

Taurus Securities Limited

A Subsidiary of National Bank of Pakistan

Monthly Market Perspectives

Oct 2021 – PSX up 2.94%MoM – (+1,319 points)

- Growth story continues with challenges ahead
- Overall strong earnings announced by corporates so far
- Covid-19 positivity ratio falls to lowest since Apr'20

TSL Research

+92 21 35216403

UAN: 111-828-787

research@taurus.com.pk

Taurus research is available on Bloomberg under TAUR & on Capital IQ

Date of Publication: Oct 29, 2021

Price as of: Oct 29, 2021

KSE-100 index up 2.9%MoM in Oct'21 (+1,319 points)

Friday, October 29, 2021

Monthly Market Update

CY21 Performance:

- KSE-100 index closed at 46,219 as of Oct'21, up 2.9%MoM (+1,319 points). Net FIPI outflow clocked-in USD 30.3Mn during Oct'21 TD (28th Oct).
- **Average value traded in Oct'21:** PKR 10Bn – down 29%MoM
- **Average volume traded in Oct'21:** 272.2Mn shares – down 34%MoM

Key triggers for the market during Oct'21:

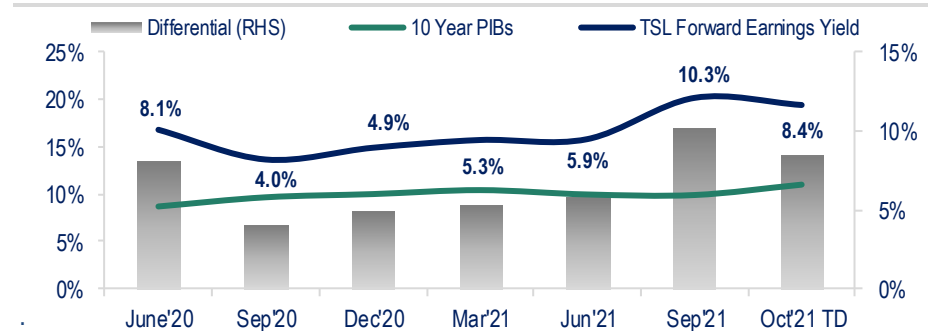
- National Covid-19 positivity ratio dropped to 1.34%, lowest since Apr'20.
- Pakistan-IMF talks remained inconclusive as the month came to an end.
- KSA agreed to provide USD 4.2Bn in economic assistance to Pakistan in the form of a cash deposit and oil on deferred payments.
- Rupee recovered some of its losses against the USD.
- FATF decided to keep Pakistan on its grey list till Feb'22.
- Strong earnings for heavyweight sectors supported index levels.
- Outlook on inflation remained uncertain despite slight ease in international commodity prices. However, still at elevated levels.
- NCPI for Oct'21 to arrive in high amid hike in fuel prices and utilities.
- Secondary market yields reflecting chances of an interest rate hike in the upcoming monetary policy announcement in the range of 50-100bps.

Forward Earnings Yield compared to 10Y PIBs

As on Period end	10 Year PIBs	TSL Forward P/E (x)	TSL Forward Earnings Yield	Differential (RHS)	KSE-100 Index Quarterly	Avg. Daily Volume
June'20	8.7%	5.95	16.8%	8.12%	17.8%	203
Sep'20	9.7%	7.32	13.7%	4.00%	18.7%	500
Dec'20	10.0%	6.71	14.9%	4.90%	7.8%	393
Mar'21	10.4%	6.36	15.7%	5.30%	1.9%	558
Jun'21	10.0%	6.32	15.8%	5.85%	6.2%	669
Sep'21	9.9%	4.96	20.2%	10.28%	-5.2%	412
Oct'21 TD	11.0%	5.15	19.4%	8.43%	2.9%	272

Source: PSX, MUFAP & TSL Research

Forward Earnings Yield vs 10 Year PIBs



Source: PSX & TSL Research

Monthly Market Update

Government reports lowest positivity rate since April 2020

- So far, over 103.5Mn vaccine doses have been administered with 40Mn people fully vaccinated. NCOC aims to vaccinate 70% of the population by the year-end.
- NCOC has strongly advised people to adhere to the SOPs as global weekly cases and casualties increased during past week.

Strong performance of high-frequency growth indicators

- **Housing Finance:** PKR 118.5Bn at the end of Sep'21, up 47%YoY.
- **Auto Financing:** PKR 338Bn at the end of Sep'21, up 46%YoY.
- **POL Sales:** Up 29% during Sep'21 over the SPLY.
- **LSMI Index:** Up 12.8% during Aug'21 over the SPLY.
- **GDP Growth forecast FY22:** SBP 4.8%, Fitch: 4.2%

Saudi Arabia announces USD 4.2Bn economic package

- Saudi Arabia has agreed to revive its financial support to Pakistan, including about USD 3 billion in safe deposits and USD 1.2bn to USD 1.5bn worth of oil supplies on deferred payments.

IMF to allow Pakistan to utilize USD 2.78Bn covid support fund

- Pakistan can utilize an equivalent PKR 500Bn for meeting its budgetary requirements from the support fund.

Fresh flows likely as Pakistan enters 'Frontier' markets

- Pakistan to be re-classified as a Frontier market from December 1st.

Export numbers show growth

- Exports grew 27.4%YoY during Sept'21 clocking-in at USD 2.41Bn.
- Regional exports increased 35% in 1QFY22 over the SPLY.
- Textile exports up ~26%YoY during Sept'21 touching USD 1.05Bn.
- Net FDI jumped to an 11-month high at USD 236Mn in Sept'21 up 16%YoY.

Global commodities headed for slight normalization

- Coal prices in particular started to decrease as the supply situation improved, a significant positive for several sectors relying on imported coal for power including Cements.
- Further, crude oil prices started to decline after reaching a 3-year high due to crude oil stockpiles rising more than expected.

Progress on multilateral gas pipeline projects

- Pakistan and Russia have developed consensus on draft Shareholders Agreement (SHA) of the Pakistan Stream Gas Pipeline Project (PSGP) and agreed to hold another round of negotiations for finalizing the SHA during the second week of November.
- Moreover, officials from Turkmenistan will visit Kabul this week to discuss continuing work on the TAPI pipeline linking Central Asia to Afghanistan, Pakistan and India.

Macroeconomic Update FY22TD

Monthly Market Update

Large-scale Manufacturing Index (LSMI); up 7.3%YoY in 2MFY22

- Pakistan's LSMI output increased 12.8%YoY/2%MoM during Aug'21, led by growth in: (i) Autos (up 68%YoY), (ii) Paper & board (up 30%YoY), (iii) Pharma (up 29%YoY), (iv) Leather (up 28.9%YoY) and (v) Non-metallic minerals (up 22.7%YoY).

2MFY22 Fiscal Deficit: 0.9% of GDP

- Fiscal deficit during Jul-Aug'22 recorded at 0.9% of GDP (PKR 462Bn), unchanged compared to the SPLY. Also, primary deficit was PKR 37Bn (0.1% of GDP) during 2MFY22, compared to a surplus of PKR 69Bn (0.2% of GDP) during 2MFY21.

1QFY22 CAD: USD 3.4Bn; Sep'21 Remittances up 17%YoY

- Current Account for Jul-Sep'21 posted a deficit of USD 3.4Bn (4.1% of GDP), mainly due to growing import volume of energy and non-energy commodities as well as Rupee depreciation.

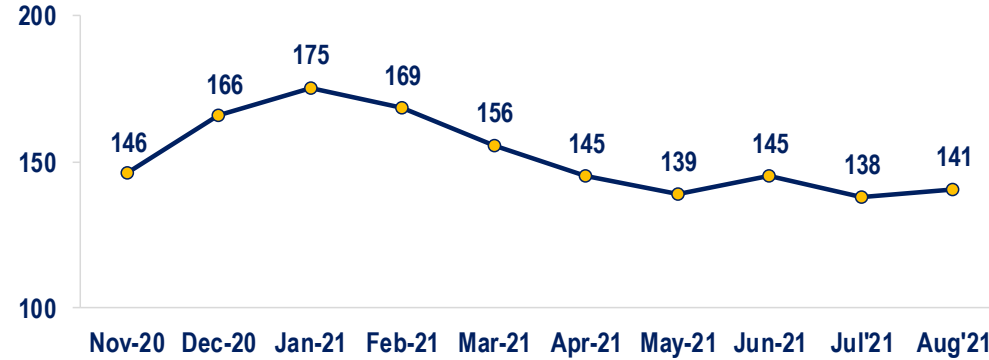
FY22TD: Rupee down 8.3% against the greenback

- PKR showed some respite after crossing the 175 mark during Oct'21 after the announcement of the USD 4.2Bn package by Saudi Arabia. Meanwhile, Sep'21 REER index arrived at 95.86.

FBR exceeds collection target by PKR 186Bn during 1QFY22

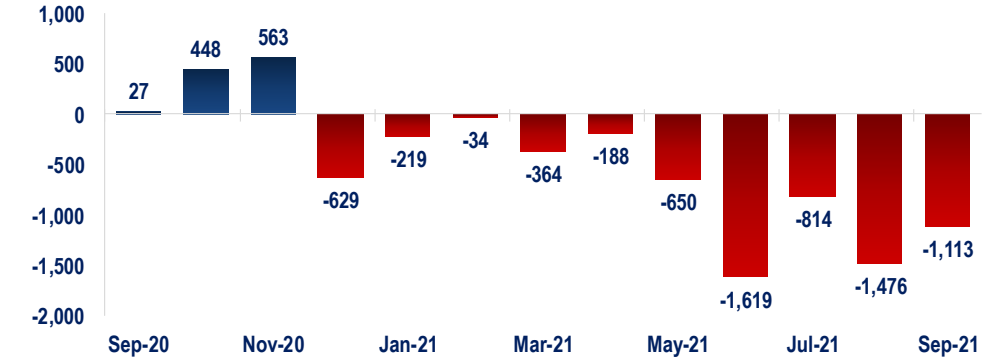
- 1QFY22 collection: PKR 1.395Trn, against the target of PKR 1.211Trn - up 38% over the SPLY.

2MFY22 LSMI up 7.31% compared to the SPLY



Source: PBS and TSL Research

Pakistan's Current Account Performance (USD Mn)



Source: SBP & TSL Research

What are the Risks?

Monthly Market Update

CAD widens as commodity prices rise and Rupee falls

- Current account deficit widened to 4.1% of GDP during 1QFY22 exceeding the SBP forecast of 2 - 3% for FY22. Wherein, rising import bill on the back of increasing commodity prices and falling Rupee remain a source of concern.

IMF EFF revival remains unclear

- Advisor to PM on Finance has reportedly said Pakistan is nearing a staff-level agreement with IMF on release of USD 1Bn tranche. However, prolonged negotiations have underscored the need to discuss set of policies and reforms for the completion of the sixth review.
- While specifics are yet to be reported publicly, action items carry tariff and structural adjustments in gas and power sector, revenue measures, strengthening of regulatory institutions and transparency in public sector financial flows.

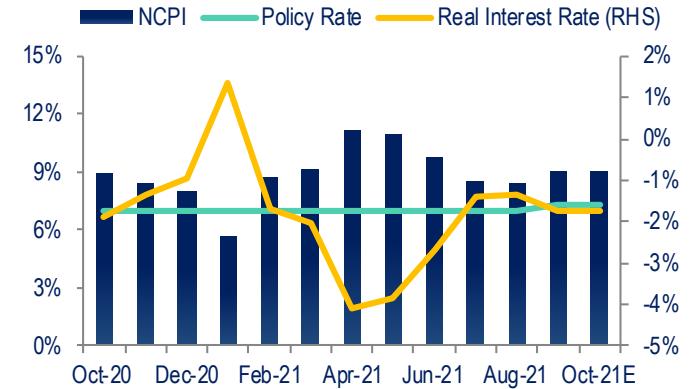
Anticipated inflationary pressures

- Inflation in Pakistan is breaking records owing to elevated food prices, surge in POL product prices and increase in utility tariffs. Going forward, rising international oil and commodity prices and a weak Rupee are likely to create further inflationary pressures - a major policy challenge.

Risks to external position

- Trade deficit during 1QFY22 has increased 1.0xYoY to USD 11.66Bn and is expected to worsen going forward with rising import value of commodities as well as inflow of TERF related drawdowns.
- Elsewhere, post-Dec'21 Pakistan may still need to prepare for repayments to external financiers i.e. G20 etc. hurting the Rupee.

National Consumer Price Index (NCPI)



Source: PBS and TSL Research

Political Uncertainty

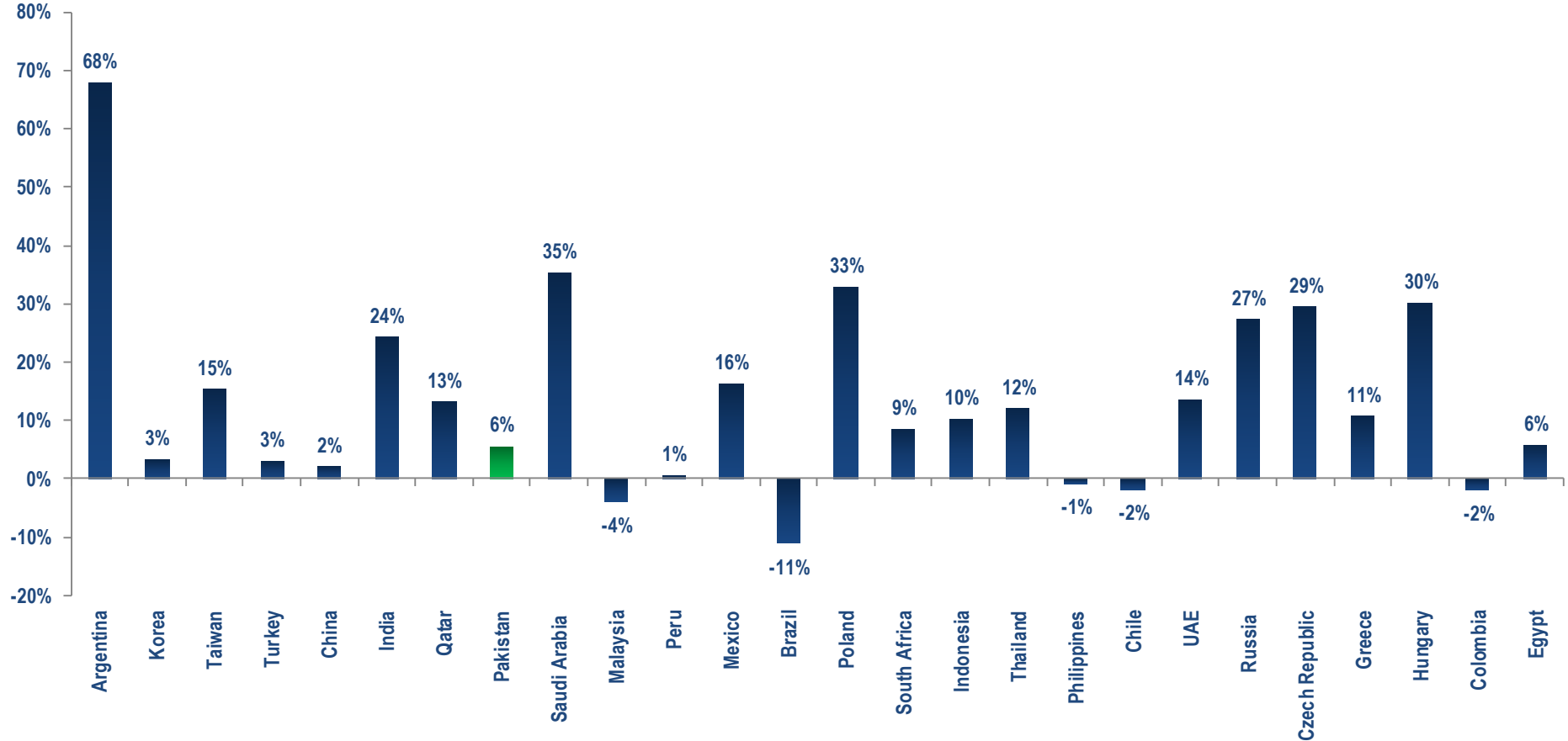
- National security risk remains high due to the on-going protest movements i.e. TLP as well as protests being organized by opposition parties against inflation and economic conditions.
- These protest could lead to economic losses as well as disruption in economic activity due to sit-ins etc.

Emerging Markets Performance – CY21 TD: Pakistan up 6%

Friday, October 29, 2021

Monthly Market Update

Emerging Market CY21TD Market Return Comparison



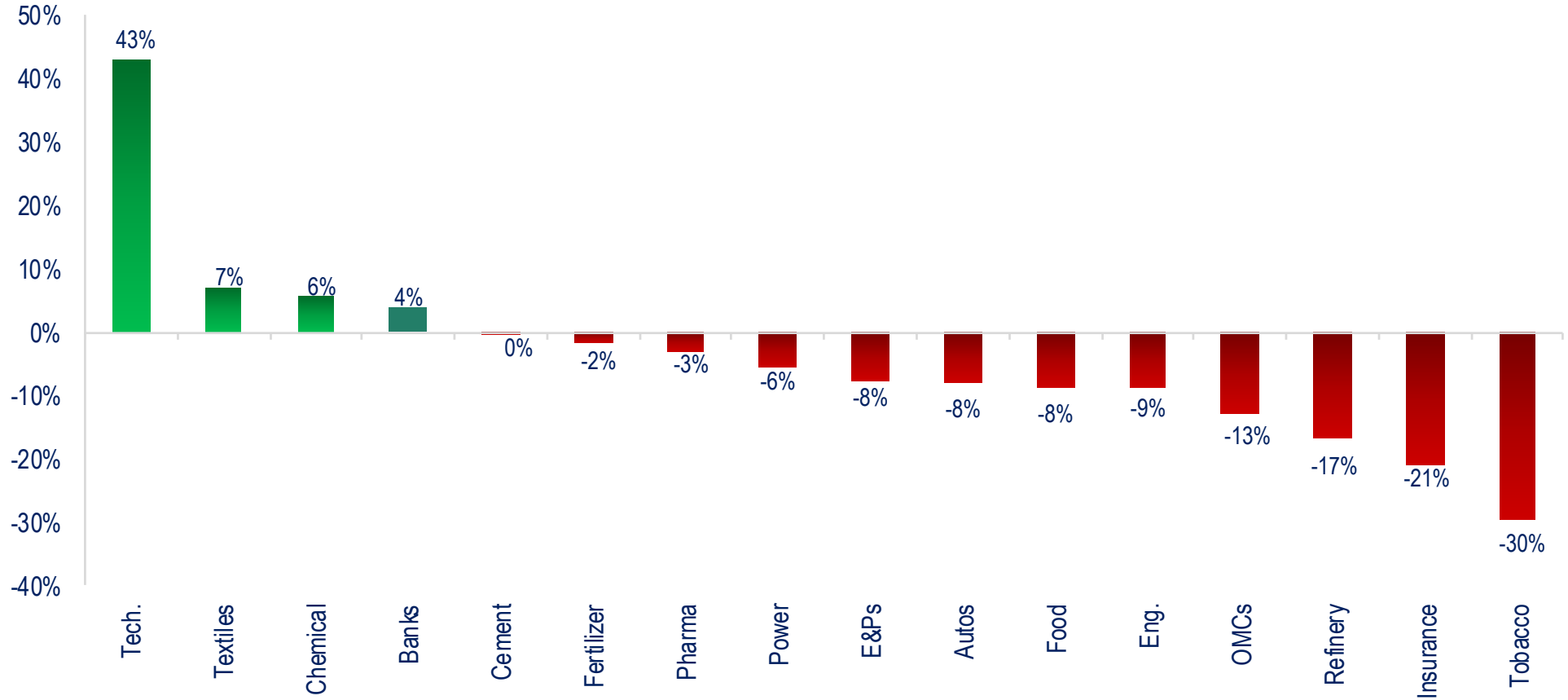
Source: Investing.com & TSL Research

As of October 29, 2021 close

KSE-100 Index CY21 TD Return for Major Sectors

Monthly Market Update

CY21TD Sector-wise return



Source: PSX & TSL Research

Foreign Portfolio Investment Flows for Oct'21 (Up to Oct 28th).

Monthly Market Update

Oct'21 Portfolio Flows - FIPI vs LIPI (USD Mn)

Sectors	FIPI			LIPI								
	Gross Buy	Gross Sell	Net.	Banks	Broker	Comp.	Indivi.	Funds	NBFC	Others	Insur.	Net.
Cement	12.83	(19.13)	(6.30)	(0.23)	1.19	1.74	(2.94)	5.38	0.02	1.36	(0.22)	6.32
Banks	18.85	(43.42)	(24.58)	1.53	0.40	9.24	0.45	3.94	0.35	1.51	7.22	24.63
Technology	26.63	(26.70)	(0.07)	1.97	2.32	1.11	(5.61)	(0.29)	0.03	0.36	0.19	0.08
Textile	2.06	(3.21)	(1.15)	0.29	(0.10)	(0.40)	(1.71)	0.89	(0.03)	0.90	1.29	1.14
Fertilizer	2.63	(25.35)	(22.72)	2.44	0.32	3.05	5.06	6.30	0.23	3.94	1.41	22.75
Others	40.29	(23.43)	16.87	(0.57)	0.66	(14.19)	6.36	(11.64)	0.01	(3.10)	5.54	(16.93)
OMC	3.59	(5.04)	(1.45)	(0.31)	(0.06)	0.79	1.62	(0.64)	0.00	0.14	(0.09)	1.46
E & P	6.46	(8.71)	(2.25)	0.14	(0.36)	(2.00)	0.25	3.63	0.08	1.47	(0.93)	2.28
Power	17.92	(3.56)	14.36	(2.52)	(0.38)	(15.41)	1.74	0.36	0.04	2.35	(0.63)	(14.45)
Food	7.34	(10.43)	(3.09)	0.21	0.24	(1.44)	0.05	(1.40)	0.13	1.01	4.28	3.08
Total	138.62	(168.98)	(30.37)	2.95	4.23	(17.51)	5.28	6.54	0.86	9.95	18.07	30.37

Source: NCCPL & TSL Research

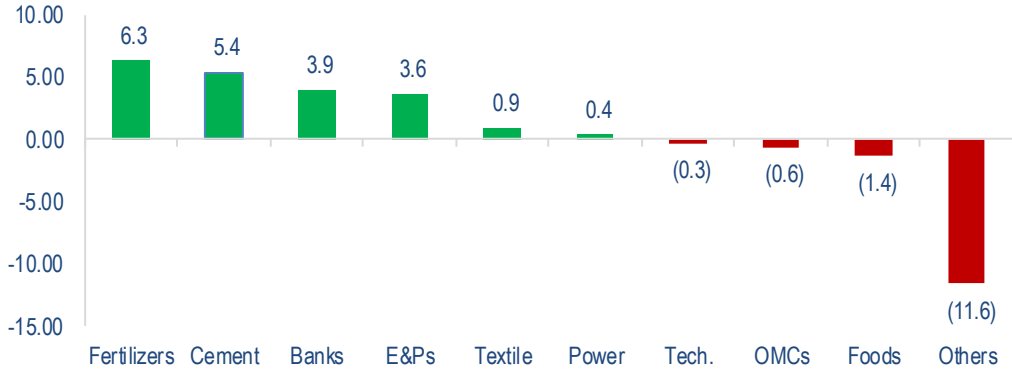
- **Foreigners (including overseas Pakistanis) were net Sellers of USD 30.37Mn worth of shares.**
- **Insurance were the biggest buyers on the local front followed by Others.**
- **Companies were the biggest sellers among locals.**

Local Investment Portfolio Flows during Oct'21 (Up to Oct 28th).

Friday, October 29, 2021

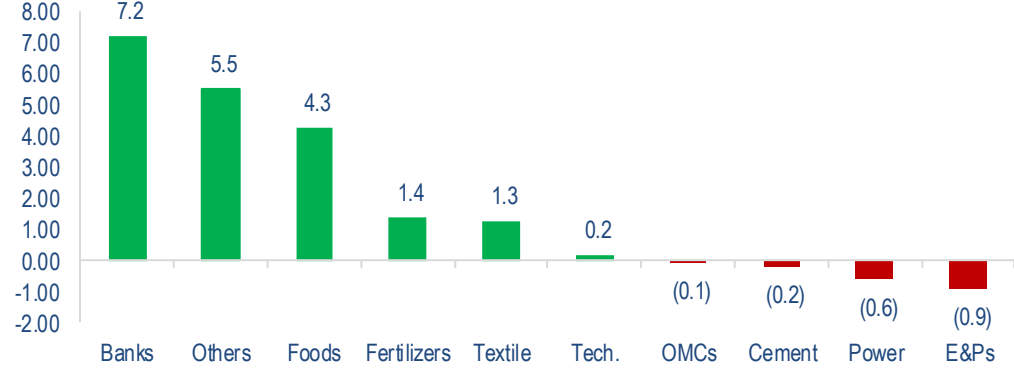
Monthly Market Update

Mutual Fund activity for the month (USD Mn)



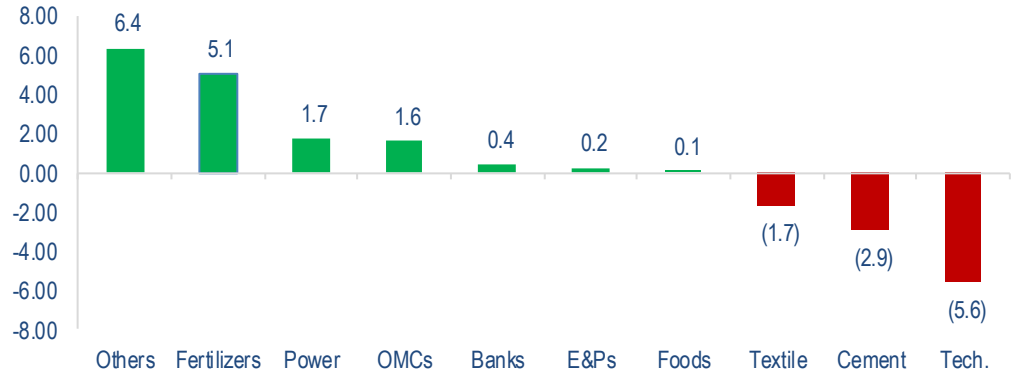
Source: NCCPL & Research

Insurance activity for the month (USD Mn)



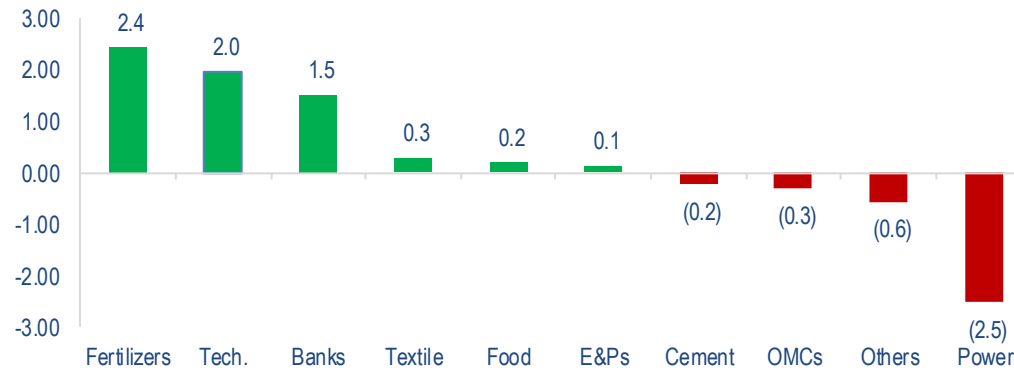
Source: NCCPL & TSL Research

Individuals activity for the month (USD Mn)



Source: NCCPL & TSL Research

Banks/DFIs activity for the month (USD Mn)



Source: NCCPL & TSL Research

Monthly Market Update

Sectors	Stance	Top-Picks	Triggers
Banks	Overweight	UBL, MCB, BAFL, HMB, BAHL, HBL & MEBL	<ul style="list-style-type: none"> Attractive valuations. Universe trading at a P/B(x) of 0.9x. (Positive) Asset quality concerns downplayed, as the industry has outperformed expectations, addressing them proactively. (Positive) 13%YoY earnings growth in 9MCY21 for Universe banks. (Positive) Limited NIM compression expected for CY21. (Positive) ADR tax on income from GoP securities to hurt Banks with low ADRs. (Negative)
Fertilizer	Overweight	ENGRO & FFC	<ul style="list-style-type: none"> Attractive dividend payouts (FFC 14%, EFERT 17%, ENGRO 11%). (Positive) Strong outlook on domestic Urea. (Positive) High DAP margins. (Positive for FFBL) Declining crop yields amidst waters shortages. (Negative) Feed & fuel gas prices hikes. (Negative) Non-operation of LNG plants. (Neutral)
E&Ps	Overweight	OGDC, MARI, POL & PPL	<ul style="list-style-type: none"> Bullish international oil price outlook. (Positive) Two exploration blocks awarded by GoP to MARI and POL. (Positive for MARI & POL) OGDC makes gas discovery at Jandran West X1. (Positive for OGDC) Circular debt tying up cash. (Negative) PKR depreciation. (Positive) PPL's output share set to boost with new commissions. (Positive for PPL) E&Ps posted 10%YoY jump in earnings during 1QFY22. (Positive)
Cements	Overweight	LUCK & MLCF	<ul style="list-style-type: none"> International coal prices are now hovering around USD 162/ton, coming down from USD 257/ton on 5th Oct. Providing a cushion for players to secure their margins in the quarters going forward. (Positive) Greater than the expected earnings for 1QFY22, creating a positive market sentiment in the equity market. (Negative) End of the extended monsoon season, high GDP estimates and development expenditure to keep volumes up. (Positive) Government intervening to control prices may reduce the companies' ability to pass on the impact of rising input prices. (Negative)
Power	Overweight	HUBC & KAPCO	<ul style="list-style-type: none"> 1QFY22 power generation up 6.2%YoY. (Positive) Higher utilization of FO based plants due to peak demand. (Positive for HUBC) The Competitive Trading Bilateral Contract Market (CTBCM) will be rolled in April next year according to NEPRA. (Positive) Work on Dasu Hydropower project to resume soon. (Neutral) Settlement of remaining tranches to increase payouts. (Positive) A massive investment of PKR 111Bn will be made during the next three years into the power transmission system via NTDC in a bid to reduce the power shortages in the country. (Neutral) LNG shortage expected due to hike in global gas prices. (Negative)
OMCs	Overweight	PSO	<ul style="list-style-type: none"> OMC volumes post growth, up 25%YoY during 1QFY22. (Positive) Increasing price trend to convert into inventory gains. (Positive) 10 year tax holiday for existing refineries abolished. (Negative for PSO & APL) PSO market share improved to 51.5% in 1QFY22. (Positive for PSO) RLNG circular debt expected to rise to PKR 190Bn. (Negative for PSO)

Monthly Market Update

Sectors	Stance	Top-Picks	Triggers
Autos	Marketweight	INDU	<ul style="list-style-type: none"> Contractionary regulations on auto-financing likely to dent the sales momentum going forward. (Negative) Shortage of semi-conductor chips are affecting the production of vehicles, producers have started to halt production of few variants (i.e. PSMC & LMC). Delivery dates have also been extended. (Negative) Auto financing touches record high of PKR 338Bn due to low interest rates (up 45% since Sept'20). (Positive)
Engineering	Overweight	MUGHAL & ISL	<ul style="list-style-type: none"> Improved volumetric forecast due to favourable outlook for construction industry and economic recovery. (Positive) Strong pricing power amidst robust demand. (Positive) Shrinking ungraded market share. (Positive) Any negative outcome of IMF negotiations for the steel sector. (Negative) Supply of tax exempted steel products in non-tribal areas. (Negative)
Chemical	Overweight	EPCL	<ul style="list-style-type: none"> Global supply disruptions have increased PVC margins. (Positive) Textile sector has uplifted demand for Caustic Soda, PTA, PSF & H2O2. (Positive) Highest ever quarterly sales of 56kT with 94% market share. Interim cash dividend of PKR 3/sh., 9MCY21 payout: 95%. (Positive) Hydrogen peroxide projected expected COD 1HCY23. (Positive)
Textile Composite	Overweight	ILP	<ul style="list-style-type: none"> Capacity expansions by major exporters, due to increased global demand for textile products, likely to enhance export bills. (Positive) Strong 1QFY22 results announced by Universe companies. (Positive) Increasing cotton prices adversely affecting the sector margins. (Negative) Textile exports showcase record growth in FY21. (Positive) Strong pipeline of export orders to support earnings. (Positive) Pakistan maintains European Union's GSP+ status. (Positive) Gas crisis impacting the sector adversely. (Negative)
Pharma	Overweight	SEARL & AGP	<ul style="list-style-type: none"> Exemptions allowed on imports of several APIs. (Positive) YoY Pharmaceutical industry growth of 16% .(Positive) Pharmaceutical exports up 63%YoY for 3MFY22. (Positive) 1QFY22 Universe earnings up 19%YoY. (Positive) Rupee devaluation to hit margins as most raw materials are imported and make-up most share of cost of sales. (Negative)

SECP Research Entity Notification Number: REP-040

Analyst Certification

The research analyst(s), if any, denoted by AC on the cover of this report, who exclusively reports to the research department head, primarily involved in the preparation, writing and publication of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst which accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or its close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

Disclosure of Financial Interest

TSL or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities of the subject company) in the securities of the subject company. However, NBP and BOK, being associates of TSL, may trade or have significant financial interest, under normal course of business, in the subject company from time to time. Under normal course of business, TSL, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issues described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. TSL or its employees may trade contrary to the recommendation given by TSL Research through this report or any other. TSL may be providing, or have provided within the previous twelve months, significant advice or brokerage services to the subject company. TSL may have, within the past twelve months, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all, the entities mentioned in this report or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company. TSL or any other of its officers and directors have neither served as a director/officer in any company under TSL research coverage in the past 3 years nor received any compensation from the subject company in the past 12 months.

Disclaimer

This report has been prepared by Taurus Securities Ltd (hereinafter referred as TSL) and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Statements regarding future prospects may not be realized while all such information and opinions are subject to change without notice. TSL recommends investors to independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

Investments in capital markets are subject to market risk and TSL accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment or rely upon their own judgment and acumen before making any investment. The views expressed in this document are those of the TSL Research Department and do not necessarily reflect those of TSL or its directors.

TSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers.

TSL, as a full-service firm, has/intends to have business relationships, including investment-banking relationships, with the companies in this report. Investors should be aware of that the TSL may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

TSL claims responsibility for Research or other publication disseminating ONLY through its official channels (email address, TSL Web etc.) and DOES NOT take ownership/responsibility for report(s) circulated through other sources (social media, website, blogs etc.) under the name of the organization. TSL Management reserves the right to take action against unauthorized reproduction, distribution or publication of its reports.

Important Disclosure

TSL Research Dissemination Policy

Taurus Securities Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Taurus Stock Rating System

TSL employs a 3-tier rating mechanism i.e 'BUY', 'HOLD' and 'SELL', which is based upon the level of expected return for a specific stock. When total return (capital gain + dividends) exceeds 16%, a 'BUY' rating is assigned. A 'SELL' rating is issued whenever total return is less than -6% and for return in between the 2 ranges, 'HOLD' rating is meted out. Different securities firms use a variety of rating terms/systems to describe their recommendations. Similar rating terms used by other securities companies may not be equivalent to TSL rating system.

Time horizon is usually the annual financial reporting period of the company (unless otherwise mentioned in the report). Ratings are updated daily and can therefore change daily. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations.

Target price risk disclosures

Any inability to compete successfully in the markets may harm the business. This could be a result of many factors which may include (but not limited to) geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage/offset certain of these exposures.

Valuation Methodology

To arrive at our period end target prices, TSL uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: www.JamaPunji.pk

Frequently Used Acronyms

TP	Target Price	DDM	Dividend Discount Model	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings ratio	PB	Price to Book ratio	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	ROE	Return on Equity
ROA	Return on Assets	SOTP	Sum of the Parts	JPB	Justified Price to Book