

# Pakistan Market Strategy The Price of “Absolutely Not”

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*Prices as of 21<sup>st</sup> September, 2021*

## The Price of “Absolutely Not”

- KSE-100 index lost 519 points on 21st September, 2021, the first session after Sep-21 MPS in which SBP decided to raise interest rates by 25 bps. The index is down another 600 points and trading at 45,400 today at the time of writing this note.
- The central bank having clearly indicated the need to reverse the direction of stimulus (with economic growth being above expectations, upside risk to inflation due to surge in commodities’ prices and pressure on external account due to higher imports and broad-based demand revival), is negative for equity market as an asset class.
- However, the key concern affecting equity markets in our view is geopolitics, as reflected in the perceived security concerns that led to last minute cancelation of New Zealand and England cricket teams’ tours to Pakistan, without sharing credible insights to the actual security threats.
- We believe Pakistan’s alleged role in a relatively bloodless transfer of power in Afghanistan, that was in its best national interest, is not going well with some international powers. A far greater chaos and a humanitarian crisis in Afghanistan would have helped divert focus away from the effectiveness of the US’s 20-year campaign in Afghanistan. Though an alleged role in such a chaos would have had far worse geopolitical consequences for Pakistan, who had to choose between a rock and a hard place.
- We believe Pakistan will have to face further adversity and expect tough times ahead with respect to the IMF program and possibly FATF.
- KSE-100 valuations are extremely attractive. Akseer universe trades at FY22 PE of 5.1x and offers a dividend yield of 9.7%. Trailing 12M PE stands at 6.5x as per Bloomberg and 7.4x as per Zakheera.
- Short term investors should remain cautious. Long term investors should cherish the opportunity to build portfolios with a unique blend of low risk (high yield) and adequate growth opportunity. Avoid leverage. But valuations could become even sweeter in the near term. Our top picks include OGDC, MARI, MLCF, HUBC, LUCK, PIOC, ISL, BAFL, BAHF, APL, HBL.

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- Technically, KSE-100 broke its key support at 46,200, psychological support at 46,000 and another key support at 45,800 intraday to close marginally above 46,000 on 21<sup>st</sup> September 2021. It's important to note that Index close represents the average of last 30-minute activity.
- KSE-100 breached 45,800 on 22<sup>nd</sup> September. We expect further downside in the short term, in the absence of any upside trigger, current geopolitical situation, and the likely reversal of post COVID economic stimulus.
- The next major support lies around 43,500.



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