

# Day Break

Tuesday, 22 October 2019

## Strategy

Exhibit: Countries under monitored Jurisdiction as of Oct-19

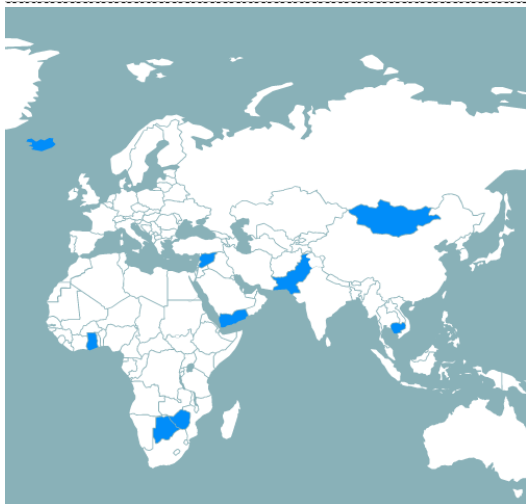


Exhibit: FATF National Risk Assessment (NRA) ratings for Pakistan

National Money Laundering Threat	Medium
National Money Laundering Vulnerabilities	Medium
Terror Financing Threat	Medium
Terror Financing Vulnerabilities	Medium

## Analyst

Saad Khan

saad.khan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

## Market & Economy

### Pakistan showed progress on implementing FATF recommendations; however, more needs to be done and speedily

- FATF in its latest evaluation report has maintained Pakistan's status under the grey list category, with technical deficiencies still left unaddressed.
- So far out of the total set of 40 recommendations formulated by FATF, Pakistan is partially (27), largely (9) and fully complied (1) with 36 of the recommendations while 4 remain non-compliant.
- FATF lauded Pakistan's ongoing progress in implementing AML/CFT but has given a relatively, short timeline of 4months to fully complete implementation of AML/CFT, which in our view could be challenging.

#### Pakistan maintain a Grey-list status

As part of the country's on-going compliance with Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT), the FATF (Financial Action Task Force) in its latest evaluation report has maintained Pakistan's status under the grey list category, with technical deficiencies still left unaddressed.

#### Progress on implementing AML/CFT shows improvement...

To recall Pakistan was placed under the monitored jurisdiction back in Jun-18, whereby Pakistan authorities' made a commitment to work with the FATF and APG to strengthen its AML/CFT regime and to address the highlighted deficiencies. While Pakistan has made progress towards improving its AML/CFT regime since then, some of the technical deficiencies still need to be addressed and for that an extended deadline by 4months or by Feb-20 has been recommended. So far out of the total set of 40 recommendations formulated by FATF, Pakistan is partially (27), largely (9) and fully complied (1) with 36 of the recommendations while 4 remain non-compliant. In case of not meeting the above compliance by stated dates, FATF will take action, which could include the "FATF calling on its members and urging all jurisdictions to advise their FIs to give special attention to business relations and transactions with Pakistan."

#### ...however, more needs to be done and speedily

Recent decision by FATF has to an extent averted Pakistan from falling into blacklist status, while the decision to remain in grey list was very much in-line with market consensus. To assert, FATF lauded Pakistan's ongoing progress in implementing AML/CFT but has given a relatively, short timeline of 4months to fully complete implementation of AML/CFT, which in our view could be challenging. At similar background, one of the structural benchmark under IMF includes successful implementation of AML/CFT measures; to which Pakistan has somewhat on varying degree shown satisfactory improvement.

Nevertheless, from a market perspective Pakistan has been on grey-list in 2008-09, and then from 2012 till 2015, during which market exhibited a low P/e averaging 7.6x, but not exclusively due to FATF grey-list status. With current market forward 2020 P/e of 5.8x (IGI coverage companies), which to an extent incorporates FATF outlook and weak macro trend, we recommend a cautious stance and prefer defensive stocks.

**Exhibit: FATF Recommendation and Pakistan Status as of Oct-19**

<b>AML/CFT Policies and Coordination</b>		
1	Assessing risks and applying a risk-based approach	PC
2	National cooperation and coordination	LC
<b>Money Laundering and Confiscation</b>		
3	Money laundering offence	LC
4	Confiscation and provisional measures	LC
<b>Terrorist Financing and Financing of Proliferation</b>		
5	Terrorist financing offence	LC
6	Targeted financial sanctions related to terrorism and TF	PC
7	Targeted financial sanctions related to proliferation	PC
8	Non-profit organisations	PC
<b>Preventive Measures</b>		
9	Financial institution secrecy laws	C
10	Customer due diligence	PC
11	Record keeping	LC
12	Politically exposed persons	PC
13	Correspondent banking	LC
14	Money or value transfer services	PC
15	New technologies	PC
16	Wire transfers	LC
17	Reliance on third parties	PC
18	Internal controls and foreign branches and subsidiaries	PC
19	Higher-risk countries	PC
20	Reporting of suspicious transaction	PC
21	Tipping-off and confidentiality	PC
22	DNFBPs: Customer due diligence	NC
23	DNFBPs: Other measures	PC
<b>Transparency and Beneficial Ownership of Legal Persons and Arrangements</b>		
24	Transparency and beneficial ownership of legal persons	PC
25	Transparency and beneficial ownership of legal arrangements	NC
<b>Powers and Responsibilities of Competent Authorities</b>		
26	Regulation and supervision of financial institutions	PC
27	Powers of supervisors	PC
28	Regulation and supervision of DNFBPs	NC
29	Financial intelligence units	PC
30	Responsibilities of law enforcement and investigative authorities	PC
31	Powers of law enforcement and investigative authorities	PC
32	Cash couriers	PC
33	Statistics	PC
34	Guidance and feedback	PC
35	Sanctions	PC
<b>International Cooperation</b>		
36	International instruments	LC
37	Mutual legal assistance	PC
38	Mutual legal assistance: freezing and confiscation	NC
39	Extradition	LC
40	Other forms of international cooperation	PC
PC	Partially compliant - There are moderate shortcomings.	26
LC	Largely compliant - There are only minor shortcomings.	9
NC	Non-compliant - There are major shortcomings.	4
C	Complaint	1
<b>Total Recommendations</b>		<b>40</b>

Source: FAFT, IGI Research

**Exhibit: Sector-wise Money-laundering Vulnerabilities**

<b>Regulated Sectors – 'Varying Risk Levels'</b>			
<b>Financial institutions</b>		<b>DNFBPs</b>	
Banking	medium	Real estate dealers	medium-high
Securities market	medium	Dealers in PM&S	medium-high
Insurance sector	medium	Accountants	low
Non-bank FIs	low	Lawyers/notaries	medium-low
Modarabas	low	Financial inclusion	low
Asset management	medium		
DFIs	low		
National Savings	medium-low		
Pakistan Post	low		
<b>Unregulated Sector – 'high risk'</b>			
The NRA assigns only one sector/activity as 'high risk': the alternative remittance sector also known as hawala/hundi. The NRA states that 'it is likely that hawala/hundi operators use legitimate funds to settle illegitimate transactions (e.g. smuggling, under invoicing, proceeds of corruption, etc.). The report states that 'a part of foreign exchange collected abroad may include funds for terrorist financing and the rupee counterpart disbursed in Pakistan may help terrorist financing.'			

Source: FATF

## 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

© Copyright 2018 IGI Finex Securities Limited



**Jama Punji**  
 سرمایہ کاری سمجھداری کے ساتھ  
<http://www.jamapunji.pk>

## 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
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@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

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road  
Tel: (92-61) 4512003, 4571183

#### 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

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road  
Tel: (+92-68) 5871652-3  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,  
Opp. Radio Station, Mansehra Road  
Tel: (+92-99) 2408243 - 44

IGI Finex Securities Limited

#### Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2019 IGI Finex Securities Limited


**Jama Punji**  
 سرمایہ کاری سمجھداری کے ساتھ  
<http://www.jamapunji.pk>