

Pakistan Strategy

# KSE: Sharp pullback as KSE-100 falls 10.1% MoM in March 2015

KSE100 Index: Closing 30,233.87 ↑ (1,306.83)

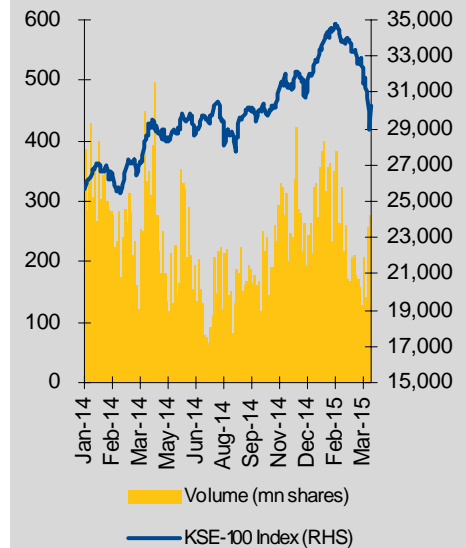
## MORNING BRIEFING

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- The bullish mood at the Karachi Stock Exchange (KSE) witnessed a sharp pullback, as the benchmark KSE-100 index closed down 10.1% MoM in March 2015 (vs. average 1.3% MoM gains in regional markets).
- The market's downtrend was mostly driven by (1) continuous foreign selling (net selling of US\$70mn in March 2015), (2) uneasy international and domestic political situation and (3) concerns over futures rollover.
- Local Mutual Funds too were net sellers of US\$55mn in March 2015 as they were hit by redemptions in a down trending market.
- Rounding up the market tally for March 2015, the best performing key KSE-100 sectors were Gas utilities (-2.3%) and Food Producers (-5.1%) while Pharmaceuticals (-18.9%) and Banks (-14.7%) were laggards.
- Looking ahead, we eye recovery in market returns as focus shifts back onto fundamentals and valuations from liquidity concerns. We flag UBL, ABL, DGKC, LUCK, POL and EFERT as our preferred plays.

### KSE performance and volumes



Source: KSE

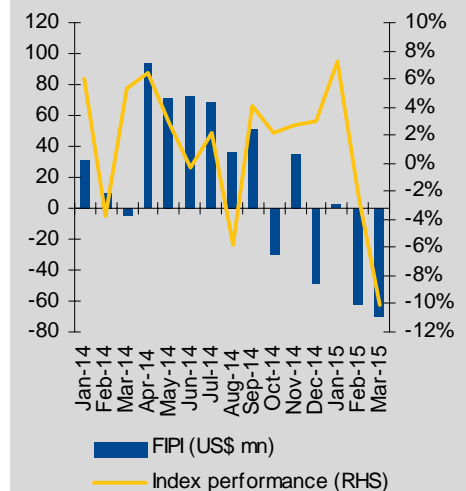
### Sharp pullback in March, as KSE-100 down 10.1% MoM

The bullish mood at the Karachi Stock Exchange (KSE) witnessed a sharp pullback, as the benchmark KSE-100 index closed down 10.1% MoM in March 2015 (vis-à-vis average 1.3% MoM gains in regional markets), where two trading sessions witnessed intra-day losses in excess of 1,000pts (or ~4%). It marked KSE-100's worst monthly return since May 2010. Average trading volumes also took a hit, clocking in at 167mn shares/day (-31% MoM) or US\$91mn (-34% MoM). The market's downtrend was mostly driven by (1) continuous foreign selling (net selling of US\$70mn in March 2015), part of which was because of a certain foreign fund winding up with significant exposure to Pakistan, (2) uneasy international and domestic political situation and (3) concerns over futures rollover. To compound matters, local Mutual Funds too were net sellers of US\$55mn in March 2015 as they were hit by redemptions in a down trending market. Rounding up the market tally for March 2015, the best performing key KSE-100 sectors were Gas utilities (-2.3%) and Food Producers (-5.1%) while Pharmaceuticals (-18.9%) and Banks (-14.7%) were laggards. Drilling down to stock performance, the best performing stocks within KSE-100 in March 2015 were TRG (+3.3%), FATIMA (+3.2%) and NATF (+1.5%).

### Focus to shift back on to strong fundamentals

Looking ahead, we eye recovery in market returns as focus shifts back onto fundamentals and valuations from liquidity concerns, where benign March 2015 CPI numbers is likely to raise expectations of further cut in discount rate. We flag KSE's discount to its peers has widened to 50% from its recent low of ~35%. In our opinion the widening discount is unjustified as strong fundamentals remain intact, where March 2015 saw (1) Central Bank cutting discount rate by 50bps on benign inflation and encouraging external account outlook, (2) Moody's upgrading outlook on Pakistan to positive from stable and (3) Pak successfully completing IMF's sixth review. We flag UBL, ABL, DGKC, LUCK, POL and EFERT as our preferred plays.

### KSE-100 return & Net FIPI



Source: KSE

# MORNING BRIEFING

## Also in Focus

### Circular debt falls to Rs196bn by March 15

The power sector dues have come down to Rs196.42bn on March 15, 2015 from Rs230.56bn outstanding on September 03, 2014, due to sharp decline in Furnace Oil prices in the global market and increase in power tariffs.

#### Pakistan market statistics Mar 31, 15)

KSE-100 Index	30,233.87
Previous KSE-100 Index	28,927.04
Change from last closing	1,306.83
Change from last closing (%)	4.52%
KSE Market Cap. (Rs. bn)	6,760.76
KSE Market Cap. (US\$ bn)	66.31
Total Volume (Shares mn)	260.78
Traded Value (Rs. bn)	11.46
Traded Value (US\$ mn)	112.43
KSE-30 Index	19,232.27
Change from last closing	860.68
Change from last closing (%)	4.68%
KSE Futures Volume (Shares mn)	32.96
KSE Futures Value (Rs. mn)	2,288.42
KSE Futures Spread	14.40%

Source: KSE

#### KSE valuations

	2013A	2014A/E	2015F
P/E (x)	9.5	7.9	7.2
P/BV (x)	1.9	1.6	1.5
Div. Yield (%)	5%	6%	6%
Earnings growth	10%	19%	9%

Source: JS Research

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