



Pakistan Market Outlook 2018

Dear Investor,

2017 proved to be a lean period for investors as Pakistan's stock market slid around 19% during the year, and about 27% from its peak level attained on May 24, 2017 to almost a sixteen month low level. Foreigner outflow on the back of Pakistan's entry into Emerging Market space and political noise on account of dismissal of Nawaz Sharif as Prime Minister, were the chief determinants pulling the local bourse southwards. Consequently, the uncertainty surrounding the future course of Pakistan's politics and the timing of upcoming elections had further put pressure on the index.

However, we believe that the negative sentiments have been overplayed and the market is poised to recover from hereon. Pakistan is now trading at a forward P/E of around 7.5x, which is lower than the historic 10 year average. Moreover, our market's discount to MSCI Emerging Markets Asia has widened to about 50%, as compared to the last 10 year average of 25%. The attractiveness of our market presents an appealing entry point going into 2018.

The much awaited devaluation of Pak Rupees has also finally materialised, which will tend to draw interest of foreign investors towards Pakistan's Stock Market going forward. Another positive development came after the delimitation bill was passed by the Parliament, potentially paving the way for elections to be held as per schedule. A recent briefing by the Chief of Army Staff to the Senate, endorsing the supremacy of the Parliament over armed forces has further eased the political noise.

On the economic front, the successful issuance of a EuroBond and a Sukuk in the International market cumulatively raised USD 2.5bn. This has provided cushion to the deteriorating current account position, highlighting the fact that Pakistan is being considered as a strong investment case by the International investors (the sovereign debt issues of the country are still oversubscribed, thereby highlighting the investors' confidence).

Ongoing development projects worth over US\$60 bn. under the umbrella of CPEC are well on track as materialisation and implementation of these energy and infrastructure projects will stimulate economic activity in the country. This, coupled with improved security situation, strong GDP growth and robust corporate profitability shall bode well for our stock market.

2018 will be an election year and while we may see turbulence and hiccups on the way to elections, robust earnings growth by listed companies, attractive valuations of the listed sector and political stability post elections will lead to positive trend of the market in CY 2018.

In light of the strong investment case for Pakistan, due to its strong fundamentals, attractive valuation and lucrative dividend yields, we encourage our investors to consider this correction as good point of entry.