

Al Meezan Investment Management Limited

A note on Pakistan Stock Exchange: Promising Outlook Amidst Positive Sentiments

Dear Investor,

Pakistan has been among the best performing stock markets in the world and has recently touched its record high levels. The month of November 2016 turned out to be quite fruitful for market participants when KSE-100 and KMI-30 posted gains of 6.84% and 7.18% respectively taking the calendar year returns to 39.74% and 40.99% respectively. The benchmark KMI-30 index also crossed the 75,000 pts barrier with upbeat expectations and positive investor sentiment.

Upward trajectory in the stock market was led primarily by eased tensions on the political front, as the Supreme Court adjourned Panama Gate hearing till January, the main impediment that had been keeping the investors cautious. Investor enthusiasm was also reinforced with positive news flow across major sectors on the bourse, mainly Oil and Cements; OPEC's landmark deal whereby its members agreed to curtail output by 1.2 million barrels/day, resulted in 5.5% surge in international oil prices in turn driving the Oil stocks while increase in overall cement dispatches coupled with announcements of multiple new business ventures by a major player fueled the growth in Cement stocks in the index.

Things remained upbeat on the international front as well where the aftermath of the US elections turned out to be quite contrary to initial expectations as the equity markets not only stabilized but also posted their fresh highs on account of much anticipated growth oriented policies of the new President-elect. Among the most recent developments however, the US Federal Reserve rate has also been increased by 25bps and the Fed has signaled a faster pace of increases in 2017.

Overall, Pakistan's stock market is expected to continue performing on account positive economic expectations going forward. The ongoing development under the CPEC will continue fuelling rapid economic growth which will not only drive growth in existing stocks, but will also pave way for the development of new businesses that shall keep the economic growth thriving for the country. Alongside, on the basis of various valuation multiples, most importantly the P/E multiple, Pakistan's stock market is still trading at a discount and has ample room for growth before its valuation reaches at par with the regional peers so the attractiveness of our market for international investors is expected to stay intact on account of this growth potential. Another factor keeping the interest of international investors alive for PSX is the reclassification of Pakistan in MSCI's Emerging Markets category for which the list of stocks to be added in the MSCI Emerging Markets Index are expected to be announced during the first quarter of CY2017. The investment flow from various international emerging markets funds towards these stocks is expected to keep the stock market on an upward trajectory. Flows from the international investors are also expected to continue on account of the privatization initiative of PSX whereby 40% of the stock exchange's stake has been put up for bidding and is currently witnessing healthy interest from various interested parties.

On account of a low interest rate environment and ongoing reforms in the regulatory regime of the real estate sector in the country, various investors have diverted their liquidity towards the stock market in the hunt for higher returns and this continued liquidity influx will also add to the stock market's growth momentum. In the near term however, the ongoing Panama Leaks Case against the Prime Minister and geopolitical tensions between Pakistan and India on account of sudden cross border escalations might add volatility to the market but in the long-term, based on the positives mentioned above, the market is expected to stay strong and performing.

We would therefore encourage you to continue investing with Al Meezan to derive the benefit of an upside in the equity market. We thank you again for maintaining your faith in us for managing your investments and sincerely hope to remain as your top choice for Shariah Compliant investing.