

Faysal Asset Management

PSX Post MSCI EM Inclusion – “Apparently all dreams fade” BEHOLD and FEAR NOT...!

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Pakistan's back with a bang, though PSX has been unpredictable at best, during the last month or so. Pakistan Stock Market started trading in positive trend, with 100 Index up by over 800 points in opening session.

Having said that, analyst sees volatile trading in the near term with anxiety related to domestic politics dampening the mood and keeping local retail investors on the lookout while institutional flows will remain the most important factor in guiding the market direction, hence it is recommended to wait for clarity on the prevailing political events and cautiousness is warranted at the same time.

While compilation of this report, the equity market up roared with positive momentum.

Although, political turmoil is the latest hit to the nation's stock market, which was upgraded to emerging markets status by MSCI Inc. this month.

Instead of flocking to Pakistani equities, foreign investors have continued dumping stocks worth \$362 million this calendar year (FYTD: \$682 million), more than the entire amount of \$334 million offloaded last year.

Traders have remained skeptic as the stock market has kept on performing abysmally since hitting a historic high of 53,127.24 in May.

The event of upgradation into the Emerging Market Index could not meet expectations of the market participants.

This was a major reason for the loss of points at the stock market. However, this alone has not pulled the index down 6.72% during the month.

Technically speaking, the 100 index extended declines amid expanding turnover as market bears remained in charge and pushed the benchmark close to its recent low of 47,491 posted on June 2.

Further decline may see PSX-100 index sliding to 46,048, a level witnessed during the day on April 19 on the eve of the Panama gate verdict.

Several factors have combined to create a dangerous phenomenon of uncertainty for stocks. The disturbed relationship amongst the Gulf countries has left questions over future of crude oil prices and also the import of LNG gas.

Advance : 177		Decline : 67		Unchanged : 3	
		Value	Change	% Change	
KSE100 Vol. 14,537,800	Current	48,398.74	726.94 ↑	1.50%	
	High	48,513.23	841.43 ↑	1.73%	
	Low	47,565.29	-106.51 ↓	-0.22%	
ALLSHR Vol. 48,376,590	Current	33,657.09	404.45 ↑	1.20%	
	High	33,703.45	450.81 ↑	1.34%	
	Low	33,174.82	-77.82 ↓	-0.23%	
KSE30 Vol. 9,533,650	Current	25,211.64	447.01 ↑	1.77%	
	High	25,316.43	551.80 ↑	2.18%	
	Low	24,680.90	-83.73 ↓	-0.34%	
KMI30 Vol. 6,172,350	Current	82,639.71	1121.36 ↑	1.36%	
	High	82,986.32	1467.97 ↑	1.77%	
	Low	80,966.79	-551.56 ↓	-0.68%	

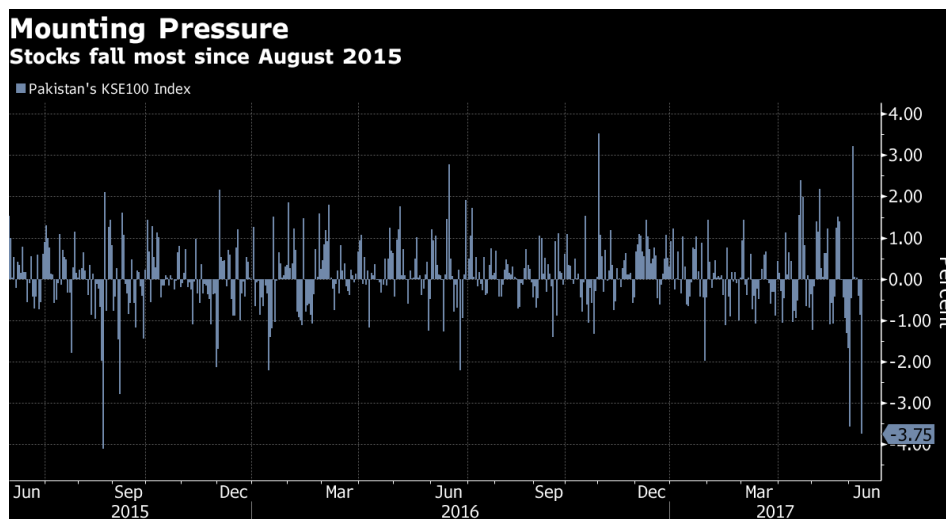
SYMBOL - COMPANY NAME	CURRENT	CHANGE	% CHANGE	VOLUME
POWER - Power Cement Limite	0.75	0.02 ↑	2.74	4,464,500
BOPR2 - The Bank Of Punjab -	0.71	0.04 ↑	5.97	3,232,000
EPCL - Engro Polymer & Chemi	37.02	1.76 ↑	4.99	3,126,500
TRG - Trg Pakistan Ltd Class	48.99	0.35 ↑	0.72	2,238,000
WTL - Worldcall Telecom Ltd	3.45	0.07 ↑	2.07	2,203,500
DFSM - Dewan Farooque Spinni	6.00	-0.14 ↓	-2.28	2,132,000
SNGP - Sui Northern Gas Pipe	157.00	2.28 ↑	1.43	2,116,500
ISL - International Steels L	146.40	1.98 ↑	1.37	1,975,500
DSL - Dost Steel Ltd.	14.06	0.28 ↑	2.03	1,697,000
ASLR - Aisha Steel Mills Ltd	7.06	-0.29 ↓	-3.95	1,546,500
ANI - Azgard Nine Ltd.	12.52	0.62 ↑	5.21	1,459,000
DFML - Dewan Farooque Motors	41.30	-1.98 ↓	-4.57	1,446,000
ASL - Aisha Steel Mills Limi	24.40	0.28 ↑	1.16	1,333,000
LOICHEM - Lotte Chemical Pak	11.26	0.25 ↑	2.27	1,172,500
DOL - Descon Oxychem Ltd.	23.20	0.20 ↑	0.87	876,500
STPL - Siddiq Sons Tin Plate	36.55	-0.16 ↓	-0.44	794,500
OGDC - Oil & Gas Development	153.50	1.54 ↑	1.01	773,700
BOP - The Bank Of Punjab.	12.22	0.21 ↑	1.75	655,000
PAEL - Pak Elektron Ltd.	110.01	0.57 ↑	0.52	642,000
AVN - Avanceon Limited	47.99	2.28 ↑	4.99	591,000
SSGC - Sui Southern Gas Co.	39.40	0.89 ↑	2.31	590,500
UBI - United Bank Ltd.	233.00	7.74 ↑	3.44	589,200
NRSI - Nimir Resins Limited	11.15	0.51 ↑	4.79	478,000
POWER - Power Cement Limited	13.75	0.23 ↑	1.70	416,000
FFRI - Fergo Fertilizers Lt	55.70	0.57 ↑	1.03	409,000

FIPI/LIPI WTD (Week to date), MTD (Month to date), YTD (Year to date)
Till June 12, 2017

Foreigner WTD	4.0
Foreigner MTD	(21.9)
Foreigner YTD	(362.7)
Local Banks WTD	3.4
Local Banks MTD	3.8
Local Banks YTD	(78.9)
Local Funds WTD	(1.1)
Local Funds MTD	15.4
Local Funds YTD	281.2
Individuals WTD	(4.6)
Individuals MTD	(4.3)
Individuals YTD	(19.0)

Source: NCCPL

Shortened trading hours due to Ramzan also had its part to play. But yesterday's market wipe off of PKR 320bn could be highly related to the Supreme Court of Pakistan calling the Prime Minister to appear before a team investigating corruption allegations against his family.



Recall, Pakistan Market officially entered the Morgan Stanley Capital International (MSCI) Emerging Markets (EM) Index on June 1. The effective day of May 31, 2017 was marked with an all-time high gross foreign institutional flow of US\$984mn.

Both inflow and outflow were not in line with expectations. The effective day saw inflow of US\$451mn, which after adjusting for the usual gross flow of around US\$30mn was around US\$420mn. This was much lower than market expectations, which were around US\$500mn.

PSX: Key No.s

	2014A	2015A	2016E	2017F	2018F	2019F
PE	11.7	11.8	12.4	10.8	9.3	8.2
Earnings Growth	35%	21%*	1%*	14%	16%	17%
PBV	2.3	2.1	2.0	1.8	1.7	1.6
Dividend Yield	4%	4%	4%	4%	5%	6%
ROE	20%	18%	15%	15%	18%	19%

On the other hand, the outflow seen on May 31, 2017 was US\$533mn, which was much higher than expectations and resulted in net outflow of US\$82mn.

We had earlier estimated that MSCI Frontier Market (FM) passive outflow of US\$100mn for that day. We believe that other than FM passive, active foreign fund managers may have also opted to sell due availability of liquidity.

As a result, contrary to rise after effective date in the case of Dubai and Qatar, Pakistan Market unexpectedly fell 3.6% in just two days after that.

Thus, FAML Investment strategy is based on our maintained sanguine outlook for the stock market as the present investment landscape is constructive for equities shaped by reasonable valuations as captured in forward P/E multiples of 10.4x; improving macro-economic prospects supported by CPEC projects giving buoyancy to listed companies and lifting sentiments at local bourse; and upgradation of MSCI EM Index.

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FIAAF and FAAF outperformed the equity funds that saw sporadic volatility spikes amid rising noise in the domestic politics, escalating geopolitical uncertainty, and policy uncertainty in the key advanced economies.

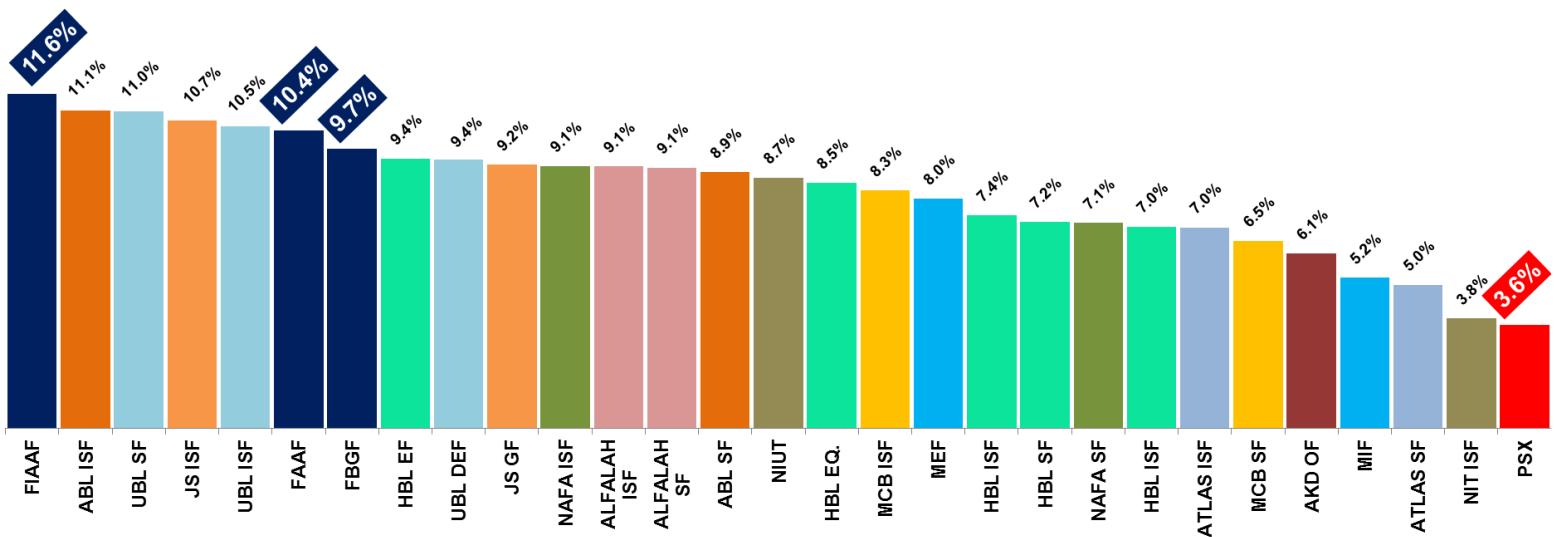
We advise investors to hold the ground, keeping long-term objective in mind and resist the urge to head to the sidelines amid periodic volatility spikes capitalizing on the flavors of asset allocation as the Fund was in select Power Generation & Distribution Companies, and Pharmaceuticals sectors stocks which underperformed the market and overweight in selective sector specific MSCI stocks Engineering, Chemicals, Automobile Assembler, Commercial Banks, Fertilizer, Oil & Gas Marketing Companies stocks which outperformed the market.

Alongside the MSCI play, Faysal Asset Management analyzed the key plays in the economy linked to GDP and cyclical growth. In times of strong GDP growth, the current case in Pakistan where GDP growth touched a decade high, cyclical stocks linked to the GDP growth perform extremely well, while Defensive stocks perform average. FAML then invested a significant portion of the portfolio to take advantage of those sectors that benefit from high LSM growth.

This two pronged play on MSCI and GDP has led FAML to outperform key industry players in CY17.

FAML Funds Amongst Top Performing Equity Funds in Industry FIAAF Yielding ~12% Returns CY17TD

(Consistent Top Performance Till 09 June 2017)



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