# PULSE

Al Meezan Newsletter January 2019

Al Meezan Investments — Pure. Profit.

**Al Meezan** Investment Management Ltd.

## INSIDE HIGHLIGHTS



# BRIGHTER DAYS AWAIT US

## MARKETING **HIGHLIGHTS**


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# HIGHLIGHTS OF THIS ISSUE

## A LOOK BACK: THIS YEAR HAS BEEN A BUMPY RIDE

Current economic situation of Pakistan seems like a long evening full of storm and stress. Long dragged political turbulence in first seven months and then economic instability in later months led to a great deal of volatility in stock market; whereby the KSE100 index reached to its first low at 39,666 in July'18 and then to 36,663 on October'18. Although the market displayed some recovery during April' 18, however due to lack of clarity on macroeconomic front particularly on the IMF program, the market has been moving sideways these days

## WHERE ARE WE HEADED: WHO ARE WE GOING TO CALL?

In these turbulent times, fiscal discipline is required for the economy to be brought back on track. To this end, we believe Pakistan's reentry into the IMF Program can provide some relief.

## NEW TIMES NEW FACES: THE 100 DAY CHALLENGE

After assuming the power on August 18, Prime Minister Imran Khan announced an ambitious plan of First 100 Days. The PTI-led government pledged to fulfill 49 promises in the first 100 days agenda of its rule out of which only 1 was completed but the government could not start implementation on 19 promises. There are 3 promises which were partially implemented and 26 were in process during the first 100 days of the PTI government

## STRATEGY: BE A SMART INVESTOR

Regular saving is a good habit because it prepares us for the future and helps avoid any obstacles that we may come across throughout our lives. We can't be certain about our jobs, our health, and our homes; therefore if we have developed the habit of saving, we are more likely to be prepared for these situations

## POLITICS: ELECTIONS AND THE NEW POWER

As the political dust settles in Pakistan, investors' confidence in the economy increases. With improved law and order situation and bold steps from government in improving institutional stability, the country seems to be on the right track for a prosperous future. On the diplomatic front, our new government has been quite successful in rejuvenating relationships with key regional and global players

# ECONOMY: STUMBLING ON SOME CHALLENGES

Pakistan's GDP growth rate has remained on its upward trajectory with the FY18 growth rate being clocking in at 5.8%, the highest in 13 years. Looking ahead, GDP growth is expected to slow down due to the adoption of tighter fiscal and monetary policies and austerity measures being adopted by the government to keep the macro economy under control. However, we expect economic growth to revive once the external account becomes manageable and forex reserves begin to build up.

# EQUITY: TOO ATTRACTIVE TO LET GO

In 2018, we saw the market shedding considerable points from its recent high made in April-18 correcting by nearly 21%. The bear spell has depicted that investor's sentiment in Pakistan has been marred with losses throughout the period. However we believe that with every fall there is a rebound. Considering the fact that the KSE 100 has been trading below its historic average PE multiple of 9x and is currently trading at a forward multiple of 7.2x, we believe that at these levels the market does have the room to rebound to its once celebrated levels

# INVESTMENT AVENUES: EQUITY – THE HIDDEN GEM

The Pakistan Stock Exchange's (PSX) KSE-100 had been Asia's top-performing index in 2016, when the index yielded a return of 46%, due to: i. robust earnings growth ii. announcement of Pakistan in the Emerging markets iii. expansion plans from various companies and iv. advent of China Pakistan Economic Corridor (CPEC).

However due to political upheavals the bench mark index was not able to sustain the continuous bullish spell. Resultantly the benchmark index has been down by ~6% in CY18TD maybe connect it to how equity is the hidden gem here in a sentence

# MONEY MARKET: MONETARY SOFTENING DAYS COME TO A CLOSE

After around three years of maintaining a soft monetary policy, the SBP finally embarked on a monetary tightening stance during CY18 whereby the Policy Rate has been raised by 425bps cumulatively, bringing it to 10.00% from a historic low of 5.75%

# COMMODITIES: GOLD – GLITTERING AGAIN

The price of gold in the international market has sunk almost 5 percent in 2018, and did not live up to many market watchers' predictions. In Q3, the yellow metal dipped below the USUSD1, 200 mark and spent a significant amount of time circling that price range. However, in Q4, it has shown a positive rebound as the Gold is trading at USUSD1, 260 due to the expectation of a relatively less dovish stance by US Fed.

# PATH AHEAD: KEEP CALM, BRIGHTER DAYS AWAIT US!

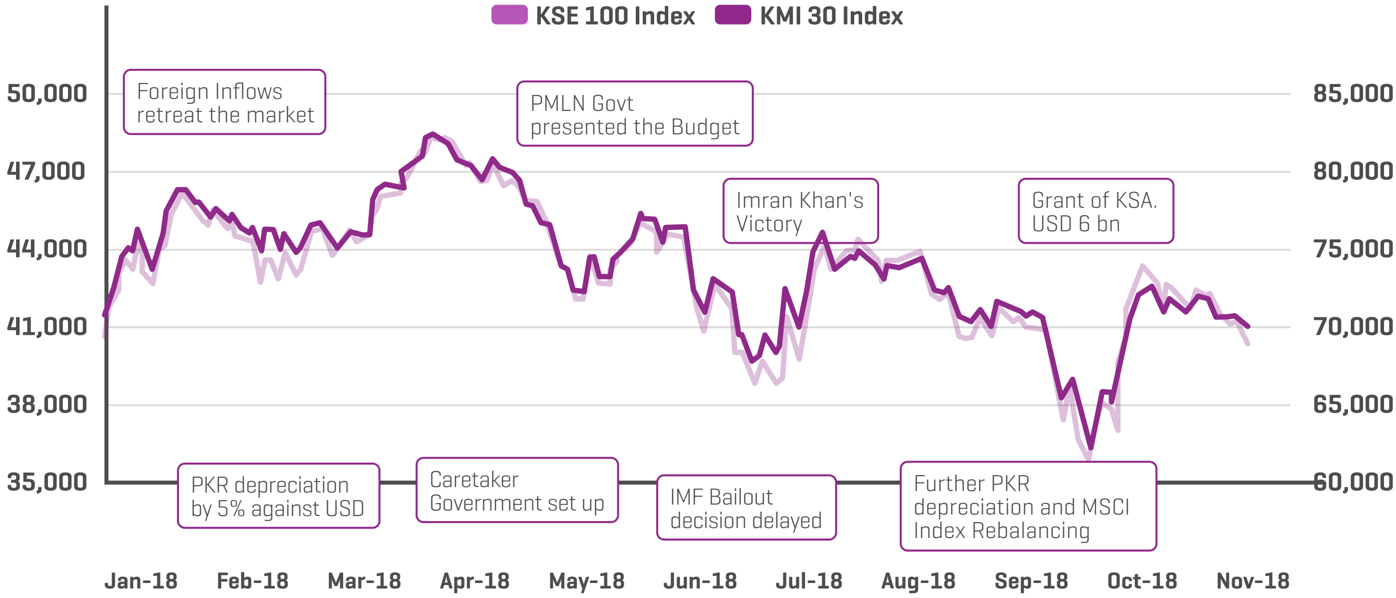
The year 2018 has been a roller coaster ride for the investors in PSX, whereby the benchmark index has provided a return of 15% from Jan-18 to its high of 46,638 (PE Multiple: 8.68x) in April-18. On the other hand after the transfer of government, the index has seen a low of 36,663 (PE Multiple: 6.82x) in Oct-18, depicting a negative return of 21%. The main reason which has led to the poor performance of the index is on account of concerns on external front that are facing the country, During these times however it is vital that for confidence to be restored some bitter pills are taken for the economy to be healed

# THIS YEAR HAS BEEN A BUMPY RIDE

The current economic situation of Pakistan seems like a long evening full of storm and stress. Long dragged political turbulence in first seven months and then economic instability in later months led to a great deal of volatility in stock market; whereby the KSE100 index reached to its first low at 39,666 in July'18 and then to 36,663 on October'18. Although the market displayed some recovery during April' 18, however due to lack of clarity on macroeconomic front particularly on the IMF program, the market has been moving sideways these days. With the economy classified as a USD300 bn plus economy continuously expanding along with the results of CPEC's investments to bear fruits in the future, things in CY18 did not fit well to mark the year as a wonderful journey as we thought it would have been. Policy makers are facing great challenges to manage the day by day widening current account deficit.

The State Bank used economic deflationary measures like i) increasing interest rates to attract foreign investments and ii) depreciating currency exchange rate to boost exports, but these measures were not sufficient enough to manage the bleeding foreign reserves which stood at USD 8.048bn as at Dec 18, 2018 covering less than two months of import cover. Increased global oil prices were also adding the burden to the swollen import bill.

With the end of political turbulence after Imran Khan's government came into power, investors breathed a sigh of relief in the second half of the year. Saudi grant of USD 3 bn with deferred payment of oil purchases worth USD 3bn and UAE loan of USD3bn also enhanced investors' confidence. However, disagreement on the IMF bailout package upon some structural and fiscal reforms required by Government of Pakistan is restricting investors to regain confidence.



# IMF PACKAGE INEVITABLE?

In these turbulent times fiscal discipline is required for the economy to be brought back on track. To this end, we believe Pakistan's re-entry into the IMF Programme can provide some relief.

The relationship of the two is long dated back, whereby the country took its first IMF loan under Ayub Khan. Since then, Pakistan has taken twelve conditional loan packages.

Conditions laid down in previous packages included requirements for privatization of state assets, liberalization of the terms of trade, higher taxation, subsidy cuts and an almost singular focus on reducing budget deficits. Looking back, Pakistan has almost always failed to meet conditions set by IMF, while only drawing facility fully once on a USD6.6 bn three year facility that ended in 2016, after many requirements were relaxed.

Uncertainty associated with Pakistan's potential entry into new IMF program has also added a significant drag on market performance. While softness in oil prices and Saudi Arabia's package provide a limited time cushion, we feel the IMF program remains inevitable especially as upcoming debt repayments are expected to exacerbate the already fragile forex reserves position.

We believe an entry into the IMF program brings with it certain crucial benefits. It will help in restoring confidence of all stakeholders including other multilateral institutions like Asian Development Bank (ADB) and World Bank (WB) along with direct investors who are interested in investing in Pakistan. Further, the Ministry of Finance estimates that cost of borrowing via Sukuks and Eurobonds will reduce by 1-1.5 points if Pakistan enters into an IMF program.

However, the IMF program does in fact come with certain strings attached in the form of stringent conditions placed. The Fund demands higher cost recovery from customers for gas/electricity bills which would lead to upward revision in tariffs that in turn would hamper the competitiveness of exports and cause inflationary pressures to mount. Further, the IMF would call for a further devaluation of the PKR which would blow further wind to the fire. Moreover, fiscal deficit would need to be reduced most likely via higher revenues (indirect taxation) which, in turn, would hamper the purchasing power of consumers and slow down GDP growth.

| | 2008 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Before | After 6 Months | Change | Before | After 6 Months | Change |
| Forex Reserves (USD Mn) | 6,716 | 11,495 | 71% | 9,995 | 10,074 | 1% |
| PKR/USD | 80.7 | 80.7 | 0% | 103.2 | 100 | -3% |
| CA Deficit (USD Mn) | -2,374 | 303 | 113% | -481 | -239 | 50% |
| Import Cover (No. of months) | 1.3 | 3.2 | 146% | 1.3 | 1.6 | 23% |
| Discount Rate (%) | 13% | 14% | 1% | 9% | 10% | 1% |
| CPI (%) | 23.40% | 12.30% | -11.10% | 8.60% | 8.50% | -0.10% |

# THE 100 DAY CHALLENGE

## NEW TARGETS

After assuming power on August 18, Prime Minister Imran Khan announced an ambitious plan of First 100 Days. The PTI-led government pledged to fulfill 49 promises in the first 100 days agenda of its rule out of which only 1 was completed but the government could not start implementation on 19 promises. There are 3 promises which were partially implemented and 26 were in the process during the first 100 days of the PTI government


## PATCHES PUT ON TO STOP THE BLEEDING

The PTI government could not achieve any major achievement on the economic front except getting USD2 bn from Saudi Arabia out of USD 3 bn commitment to build up foreign currency reserves. Economic Advisory Council (EAC) was formed that helped craft several policies such as the subsidizing of gas to the textile industry that has led to a reopening of 100 textile mills. The bailout package from the IMF, which was initially rumored to be USD 12 bn, was delayed as the government and the fund couldn't agree on terms of the package.

On the political front, there were several important foreign visits during the first 100 days of the government, namely Saudi Arabia, UAE, Malaysia and China. The government claims to have signed agreements with 26 countries to share information and recover assets stashed abroad. They also claim to have recovered Rs350 bn worth of land as part of the anti-encroachment drive.

The army chief called on PM Imran four times during the first 100 days to discuss important matters of law and order situation of the country. On the other hand, the continuous law and order disruption by certain religious groups was handled well by the Khan administration. The government received some setback on law and order front by the terror attack on the Chinese consulate, the tragic suicide bombing in Hangu and the murder of Peshawar Rural SP Tahir Dawar in Afghanistan.

## KHAN'S REVIEW OF THE 100-DAYS

In his review speech of the 100-day agenda, Mr. Khan put greater focus on future plans of his government. He said that his government plans to provide four million children with nourishment in order to reduce stunted growth. They also plan to expand the income support program of the government. He laid emphasis on small farmer economics saying that small-scale farmers are left behind because of lack of resources; the government plans to provide them subsidies so they can purchase last machinery. He urged the expansion of the tax net, explaining that low tax collection leads to inflation. He highlighted the tourism industry potential of Pakistan adding that a task force has been formed to promote the country's religious and ecological tourism. He also gave an overview of the planned legal reforms for which he credited law Minister Farogh Naseem. As part of the legal reforms, the civil courts will have to decide cases within a year and a half. He consoled the salaried class of the nation over the inflationary burden they are facing and assured them that he is doing whatever he can to ease the situation

# BE A SMART INVESTOR

## BENEFITS OF REGULAR SAVINGS/INVESTING

Regular saving is a good habit because it prepares us for the future and helps avoid any obstacles that may come across throughout our lives. We can't be certain about our jobs, our health, and our homes; therefore if we have developed the habit of saving, we are more likely to be prepared for these situations

The younger you are when you start regular saving, the more accustomed you will become to saving rather than spending. This can make life a lot easier when you have big purchases to make or if you have an emergency and need cash quickly.

You can spend less each month to reach your goals, and not put your finances under strain. You can also benefit from compounded returns, while riding out short-term market volatility. Thus we therefore recommend our valued investors to follow this famous quote of "Penny and penny laid up will be many"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# ELECTIONS AND THE NEW POWER

As the political dust settles in Pakistan, investors' confidence in the economy increases. With improved law and order situation and bold steps from government in improving institutional stability, the country seems to be on the right track for a prosperous future. On the diplomatic front, our new government has been quite successful in rejuvenating relationships with key regional and global players.

## GENERAL ELECTION 2018

General elections were held in Pakistan on Wednesday 25 July, after the completion of a five-year term by the outgoing government. As a result of the elections, the Pakistan Tehreek-e-Insaf (PTI) became the single largest party at the national level both in terms of popular vote and seats. Imran Khan's Pakistan Tehreek-i-Insaf (PTI) party won 116 of the 270 National Assembly seats, emerging as the largest political party in the country. The PML-N grabbed 64 seats, while the PPP came in third place with 43 National Assembly seats. On August 18, 2018, Imran Khan was sworn in as Pakistan's prime minister. Mr. Khan, received 176 votes while his opponent, Muhammad Shehbaz Sharif of the Pakistan Muslim League-Nawaz, got 96. Major agendas of PTI's government are to run a state wide anti-corruption drive and to improve the lives of the country's poor with an "Islamic welfare state".

## DO MORE

Pakistan delivered a heated response in November, 2018 against the criticism by President Trump that the country had not done enough in return for years of United States military aid and that the government had harbored Osama bin Laden, the leader of Al Qaeda. Mr. Trump said on Twitter, "….We no longer pay Pakistan the billions of dollars because they would take our money and do nothing for us, Bin Laden being a prime example, Afghanistan being another." Pakistan's premier responded by saying, that Pakistan suffered 75,000 casualties for the US war on terrorism and over USD123 bn was lost to economy. US "aid" was a miniscule USD20 bn."

In the past United States has been pushing Pakistan to "do more" over the counter terrorism efforts and has been accusing it of harboring terrorists inside its territory. Pakistan has been denying those claims and has taken a stance of being partner with US in peace process only.

## NAWAZ SHARIF RELEASED FROM JAIL

Islamabad High Court on September 19, 2018 ordered the release of former Prime Minister Nawaz Sharif and his daughter and son-in-law on bail as they had appeal convictions on corruption charges. They had been convicted by an anti-corruption court in July 2018 over luxury properties that the Sharif family owns in London. Mr. Sharif was sentenced to ten years in prison, Maryam Nawaz to seven years, and her husband, Muhammad Safdar, to one year. The accountability court on December 19, 2018 reserved its verdict in the Al Azizia and Flagship references filed against Mr. Sharif in September 2017. The judgment will be announced on December 24, 2018.

## ANTI-CORRUPTION LAWS

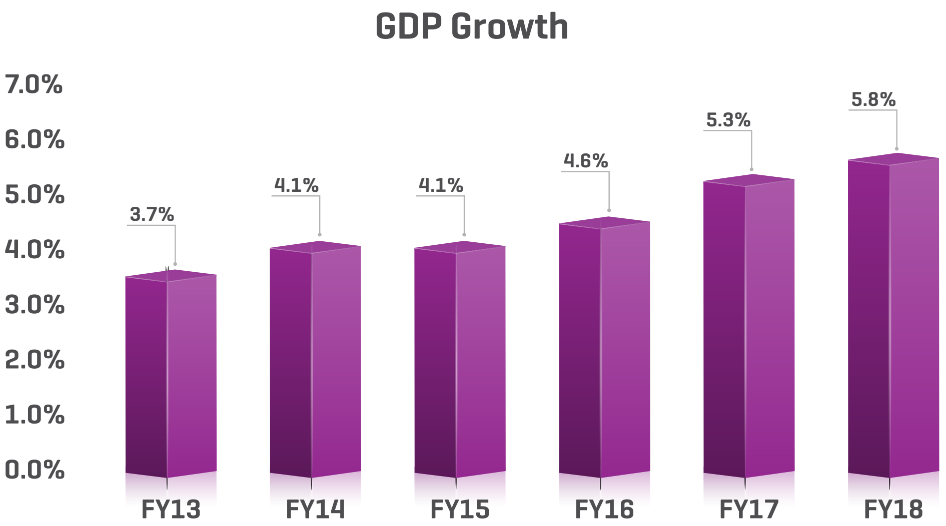
The Pakistan Tehreek-e-Insaf (PTI) government will be introducing new anti-corruption laws, for the establishment of Whistleblower Protection and Vigilance Commission, Legal Aid and Justice Authority, as the Ministry of Law and Justice has drafted new bills such as the Whistleblower Protection and Vigilance Commission Bill 2018,. On the other hand, the Legal Aid and Justice Authority will be formed to provide legal, financial or other assistance and access to justice to the poor and vulnerable segments of the society in criminal cases. Moreover, the government plans to establish Mutual Legal Assistance (MLA) Authority to end money laundering and to retrieve looted wealth from abroad. The authority will regulate the procedure for rendering and soliciting MLA in criminal matters by Pakistan. We believe that these laws shall bring about a positive image of Pakistan to the rest of the world.

# STUMBLING ON SOME CHALLENGES

## PUTTING THE BRAKES: GDP GROWTH OUTLOOK

Pakistan's GDP growth rate has remained on its upward trajectory with the FY18 growth rate being clocking in at 5.8%, the highest in 13 years. GDP growth mainly driven by the services sector that grew by 6.43%, followed by Industrial (5.80%) and agriculture sector that advanced by 3.81% during the period under review.

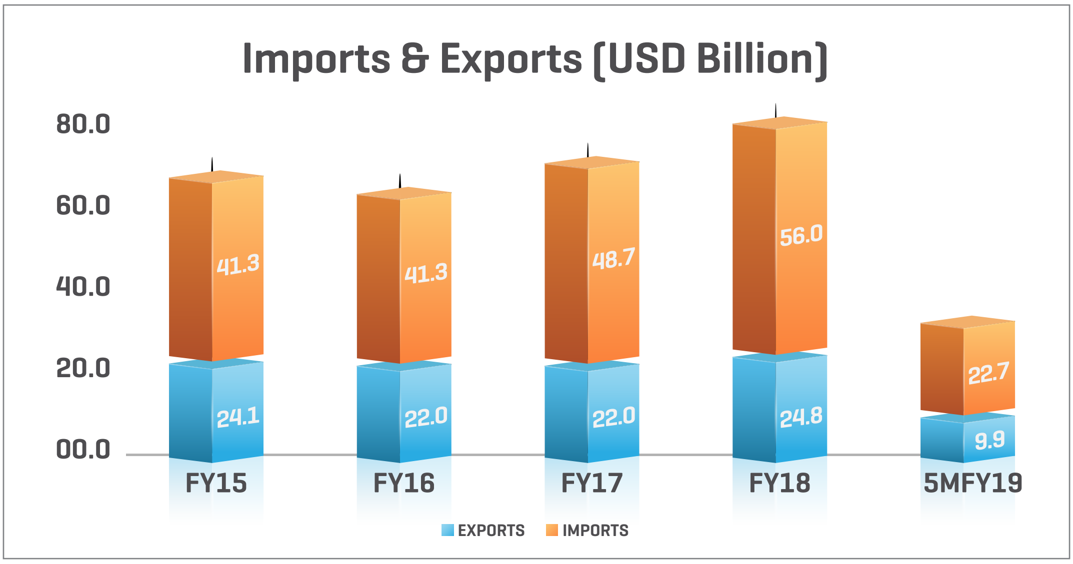
Looking ahead, GDP growth is expected to slow down due to the adoption of tighter fiscal and monetary policies and austerity measures being adopted by the government to keep the macro economy under control. However, we expect economic growth to revive once the external account becomes manageable and forex reserves begin to build up.



# TRADE DEFICIT: A TUMULTUOUS CHALLENGE

Pakistan's external account remains under duress with the 5MFY19 trade deficit clocking in at USD 12.89 bn (4MFY18: USD 9.8 bn). This deterioration stems largely from the high influx of imports with primary contributors being infrastructure related spending on machinery and petroleum products.

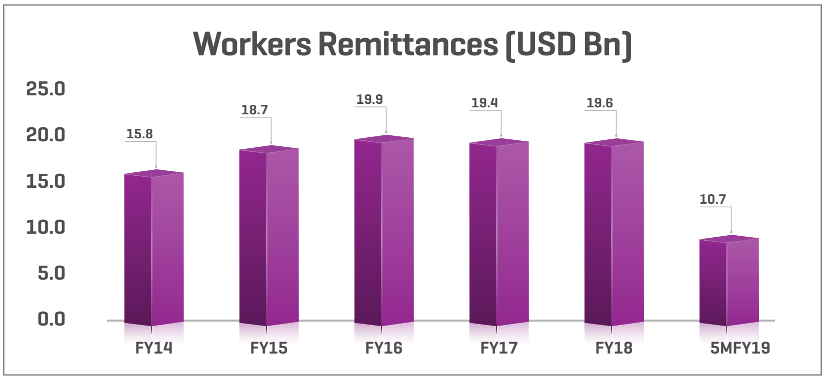
However, it is pertinent to note that the government foresees these imbalances to be temporary and revert to normal in the next two years with the help of 1) incentivizing and encouraging exports through the export package, 2) discouraging non-essential imports through higher import duties, 3) decline in machinery imports over time with project completion of power plants, and 4) devaluation of the PKR in order to increase competitiveness of Pakistani exports in the international market




# FOREIGN EXCHANGE RESERVES AND WORKER'S REMITTANCES

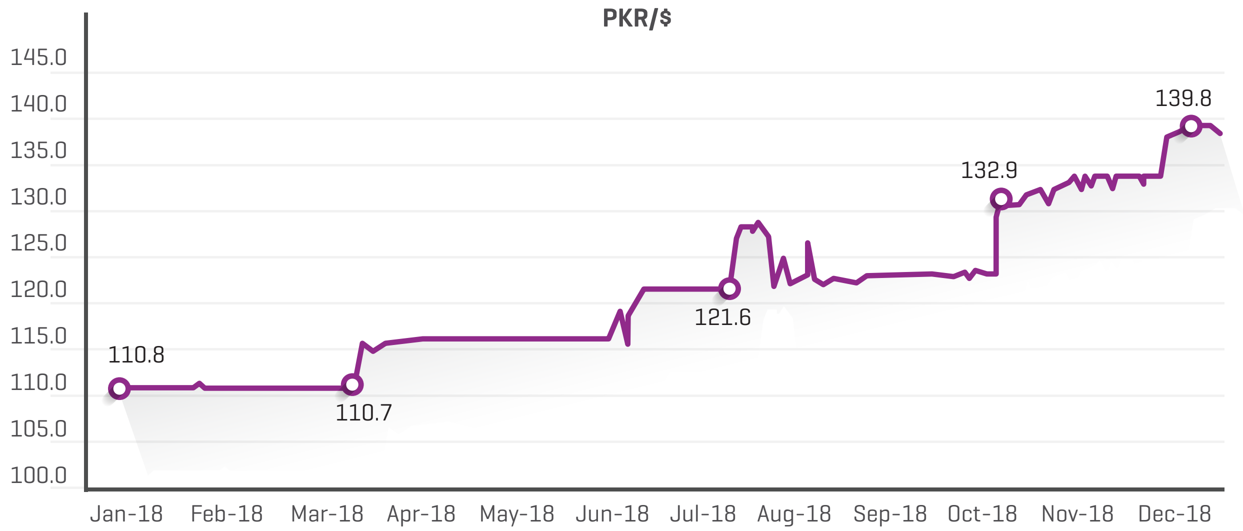
Workers remittances have historically, provided strong support to Pakistan's foreign reserves in the last few years. Remittances have already witnessed an uptick with 1HFY19 amount clocking in at USD 10.7 bn, up 10% relative to SPLY. It is estimated that workers' remittances will hit USD 22 bn in the ongoing FY due to new found confidence in the incumbent govt. by overseas Pakistanis along with incentive packages offered through official banking channels.

With the current account deficit widening and not being fully offset by financial inflows, the country's foreign exchange reserves have plunged. As on 7th December 2018, the SBP's reserves stood at USD 7.3 bn compared to USD 16.1 bn at the end of FY17. The SBP's reserves are expected to boost with help of inflows from Saudi Arabia and China. The Saudi's will deposit USD 3 bn as "BOP Support" (USD 2 bn already received) and have also offered a 1 year deferred payment facility of up to USD 3 bn for oil



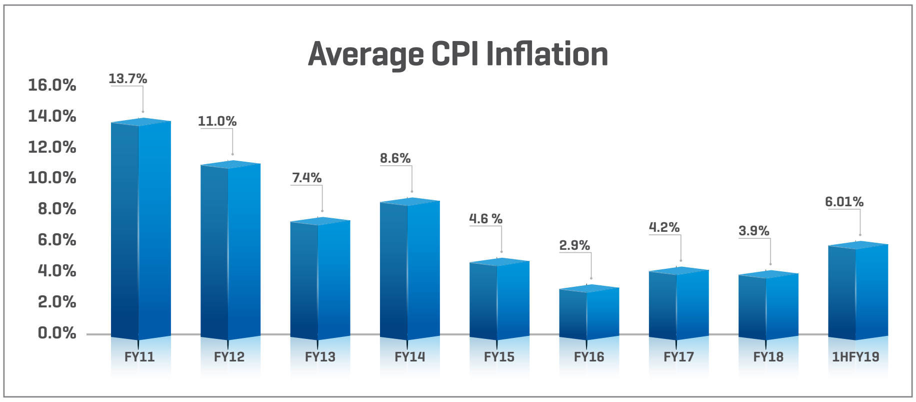
## PKR DEVALUATION

Since Dec 2017, the PKR has depreciated a total of ~34% in value against the dollar. This devaluation is expected to improve the competiveness of Pakistan's exports and ease the mounting trade deficit. Experts opine that this devaluation is necessary to improve investor sentiment and rectify the problems that are plaguing our country's economy. However, historically speaking, a devaluation of the PKR has not brought about any significant gains. This is because devaluation in the currency is usually followed by an increase in inflation which hampers the competitiveness of our exports and also destroys purchasing power.




## INFLATION OUTLOOK

CPI inflation for Dec'18 clocked in at 6.17% taking the average 1HFY19 CPI to 6.05%. Inflation within the country has significantly dipped following the advent of the PML-N government primarily due to cheaper oil and other commodities which have kept the CPI in control. However, rising inflationary pressures have begun add to the woes of the economy and we expect it to result in a slowdown of the country's real GDP growth. To add fuel to fire, the government has recently announced an increase in gas tariffs by an average of 46% in addition to an increase in electricity tariffs. Further, rising oil prices and devaluation of the PKR will further magnify inflation levels

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## LEADING ECONOMIC INDICATORS

Going forward, based on the discussions mentioned above, we believe that FY19 will have the following macroeconomic indicators:

| | FY17a | FY18a | FY19e |
|---|---|---|---|
| GDP growth rate % | 5.40% | 5.80% | 4-5% |
| Inflation % | 3.93% | 5.21% | 8.00% |
| Interest rate % | 6.25% | 7% | 11% |
| PKR/USD (June end) | 105 | 121 | 145 |
| Forex Reserves (USD Bn) | 21 | 16 | 14 |
| Current Account Deficit (USD Bn) | 12.6 | 18.9 | 12-13 bn |
| Fiscal Deficit (as a % of GDP) | 5.80% | 6.60% | 7% |

# TOO ATTRACTIVE TO LET GO

Developments in the politics have played out in-line with our expectations that were highlighted in the January 2018 issue of PULSE. We cautioned our readers that the tide appeared to have turned in politics versus street consensus of further political turmoil. The country managed a successful transfer of power from one government to another despite the odds. General Election of 2018 were conducted peacefully and successfully with PTI coming to power by simple majority securing 156 seats out of 342 seats being contested.

The incumbent government has done well so far to handle an economic crisis despite some hiccups and lack of support from the bureaucracy. The government managed to shore up support for external reserves through inflows from friendly countries which was instrumental in averting default on external obligations. Tough decisions such as 1) raising gas and electricity prices, 2) establishment of asset recovery unit to trace unlawful wealth and 3) austerity drive to reduce expenses of government machinery were taken. In addition to this, the government has achieved major diplomatic successes that will lessen frictions with neighboring countries in the years to come through the opening of Kartarpur Corridor and brokering a peace deal between Taliban and the US.

The pace of events have been rapidly unfolding globally and domestically that are increasingly favoring Pakistan. However, market participants have yet to adjust to the changing dynamics affecting the country. Participant have had a strong negative bias on the market since January 2018 and have ignored the changing fundamentals completely. Owing to this a majority of investors preferred to remain on the sidelines or have remained defensive.

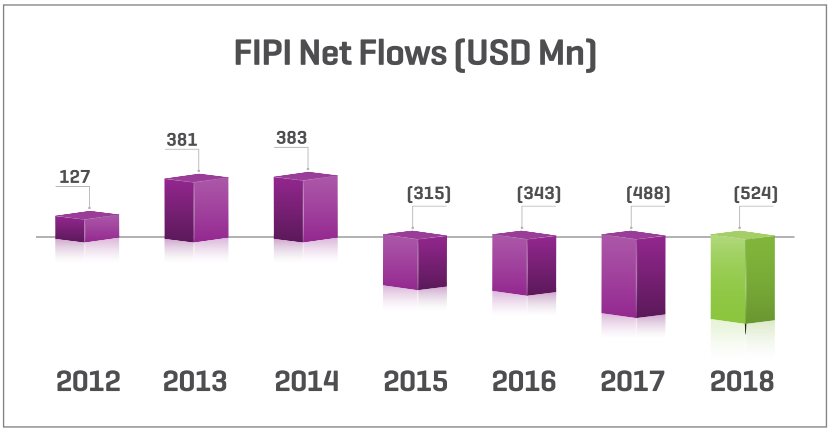
## GLOBAL COMMODITY MELTDOWN TO EASE PRESSURES OFF THE EXTERNAL RESERVES

The incoming government was faced with daunting tasks of reducing the out of control Current Account Deficit (CAD) running at an unsustainable USD2bn per month and filling in the USD21bn financing hole. With oil prices coming off 40% from their highs, there appears to be a silver lining. It is estimated that every 10% decline in prices of commodities we import will potentially help us save USD2bn in precious foreign currency. We believe that recent rout global commodities will reduce Pakistan's external imbalances and hence lessen the reliance on external lenders thereby easing pressures off the currency.

## FOREIGNER'S (OUT) FLOWS

CY18TD saw a net USD 500mn outflow from Pakistan. Global equities selloff amid interest rate hikes in the US, political turmoil, and an overall weak economy and currency led to this. Some other factors that caused this sell off was:

- Removal of stocks like UBL and LUCK from MSCI's EM Index during 2018 further exacerbated foreign selling by passive funds.
- Foreign selling in Pakistan may continue in 2019. The quantum of selling will likely come down in 2019.
- This will be due to Pakistan's likely entry into IMF program, lesser PKR devaluation and macroeconomic stabilization, we believe.




## EARNINGS GROWTH

We expect the KSE100 stocks to deliver their traditional corporate earnings growth for 2019 and 2020 whereby earnings growth are expected at 13% for 2019 and 8% for 2020. The range is dependent on where international oil prices settle for next year. The growth in the earnings is expected to be brought about by index heavy weights banks and the E&Ps sector. With E&Ps expected to rally on account of PKR depreciation and banks expected to rally 2019 due to the lagged impact of the cumulative 425bps rate hike in 2018. Therefore the KSE 100 is expected to a position itself to a high growth phase yet again that appear too attractive at these levels to let go.

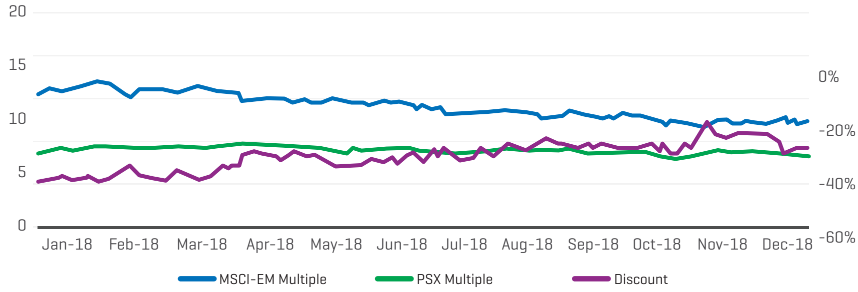
## EXCITING IPOS IN THE OFFING

Pakistan largest ever private sector IPO in expected to be launched in 2019: Interloop which is the largest socks manufacturer outside China, to generate PKR4.9bn in order to establish a hosiery division and set up a new denim plant. Besides this there are approximately around 8-9 further IPOs that are lined up in this environment that may come in from may come from steel, power, transport, textile, logistics, auto parts, Pharma, food, IT sectors. These moves signal the importance of the stock exchange as a preferred choice for raising capital in the country.

With such positive effects expected to come in the year coming up we believe that our valued investors should seize this moment to invest in the stock market when it is at such low levels and enjoy the benefits of smart investing once this period of turbulence is over.

## VALUATION REMAINS ATTRACTIVE RELATIVE TO REGION

The recent bear spell has yet again widened the discount of KSE-100 to MSCI EM since the recent top in early May of this year. The discount is presently hovering around 27% vs trend line of 20%, depicting a divergence from the mean. This is partially due to the failure of KSE-100 to rise in line with other market in the last year. We believe that mean reversion to the trend is due and this implies a possible double digit upside.

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## STRATEGY

Given the government's recent policy actions along with our expectation of slower economic growth, we turn our liking towards defensive, devaluation friendly and high yield sectors. Based on the above criteria, IPPs, Banks, E&Ps and Textiles seem to make the most sense. On the contrary, we feel that margins for cyclical sectors may remain under pressure in the short to medium term. But despite this, valuations in certain cyclical companies seem mouthwatering and therefore allows risk taking.

| WHAT WILL DRIVE THE MARKET IN 2019? | |
|---|---|
| **Positive Triggers** | **Negative Triggers** |
| o Declining international oil prices along with slowdown in domestic consumption shall help in reducing pressure on external account and will provide an opportunity to govt. to increase tax collection on fuel products to bring down fiscal deficit.<br>o Globally, all commodities have seen a declining price trend which shall benefit Pakistan in limiting the trade deficit.<br>o Currency and interest rates have seen most of the adjustment and may not see major correction going forward.<br>o Bilateral flows from Saudi Arabia have already arrived (last tranche of USD 1 BN out of USD 3 BN will be received in Jan'18) while those from China and UAE are expected soon.<br>o Saudi deferred oil facility agreement is in final stages. Similar facilities from UAE and Qatar are being sought. Import of Motor Gasoline from Azerbaijan on deferred payment is also being discussed.<br>o Investors from China, Malaysia, UAE and Saudi Arabia have committed large investments in various sectors during PM's visit to those countries.<br>o Market's forward PE multiple has come down to around 7x<br>o Govt. is negotiating an IMF package which will pave the way for increased lending from other multilateral agencies like World Bank and ADB. It will also help the country in raising money from international debt markets. | o Currency adjustment and interest rate increases have not impacted trade deficit in a big way<br>o Growth in revenue collection remained dismal leading to elevated levels of fiscal deficit in 1QFY19<br>o Higher interest rates have reduced attractiveness of equities<br>o IMF package is likely to bring in tough conditions for the govt. which may prove to be socially unpopular. |

# EQUITY- THE HIDDEN GEM

The Pakistan Stock Exchange's (PSX) KSE-100 had been Asia's top-performing index in 2016, when the index yielded a return of 46%, due to: i. robust earnings growth ii. Announcement of Pakistan in the Emerging markets iii. Expansion plans from various companies and iv. The advent of China Pakistan Economic Corridor (CPEC).

However, due to political upheavals the bench mark index was not able to sustain the continuous bullish spell. The benchmark index has been down by ~6% in CY18TD.

Due to worsening of the macroeconomic indicators particularly on the external front, the State Bank of Pakistan (SBP) decided to increase the policy rate by 425bps in period from July'18-Dec'18 (revised policy rate: 10.00%). Resultantly, the returns of the government instruments have started to hover around 11.8%~13.06%. . While the equity market has been suffering due to political turmoil, it is pertinent to mention that the highest return amongst all investable avenues has been equities which has posted a handsome 15-Year CAGR of 16% followed by 10-Year government bond yield at 10.8%

As at November'18, Asset under Management (AUMs) of mutual fund industry increased to Rs.608.8bn (November'17: Rs.597.5 bn, an increase of 1.88%YoY). Pakistan's transition to the new government was not as smooth as expected because of growing economic problems led by high fiscal and current account deficits. However loans from friendly countries and IMF along with strong economic policy shall provide much needed boost to the market to perform

**Investment Avenues - Years (% Return)**

| Period | Equity (KSE-100) | Gold | Defense Saving | 10 Year Govt. | Inflation | 6-Month T-Bill | Bank Deposits |
|---|---|---|---|---|---|---|---|
| CY04 | 39 | 6 | 8 | 7 | 7 | 3 | 3 |
| CY05 | 54 | 18 | 9 | 9 | 9 | 8 | 7 |
| CY06 | 5 | 23 | 10 | 10 | 8 | 9 | 9 |
| CY07 | 40 | 31 | 10 | 10 | 8 | 9 | 9 |
| CY08 | -58 | 6 | 11 | 14 | 20 | 12 | 11 |
| CY09 | 60 | 24 | 11 | 13 | 14 | 13 | 12 |
| CY10 | 28 | 30 | 12 | 13 | 15 | 13 | 12 |
| CY11 | -6 | 10 | 13 | 14 | 12 | 13 | 13 |
| CY12 | 49 | 7 | 12 | 13 | 10 | 11 | 11 |
| CY13 | 49 | -28 | 11 | 12 | 8 | 7 | 7 |
| CY14 | 27 | -2 | 12 | 13 | 7 | 10 | 10 |
| CY15 | 2 | -10 | 9 | 9 | 3 | 7 | 7 |
| CY16 | 46 | 9 | 8 | 8 | 4 | 6 | 6 |
| CY17 | -15 | 13 | 7 | 8 | 4 | 6 | 6 |
| CY18 | -8 | -2 | 9 | 10 | 5 | 8 | 7 |
| **CAGR** | **15** | **8** | **10** | **11** | **9** | **9** | **9** |

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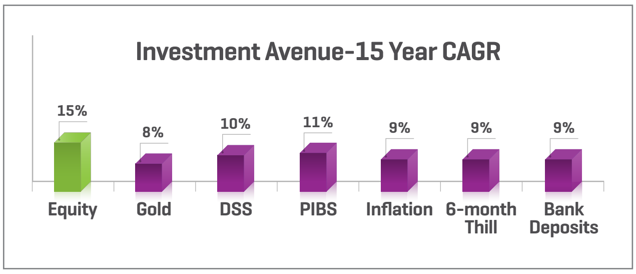



| | Pak Rupees | | | Dollar Adjusted | | |
|---|---|---|---|---|---|---|
| | *MIF | KSE-100 | KMI-30 | *MIF | KSE-100 | KMI-30 |
| 12 yrs | 14% | 11% | 14% | 6% | 4% | 7% |
| 10 yrs | 24% | 20% | 25% | 14% | 14% | 18% |
| 7 yrs | 17% | 18% | 17% | 11% | 11% | 10% |
| 5 yrs | 8% | 8% | 8% | 2% | 2% | 2% |
| 3 yrs | 1% | 24% | 3% | -5% | -5% | -6% |

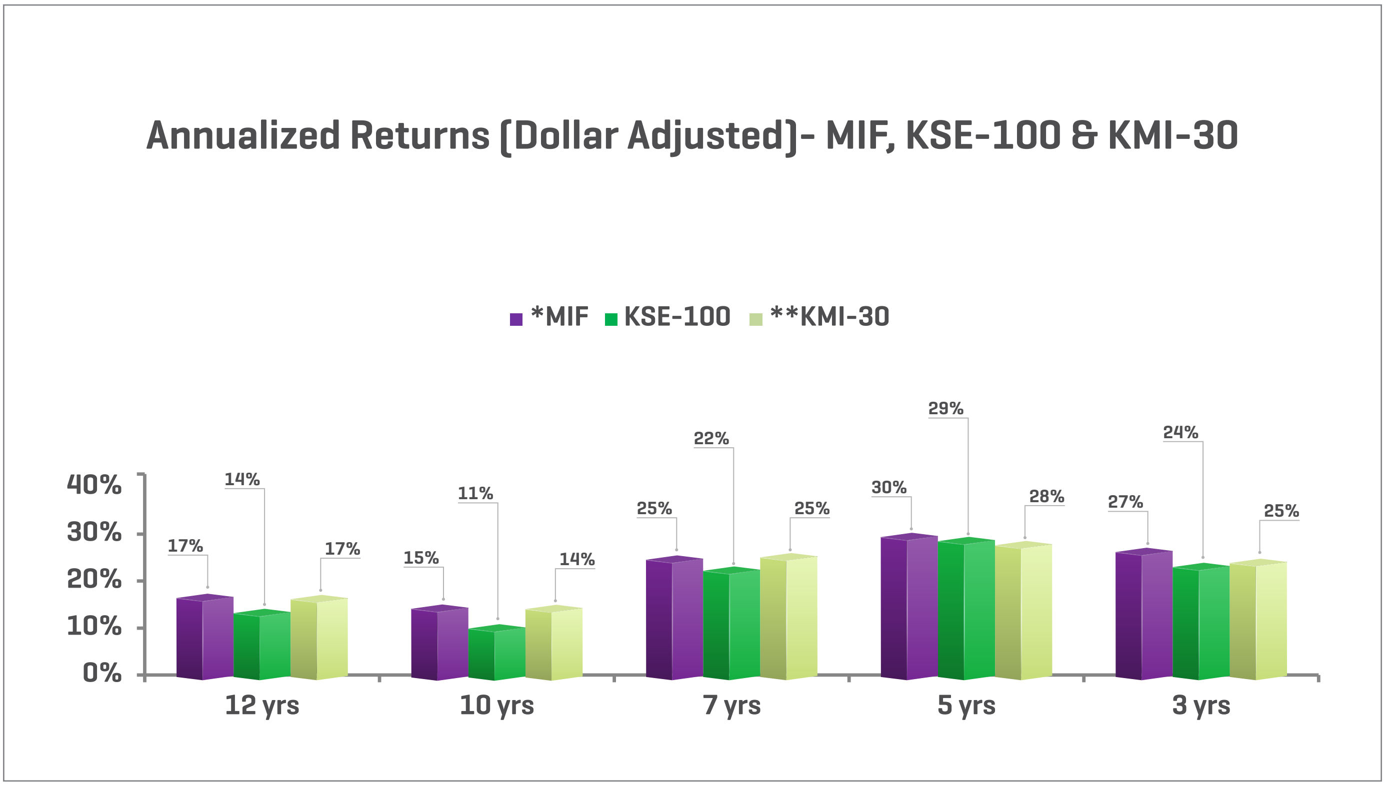
## AL MEEZAN INVESTMENTS- MOVING THE RUDDER IN THE RIGHT DIRECTION

Al Meezan Investments continuously strives to give highest possible risk adjusted returns to its valued investors. Financial specialists at Al Meezan Investments apply their proficient skills and knowledge in selecting the most fundamentally strong assets that considerably increase the value of our funds even in times of political instability.

## MEEZAN ISLAMIC FUND (MIF)-STOUT IN ROUGH WATERS

Our star open-end mutual fund Meezan Islamic Fund, has amassed a past filled with over 14 years of delivering above benchmark returns for its investors. MIF provides Sharia complaint equity exposure to its investors. Current AUMs are of around Rs.36 bn as of November'18.

Excluding the recent slide in the market, MIF has outperformed Pakistan's Benchmark KSE-100 index. The graph below shows the annualized calendar year (CY) returns of MIF, KSE-100 and KMI-30 for the past 3, 5, 7, 10 and 12 years.




MIF is an Open End Shariah Compliant Equity Scheme.

*All investments in mutual funds are subject to market risks. Past performance is not necessarily indicative of the future results. Please read the Offering Document to understand the investment policies and risks involved. Performance data does not include the cost incurred directly by an investor in the form of sales load etc. Performance has been calculated NAV to NAV with dividend reinvested.

**KMI-30 replaced DJIIMPK as the Fund's benchmark from July 01, 2009, while KSE-100 index remained as the benchmark till June 30, 2006. Performance has been calculated NAV to NAV with dividend reinvested.

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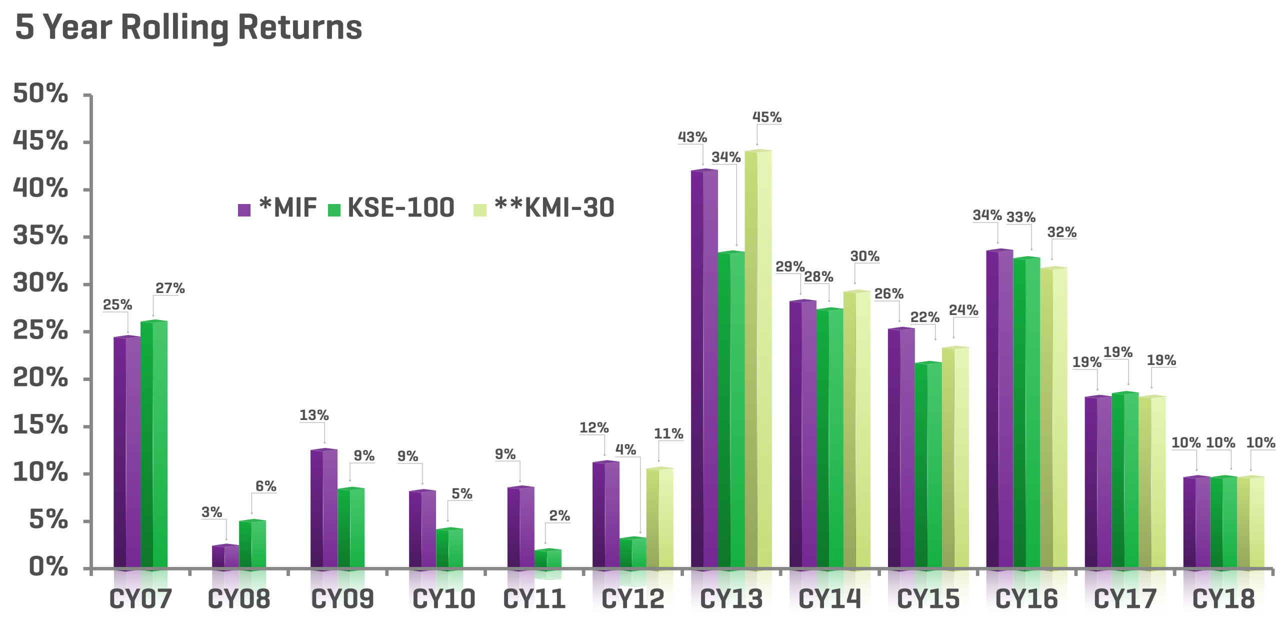
# INVESTMENT PERSPECTIVE- MORE TIME INVESTED, MORE RETURNS GENERATED

Assuming an investor made an initial investment of Rs.100,000 in MIF on its inception date in Aug'03 and did not make any withdrawals, his investment would now have grown to Rs 1,076,768 (till November'18), earning an annual 17.3% CAGR*. Equity has always remained the best performing asset class for long-term investors willing to withstand short to medium term volatility.

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# MONETARY SOFTENING DAYS COME TO A CLOSE

## YIELDS TO GROW

After around three years of maintaining a soft monetary policy, the SBP finally embarked on a monetary tightening stance during CY18 whereby the policy rate has been raised by 425bps cumulatively, bringing it to 10.00% from a historic low of 5.75%. The market was anticipating a rate increase since the start of FY18 because of which the T-bill and PIB auctions have continuously witnessed major participations in the shorter tenor instruments only. In its latest monetary policy statement, reasons cited remained the same, namely, weak current account owing to pressures emanating from high commodity prices and rise in productive imports, while absence of matching financial flows have pressured forex reserves. As highlighted, deteriorating external position owing to a combination of rising imports, weak exports, stagnating remittance flows and pressures on FX reserves emanating from repayment of outstanding debt are the main factors behind the tightening cycle. Combined effect of these trends has led to a decline in of reserves into negative territory after adjusting for swaps.

| | DEC 2018 | JUNE 2018 | DIFFERENCE FROM JUNE 2018 |
|---|---|---|---|
| **SBP Policy Rate** | 10.00% | 6.50% | +2.79% |
| **GOP SECURITIES** | | | |
| 6-Months T-Bills | 10.55% | 7.76% | +2.79% |
| 10-Year Pakistan Investment Bonds (PIBs) | 13.06% | 9.93% | +3.13% |
| Ijarah Sukuks | 6.65% | 6.74% | -0.09% |
| **CORPORATE INSTRUMENTS** | | | |
| TFCs (AA rated and above) | 11.04% | 9.09% | +1.95% |
| Corporate Sukuks | 10.87% | 8.27% | +2.60% |
| Bank Placement (AA Rated and above) | 10.75% | 7.75% | +3.00% |

## FUTURE OUTLOOK: STILL LACKING INVESTMENT AVENUES

The widening fiscal deficit and pressures on exchange rate are likely to force the SBP to further increase the policy rate going forward. In the FX market, the rupee depreciated over the year with the exchange rate crossing Rs. 135 per dollar during the month of November 2018 while there are chances that cannot be ruled out that it might undergo another depreciation round in the near future. If this expectation materializes, it will exert additional pressure on the already widening trade deficit of Pakistan. It is also pertinent to note that the country's external debt servicing for the next twelve months is above USD10 bn putting a negative pressure on the country's liquid forex reserves. In order to service future debt payments, the government would require more international inflows thereby resulting in a possibility of increasing the policy rate to attract foreign investors. With an increase in inflation, the real interest could come under pressure thereby becoming another factor for the SBP to raise the interest rate further.

The issue of lack of Shariah compliant investment avenues has continued to persist over the years. Despite a significantly strong growth in Islamic deposits over the last few years, which have recently clocked in at Rs. 2.0 trillion (forming around 15% of the total banking deposits), regular Ijarah Sukuk auctions are still not witnessed like PIBs (auctioned once a month) and T-bills (auctioned twice a month). The last Ijarah Sukuk auction was carried out in June 2017 after a gap of one year and 3 months and recently, Ijarah XVI with the issue size of Rs. 117 bn was matured, further squeezing the investment avenues available to investors. However, in order to facilitate Islamic Banks and Islamic windows of Commercial Banks SBP conducted a Bai Muajjal auction whereby in total bids were received for the total amount of Rs. 76.5 bn out of which the state bank accepted Rs. 72.5 bn at a cut-off yield of 11.47%. For the auction, the participants placed their bids in the range of 7.86% to 12.99%.

During the month of November, due to no announcement of Ijarah Sukuk auction, built up a huge demand/supply gap due to which the resultant yields in Ijarah Sukuk auctions are considerably low in comparison to the conventional market. Some of the blue chip corporates have already started to understand the excess liquidity situation of the Islamic Financial sector and have started issuing corporate Sukuks to raise debt at relatively lower spreads than they would have had to bear in case of TFCs or bank loans; in line with this observation, increased issuance of corporate Sukuks was witnessed during the CY18. Hopefully, a consistent increase in the issuance of new Sukuks (both government and corporate) will be seen going forward which will aid the Islamic market in tackling its long outstanding excess liquidity problem.

# GOLD - GLITTERING AGAIN

## YIELDS TO GROW

The price of gold in the international market has sunk almost 5 percent in 2018, and did not live up to many market watchers' predictions. In Q3, the yellow metal dipped below the USD 1,200 o/z mark and spent a significant amount of time circling that price range.  However, in Q4, it has shown a positive rebound as the Gold is trading at USD 1,260 o/z due to the expectation of a relatively less dovish stance by US Fed.

With the start of 2019, many investors are now wondering what will happen to gold prices next year. It should come as no surprise that the gold price performed with volatility in 2018. A consistently rallying US dollar, rate hikes from the US Federal Reserve and geopolitical tensions have all put pressure on the metal, which has dropped since the beginning of the year (fall of 1.50% since start of this year)

Against all odds, the prices of gold have remained relatively stable in the face of a very strong US dollar and the rapid pace with which the Fed has raised interest rates.


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## GOLD OUTLOOK

2018 has been driven by geopolitical tensions, steadily increasing interest rates and a strong US dollar, leaving many investors to believe that the gold price has reached its bottom. So what will happen to the yellow metal in 2019?

Looking ahead, we still need to rely on interest rates to determine where gold might go next year. US Fed may start focusing on US economic recession and therefore, may halt the continuing rise in interest rates. In addition to this, with the current world economic indicators forecasting a recession in the offing in the short term, the prices of almost everything goes lower. However, the case of gold would be opposite.

One more thing that could also be important in analyzing the outlook of gold is the economic activity. Any expected recession in US economy may raise the gold prices. If US growth slows down next year, as expected, gold would benefit from higher demand for defensive assets.

Investors need to watch out for the US dollar next year which shall be a crucial indicator for gold's performance, as a softer greenback makes commodities priced in dollars cheaper for investors using other currencies. As the above, points towards a dipping greenback next year, this shall allow the precious metal returning to its safe-haven nature.

## MEEZAN GOLD FUND (MGF), THE ONLY GOLD FUND IN PAKISTAN

Meezan Gold Fund (MGF) which is the only Shariah compliant commodity funds of the country has provided over 19% return* in CY18TD. The fund provides a convenient means of taking exposure to this asset class. We therefore advise our valued investors to invest in Al Meezan Gold fund, and include a safer hedge in their portfolio.

MGF is an Open End Shariah Compliant Commodity Scheme.

*All investments in mutual funds are subject to market risks. Past performance is not necessarily indicative of the future results. Please read the Offering Document to understand the investment policies and risks involved. Performance data does not include the cost incurred directly by an investor in the form of sales load etc. Performance has been calculated NAV to NAV with dividend reinvested.

# KEEP CALM, BRIGHTER DAYS AWAIT US

The year 2018 has been a roller coaster ride for the investors in PSX, whereby the benchmark index has provided a return of 15% from Jan-18 to its high of 46,638 (PE Multiple: 8.68x) in April-18. On the other hand after the transfer of government, the index has seen a low of 36,663 (PE Multiple: 6.82x) in Oct-18, depicting a negative return of 21%. The main reason which has led to the poor performance of the index is on account of concerns on external front that are facing the country, which had been brushed aside previously. During these times however it is vital that for confidence to be restored, some bitter pills are taken which include:

### ENTRANCE INTO THE IMF

THE RELATIONSHIP BETWEEN PAKISTAN AND THE IMF IS NOT NEW, WHEREBY THE COUNTRY HAS OBTAINED NEARLY 21 PROGRAMS IN THE LAST 60 YEARS. WE BELIEVE THAT AN IMF PROGRAM OF AROUND USD USD6-7 BN SHALL HELP REDUCE THE BURDEN ON FOREX RESERVES, BRING IN FISCAL DISCIPLINE AND HELP ACHIEVE ECONOMIC STABILITY.

### PKR USD

THE PKR HAS SEEN A FREE FALL OF 34% FROM THE PREVIOUS YEAR, AND WITH AN EXPECTATION OF ~RS 150/USD AS THE IMF SUGGESTS, IT WOULD BE BETTER NOW IF THE HIT IS TAKEN SO BUSINESSES CAN FORMULATE STRATEGY BASED ON THE NEW REALITY RATHER THAN GUESSWORK OF WHEN THE NEXT STAGGERED MOVE MAY COME

### MONETARY TIGHTENING:

WITH THE CPI INFLATION RATE EXPECTED TO PICK UP TO 7.5% FOR FY19 (FY18: 3.91%), THERE APPEARS TO BE ROOM FOR FURTHER MONETARY TIGHTENING OF APPROX. 100BPS. WE OPINE THAT IF THE DECISION IS MADE IN THE NEXT MPS THIS SHALL HELP CONTROL THE INFLATIONARY PRESSURES MOUNTING UP IN THE COUNTRY

Considering that the KSE 100 is currently trading at near to its 2018 low i.e. at 38,063 and is offering a discount of 35% to the Emerging Markets, we believe that once these concerns are addressed, the index does have the capacity to deliver strong results.

**KSE 100, & PE Multiple in CY 18**

# MARKETING HIGHLIGHTS

## CONTRIBUTORS

ALI LAWAI, CFA
YOUSUF KAMRAN
SAMAN BANATWALA


Al Meezan Investment Management Ltd.

## MUTUAL FUNDS AND INVESTMENT PLANS

Al Meezan enriched its portfolio by adding four new funds/investment plans to its product suite.


## MEEZAN CAPITAL PRESERVATION PLAN –VI, VII & VIII

Al Meezan Investment Limited (Al Meezan) announced the launch of Meezan Capital Preservation Plan VI, VII & VIII; a plan based on the existing Meezan Strategic Allocation Fund (MSAF-II). The plans are based on the dynamic asset allocation strategy of "Constant Proportion Portfolio Insurance (CPPI)" for providing competitive returns on your investment while aiming to preserve the initial capital.

## MEEZAN ROZANA AMDANI FUND (MRAF)

Al Meezan Investment Management Limited (Al Meezan) was pleased to announce the launch of Meezan Rozana Amdani Fund (MRAF) in December'18, an Open Ended Shariah Compliant Money Market Scheme which aims to provide competitive halal returns and meet liquidity need of our high-net- worth and corporate investors by providing daily payout through investments in Shariah Compliant money market instruments.

Al Meezan was awarded **The Best Asset Management Company in Pakistan** by International Finance Awards.


Al Meezan
Investment Management Ltd.
Pure. Profit.


# *ISLAMIC INVESTMENT* AWARENESS SEMINAR

Team Al Meezan in collaboration with CDC held an Islamic Investment Awareness Seminar at Karachi Gymkhana in order to educate the masses about the advantages of investing in Shariah Compliant investment avenues, Pakistani Capital Markets and CDC's role in protecting the interest of investors. This seminar was concluded with an interactive Q&A session with some very thought provoking and insightful questions by the participants.

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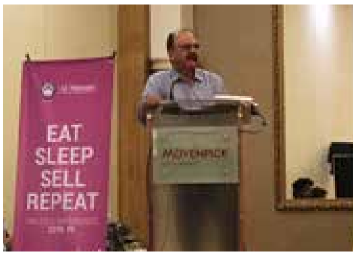


Sales Conference 2018 was a two day event held on the 06th and 07th July 2018 at Movenpick Hotel, Karachi. It was an interactive and informative conference which was led by different departmental heads who shared their respective strategy for the fiscal year 2018-19. At the conclusion of the event the sales team was presented with certificates in recognition of their performance and hard work through the year.

# EAT SLEEP SELL REPEAT

# MEEZAN CAPITAL PRESERVATION PLAN-VI, VII & VIII




## SAVINGS PLAN



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# TEAM AL MEEZAN ENSURED CUSTOMER ENGAGEMENT AND BRAND PRESENCE THROUGH SEVERAL BTL ACTIVITIES AT HIGH PROFILE EVENTS, SCHOOLS, UNIVERSITIES, AND LOCAL & INTERNATIONAL CONFERENCES.

## 11TH MEETING OF COMCEC FINANCIAL COOPERATION, ANKARA, TURKEY

MR. MOHAMMAD SHOAIB, CFA, CEO AL MEEZAN PARTICIPATED IN THE 11TH MEETING OF COMCEC FINANCIAL COOPERATION IN ANKARA, TURKEY, WHERE HE BRIEFED THE MEMBERS ON "ISLAMIC FUND MANAGEMENT".


## THE FUTURE SUMMIT – NUTSHELL CONFERENCE

MR. MOHAMMAD SHOAIB, CFA, CEO AL MEEZAN PARTICIPATED IN A PANEL DISCUSSION ON, "PREPARING FOR THE CENTENNIAL GENERATION – THE FUTURE OF WORK", WHICH WAS ATTENDED BY LEADING BUSINESS, POLITICAL AND ECONOMIC EXPERTS FROM AROUND THE WORLD.

## LUMS ENTREPRENEURIAL SOCIETY

AL MEEZAN PARTICIPATED IN THE EVENT ORGANIZED BY THE LUMS ENTREPRENEURIAL SOCIETY WHICH WAS A YOUTH BASED EVENT WHICH HELPED US IN TAPING INTO THE YOUTH SEGMENT WHO WERE STEPPING INTO THEIR CAREERS OR HAD ALREADY STARTED THEIR ENTREPRENEURIAL VENTURES.

# EXPANDS BRANCH NETWORK



Keeping in line with its expansion strategy, Al Meezan Investments added **THREE** more branches to the branch network with the opening of branch each in Karachi, Hyderabad and Faisalabad. With this, Al Meezan continues its promise of bringing Shariah Compliant Investment avenues to your door steps.

## SOCIAL MEDIA PRESENCE



With a growing customer base and increased focused on service quality, Al Meezan's popularity is growing day by day! Our social media presence on Facebook, Twitter, Instagram, LinkedIn and Youtube has helped improving Al Meezan Investments' image in the cyber world, increased exposure to potential customers, gathered more leads and built brand loyalty.

Total People who messaged us on Facebook were over **13,000**

Total Leads Generated through website, Social Media and Emails were around **35,000**

### THE MOST FOLLOWED PAGE:

| | Page | Total Page Likes | From Last Week |
|---|---|---|---|
| YOU 1 | Al Meezan Investment M... | 336.5K | 0% |
| 2 | MCB Arif Habib Savings | 201.8K | 0% |
| 3 | ABL Asset Management... | 169.9K | 0% |
| 4 | Smart Savings with UBL... | 151.6K | 0% |
| 5 | NBP Funds | 137.8K | 0% |
| 6 | HBL Asset Management... | 101.9K | 0% |
| 7 | JS Investments | 51.2K | 0% |
| 8 | AKD Investment Manag... | 49.1K | 0% |
| 9 | Atlas Funds - Nurturing ... | 37.8K | 0% |
| 10 | Alfalah GHP Investment ... | 33.1K | 0% |

## DIGITAL PR ACTIVITY:

### SPONSORED CONTENT WITH DAWN:


### VLOG WITH JUNAID AKRAM:

Al Meezan
Investment Management Ltd.

AM1
Rating by JCR-VIS

## Al Meezan mein Itminan hai.

### Contact Us

**0800-HALAL (42525)**

**SMS "invest" to 6655**

**www.almeezangroup.com**

### We are available on Social Media

A Subsidiary of
Meezan Bank
The Premier Islamic Bank

FOR INVESTMENT SERVICES AND ADVICE, VISIT ANY AL MEEZAN OR ANY MEEZAN BANK BRANCH ACROSS PAKISTAN


**REGISTERED OFFICE**

GROUND FLOOR, BLOCK 'B' FINANCE & TRADE CENTRE, SHAHRAH-E-FAISAL, KARACHI-74400, PAKISTAN.


NOTE: MEEZAN BANK'S ROLE IS LIMITED TO DISTRIBUTOR ONLY