

Faysal Asset Management

Pak Equities Where now & next target level of index?

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Dear Valued Investors,

As with any large market correction, it is always a combination of both psychology and fundamentals. Post recent correction from its high, PSX 100 is already down to months low P.E. of 8x – last seen when the index was around 34k level.

However since then USD25bn have been added to GDP and in addition to sharp improvements in most economic variables, major listed sectors have posted off take growth of 5-41% YoY.

Deteriorating BoP has once again emerged as a major challenge facing the economy – however we strongly argue that similarities should not be drawn with 2008 crisis.

While we believe that Pakistan will likely enter into an IMF program sometime after general elections of 2018, increasing rift between US and Pakistan may be receded amidst the ongoing uncertainty. However history suggests that highest rewards for investors have come via investing during crisis such as these (USD 100 invested in year 2000 would have accumulated to USD 1,550 by now).

For investors looking for a decent long term entry point we believe we are already there. Investors should however at the same time recognize that fundamentals have been put aside for some time now and might continue to be ignored until answers to the main uncertainties have been given. Until such time these uncertainties might continue to pressure the market.

For investors sensitive to short term volatility this needs to be taken into consideration. Here we remain very bullish: CPEC led infrastructure investments, low international oil prices, a young and growing (200mn) population coupled with a well-developed private sector, are all present to take advantage of the growth ahead. Pakistan has been one of the world's best equity markets over the last 20 years, in USD. We believe the circumstances for another good 20 years are significantly better today than they were in 1997.

Given the fact that we believe this is a case of changed perceptions rather than changed fundamentals we believe the turning point for investors, who have been selling the market for the last two years. We eye CY17 index target to reach at a range of 45,000-46,000 points.

It is noteworthy that we have been diligently adjusting our portfolio allocations as deemed important in recent market dynamics in all our debt (FMMF, FSGF, FFSOF, FMSTF & FIGF, FISGF) and equity based funds (FIAAF, FBGF, & FAAF). As such, whenever the market rebounds, we outperform the market peers (FIAAF is till date CY17 best performing fund as compared to industry equity peers).

Investors with relevant risk profiles and investment horizons are advised to go through our Fund Manager Report for a detailed performance review of our mutual funds and select a scheme for investment according to their risk preference.

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