

Strategy

Key Points

- Former Prime Minister Imran Khan was ousted through the country's first ever successful no-confidence motion by a coalition of parties including PML(N), PPP, MMA, MQM, BAP and others.
- Mr. Shahbaz Sharif is expected to be elected as the new Prime Minister in a vote today after which he is expected to form his cabinet where the finance ministry is expected to go to Mr. Miftah Ismail who also served at the same capacity in 2018.
- The new government is going to take over a fragile economy with only around 1.6 months of import cover amid high international commodities prices and soaring debt servicing and repayments.
- The new setup is going to take uphill task of resumption of the IMF negotiations, do away with freezing of POL products prices, raising electricity tariffs, and taking tough fiscal measures in the budget for FY23.
- From the stock market perspective, the resolution of uncertainties regarding regime change and market perception of the PML(N) government, a positive momentum is expected to sail through the market. However, sustainability would depend on developments yet to come. We prefer banks and defensive stocks including UBL, BAFL, BAHF, MCB, FFC, LUCK.

PTI government ousted through a no-confidence motion by the coalition parties

The April 3rd ruling of the Deputy Speaker National Assembly was ruled unconstitutional by the Supreme Court on April 7, 2022, which led to the restoration of National Assembly. As per the order of the Supreme Court, voting on the no-confidence motion was to be conducted on April 9, 2022. After a long day with delays, the voting on the no-confidence motion finally took place after 12 am on April 10, 2022 (process was started in the last hour of April 9, 2022) after the resignation of the Speaker National Assembly. The joint opposition got 174 votes in favour of the motion thereby ousting the Prime Minister for the first time in the history of Pakistan through a no-confidence motion. Voting for the next leader of the house (Prime Minister) is scheduled for Monday April 11, 2022 with Mr. Shahbaz Sharif as the candidate from the joint parties including PML(N), PPP, MMA, MQM, BAP and others, and Mr. Shah Mahmood Qureshi (Foreign Minister of the PTI government) as the candidate nominated by PTI (opposition). The changes of Mr. Shahbaz Sharif being elected as the new Prime Minister are high. However, appeasing a large coalition appears a tough task for the upcoming Prime Minister. The chances of the new government sailing through the 2023 elections appear low and early elections in 2022 cannot be ruled out.

A fragile economy at hand

The most critical economic challenge facing the new coalition set-up, is maintaining the solvency of Pakistan. IMF in its Feb'22 report after the completion of sixth review, projected FY23 gross external financing requirement amounting to USD35bn (>10% of GDP) including an estimated current account deficit of USD12.2bn, public and private debt amortization of USD21.8bn, and USD1.1bn as repayment to IMF. It needs to be highlighted here that under the current outlook for international commodities prices where no significant downturn is in sight in the near term, the current account deficit will most likely overshoot estimates leading to increased external financing requirement. Foreign exchange reserves with SBP currently stand at USD11.3bn (total USD17.5bn), which are enough to cover only around 1.6 months of import of goods and services (based on 3-month average imports). All of these external account imbalances are taking a toll on the PKR/USD parity. Therefore, arranging external financing would be a challenging task for the new administration where foreign policy of Pakistan would be a key element. Real interest rates have just turned mildly positive with the recent increase of 250bps in the policy rate on April 7, 2022. GDP growth is estimated to exceed 4% amid double-digit inflation (primarily led by food and energy prices) and fiscal deficit of over 6% with soaring energy sector circular debt and interest expense on both domestic and external borrowings. Immense macroeconomic adjustments are required in order to keep Pakistan solvent while combating sky-high international commodities prices with limited fiscal space and external account pressures.

Tough decisions on the cards

The new setup is going to take an uphill task of making tough economic decisions before entering the next elections that may happen during the current calendar year. The key focus person in this regard would be the Finance Minister, which we believe would be Mr. Miftah Ismail who had already served at the same

Pakistan Strategy

Key Data

KSE100 Index	44,445
KSE-All Share Value (PKRmn)	6,785
KSE-All Share Value (USDmn)	36.1
KSE-All Share Volume (Shmn)	227.9
Market Capitalization (PKRtn)	7.4
Market Capitalization (USDbn)	39.7
1 Year High	48,726
1 Year Low	42,876

Source: PSX, Next Research

1 Year KSE100 Index Performance



Source: PSX, Next Research

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capacity in 2018. The first and foremost economic milestone to be achieved would be to re-engage IMF for resumption of negotiations for the 7th review and building foreign exchange reserves to pass through the phase of high international commodities prices and rising debt servicing and repayments. Next would be making tough fiscal decisions under the guidelines of the IMF, which may include unfreezing of POL products prices to import parity with PL and GST, increase in electricity tariffs, rationalization of sales tax, elimination of subsidies, progress on circular debt reduction plan, etc. All of these measures would have a negative bearing for the coalition government in the next elections as these measures would be inflationary.

Outlook for the market

From the stock market perspective, the resolution of uncertainties regarding regime change and market perception of the PML(N) government, a positive momentum is expected to sail through the market. However, sustainability would depend on developments yet to come including fate of the IMF program, budget for FY23, developments towards next elections, and political noise with PTI opting for going to public and protests. We prefer banks and defensive stocks including UBL, BAFL, BAHL, MCB, FFC, LUCK.



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Over Weight	> Weight in KSE 100 index
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Where;

$R = \text{Expected Dividend Yield} + \text{Expected Capital Gain}$

R' is before tax

Investment horizon is between six months to twelve months

Ratings are updated regularly based on the latest developments in the economy/sector/company, changes in stock prices, and changes in analyst's assumptions.

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