Pakistan Economy

Overwhelming support from multilateral/bilateral sources to buy some time

Tuesday, January 10, 2023

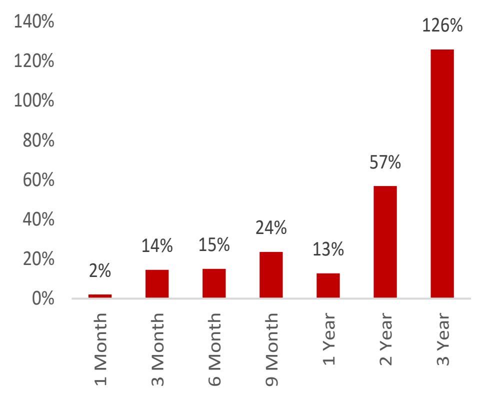
We see yesterday's fund raising moot to be a positive development for the country and to ease the burden of immediate reconstruction and rehabilitation. We expect the funding to expedite short term projects and liberation work in the near term and provide some relief to the weakest segments of society. Furthermore, we see a somehow softer stance from the IMF in the upcoming 9th review given the economic losses the country has faced in the wake of these floods alongside the undeniable inflationary and debt sustainability concerns. However, this will likely be a short term fix and would require prudent policy formation and structural reforms in the longer term to bring the country back to its feet and to ensure longer term debt sustainability. Default concerns should take a back seat, for 2023 at least before resurfacing from 2024. That said, we stick to our earlier expectation of a bigger and longer IMF programme right after the conclusion of this program in Jun'23 thus paving way for a tight monetary and fiscal policy stance in the near term. On the political front, we expect noise to continue to remain high however, PDM will likely complete its rightful tenure till Aug'23 and elections taking place round about Oct/Nov'23. However, given the precarious economic situation at hand, the onus will likely fall on the newly elected government which will likely have little room for complacency and would require prompt economic policy formation.

Total losses caused by floods (USD Mn)

Sectors	Damage	Loss	Total
Social Sectors	6,261	896	7,157
Housing	5,586	636	6,222
Health	109	34	143
Education	559	219	778
Culture and Heritage	6	7	13
Infrastructure Sectors	**3,927**	**396**	**4,323**
Transport and Communications	3,264	281	3,545
Energy	88	3	91
WASH, Municipal Services, & Community Infrastructure	575	112	687
Productive Sectors	**4,635**	**13281**	**17,916**
Agriculture, Food, Livestock, and Fisheries	3,725	9,244	12,969
Water Resources and Irrigation	711	-	711
Commerce and Industries	**186**	**3527**	**3,713**
Finance and Markets	3	417	420
Tourism	10	93	103
Cross-Cutting Sectors	**83**	**660**	**743**
Governance	60	23	83
Social Sustainability, Inclusion and Gender	-	-	0
Social Protection, Livelihoods, and Jobs	-	607	607
Environment and Climate Change	18	30	48
Disaster Risk Reduction and Resilience	5	-	5
Grand Total	**14,906**	**15,233**	**30,139**

Source: Ministry of Planning Development & Special Initiatives, BMA Research

KSE-100 Index performance post 2010 floods



Source: PSX, BMA Research

Abdul Rehman Siddiqui
Deputy Head of Research
Tel: 111-262-111 ext. 2056
E-mail: abdul.rehman@bmacapital.com

BMA Capital Management Ltd.

Background: Floods caused by monsoon rains over June to August 2022 were one of the worst faced by the country in its history. The after effects were devastating to say the least. Apart from the immense economic losses Pakistan faced as a country which will be touched upon later, the man-made/natural disaster re-emphasized on Pakistan's susceptibility to climate change. Pakistan ranks amongst the top 10 countries in the world to be exposed to climate change while ironically, the country's green-house gas emissions amount to less than 1% of the global emissions.

At the peak of the disaster, about one-third of the country was under water affecting 33 million people and displacing 8 million. It cost Pakistan over 1,700 precious human lives which included around 500 children. Similarly, economic losses have caused havoc and have particularly impacted the weaker segment of society whose income is linked to agriculture, livestock, fisheries, forests and groundwater.

It is not that the country has not learnt its lesson from the previous floods in 2010, investments have been made in disaster risk management but still it was not good enough to manage a calamity of this scale. The frailties are clear; the country needs a far more efficient urban planning and water resource management system alongside adequate infrastructure, while doing away with complex governance, structural mismatches and weak disaster management capacity. Similarly, economic and political instability have made structural reforms difficult and the repeated changes in policy making have threatened recovery while only amplifying the impacts.

As per studies held by the Ministry for Planning with assistance from Asia Development Bank, European Union, United Nations Development Programme and World Bank Group, the damage has been estimated at USD 14.9Bn while economic losses are forecasted at USD 15.2Bn. The working groups expect total rehabilitation and relief program to cost north of USD 16Bn with a projected timeline of up to 7 years. The government expects to make up for 50% of the total cost (>USD 8bn) through a mixture of fiscal prudence and development spending while the remainder is being sought from friendly counties, international agencies, etc.

Cost of reconstruction and rehabilitation (head wise)	Value (USD Mn)
Community Infrastructure	327
Transport & Communication	4,872
Health & Nutrition	188
Education	918
Digital Infrastructure	122
Energy	117
Housing	2,757
Water & Irrigation	782
Social Protection	1,736
Agriculture	4,352
Environment & Climate Change/Disaster Risk Reduction	414
Total	**16,585**

Source: Ministry of Planning Development & Special Initiatives, BMA Research

Geneva Climate Change moot 2023: The moot held yesterday was based on climate change and its impacts while the event was co-hosted by United Nations (UN) and Pakistan. Pakistan went into this conference with the aim of raising USD 8Bn which constitutes 50% of the overall rehabilitation requirement (USD 16Bn). The response was overwhelming to say the least with the government actually receiving commitments of over USD 10Bn. Specifically speaking, the funding commitments (see table below) were received from multilateral and bilateral sources which included Islamic Development Bank (USD 4.2Bn), World Bank (USD 2Bn), ADB (USD 1Bn), KSA (USD 1Bn) and Asia Infrastructure Investment Bank (USD 1Bn). The USD 10Bn commitments are primarily constituted of soft loans while the smaller amounts are grants and in-kind receipts.

Pledges announced during Geneva Conference	Value (USD Mn)
Islamic Development Bank	4,200
World Bank	2,000
Asian Development Bank	1,000
European Union	500
USAID	100
Japan	77
Germany	84
France	345
Saudi Arabia	1,000
Asian Infrastructure Investment Bank	1,000
China	100
Total	**10,406**

Source: Ministry of Information, BMA Research

Stock market impact: As per the breakups of expenditure shared by the government where major chunks of investments will be directed towards transport and communication (USD 4.9Bn), housing (USD 2.8Bn), Social protection (USD 1.7Bn) and Agriculture (USD 4.4Bn), we expect Cements, Engineering, Fertilizers, Autos, Chemicals and Pharmaceuticals to be beneficiaries. That said, we recommend scrips with robust capital footing and low leverage and ideally high yielding plays with our picks being LUCK, FCCL, KOHC, MUGHAL, ISL, EPCL, FFC & EFERT.

Disclaimer

This research report is for information purposes only and does not constitute nor is it intended as an offer or solicitation for the purchase or sale of securities or other financial instruments. Neither the information contained in this research report nor any future information made available with the subject matter contained herein will form the basis of any contract. Information and opinions contained herein have been compiled or arrived at by BMA Capital Management Ltd. from publicly available information and sources that BMA Capital Management Ltd. believed to be reliable. Whilst every care has been taken in preparing this research report, no research analyst, director, officer, employee, agent or adviser of any member of BMA Capital Management Ltd. gives or makes any representation, warranty or undertaking, whether express or implied, and accepts no responsibility or liability as to the reliability, accuracy or completeness of the information set out in this research report. Any responsibility or liability for any information contained herein is expressly disclaimed. All information contained herein is subject to change at any time without notice. No member of BMA Capital Management Ltd. has an obligation to update, modify or amend this research report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Furthermore, past performance is not indicative of future results.

The investments and strategies discussed herein may not be suitable for all investors or any particular class of investor. Investors should make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives when investing. Investors should consult their independent advisors if they have any doubts as to the applicability to their business or investment objectives of the information and the strategies discussed herein. This research report is being furnished to certain persons as permitted by applicable law, and accordingly may not be reproduced or circulated to any other person without the prior written consent of a member of BMA Capital Management Ltd.. This research report may not be relied upon by any retail customers or person to whom this research report may not be provided by law. Unauthorized use or disclosure of this research report is strictly prohibited. Members of BMA Capital Management and/or their respective principals, directors, officers and employees may own, have positions or effect transactions in the securities or financial instruments referred herein or in the investments of any issuers discussed herein, may engage in securities transactions in a manner inconsistent with the research contained in this research report and with respect to securities or financial instruments covered by this research report, may sell to or buy from customers on a principal basis and may serve or act as director, placement agent, advisor or lender, or make a market in, or may have been a manager or a co-manager of the most recent public offering in respect of any investments or issuers of such securities or financial instruments referenced in this research report or may perform any other investment banking or other services for, or solicit investment banking or other business from any company mentioned in this research report. Investing in Pakistan involves a high degree of risk and many persons, physical and legal, may be restricted from dealing in the securities market of Pakistan. Investors should perform their own due diligence before investing. No part of the compensation of the authors of this research report was, is or will be directly or indirectly related to the specific recommendations or views contained in the research report. By accepting this research report, you agree to be bound by the foregoing limitations.

BMA Capital Management Ltd. and / or any of its affiliates, which operate outside Pakistan, do and seek to do business with the company(s) covered in this research document. Investors should consider this research report as only a single factor in making their investment decision. BMA Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer/company prior to the publication of a research report containing such rating, recommendation or investment thesis.

Stock Rating

Investors should carefully read the definitions of all rating used within every research reports. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations. BMA Capital Ltd. uses a three tier rating system: i) Buy, ii) Neutral and iii) Underperform (new rating system effective Jan 1'18) with our rating being based on total stock returns versus BMA's index target return for the year. A table presenting BMA's rating definitions is given below:

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.)