Day Break

Tuesday, November 5, 2024

IGI Securities
SERVING YOU SINCE 1994

Monetary Policy History		
Date	**Stance**	**Policy Rate**
04-Nov-24	-250 bps	15.0%
12-Sep-24	-200 bps	17.5%
29-Jul-24	-100 bps	19.5%
10-Jun-24	-150 bps	20.5%
29-Apr-24	Status Quo	22.0%
18-Mar-24	Status Quo	22.0%
29-Jan-24	Status Quo	22.0%
12-Dec-23	Status Quo	22.0%
30-Oct-23	Status Quo	22.0%
14-Sep-23	Status Quo	22.0%
31-Jul-23	Status Quo	22.0%
26-Jun-23	Status Quo	22.0%
12-Jun-23	+100 bps	21.0%

Source: SBP, IGI Research

Economy

SBP Cuts Interest Rate by 250bps to 15.0%

- In the latest Monetary Policy Announcement, the State Bank of Pakistan (SBP) decided to reduce policy rate by 250bps to 15.0%. Since Jun-24 SBP has cumulatively cut interest rates by 700bps. MPC noted that decline in both headline and core inflation exceeded expectations mainly due to absence of expected adjustment in gas tariff and PDL rates and decline in global food and oil prices. SBP maintained its GDP target for FY25 in the range of 2.5-3.5% and average inflation for FY25 likely to be significantly lower than earlier forecast range of 11.5-13.5%
- The Committee noted that few key developments since last MPC meeting, which included Board approval for Pakistan's new EFF program, which is likely to reduce uncertainty and improve prospects for materialization of external inflows. Surveys conducted by SBP in Oct-24 also showed improvement in confidence and reduction in inflation expectation for consumer and business. Furthermore, secondary market yields of government securities and KIBOR have witnessed a noticeable decline. While oil prices have remained volatile amid geopolitical tension, prices of metals and agricultural products have increased notably.
- In our view, SBP is likely to keep monetary policy data driven and reduce interest rates gradually keeping a balance between supporting economic activity and building pressure from external front.

SBP Cuts Interest Rates by 250bps

In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to reduce policy rate by 250bps to 15.0%. Since Jun-24 SBP has cumulatively cut interest rates by 700bps. MPC noted that decline in both headline and core inflation exceeded expectations mainly due to absence of expected adjustment in gas tariff and PDL rates and decline in global food and oil prices. Considering these developments and potential risk to inflation outlook, MPC viewed that it was appropriate to achieve the objective of price stability on durable basis by maintaining inflation within the 5-7% target range. This would be necessary to achieve sustainable economic growth over medium term. SBP maintained its GDP target for FY25 in the range of 2.5-3.5% and highlighted that average inflation for FY25 is likely to be significantly lower than earlier forecast range of 11.5-13.5%.

Exhibit: Monetary Policy Rate Decision	Current	Previous	Chg. (bps)
Target Policy Rate	**15.00%**	**17.50%**	**(250)**
Discount rate (Ceiling Rate)	16.00%	18.50%	(250)
Floor Rate	14.00%	16.50%	(250)

Source: SBP, IGI Research

Analyst

Abdullah Farhan
Abdullah.farhan@igi.com.pk

The Committee noted that few key developments since last MPC meeting, which included Board approval for Pakistan's new EFF program, which is likely to reduce uncertainty and improve prospects for materialization of external inflows. Surveys conducted by SBP in Oct-24 also showed improvement in confidence and reduction in inflation expectation for consumer and business. Furthermore, secondary market yields of government securities and KIBOR have witnessed a noticeable decline. While oil prices have remained volatile amid geopolitical tension, prices of metals and agricultural products have increased notably.

Exhibit: National CPI Heat Map

	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23	Nov-23
General	**7.2**	**6.9**	**9.6**	**11.1**	**12.6**	**11.8**	**17.3**	**20.7**	**23.1**	**28.3**	**29.7**	**29.2**
Food	0.9	-0.6	2.5	1.6	1.0	-0.2	9.7	17.2	18.1	25.0	27.5	28.0
Transport	-6.1	-7.3	3.2	12.2	10.4	10.4	12.5	11.2	15.0	26.2	28.6	26.5
Utility/Rent	19.2	20.9	22.2	25.3	35.3	33.0	35.7	36.6	36.1	38.6	37.7	33.0
Essentials	13.1	14.4	16.1	17.5	17.4	17.5	17.9	15.8	18.4	19.5	18.6	18.9
Disc.	8.8	9.1	9.7	11.6	12.0	12.6	17.1	19.2	26.5	32.4	34.9	37.4

Source: SBP, IGI Research

Key takeaways from analyst briefing

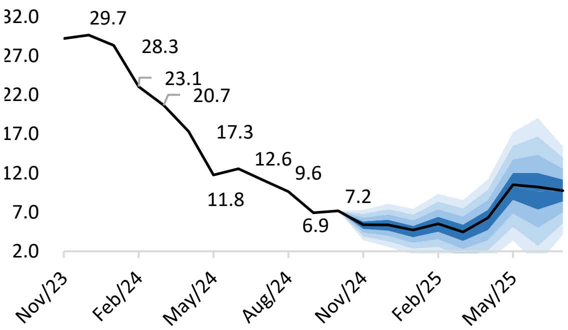
SBP in its post MPS briefing highlighted key updates, which included:

- C/a balance surplus clocked in at US$ 0.2bn for Sep-24 mainly due to rise in exports while import growth remained muted. As a result, total C/a deficit stands at US$ 0.1bn for 1QFY25. During 1QFY25, despite substantial increase in imports, workers remittances and higher exports helped in containing overall deficit. SBP expects imports to rise owing to increase in economic activity. Higher remittances and exports are likely to limit c/a deficit in the range of 0-1% of GDP in FY25. Contained C/a deficit along with realization of inflows under IMF program will further strengthen forex reserves around US$ 13bn by Jun-25.
- SBP stated that GDP growth for FY25 is expected in the range of 2.5-3.5%. The initial estimates of Kharif crops have turned out to be better than earlier expectations of MPC. Higher than targeted estimates of rice and sugarcane have more than offset the anticipated decline in maize and cotton output. Industrial activity has also started to pick up mainly led by textile, food, automobile and allied industries during 2MFY25. Moreover, improved prospects of commodity producing sectors and easing inflationary pressures are also expected to support services sector.
- Total debt repayment for FY25 stands at US$ 26.1bn (US$ 22bn in principle and US$ 4bn in interest). SBP stated that out of these payments, US$ 16.4bn is expected to be rolled over with US$

2.3bn already rolled over. Pakistan has made payments of US$ 5.7bn so far in FY25 including the US$ 2.3bn rollover. This leaves roughly US$ 6.3bn to be repaid in the remaining months of FY25.

- SBP stated that currently no funding gap exist aligning with IMF's assessment. SBP also highlighted that Asian Development Bank has approved US$ 500mn loan for Pakistan and is expected to be received soon. This will bring total reserves to US$ 11.7bn by next week.
- Recent rate cuts, reduction in overall debt stock and PKR stability is likely to bring down budgeted interest payments below projections. Initially Government budgeted PKR 9.8trn interest payments for FY25, which is now estimated to settle in the range of PKR 8.2-8.5trn thus easing debt servicing requirements.
- M2 Broad Money and reserve money growth increase to 15.2% as of Oct-24. The net budgetary borrowing from banks declined notably while banks' credit to non-government sector increased. This was mainly to due receipt of SBP profits resulting in buy-back of outstanding debt securities. On the liability side, deposit growth continues to drive M2 growth. Going forward, easing financial conditions and expected increase in economic activity may further increase demand for private sector credit. Moreover, banks are also expected to increase advances to avoid ADR taxation in the coming weeks.
- SBP expects reserves to cross US$ 13bn by Jun-25 from current US$ 11.2bn.
- Public Debt as at 30-Jun-2024 stood at 75% of GDP, which subsequently has been reduced to 67.2% of GDP.
- SBP expects C/a balance to remain within sustainable range during Oct-24 supported by higher remittances, which are expected to exceed US$ 3bn.

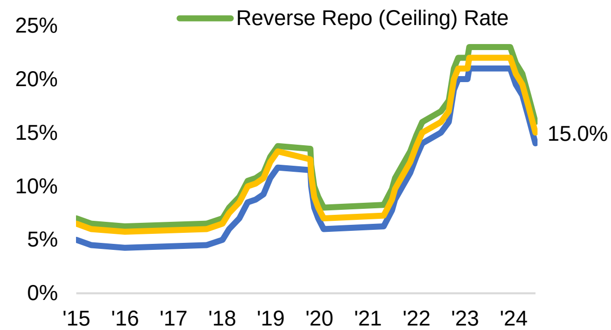
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12m fwd basis.



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

SBP continues monetary easing in Nov-24. (Source: SBP)



Outlook

Decline in inflation has outpaced expectations turning real rates significantly positive on spot basis, which prompted SBP to cut rates cumulatively by 700bps since Jun-24. Although SBP highlighted decline in oil, improved domestic supply of food commodities and favorable base effect as reason behind slowdown in inflation. Inflation is likely to decline further in coming months owing to continuation of these factors. In our view, SBP is likely to keep monetary policy data driven and reduce interest rates gradually keeping a balance between supporting economic activity and building pressure from external front.

Exhibit: Impact of 250 bps rate cuts on companies under our coverage

Company	EPS Impact	% of Earnings	Company	EPS Impact	% of Earnings
Banks			**Autos**		
BAFL	(3.7)	-16.1%	INDU	(15.8)	-7.0%
HBL	(5.4)	-13.1%	HCAR	0.3	1.8%
NBP	(2.8)	-16.5%	**Cements**		
UBL	(7.6)	-14.5%	KOHC	(1.7)	-3.4%
FABL	(1.2)	-8.0%	LUCK	(1.0)	-1.0%
ABL	(3.1)	-9.3%	CHCC	0.3	0.6%
MCB	(4.9)	-9.0%	MLCF	0.2	1.5%
			PIOC	0.8	2.3%
Fertilizer			FCCL	0.2	3.0%
FFBL	(0.5)	-3.9%	DGKC	0.4	2.8%
FFC	(0.6)	-1.7%	**Chemicals**		
EFERT	0.4	1.6%	LCI	0.8	0.6%
E&Ps			EPCL	0.8	7.6%
POL	(0.4)	-0.6%	**Steel**		
MARI	(6.6)	-10.1%	ISL	0.1	0.9%
PPL	(0.6)	-1.4%	ASTL	1.4	
OGDC	(0.5)	-1.0%	MUGHAL	1.8	15.0%
POWER			**OMCs**		
HUBC	0.8	2.1%	PSO	2.4	4.9%

Source: Company Accounts, IGI Research

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)

Valuation Methodology: To arrive at Target Prices, IGI Finex Securities uses different valuation methodologies including

- Discounted Cash Flow (DCF)
- Reserve Based DCF
- Dividend Discount Model (DDM)
- Justified Price to Book
- Residual Income (RI)
- Relative Valuation (Price to Earning, Price to Sales, Price to Book)

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

Contact Details

Equity Sales

Zaeem Haider Khan	Head of Equities	Tel: (+92-42) 35301405	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

Research Team

Abdullah Farhan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Sakina Makati	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 810	sakina.makati@igi.com.pk
Laraib Nisar	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 974	laraib.nisar@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
Website: www.igisecurities.com.pk

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

Lahore Office
Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Islamabad Office
3rd Floor, Kamran Centre,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office
Office No. 2, 5 & 8, Ground Floor, The
Regency International 949, The Mall
Faisalabad
Tel: (+92-41) 2540843-45

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

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

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009