BMA CAPITAL

PAKISTAN ECONOMY

IMF Board approves the release of USD 1.1Bn tranche to Pakistan

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The much awaited IMF program is finally back on track as the fund's board completed the combined 7th and 8th review of the EFF for Pakistan. The said approval will result in a release of ~USD 1.1Bn bringing total releases to ~USD 3.9Bn. IMF board has also approved extension of the program till Jun'23 while the total project outlay has been augmented to USD 6.5Bn. Two things that are particularly interesting to see in the IMF release are 1) forex reserves build-up and 2) settling inflation readings towards the end of the fiscal year. The resumption of the program serves as a good omen for the market which has been marred by economic and political woes and more recently disruption caused by floods. We also expect the development to reduce PKR volatility and address external account concerns. In continuation of our publication last week where we emphasized on the fact that the worst is behind us, we continue to remain bullish on Pakistan equities and expect a 20-25% annual index return in FY23.

FY23 is set to be a year of fiscal discipline and monetary prudence: In a stark contrast to last year where we noted record fiscal slippages and an expansionary monetary policy stance, FY23 is expected to be the polar opposite as the government is expected to ensure minimal fiscal imbalances and a tight monetary policy. As inflation readings are expected to average ~20% for FY23, interest rates will likely maintain current levels for majority of the year before easing off slightly towards the end of the fiscal year as softer readings are reported. As for the fiscal side, the IMF sees lower government expenditure and increased tax collection which will to a certain extent have inflationary impact like the levies on petroleum products though these will streamline as the higher base effect kicks in. It is pertinent to note that the adoption of these strategies will bode well for the PKR and reduce volatility in the local currency.

Key takeaways from the IMF press release: Apart from stressing upon the key areas that the government will have to closely monitor, the IMF has also shared its forecasts for this fiscal year. We opine the silver lining to be 1) shoring up of country's reserves to over USD 16Bn by the end of the fiscal year which goes to show that Pakistan not only will be able to fulfill its external commitments but also build on its forex reserves which currently stand at ~USD 13.5Bn (as at Aug 19th, 2022) and 2) settling inflation readings which are expected to undergo a steep decline to 15% by the end of the fiscal year. Furthermore, it is important to note that the statement from the IMF stresses upon fiscal discipline and monetary prudence to pave way for sustainable growth while also reflecting upon a market determined exchange rate and improved management of state owned enterprises. As for the external account, the IMF expects a CAD of 2.5% of GDP (~USD 10Bn) which we opine to be backed by lower imports and mild increases in remittances and exports while the IMF reiterates government's target of a primary surplus equating to 0.2% of GDP.

IMF tranche approved; multilateral and bilateral flows to follow: Resumption of the IMF program brings back much needed confidence to the country and will be the forerunner for financing arrangements from friendly countries and other multilateral/bilateral sources. As things stand, Pakistan has external payments of >USD 30Bn to be made in FY23 and resumption of the IMF program will pave the way for bridging the external funding gap.

Market vantage point: Onboarding of the IMF is a welcome sign for the local bourse which has seen some optimism return on the back of settling external account concerns and political noise. SBP maintaining the policy rate has also been well received and has reiterated the fact that the worse is behind us. Though we agree that this will be a year of fiscal consolidation and monetary prudence, cheap market multiples, attractive dividend yields and healthy earnings growth make current index levels an attractive entry point. We continue to remain bullish in E&P's, Fertilizers, Banks & IT.

Pakistan: Selected Economic Indicators

	FY22	FY23E
Real GDP growth (%)	6.0	3.5
Prices		
CPI inflation - average (%)	12.1	19.9
CPI inflation - period end (%)	21.3	15.0
Government finances		
Expenditure (as a % of GDP)	19.1	17.1
Primary balance (as a % of GDP)	(2.4)	0.2
Monetary and credit		
Broad money (YoY growth - %)	10.5	12.0
Private credit (YoY growth - %)	18.7	13.3
Balance of Payments		
Current account balance (as a % of GDP)	(4.7)	(2.5)
Foreign Direct Investment (as a % of GDP)	0.7	0.6
Forex reserves (USD Mn)	9,821	16,226
Import cover (in months)	1.5	2.3
Total external debt (as a % of GDP)	32.5	37.0

Source: IMF, BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)