

Taurus Securities Limited

A Subsidiary of National Bank of Pakistan

Monthly Market Perspectives

Feb 2022 – PSX down 2%MoM – (-914 points)

- Geo-political headwinds dampening investor confidence
- On-going result season
- Omicron variant threat eases out

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KSE-100 index down 2%MoM in Feb'22 (-914 points)

Monday, February 28, 2022

Monthly Market Update

Monthly Index Performance:

- KSE-100 index closed at 44,461 as of Feb'22, down 2%MoM (-914 points). Net FIPI outflow clocked-in USD 15.04Mn during Feb'22.
- **Average value traded in Feb'22:** PKR 7.2Bn – down 13%MoM
- **Average volume traded in Feb'22:** 226.4Mn shares – down 14%MoM

Key triggers for the market during Feb'22:

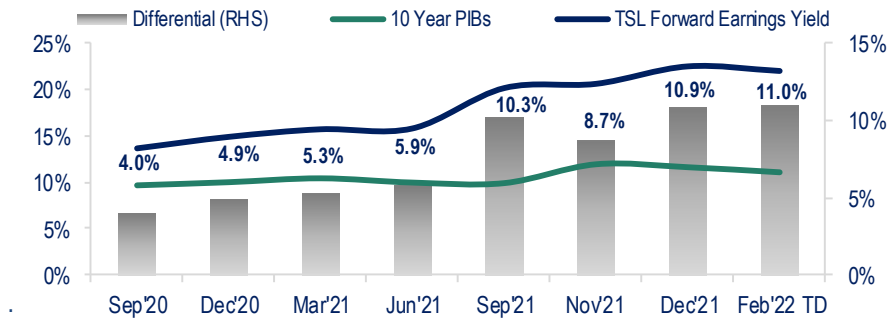
- Geo-political tensions amid Russia-Ukraine conflict
- Omicron eases down. Positivity rate down to 2.02% (Feb).
- IMF Board approved next disbursement of USD 1Bn under the EFF.
- NCPI hit 24 month high of 12.96% in Jan'22. 12.5% expected for Feb'22.
- 7MFY22 Current account deficit crosses USD 11Bn mark, mainly on account of higher import bill because of rising commodity prices.
- Pakistan's foreign exchange reserves declined to USD 23.2Bn.
- Results season in full swing with several companies announcing cash dividend as well as bonus.
- Pakistan's foreign debt and liabilities (outstanding) ticked up 6.89% to USD 130.6Bn in 1HFY22.
- Foreigners sold USD 15.04Mn worth of shares in Feb'22.

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
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
Nov'21	11.9%	4.85	20.6%	8.70%	0.4%	295
Dec'21	11.6%	4.44	22.5%	10.91%	-0.7%	274
Feb'22 TD	11.1%	4.54	22.0%	10.96%	-0.3%	246

Source: PSX, MUFAP & TSL Research

Forward Earnings Yield vs 10 Year PIBs



Source: PSX & TSL Research

Positives to look forward to...

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Daily vaccination numbers rising

- So far over 209Mn vaccine doses have been administered with 96.2Mn people fully vaccinated.
- The Government has approached COVAX to start vaccination of children aged five to 11yrs (numbering 43.7Mn) and to make booster dose compulsory in the coming days.

Strong performance of high-frequency growth indicators

- **Auto sales:** up 3.5%YoY, during 7MFY22.
- **Housing Finance:** PKR 304Bn at the end of Jan'22, up 2.2%MoM.
- **Auto Financing:** PKR 390Bn at the end of Jan'22, flat MoM.
- **LSMI Index:** Up 7.4% during 1HFY22.
- **Power Generation:** Up 9%MoM during Jan'22.
- Further, the IMF expects FY22 GDP to grow 4% and 4.5% (FY23).

USD 1.17Bn Foreign Direct Investment fetched during 7MFY22

- Pakistan fetched FDI amounting to USD 1.17Bn, up 11% during 7MFY22 showing increasing business confidence.

USD 3Bn from the IMF to be received before Sept'22

- Inflows from the IMF to support foreign exchange reserves, finance the current account deficit and keep the rupee stable amid stable foreign exchange reserves position. Issue of USD 1Bn Eurobonds next month to further support reserves.
- Moreover, Pakistan has also secured USD 10Bn in commitments from friendly countries and multilateral organization for repayment for loans maturing in FY22 as per the IMF Staff Report.

Positive Geo-Political developments

- PM Imran Khan visit to Russia 23Yrs after former PM Nawaz Sharif in 1999 to strengthen up bilateral ties including energy cooperation besides exchanging views on major regional and international issues.
- Pakistan and Afghanistan to work on Torkham border issues for smooth flow of trade and pedestrians.

Tax-incentives to Tech & Pharma sector

- Multiple exemptions announced by the Govt to unleash export potential of the IT sector with an aim to reach USD 50Bn in a few years, already up 32.65% during 7MFY22.
- Short-term incentives for the Pharma sector to cultivate growth.

Macroeconomic Update FY22TD

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Large-scale Manufacturing Index (LSMI); up 6.4%YoY in Dec'21

- Led by growth in: i) Wood sector (4.78x); ii) Furniture (1.81x); iii) Automobile (83%) sectors. 1HFY22 LSMI up 7.4% YoY.

6MFY22 fiscal deficit recorded at 2.1% of GDP

- Fiscal deficit during Jul-Dec'21 was recorded at 2.1% of GDP. Whereas, the primary balance posted a surplus of PKR 81Bn (0.1% of GDP).
- 7MFY22 tax collection up 30% YoY. Target exceeded by PKR 262Bn.

FY22TD Inflation recorded at 10.26%

- Inflation for Jan'22 spiked to 12.96% on account of soaring food and energy prices & imported items. FY22 TD headline inflation recorded at 10.26%. 12.5% NCPI expected for the month of Feb'22.

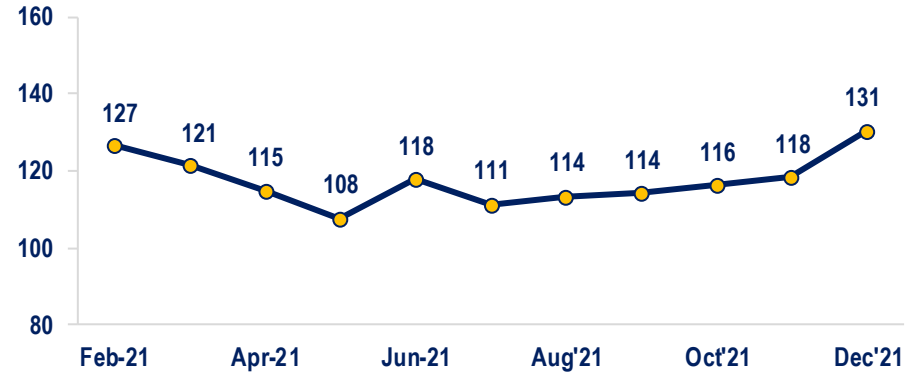
7MFY22 CAD arrived at 3.5% of GDP; Remittances up 9.1%

- 7MFY22 CAD has crossed USD 11.6Bn i.e. 5.7% of GDP. Trade deficit swelled to USD 21Bn. Remittances up 9.1%YoY i.e. USD 18Bn.

FY22TD: Rupee down 12% against the greenback

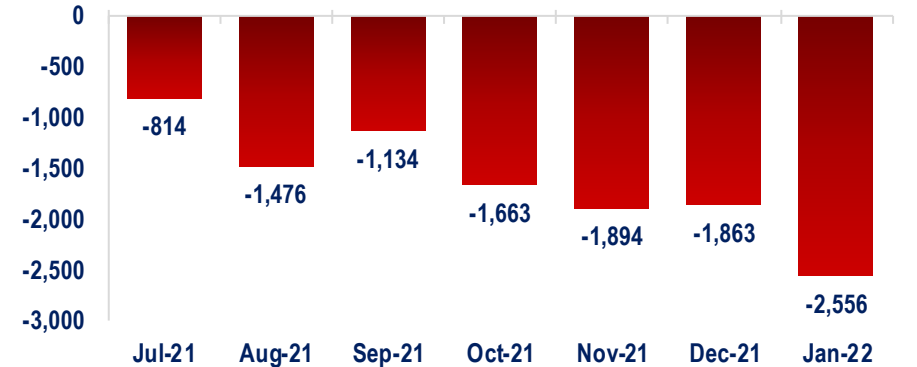
- Rupee has lost 12% in value against USD FY22TD, despite brief moments of recovery during the period.
- Real-Effective Exchange Rate (REER) as of Jan'22 was recorded at 97.03 unchanged from its level recorded in Dec'21.

1HFY22 LSMI up 7.4% compared to the SPLY



Source: PBS and TSL Research

Pakistan's Current Account Performance (USD Mn)



Source: SBP & TSL Research

What are the Risks?

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Russia-Ukraine war to impacts the overall geo-political scenario

- Prolonged Russia-Ukraine war to have devastating impact on global commodity prices i.e. Oil, Gas, Wheat etc. which are already at record levels post-pandemic. Pakistan to lose out due to significant dependence on energy and food imports.

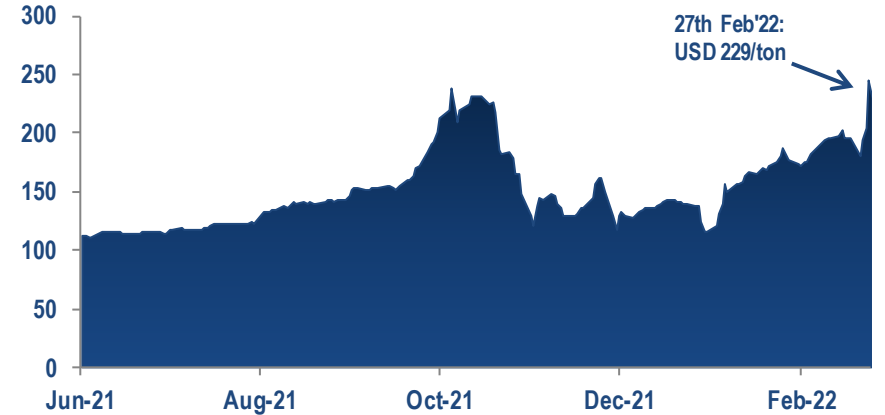
International commodity prices on a bull run again

- Commodity prices have yet again increased as production struggles to meet demand along with geo-political challenges. High commodity prices coupled with supply chain disruptions is likely to slowdown economic expansion in the near term, supporting high inflation.
- Raw material and intermediaries prices have also risen as oil prices soar near USD 100/bbl. level, ultimately hurting industry margins. International coal prices up 95.3% during FY22TD.

External sector vulnerabilities continue to grow

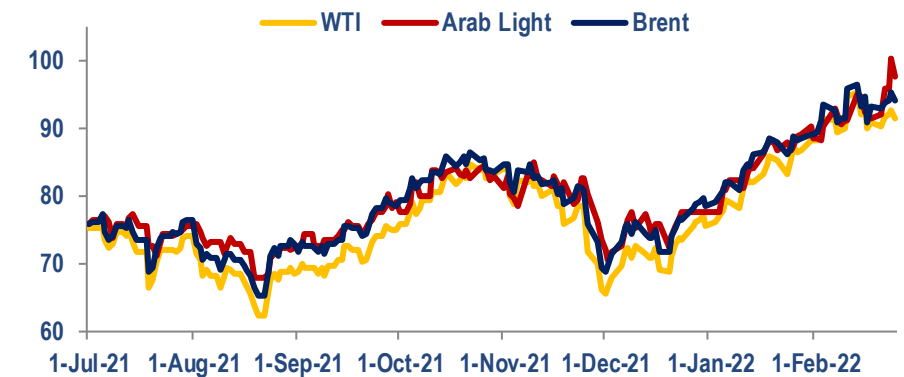
- Debt repayments have reached alarming levels as the GoP is expected to pay back USD 8.64Bn on account of foreign loans in 2HFY22. Moreover, 'Global Risks Report 2022' by World Economic Forum has also listed debt crisis as a top risk for Pakistan. SBP's foreign exchange reserves have also fallen 12.6% TD from their high of USD 20.15Bn in Aug'21.

FY22TD Coal Price Trend (USD/ton) - ICE Richard Bay Coal



Source: Bloomberg & TSI Research

FYTD Oil Prices Trend (USD/bbl)



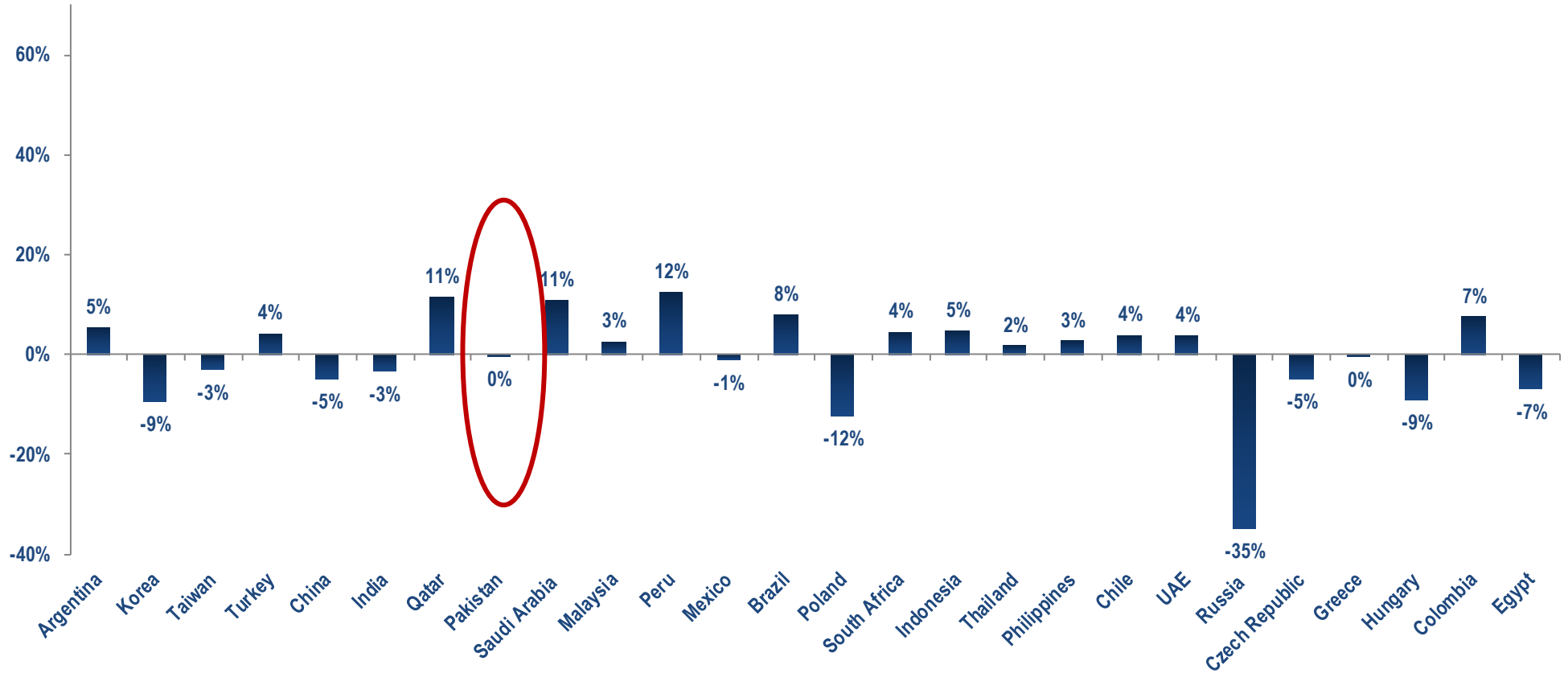
Source: Bloomberg & TSL Research

Emerging Markets Performance – CY22 TD: Pakistan remains flat

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Emerging Market Returns CY22 TD



Source: Investing.com & TSL Research

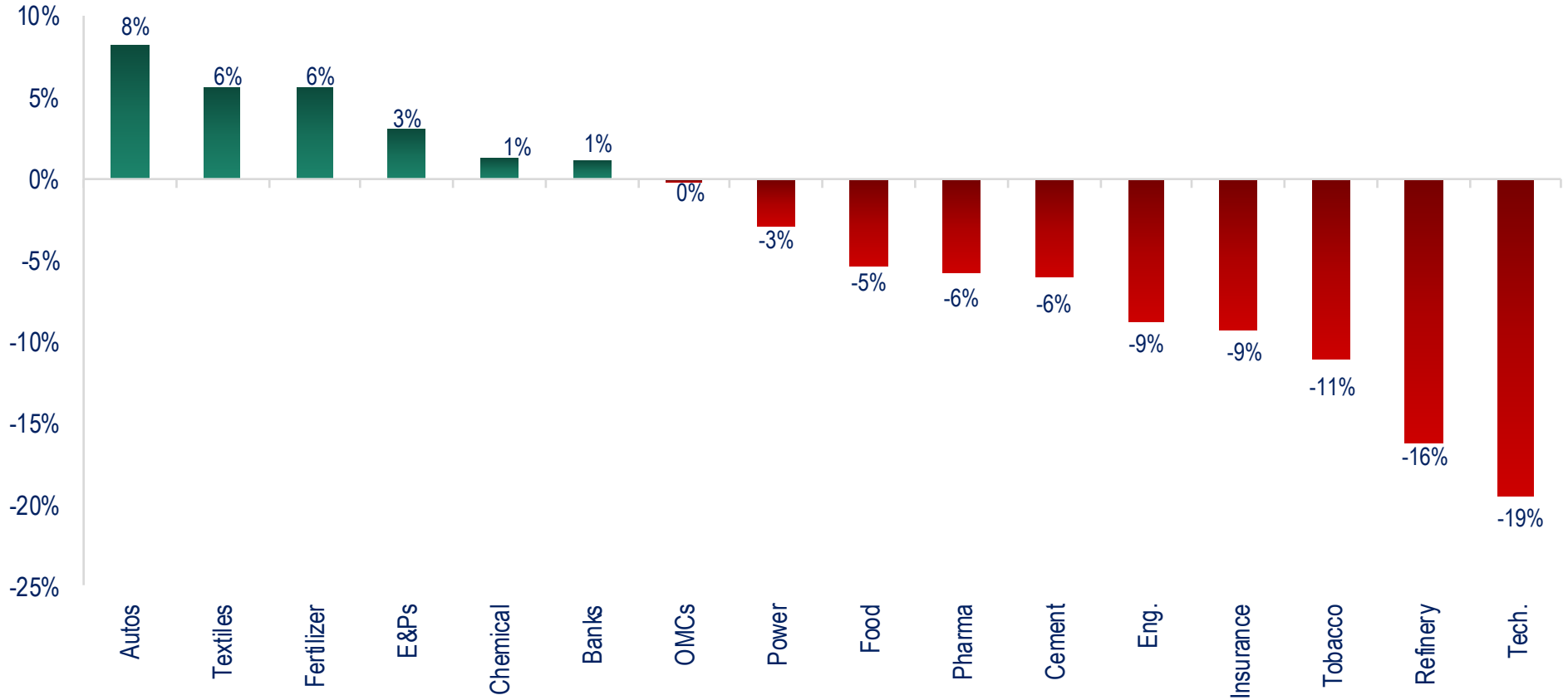
As of February 28, 2022 close

KSE-100 Index CY22 TD Return for Major Sectors

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CY22TD Sector-wise return



Source: PSX & TSL Research

Foreign Portfolio Investment Flows for Feb'22

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Feb'22 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	3.27	(5.87)	(2.60)	0.31	0.32	2.20	1.22	(3.58)	0.02	1.56	0.55	2.60
Banks	8.21	(11.54)	(3.33)	4.34	(1.06)	4.52	(1.69)	(2.22)	0.03	0.70	(1.28)	3.34
Technology	20.34	(28.29)	(7.95)	4.10	0.08	0.05	0.94	1.97	0.02	(2.06)	2.87	7.96
Textile	5.72	(2.99)	2.74	1.29	0.16	1.45	(2.85)	(1.92)	0.02	(0.59)	(0.29)	(2.74)
Fertilizer	2.55	(4.65)	(2.10)	(1.91)	0.45	1.95	(2.00)	0.86	0.05	4.78	(2.08)	2.09
Others	20.91	(22.32)	(1.41)	(2.12)	(0.77)	0.87	10.86	(11.19)	0.17	7.03	(3.43)	1.42
OMC	4.04	(4.30)	(0.26)	0.71	0.41	(0.46)	1.31	(1.24)	(0.02)	(0.11)	(0.33)	0.26
E & P	5.26	(5.13)	0.12	1.20	0.76	2.01	(4.77)	1.00	(0.01)	1.44	(1.76)	(0.13)
Power	2.35	(2.09)	0.25	0.89	(0.19)	0.71	0.96	(1.83)	(0.00)	(0.74)	(0.06)	(0.25)
Food	5.13	(5.63)	(0.50)	0.22	(0.19)	0.22	0.28	(0.12)	(0.00)	0.61	(0.51)	0.50
Total	77.78	(92.82)	(15.04)	9.02	(0.04)	13.51	4.26	(18.26)	0.27	12.62	(6.34)	15.04

Source: NCCPL & TSL Research

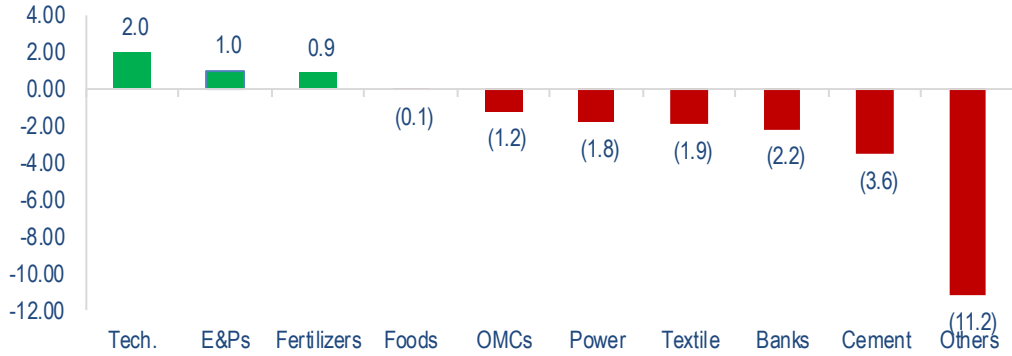
- **Foreigners (including overseas Pakistanis) were net sellers of USD 15.04Mn worth of shares.**
- **Companies were the biggest buyers on the local front followed by Others and Banks.**

Local Investment Portfolio Flows during Feb'22

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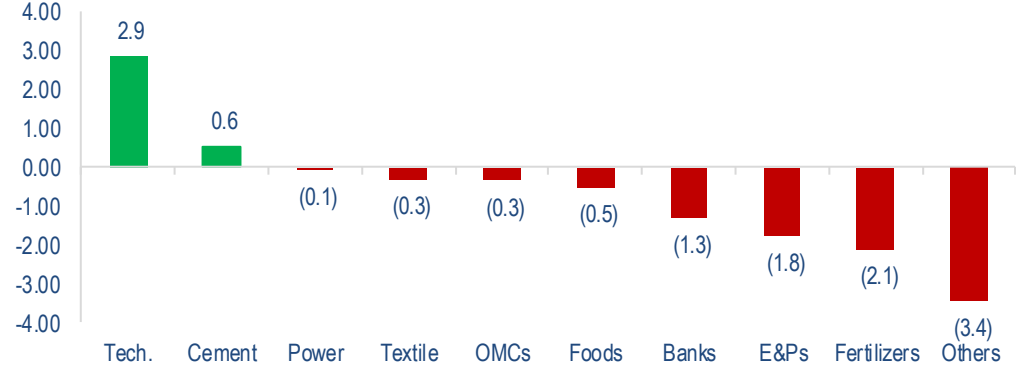
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Mutual Fund activity for the month (USD Mn)



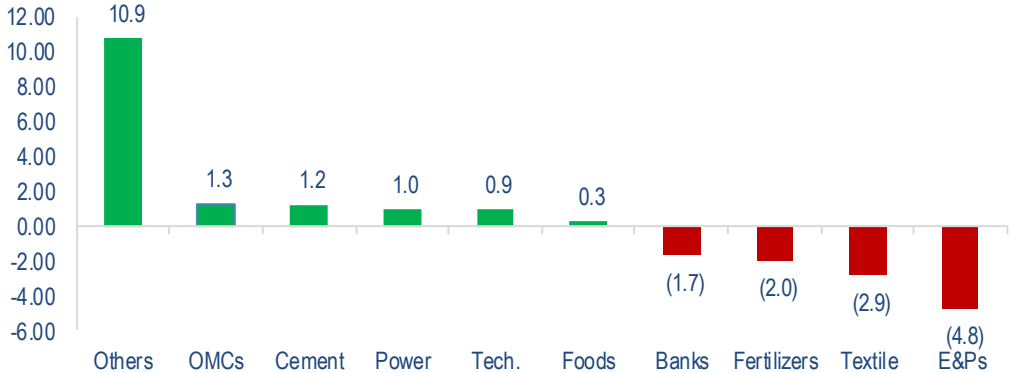
Source: NCCPL & Research

Insurance activity for the month (USD Mn)



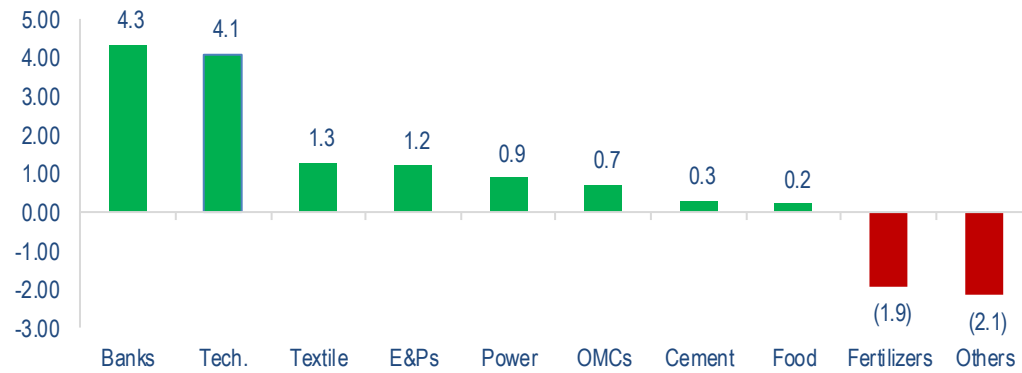
Source: NCCPL & TSL Research

Individuals activity for the month (USD Mn)



Source: NCCPL & TSL Research

Banks/DFIs activity for the month (USD Mn)



Source: NCCPL & TSL Research

Sectors	Stance	Top-Picks	Triggers
Banks	Overweight	HBL, MEBL and UBL	<ul style="list-style-type: none"> Rising interest rate scenario to bode well for lending and investment yields. NIMs have bottomed-out, only way from here is upwards. (Positive) Surge in Government borrowing requirement to complement hefty liquidity in the system due to M2 growth. (Positive) Asset quality remains robust with increased coverage. (Positive)
Fertilizer	Overweight	EFERT, ENGRO & FFC	<ul style="list-style-type: none"> CY21 Universe earnings up 19%YoY. (Positive) TSL Banking Universe is currently trading at ~P/B(x) 0.8x, offering 10% dividend yield on a CY22 basis. (Positive) Robust capital adequacy levels amid strong payouts. (Positive)
E&Ps	Overweight	OGDC & MARI	<ul style="list-style-type: none"> Attractive dividend yields (FFC 12%, EFERT 14%, ENGRO 9%). (Positive) Fertilizer offtakes fell by 8%YoY in January. (Neutral) Positive outlook on domestic Urea and DAP prices. (Positive) WACOG bill likely to raise gas price and input costs. (Negative)
Cements	Overweight	LUCK & MLCF	<ul style="list-style-type: none"> Oil prices surge above USD 100/bbl. (Positive) PKR depreciation. (Positive) Exploration in Abu Dhabi block expected to commence during FY23. (Positive)
Power	Marketweight	HUBC	<ul style="list-style-type: none"> PPL announced new discovery in Latif block. (Positive for PPL) Circular debt pile-up tying up cash. (Negative for OGDC, PPL) Passing of OGRA bill to address delay in price notification. (Positive)
OMCs	Overweight	PSO	<ul style="list-style-type: none"> International coal prices on the rise again (currently trading at USD 229/ton (Mar'22), keeping the margins under-pressure. (Negative) Both local and export dispatches have fallen due to slowdown in construction activity and some seasonal effect. (Negative)
			<ul style="list-style-type: none"> Power generation up 8.9%YoY during January'22. (Positive) Power sector circular debt still rising, currently at PKR 2.47Trn. (Negative)
			<ul style="list-style-type: none"> Power tariff is likely to increase by PKR 6.10 per unit on account of fuel-cost adjustment for the month of Dec'21. (Negative) CPECA has urged the CPPA-G to pay overdue receivables of IPPs established under CPEC. (Negative)
			<ul style="list-style-type: none"> 7MFY22 industry sales volume jump 14.5%YoY. (Positive) OMC Association (OMAP) seeks resolution of regulatory curbs on bank financing for OMCs. (Neutral) Power plants start uplift of FO after month long hiatus causing FO stock pile-up. (Neutral for PSO, APL) IPP payouts expected to improve liquidity – HUBC paid PSO ~PKR 45Bn. (Positive for PSO) OMCs likely to book high inventory gains with rising oil prices. (Positive) High retail fuel prices to dampen demand. (Neutral) WACOG Bill to improve gas revenue collection and ultimately improve PSO's liquidity. (Positive for PSO)

Sectors	Stance	Top-Picks	Triggers
Autos	Overweight	INDU	<ul style="list-style-type: none"> Increasing prices of POL products is likely to dent some sales going-forward. (Negative) PKR 1.8Bn worth of order placed for police vehicles by Sindh Police . (Positive for INDU) Auto-financing remains flat at PKR 390Bn. (Neutral) <ul style="list-style-type: none"> Increase in RD from 15% to 50% on imported CBU's and restriction on financing is being reflected by the demand for CBUs translating into locally produced models. (Neutral)
Engineering	Overweight	MUGHAL & ISL	<ul style="list-style-type: none"> Long-steel producers enjoy strong pricing power. (Positive for MUGHAL and ASTL) Increasing copper demand in China. (Positive for MUGHAL) Low flat steel volumes to dent player profitability. (Negative) <ul style="list-style-type: none"> High International HTC prices. (Negative) Rising graded market share. (Positive) Removal of SRO-640 to unleash CRC demand from pipe industry. (Positive for ISL)
Chemical	Overweight	EPCL	<ul style="list-style-type: none"> PVC margins remain strong due to global supply disruptions. (Positive) Textile sector has uplifted demand for Caustic Soda, PTA, PSF & H2O2. (Positive) <ul style="list-style-type: none"> WACOG bill likely to increase input costs. (Negative) Expiry of anti dumping duties imposed on PVC imports by Jun'22 to allow cheaper imports. (Negative for EPCL)
Textile Composite	Overweight	ILP	<ul style="list-style-type: none"> Approval of New Textile & Apparel policy to up-lift exports. (Positive) Textile sector observed a historic high of USD 10.36Bn exports in 7MFY22, up 32%YoY. (Positive) <ul style="list-style-type: none"> PKR devaluation to support export earnings. (Positive) Hike in cotton and polyester price internationally. (Negative)
Pharma	Marketweight	SEARL	<ul style="list-style-type: none"> Increase in drug prices (CPI linked) to support profitability. (Positive) Diversifying portfolio mix. (Positive) <ul style="list-style-type: none"> Healthcare spending to slow down due to inflationary pressures. (Negative) Rupee devaluation to hit margins as most raw materials are imported and make-up most of the cost of sales. (Negative) SEARL 1HFY22 PAT down 4%YoY. (Negative)

SECP Research Entity Notification Number: REP-040

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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