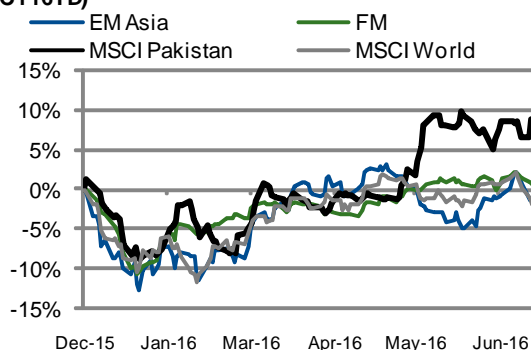


Day Break

Wednesday, 15 June 2016

Economy

MSCI Pakistan one of the top performing market (CY16TD)



List of Constituents for the MSCI Provisional Pakistan Indexes

SYM	Index Mkt Cap (USDmn)	Index Family	MSCI
MCB	1,073	Mid Cap	EM
HBL	971	Large Cap	EM
LUCK	971	Mid Cap	EM
ENGRO	778	Mid Cap	EM
UBL	729	Mid Cap	EM
OGDC	718	Large Cap	EM
FFC	534	Mid Cap	EM
PSO	471	Mid Cap	EM
HUBC	461	Mid Cap	EM
FCCL	276	Small Cap	
NBP	275	Small Cap	
SEARL	234	Small Cap	
MLCF	219	Small Cap	
KAPCO	197	Small Cap	
POL	192	Small Cap	
PKGS	174	Small Cap	
NML	148	Small Cap	
INDU	143	Small Cap	
BAFL	136	Small Cap	
FFBL	120	Small Cap	
FEROZ	115	Small Cap	
PAEL	101	Small Cap	
IGIL	87	Small Cap	
PSMC	82	Small Cap	
KOHC	78	Small Cap	
MTL	78	Small Cap	
APL	69	Small Cap	

Analyst

Saad Khan

saad.khan@igi.com.pk

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

Market Strategy

MSCI Reclassifies Pakistan as an Emerging Market

- Pakistan finally gets the much awaited heads up by MSCI, which has reclassified Pakistan from Frontier Market (FM) to Emerging Market (EM).
- Pakistan weight in MSCI EM would be ~0.19% represented by nine companies, ranking Pakistan just above Czech Republic (0.18% weightage) amongst the 23 EM countries.
- In addition, potential re-rating of market multiples, pre-inclusion in MSCI EM – as seen with Qatar and UAE in 2013 – could easily push PSX Index above 40,000 levels, in our view.
- MSCI Pakistan trades at a forward P/E multiple of 8.6x which is at ~42% discount to its counterparts in MSCI EM.

Pakistan Back in MSCI Emerging Market Index

Pakistan finally gets the much awaited heads up by MSCI, which has reclassified Pakistan from Frontier Market (FM) to Emerging Market (EM). As of latest MSCI press release, Pakistan weight in MSCI EM would be ~0.19% represented by nine companies, ranking Pakistan at 22nd, amongst the 23 EM countries just above Czech Republic (0.18% weightage). However, the applicability of above mentioned reclassification would take place in Jun-16.

How has this impacted the market?

PSX has gained nearly +20% since the news of reclassification surfaced back in Mar-16, whereas with +15% USD based returns in CY16TD, Pakistan has emerged as one of the top performers compared to its peers in Frontier and Emerging markets.

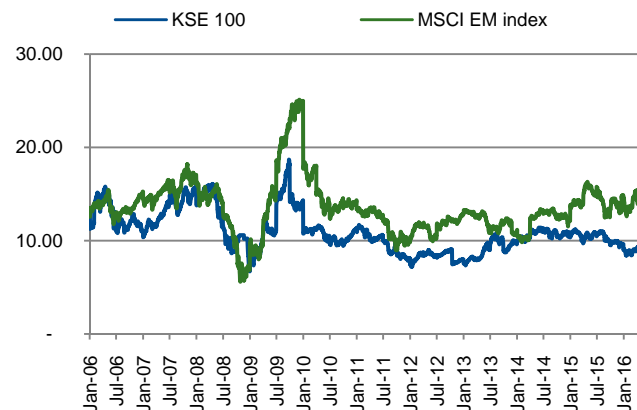
In addition, potential re-rating of market multiples, pre-inclusion in MSCI EM – as seen with Qatar and UAE in 2013 – could easily push PSX Index above 40,000 levels, in our view. As of 31st May-16, MSCI Pakistan trades at a forward P/E multiple of 8.6x, which is at ~42% discount to its counterparts in MSCI EM.

Wednesday, 15 June 2016

Exhibit: MSCI price Multiples – Pakistan currently trades at a steep discount of ~40% to its peer average.

	P/E	P/E Fwd.	P/B	Div. Yld (%)
Pakistan	9.2	8.6	1.7	6.03%
India	22.8	17.6	3.2	1.46%
Thailand	16.4	14.5	2.0	3.15%
Indonesia	17.9	14.9	2.8	2.31%
Korea	10.6	10.1	0.9	1.80%
Taiwan	13.8	12.9	1.5	4.09%
Philippines	21.3	18.6	2.8	1.64%
MSCI EM Index	13.3	11.2	1.4	2.87%

Exhibit: Pakistan on average traded close to MSCI EM price multiples



Source: IGI Research, Company's Financial, Bloomberg, MSCI (as of 31-May-2016)

Companies likely to be included...

Although details are awaited regarding weights of companies, which will be upgraded to MSCI EM index, but given the quantitative and qualitative benchmarks set by MSCI, there are currently 9 companies that can make it to the EM index out of the 27 constituents of Pakistan MSCI Index. Amongst them MCB bank ranks highest in terms of market capitalization of USD 1.07bn, followed by HBL, LUCK, ENGRO and UBL. While category wise, OGDC and HBL will likely be included in the large-cap index and rest of the companies will be tagged under mid-cap index. The combined index market capitalisation of these 9 companies comes at USD 6.7bn which is roughly 0.19% of the total MSCI EM index market capitalisation of USD 3.51trn.

Exhibit: MSCI EM - estimated Pakistan Companies weights

Symbol	Industry Group	Foreign Inclusion Factor	Company Full Mkt Cap	Index Mkt Cap	Est. weights in MSCI EM	Index Family	CY16 TD (return)	31-Mar-16 To date (return)
MCB	Banks	0.50	2,147	1,073	0.03%	Mid Cap	2.2%	7.6%
HBL	Banks	0.40	2,428	971	0.03%	Large Cap	-7.9%	7.4%
LUCK	Materials	0.55	1,765	971	0.03%	Mid Cap	26.7%	16.5%
ENGRO	Materials	0.50	1,557	778	0.02%	Mid Cap	19.5%	5.7%
UBL	Banks	0.40	1,823	729	0.02%	Mid Cap	10.6%	13.3%
OGDC	Energy	0.15	4,786	718	0.02%	Large Cap	21.4%	24.4%
FFC	Materials	0.40	1,335	534	0.02%	Mid Cap	0.2%	10.8%
PSO	Energy	0.50	942	471	0.01%	Mid Cap	16.7%	8.2%
HUBC	Utilities	0.40	1,153	461	0.01%	Mid Cap	14.1%	12.0%
Total			17,936	6,707	0.191%			

Source: IGI Research, MSCI (as of 31-May-2016). Total market cap of MSCI EM at USD 3,506.91bn

Wednesday, 15 June 2016

Outlook: Equity Market

With improving macroeconomic situation, tightening law and order system and stable political conditions, Pakistan has already reached at a profound landmark which is visible in 4.7% growth in GDP in FY16TD (Highest in last 5 years). These factors coupled with expected growth in corporates led by strong fundamentals and inclusion of Pakistan in MSCI EM, have set a well-built stage for PSX to expand further.

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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

This document has been 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. This document and the information may not be reproduced, distributed or published by any recipient for any purpose.

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 return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@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) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore 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 # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road, Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

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

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area, Islamabad
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, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651