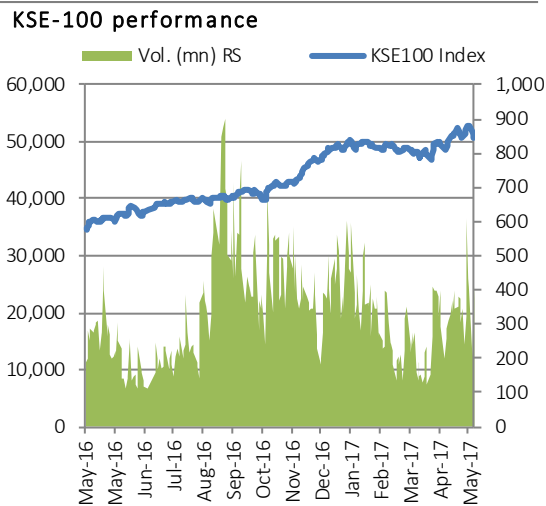


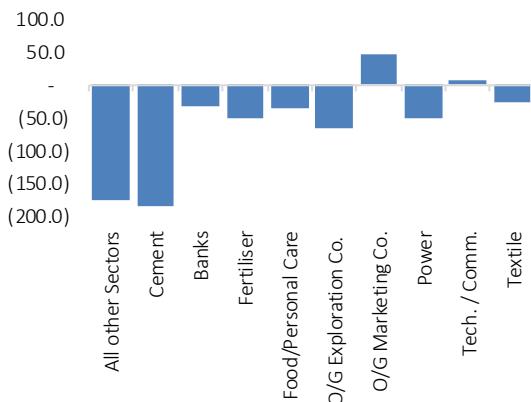
Day Break

Monday, 05 June 2017

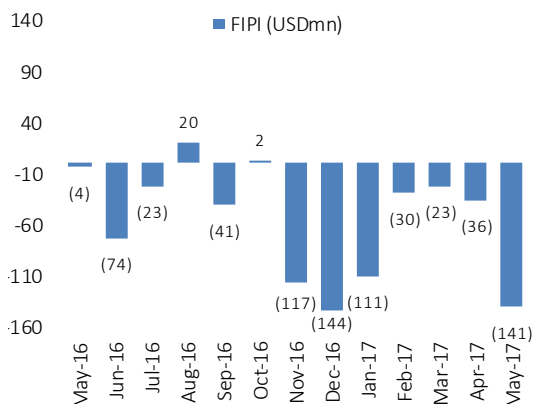
Strategy



FIPI Sectorwise Netflow (USD)



Foreign Outflow Continues in May-17



Source: Bloomberg, KSE 100 & IGI Research

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Market Strategy

Resurgence in MSCI EM wiped off gains accumulated in CY17TD

- The recent selling spree seems to prove the old adage "Sell in May and go away" whereby excessive selling pressure from FII's eroded gains of 5.8% booked in 5M CY17.
- Foreigners remained net seller for the 7th consecutive month where FII's offloaded USD 141mn worth shares in May-17.
- Despite weak performance by the market, E&P and OMC remained the major beneficiary in May-17, posting 13% and 7% yields respectively.
- We believe 1) Pro growth Budget FY18, 2) rerating of pricing multiple post MSCI EM inclusion, 3) healthy economic growth (avg 6% in coming 3-4yrs), 4) accommodative monetary policy to fuel in investments, 5) upcoming coal projects, and 6) CPEC led growth to be the key catalyst to drive the index.

Benchmark Index up by 2.6% in May-17

The month of May-17 carried along significant event to track investor attention whereby market peaked its all-time high of 52,876pts. The MSCI story kept investors at swing where a technical error in initial press release baffled investor community while clarification later on boosted further sentiments. Moreover, optimism on populist budget and status quo monetary policy played their role in driving up the index. However, certain tax measures announced in Federal Budget i.e. increase in dividend tax rate, rationalization of CGT rate irrespective of holding period and advance WHT of 0.02% on stock members fell short of market expectations.

The benchmark index posted return of 2.6% in May-17 with an increase of 1291pts despite post budget implication and heavy selling from FII observed on the eve of MSCI EM inclusion. The local bourse witnessed mammoth gross foreign selling worth of USD 1,203mn during the month.

Foreign outflow continued in May-17

Foreigners remained net seller for the 7th consecutive month where FII's offloaded USD 141mn worth shares in May-17. It is pertinent to mention here that massive outflow with net worth of USD 81.6mn was observed on the rebalancing date (31 May-17) where frontier market fund took exit positions.

Cements and Banking sector stock observed major foreign outflow during the month with USD 49mn and USD 34mn respectively.

Oil and Gas remained top performer despite weak performance in market

Despite weak performance by the market, E&P and OMC remained the major beneficiary in May-17, posting 13% and 7% yields respectively. In E&P's, OGDC and POL were the top performer with return of 15% and 16% respectively. On the

contrary, cements performed poorly, declining by 5%. Moreover, banking stock performance remained muted, up by mere 1%.

Gains of May wiped off in a single trading day post MSCI EM Inclusion

The blob in local bourse observed in post MSCI EM inclusion washed away PKR 326bn from the market. The recent selling spree seems to prove the old adage “Sell in May and go away” whereby excessive selling pressure from FII’s eroded gains of 5.8% booked in 5MCY17.

The benchmark index booked gains of 2.6% in May which were wiped off by 3.58% in a single day session (June 1, 2017) post MSCI EM inclusion whereby index dropped to 48,780pts on account of continuous selling from FII.

Investment Theme

The positives that are likely to drive up the index includes 1) Pro growth Budget FY18, 2) rerating of pricing multiple post MSCI EM inclusion (Pakistan P/E trades at 26% discount to regional markets), 3) healthy economic growth (avg 6% in coming 3-4yrs), 4) accommodative monetary policy to fuel in investments, 5) upcoming coal projects, and 6) CPEC led growth.

The recent run down in stock prices emanating from hefty sell off by FII provides a good opportunity in rebuilding positions in value stocks that have significantly underperformed. Our top picks include:

| | Target Price | Current Price | Upside | P/E (X) | P/B (X) | Div. Yld (%) |
|-------|--------------|---------------|--------|---------|---------|--------------|
| LUCK | 980 | 819 | 20% | 18.65 | 3.35 | 1.71 |
| DGKC | 314 | 223 | 41% | 10.92 | 1.36 | 2.92 |
| MLCF | 157 | 108 | 45% | 10.48 | 2.29 | 3.23 |
| UBL | 275 | 223 | 24% | 9.83 | 1.80 | 5.84 |
| HBL | 301 | 256 | 18% | 10.98 | 1.91 | 5.47 |
| EFERT | 86 | 57 | 50% | 8.46 | 1.85 | 12.24 |
| BAHL | 73 | 58 | 25% | 7.97 | 1.52 | 6.01 |
| NML | 185 | 165 | 12% | 14.33 | 0.69 | 3.00 |
| INDU | 2,472 | 1,853 | 33% | 10.77 | 4.38 | 5.93 |
| PPL | 212 | 166 | 27% | 11.75 | 1.57 | 3.76 |
| FFC | 118 | 94 | 25% | 11.06 | 4.04 | 7.90 |

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|----------------|------------------------------------------------------------------------------------------------------------|
| 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) |

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