Day Break

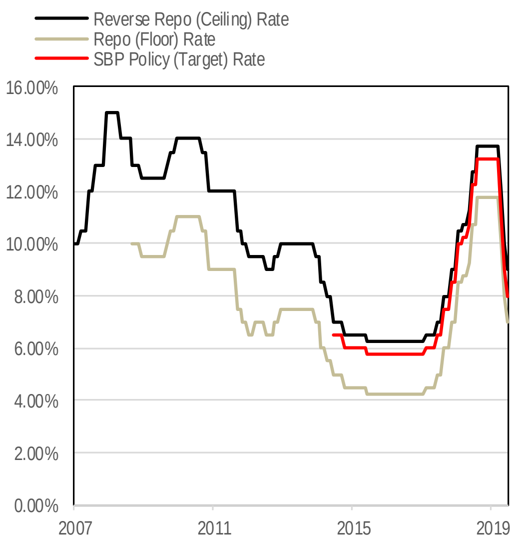
Monday, 18 May 2020

Economy

Exhibit: Historic Discount rates

Date	Reverse Repo Rate	Repo Rate	Policy Rate	Chg. Bps
28-May-18	7.00%	5.00%	6.50%	50
16-Jul-18	8.00%	6.00%	7.50%	100
1-Oct-18	9.00%	7.00%	8.50%	100
3-Dec-18	10.50%	8.50%	10.00%	150
1-Feb-19	10.75%	8.75%	10.25%	25
1-Apr-19	11.25%	9.25%	10.75%	50
21-May-19	12.75%	10.75%	12.25%	150
17-Jul-19	13.75%	11.75%	13.25%	100
18-Mar-20	13.50%	11.50%	12.50%	-75
24-Mar-20	12.00%	10.00%	11.00%	-150
16-Apr-20	10.00%	8.00%	9.00%	-200
15-May-20	9.00%	7.00%	8.00%	-100

Exhibit: Monetary Policy historic trend



Source: Bloomberg, PSX 100 & IGI Research

Analyst

Saad Khan
saad.khan@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 810

Monetary Policy Statement

SBP delivers another 100bps policy rate cut, as inflation outlook becomes more favourable

- ✓ In its latest monetary policy announcement on Friday 15th, May 2020, the State Bank of Pakistan (SBP) reduced policy rate by 100bps to 8.0%.
- ✓ The current decision is primarily reflective of monetary policy committee view of forward inflation, which has improved significantly amid recent 30-40% decline in POL prices.
- ✓ Moreover, likewise most countries, Pakistan has also begin easing down lockdowns, which in SBP views should help provide support to economic activity.

In its latest monetary policy announcement on Friday 15th, May 2020, the State Bank of Pakistan (SBP) reduced policy rate by 100bps to 8.0%. This is the fourth policy rate starting 2020 triggered by reduced aggregate demand and inflation, amid Covid-19. Nevertheless, including the recent cut of 100bps cumulative policy rate cut in now stand at 525bps since Mar-20.

Exhibit: SBP Monetary Policy decision and effective rates

	Current	Previous	Chg. (bps.)
Target Policy Rate	**8.00%**	**9.00%**	**-100**
Discount rate (Ceiling Rate)	9.0%	10.00%	-100
Floor Rate	7.00%	8.00%	-100
Minimum Deposit Rate	6.50%	7.50%	-100
Interest Rate Corridor	2.00%	2.00%	0

The current decision reflects improved inflation outlook…

The current decision is primarily reflective of monetary policy committee view of forward inflation, which has improved significantly amid recent 30-40% decline in POL prices. As a result, SBP now expects inflation could fall closer to the lower end of the previously announced target range of 11-12% in Fy20 and forecasts 7-9% in FY21.

…easing lockdown and reduced volatile in financial and foreign exchange markets

Moreover, likewise most countries, Pakistan has also begin easing down lockdowns, which in SBP views should help provide support to economic activity. Moreover, timely policy actions taken by SBP and government fiscal authorities, along with international assistance from IMF, ADB, and others; SBP views the initial volatility observed due to Covid-19 in domestic financial and foreign exchange markets has somewhat subsided albeit recently. However also noting that global financial conditions remain considerably tighter than before the coronavirus outbreak.

…and a rapid rise of infections could prompt a sluggish recovery than initially anticipated

Nevertheless, SBP highlighting a possibility that rise in Covid-19 infections could prompt fresh lockdowns which may delay the recovery, becoming more sluggish than is currently being anticipated.

Exhibit: SBP outlook and comments on major economic indicators

Indicator	Expectations	Outlook and Comments
Inflation	For Fy 2020 SBP expects inflation to fall in the lower range of 10-11%. FY 2021, SBP expects 7-9% average headline inflation.	- Significant reduction in headline inflation since January on the back of sharply decelerating food and energy prices, as well as easing core inflation - Looking ahead, 30-40% cut in domestic petrol and diesel prices will further complement the momentum - **Two sided risks on inflation outlook**: a. Inflation could fall further than expected if economic activity fails to pick up as expected next fiscal year. b. Some upside risks from potential food-price shock associated with adverse agricultural conditions.
Growth	Growth Outlook: No guidance	- **Swift and forceful monetary easing, fiscal stimulus, as well as assistance from the international community**, should provide ample cushion to growth and employment - LSM witnessed a steep **decline of 23%** y/y in March - High-frequency indicators of demand such as **credit card spending**, **cement dispatches, credit off-take and POL sales also suggest a marked contraction** in domestic economic activity in both March and April. - Preliminary evidence from China and other countries that **eased lockdowns earlier than others**, activity in service sectors and consumption, which form a large part of the domestic economy, **could remain subdued for longer**.
External Account	Stable mainly due to reduced international oil prices.	- **Current account**: Despite challenging global conditions, the outlook for external sector broadly remains stable. - **Remittances**: Global meltdown poses significant risks to remittances - **Foreign Portfolio Inflows**: Recent fall in portfolio inflows will be offset by official flows committed by the international community - **FX Reserves**: These developments should support a steady build up in the SBP's foreign exchange reserve buffers.
Fiscal Accounts	Significant deterioration expected in 4q Fy20	- **Substantial fall in economic activity since March** has significantly affected tax revenues - After rising by 17.5%y/y during Jul-Feb FY20, **tax revenues declined sharply by 15% y/y in both March and April** - **Fiscal deficit** is **expected to widen substantially in Q4.**

Will the monetary policy be enough?

Although the recent cut was largely in-line with market consensus of 75-100bps, 53% while 50bps (22%) and 'unchanged' (6%) but like previous 425bps we think this 100bps cut also be less appreciated. Whether the monetary policy cut will have any substantial impacts on easing corporate earnings and thus on market is yet to be seen. So far in 1q Fy20 there has been significant drop in overall market corporate earnings (estimated ~14.5%y/y) and major impact of rate cut will be reflected in 2q.

In recent reports published by IMF highlights that a broader monetary and fiscal stimulus can lift confidence and aggregate demand but would most likely be more effective when business operations begin to normalise. And mooting to similar response on effectiveness of monetary policy during Covid-19, SBP highlighted that monetary policy cannot prevent the rise in infection nor can it 'prevent the near-term fall in economic activity due to lockdowns'. All it can do is provide liquidity to the markets which in turn provide support to households and businesses. In short, the successive policy rate cuts and sizeable cheap loans provided through the SBP's enhanced refinancing facilities have helped maintain credit flows, bolster the cash flow of borrowers, and support asset prices.

Banks (reduce), Cyclical (accumulate)

Nevertheless, as mentioned earlier from a market standpoint, conventional banks will face NIMs compression due to reduced interest rates and deferment of loan for SME and Agri-sector will further hurt margins but will also delay provisioning charge in arising from these two groups. We have preference for HBL, BAHL and MCB as these would be least impacted amongst our coverage banks, but recommend cautious accumulation as overall pressure on sector can well orchestrate on these stocks.

Exhibit: 100bps point cut impact on company's profitability (PKR/share)

Sym.	EPS (impact)	Company	Sector
INDU	(1.1)	Indus Motor Company Limited	Automobile Assembler
HCAR	0.5	Honda Atlas Cars (Pakistan) Limited	Automobile Assembler
PSMC	2.0	Pak Suzuki Motor Company Limited	Automobile Assembler
LUCK	(0.4)	Lucky Cement Limited	Cement
FCCL	0.2	Fauji Cement Company Limited	Cement
MLCF	0.2	Maple Leaf Cement Factory Limited	Cement
KOHC	0.3	Kohat Cement Company Limited	Cement
ACPL	0.4	Attock Cement Pakistan Limited	Cement
DGKC	1.0	D.G. Khan Cement Company Limited	Cement
CHCC	1.0	Cherat Cement Company Limited	Cement
PIOC	1.1	Pioneer Cement Limited	Cement
EPCL	0.1	Engro Polymer & Chemicals Limited	Chemical
ISL	0.4	International Steels Limited	Engineering
ASTL	0.5	Amreli Steels Limited	Engineering
FATIMA	0.1	Fatima Fertilizer Company Limited	Fertilizer
EFERT	0.2	Engro Fertilizers Limited	Fertilizer
FFC	0.2	Fauji Fertilizer Company Limited	Fertilizer
FFBL	0.4	Fauji Fertilizer Bin Qasim Limited	Fertilizer
MARI	(2.0)	Mari Petroleum Company Limited	Oil & Gas Exploration Companies
POL	(0.7)	Pakistan Oilfields Limited	Oil & Gas Exploration Companies
OGDC	(0.4)	Oil & Gas Development Company Limited	Oil & Gas Exploration Companies
PPL	(0.1)	Pakistan Petroleum Limited	Oil & Gas Exploration Companies
HASCOL	0.2	Hascol Petroleum Limited	Oil & Gas Marketing Companies
PSO	1.4	Pakistan State Oil Company Limited	Oil & Gas Marketing Companies
HUBC	0.6	The Hub Power Company Limited	Power Generation & Distribution

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to subject company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

IGI Securities
SERVING YOU SINCE 1994

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	**Islamabad Office** Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**Rahim Yar Khan Office** Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009