

Pakistan Economy

US\$3bn Stand-by arrangement: A sigh of relief

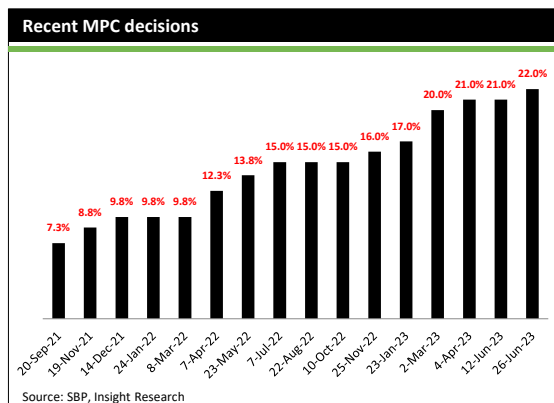
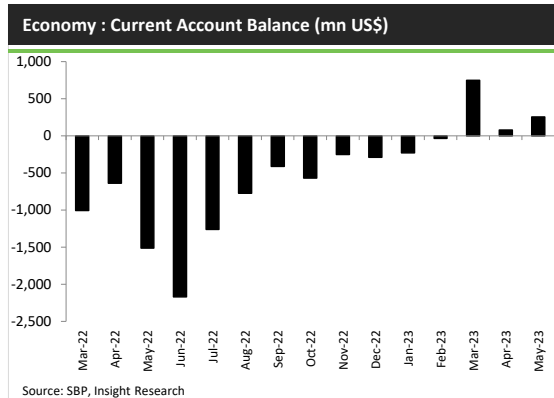
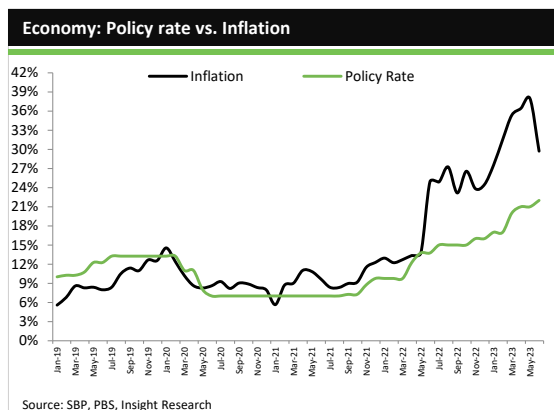
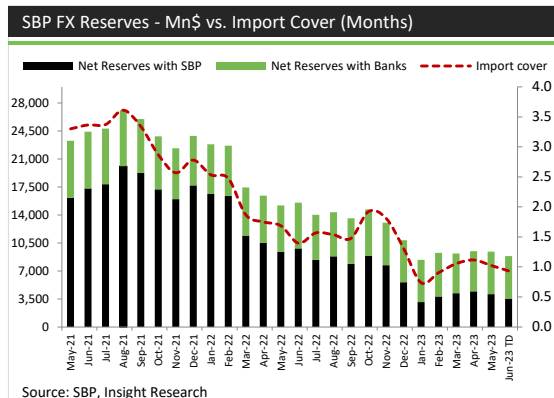
In recent development, Pakistan has been able to secure an agreement with IMF for SDR2.25bn (equivalent to US\$3bn) under stand-by arrangement. This 9-month long program will provide much needed support to country's acute FX liquidity situation and will help in smooth transition of political setup post general election, which are scheduled to happen towards the end of this year. Under the arrangement, Pakistan is expected to receive ~US\$3bn during next 9 months in 3 tranches. IMF's board meeting for the approval of this new program is expected in mid of July. To highlight, Pakistan failed to complete yet another IMF program, the Extended Fund Facility which was secured in 2019 remained incomplete as government was unable to conclude the 9th review with IMF authorities. The EFF program which was scheduled to end on 30-Jun-2023, expired prematurely without completion of 9th, 10th and 11th reviews.

This new facility has provided a much needed lifeline to the economy as country is facing multiple challenges including huge burden of debt repayments in next couple of years along with acute position of forex reserves and rampant inflation. The program will not only support the overall liquidity of forex but also help unlock flows from other multilateral institutions. In addition, rollovers from friendly countries (China, GCC) will also help in mitigating any pressure on FX front.

Exact details of the condition agreed for this program have not been available yet, however, as per IMF's press release authorities will have to maintain a market based exchange rate while removing any sort of controls on imports and exchange rate. In addition, energy sector remains a key focus, where the fund has highlighted that implementation of structural reforms are critical for the success of this new program. In addition, timely rebasing of energy tariffs along with improvement in governance of SOEs are key steps for the sustainability of the sector.

We believe that this new agreement is better than expected as markets were pricing in the probability of default due to lack of clarity on economic and political fronts. However, with the signing of US\$3bn program at this crucial stage will provide much needed confidence to the market participants as evident from the sharp recovery in Pakistan International Bonds.

Going forward, domestic currency is expected to gain some ground in coming sessions on the back of this newly announced program. However, removal of restriction on imports coupled with clearance of pending payments will restrict the gains. Inflation forecasts are expected to witness a slight uptick due to revision in energy tariffs along with enhancement of PDL on retail fuel. Similarly, interest rate are likely to remain elevated under IMF's supervision as we have witnessed a surprise uptick of 100bps in policy rate just days before announcement of this new program.



Currently, local bourse is trading at dirt cheap multiples (P/E: ~3.1) as compared to its peers and historical average. We opine that market will witness a decent rally post Eid holidays, where energy sector companies will remain in spotlight. We opine that, IMF's enhanced focus towards sustainability of power sector bodes well for circular debt ridden companies such as OGDC, PPL, PSO, SNGP, SSGC etc. Similarly, sectors that are negatively affected by import restrictions such as pharma, autos, electrical appliances etc. can also witness a significant jump amid removal of import restrictions. We continue our liking for companies having decent earnings quality, strong cashflows and attractive dividend yield. Our top picks are MARI, MEBL, ENGRO, FFC, EFERT, LUCK, MLCF, ACPL, ILP, SYS, APL etc.

In past, we have witnessed that equity market has responded positively on securing IMF programs. In the table below, we have presented historical market performance before and after IMF program announcement.

KSE100 - Index performance pre and post recent IMF agreements

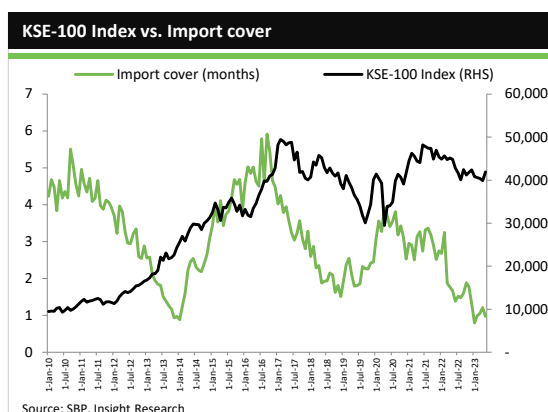
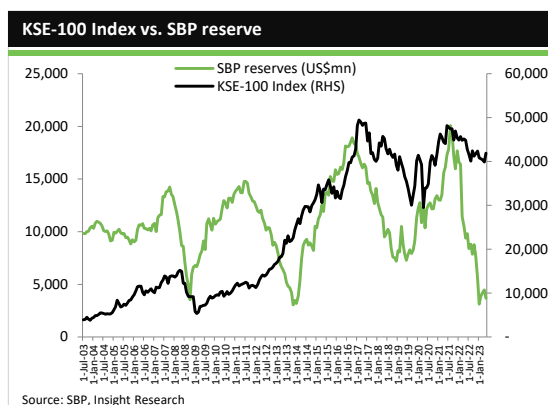
	Pre Arrangement			Date of board approval	Post Arrangement		
	6M	3M	1M		1M	3M	6M
Extended Fund Facility	-7.1%	-7.0%	-1.7%	Jul 3, 2019	-9.3%	-7.6%	17.2%
Rapid Financing Instrument	-7.6%	-27.4%	-3.9%	Apr 16, 2020	8.6%	17.1%	27.7%
Extended Fund Facility	21.8%	-1.8%	-3.6%	Sep 4, 2013	1.0%	12.4%	18.2%
Standby Arrangement	-25.0%	-2.6%	0.0%	Nov 24, 2008	-27.5%	-36.1%	-22.2%
Extended Credit Facility	0.4%	10.7%	3.0%	Dec 6, 2001	-1.3%	32.5%	21.4%
Standby Arrangement	-11.3%	-13.9%	-11.2%	Nov 29, 2000	16.1%	10.0%	4.0%

Source: Zakheera, Insight research

A look at Pakistan's history of Lending Commitments with IMF (SDRmn)

Facility	Date of arrangement	Expiration date	Amount agreed	Amount drwn
Extended Fund Facility	3-Jul-19	30-Jun-23	4,988	3,038
Rapid Financing Instrument	16-Apr-20	20-Apr-20	1,016	1,016
Extended Fund Facility	4-Sep-13	30-Sep-16	4,393	4,393
Standby Arrangement	24-Nov-08	30-Sep-11	7,236	4,936
Extended Credit Facility	6-Dec-01	5-Dec-04	1,034	861
Standby Arrangement	29-Nov-00	30-Sep-01	465	465
Extended Fund Facility	20-Oct-97	19-Oct-00	455	114
Extended Credit Facility	20-Oct-97	19-Oct-00	682	265
Standby Arrangement	13-Dec-95	30-Sep-97	563	295
Extended Credit Facility	22-Feb-94	13-Dec-95	607	172
Extended Fund Facility	22-Feb-94	4-Dec-95	379	123
Standby Arrangement	16-Sep-93	22-Feb-94	265	88
Structural Adjustment Facility Commitment	28-Dec-88	27-Dec-91	382	382
Standby Arrangement	28-Dec-88	30-Nov-90	273	194
Extended Fund Facility	2-Dec-81	23-Nov-83	919	730
Extended Fund Facility	24-Nov-80	1-Dec-81	1,268	349
Standby Arrangement	9-Mar-77	8-Mar-78	80	80
Standby Arrangement	11-Nov-74	10-Nov-75	75	75
Standby Arrangement	11-Aug-73	10-Aug-74	75	75
Standby Arrangement	18-May-72	17-May-73	100	84
Standby Arrangement	17-Oct-68	16-Oct-69	75	75
Standby Arrangement	16-Mar-65	15-Mar-66	38	38
Standby Arrangement	8-Dec-58	22-Sep-59	25	-

Source: IMF, Insight research



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Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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