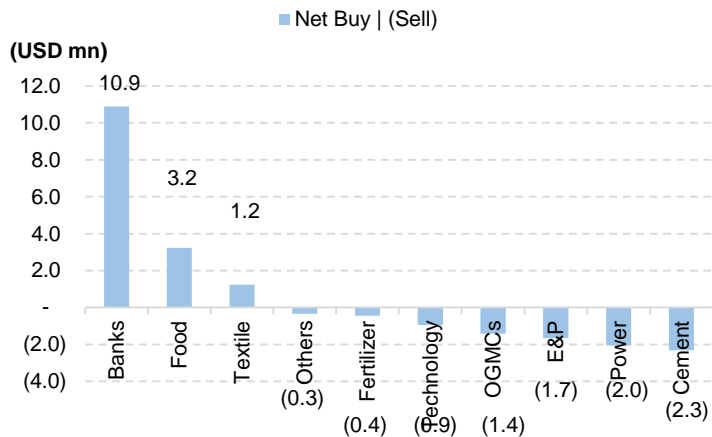
Source (s): NCCPL, AHL Research

Fig: Sector wise FIPI during Feb'21



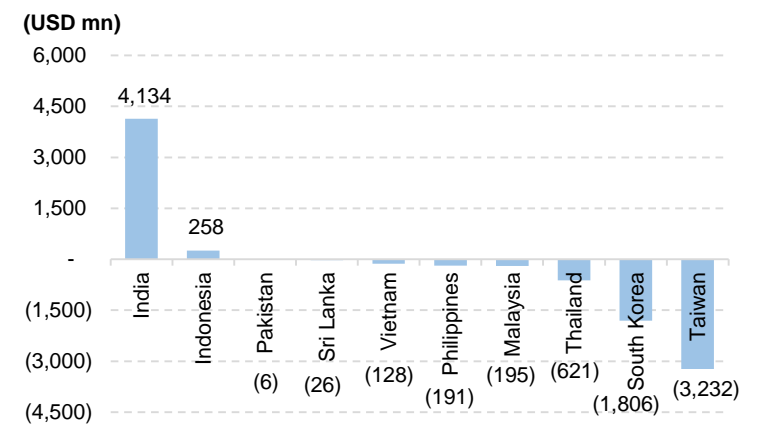
Source (s): NCCPL, AHL Research

Fig: Sector wise LIPI during Feb'21



Source (s): NCCPL, AHL Research

Fig: Regional Portfolio Investment during Feb'21



Source (s): Bloomberg, NCCPL, AHL Research

Outlook and Recommendation

We expect the market to turn positive in upcoming weeks. With robust earnings expected in 3QFY21, the market is likely to incorporate the same in valuations. We expect the KSE-100 index to display strong earnings growth of +18% YoY in 2021. Whereas the low interest rate regime till at least May'21, is likely to keep equities in the limelight. In addition, as per SBP's last MPS, any rise in interest rates will be gradual, if needed, whereby we expect an uptick of by 50bps in May'21. On the COVID front, the situation is expected to remain contained across the country in lieu of the ongoing vaccination drive and given the decline in infection, the NCOC has decided to uplift major restriction by Mid Mar'21.

The KSE-100 index is currently trading at a PER of 7.2x (2021) compared to Asia Pac regional average of 17.1 and offering a DY of ~6.8% versus ~2.5% offered by the region. Our top picks are LUCK, ENGRO, FFC, KAPCO, HUBC, OGDC, HBL, MCB, NML, ILP and PSO.

World Indices Performance

Table: World's Major Stock Market Performance (USD based return, Feb'21)

Sr#	Country	Index Description	Index	Return (%)	Sr#	Country	Index Description	Index	Return (%)
1	Vietnam	Ho Chi Minh Stock Index	1,168	10.7	39	Serbia	Belex15 Index	746	1.5
2	Ghana	Gse Composite Index	2,201	9.9	40	Singapore	Straits Times Index Sti	2,949	1.4
3	Iceland	Omx Iceland All-Share Pr	2,103	8.7	41	Mexico	S&P/Bmv Ipc	44,593	1.0
4	Chile	S&P/Clx Ipsa (Clp) Tr	4,573	7.4	42	Thailand	Stock Exch Of Thai Index	1,497	0.9
5	Kazakhstan	Kazakhstan Kase Stock Ex	2,958	7.2	43	Estonia	Omx Tallinn Omxt	1,453	0.8
6	Kenya	Nairobi All Share	165	6.7	44	Malaysia	Ftse Bursa Malaysia Klcj	1,578	0.5
7	South Africa	Ftse/Jse Africa All Shr	66,138	6.1	45	Bahrain	Bb All Share Index	1,465	0.5
8	Taiwan	Taiwan Taiex Index	15,954	5.9	46	Finland	Omx Helsinki Index	11,195	0.5
9	Spain	Ibex 35 Index	8,225	5.6	47	Egypt	Egx 30 Index	11,618	0.3
10	Italy	Ftse Mib Index	22,849	5.5	48	South Korea	Kospi Index	3,013	0.2
11	Greece	Athex Composite Share Pr	792	5.3	49	Pakistan	KSE-100 Index	45,865	0.1
12	France	Cac 40 Index	5,703	5.2	50	Latvia	Omx Riga Omxr	1,171	0.0
13	Lebanon	Blom Stock Index	694	5.2	51	Colombia	Igbc General Index	13,291	-
14	Canada	S&P/Tsx Composite Index	18,060	4.9	52	USA	Nasdaq 100 Stock Indx	12,909	(0.1)
15	India	S&P Bse Sensex Index	49,100	4.6	53	Luxembourg	Luxembourg Luxx Index	1,348	(0.2)
16	Saudi Arabia	Tadawul All Share Index	9,195	4.4	54	UAE	Adx General Index	5,628	(0.2)
17	Indonesia	Jakarta Composite Index	6,242	4.1	55	Denmark	Omx Copenhagen 20 Index	1,421	(0.3)
18	Europe	Euro Stoxx 50 Pr	3,636	4.0	56	Tunisia	Tunis Se Tunindex	6,678	(0.3)
19	Austria	Austrian Traded Atx Indx	3,012	3.8	57	Bulgaria	Sofix Index	496	(0.9)
20	Ireland	Iseqall-Share	7,341	3.7	58	China	Csi 300 Index	5,337	(1.0)
21	Belgium	Bel 20 Index	3,762	3.4	59	Hungary	Budapest Stock Exch Indx	43,790	(1.2)
22	Russia	Rts Index	1,412	3.2	60	Oman	Msm30 Index	3,602	(1.3)
23	USA	Dow Jones Indus. Avg	30,932	3.2	61	Romania	Bucharest Bet Index	10,202	(1.5)
24	UK	Ftse 100 Index	6,483	3.0	62	Turkey	Bist 100 Index	1,471	(1.6)
25	Czech Republic	Prague Stock Exch Index	1,058	2.9	63	Lithuania	Omx Vilnius Omxv	851	(1.8)
26	Japan	Nikkei 225	28,966	2.8	64	Morocco	Madex Free Float Index	9,248	(2.3)
27	USA	S&P 500 Index	3,811	2.6	65	Portugal	Psi 20 Index	4,702	(2.3)
28	Hong Kong	Hang Seng Index	28,980	2.4	66	Poland	Wig 20	1,907	(2.4)
29	Sweden	Omx Stockholm 30 Index	2,010	2.3	67	Argentina	S&P Merval Tr Ars	48,432	(2.4)
30	Slovenia	Slovenian Blue Chip Idx	966	2.3	68	Switzerland	Swiss Market Index	10,522	(2.8)
31	Germany	Dax Index	13,786	2.2	69	Mauritius	Mauritius Stock Exchange	1,598	(3.0)
32	Ukraine	Pfts Index	521	2.1	70	Qatar	Qe Index	10,121	(5.1)
33	Australia	S&P/Asx 200 Index	6,673	2.0	71	Bangladesh	Dse Broad Index	5,416	(5.4)
34	Norway	Obx Price Index	485	1.8	72	New Zealand	S&P Nzx All Index	2,011	(6.1)
35	Croatia	Croatia Zagreb Crobex	1,830	1.8	73	Brazil	Brazil Ibovespa Index	110,035	(6.2)
36	Netherland	Aex-Index	651	1.8	74	Dubai	Dfm General Index	2,527	(6.3)
37	Jordan	Amman Se General Index	1,746	1.7	75	Nigeria	Nigeria Stck Exc All Shr	39,800	(13.0)
38	Philippines	Psei - Philippine Se Idx	6,795	1.5	76	Sri Lanka	Sri Lanka Colombo All Sh	7,476	(15.5)

Source (s): Bloomberg, AHL Research

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Arif Habib Ltd. (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec'21 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 +10% from last closing of market price(s)
HOLD	Upside of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside of subject security(ies) is less than -10% 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 Discounted 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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- Arif Habib Limited (AHL) has shareholding in OGDC, NBP, and BOP.