

Senate Elections 2021

Marred by controversy, hot waters likely to settle

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Senate Elections 2021

PTI Holds Majority in Senate

The ruling party - PTI, despite a major setback on a hotly contested Islamabad seat, has emerged victorious with the largest majority (26 seats) in the upper house of the parliament following the 2021 Senate elections yesterday. Out of the total 48 seats to be contested, PTI won an additional 18 seats (total: 26), PPP won an additional 8 seats (total: 20), and PML-N bagged 5 seats (total: 18). Albeit, a symbolic defeat in the Federal Capital [sitting Finance Minister Dr. Abdul Hafeez Shaikh (164 votes) lost to PDM's Yousuf Raza Gilani (169 votes)] will potentially weigh heavily on the ruling party and trigger further noise in the domestic political arena.

To recall, after weeks of controversy over the process of balloting, the Supreme Court on Monday (1st Mar'21) had ruled in favour of secret voting, under supervision of the Election Commission of Pakistan (ECP). Following the senate polls, Prime Minister Khan has decided to seek a vote of confidence from the parliament, as votes were cast by members of the National Assembly for the Federal seat, which has cast a shadow of doubt over the dynamics of the ruling majority in the Lower House. However, it is important to mention that seven votes were rendered disqualified and Former PM Gilani won by a thin margin of 5 votes (169 against 164 in favour of Dr. Hafeez Shaikh). Moreover, Ms. Fouzia Arshad, PTI's woman candidate for the Federal seat, also remained victorious, bagging 174 votes against her opponent's 161.

To recall, Hafeez Shaikh took the charge of Federal Minister for Finance and Revenues on December 10, 2020 and was required to become an elected parliamentarian within six months of his appointment i.e. by June 2021. With the defeat of Hafeez Shaikh, the PTI government has the following options, in our view:

- To appoint him as Special Adviser to the PM (SAPM) on Finance or
- Contest from a different seat in the by-elections.

Hafeez Shaikh has been instrumental in engagements with the International Monetary Fund (IMF) and handling the overall portfolio of revenue. Following his loss in the election, the two potential candidates for this position could be either Hammad Azhar or Asad Umer, former being a strong contender as previously too we saw him being appointed the Federal Minister for Revenue by the PM in place of Hafeez Shaikh.

Exhibit: Senate Elections Results Mar'2021

Parties	Previous Position	Retired Candidates	Won	Current Position
Govt Alliance				
Pakistan Tehreek-e-Insaf	13	5	18	26
Balochistan Awami Party	9	3	6	12
Muttahida Qaumi Movement	5	4	2	3
Pakistan Muslim League (Q)	-	-	1	1
GDA	1	-	-	1
Sub Total	28	12	27	43
Opposition Alliance				
Pakistan Peoples Party	20	8	8	20
Pakistan Muslim League (N)	29	16	5	18
Jamiat Ulema-e-Islam	4	2	3	5
Awami National Party	1	1	2	2
National Party	5	3	-	2
Pashtunkhwa Milli Awami Party	3	1	-	2
Jamaat-e-Islami	2	1	-	1
Balochistan National Party	1	1	1	1
Sub Total	65	33	19	51
Independents	11	7	2	6
Total	104	52	48	100

Source (s): Media Reports, AHL Research

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Outlook – Short term jitters to die out

Successful Vote of Confidence is likely: We view that the PM has made a bold decision to seek a vote of confidence and we think that he will eventually be successful in attaining this. It is pertinent to mention that it is unprecedented in the history of Pakistan for all institutions to be in unison over broad policy issues, which is a big feather in this government's cap. A vote of confidence will instill fresh confidence and trust in markets which should help ignite positivity in the local bourse.

Economic gains to keep market on its feet: Following this setback, a fresh vote of confidence in the Prime Minister and his government is likely to be a boon for foreign investment as well and we think that with the renewed stability of the government, the PKR/USD parity should sustain its robust momentum as well. Furthermore, with economic consolidation ongoing on the external account as well as on the domestic side (with regards to growth), we believe that these factors will be more pivotal in anchoring the momentum of the markets.

Continuation of government imperative for geopolitical dynamics: Moreover, it is important to highlight some context on the geopolitical arena as well. After a long hiatus and completely frozen relations, there is finally positive development on the Eastern border as the DGMO's made official contact through hotline and signed agreements. India is caught horribly in a web of domestic issues and we believe that other international powers will try to ensure that any attempt to thwart the attempt towards normalization of relations between the two nuclear-armed neighbours, will be resisted. Stability and continuation of the ruling government is key towards achieving this.

Valuations remain attractive: We highlight our liking for selective sectors that are likely to directly benefit from the improving economic fundamentals such as Cement, Engineering, Textile, and Automobile Assemblers. Moreover developments on the circular debt resolution front are likely to unlock valuations in the Power sector as well. Reviving aggregate demand, adequately covered balance sheets, and dirt cheap valuations can stimulate the banking sector as well. The KSE-100 index is trading at an attractive P/E of 7.2x, which is a 15% discount to historic average of 8.5x. Our top picks include LUCK, HUBC, KAPCO, OGDC, FFC, ENGRO, INDU, NML, FML, HBL, UBL and MCB.

Exhibit: Current Position in National Assembly

Parties	No. of Seats
Govt Alliance	
Pakistan Tehreek-e-Insaf	157
Balochistan Awami Party	5
Muttahida Qaumi Movement	7
Pakistan Muslim League (Q)	5
GDA	3
Awami Muslim League	1
Jamhoori Wattan Party	1
Sub Total	179
Opposition Alliance	
Pakistan Peoples Party	55
Pakistan Muslim League (N)	83
Muttahida Majlis-e-Amal	15
Awami National Party	1
Balochistan National Party	4
Sub Total	158
Independents	4
Total	341

Source (s): National Assembly of Pakistan, AHL Research

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- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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- Market risk
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