

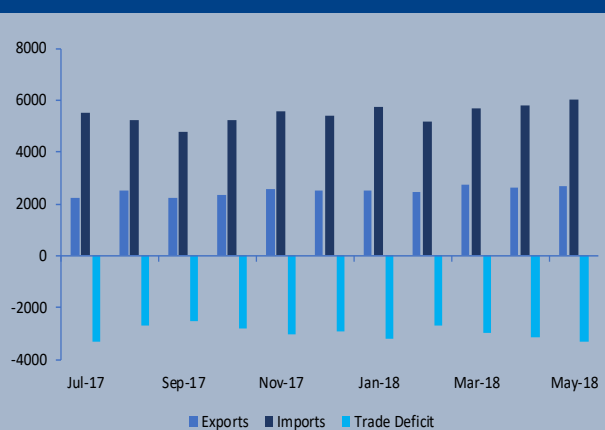
July 6, 2018

Current Account Deficit (\$Million)

	11MFY18	11MFY17	YoY%
CAD	(15,961)	(11,140)	43%
Export*	27,480	25,219	9%
Import*	60,147	52,554	14%
Trade Deficit*	(32,667)	(27,335)	19.5%
Primary Income	(4,834)	(4,536)	7%
Secondary Income	21,540	20,731	4%
Remittances	18,024	17,511	3%

* Includes goods and services
Source: SBP & WE Research

Exports, Imports & Trade Deficit



Source: SBP & WE Research

- As per latest data compiled by SBP, during 11MFY18 CAD widened to \$15.96 billion up by 43% as opposed to \$ 11.14 billion as of same period last year.
- Widening CAD attributed to higher international oil prices, surged by 57% in FY18TD, since Pakistan's economy is import based.
- Trade deficit augmented by 19.5% clocking at \$32,667 million period under review as compared to \$27,335 million in 11MAY17.
- Remittance inched up by 3% YoY clocking at \$18,028 million in 11MAY18 as opposed to \$17,511 in same period last year.
- FDI witnessed a meagre growth of 1% to record at \$2,476 million in 11MFY18 as compared to \$2,407 million.
- Rupee-dollar parity widened as rupee depreciated by 15.82% in FY18
- Amnesty Scheme may prove to be beneficial for economy

As per data released by SBP, CAD witnessed slight surge of 0.7% in May'18 clocking at \$1,947 million as compared to \$1,934 million SPLY. While on cumulative basis it widened to \$15.96 billion, up 43% YoY in 11MAY18 as opposed to \$11.14 billion during same period last year. The surge attributed to broadening trade deficit owing primarily to higher imports (higher oil prices), marginal increase in remittances / FDI and negative impact of currency depreciation.

Trade Deficit inflated by 19.5% YoY

During May'18 exports (goods and services) remained static at approx. \$2.7 billion whereas imports (goods and services) jumped by 4% MoM, standing at \$6 billion. On cumulative basis, trade deficit widened to \$32,667 million, up 19.5% in 11MAY18 as opposed to \$27,335 million in SPLY primarily due to increase in import bill (\$60.15 billion) on the back of rising crude oil prices. The major contributors in import bill during the period under review are Petroleum group, which surged by 29% (\$12.23 billion), Machinery Group up by 20% (\$7.98 billion) and Agri & other Chemicals group up by 17% (\$7.58).

Insufficient 3% Growth in Remittances

Pakistanis living abroad sent home remittances worth \$18,028 million during 11MFY18, a meagre growth of 3% YoY in comparison to \$17,511 million in SPLY, whereas it dropped by 7% MoM in May'18 clocking at \$1,771. The major contributors during 11MFY18 are USA up by 12.69% amounting to \$2,465 million, UK remittances surged by 20.50% (\$2,518 million) while the same from EU countries increased by 40% (\$594 million). Remittance inflows from Saudi Arabia and other GCC countries declined by 10% & 5% recorded at \$4,522 million & \$1,995 million respectively.

Rupee Devaluation and Widening Current Account Deficit

Hefty rupee depreciation of 15.82% in FY18 has enough role played in swelling CAD. Despite an increase in exports (up by 9% YoY standing at \$ 27,480 mln), being an import based economy, Pakistan's imports bill surged by 14% YoY totalling \$60,147 in the period under review primarily due to increase in international oil prices (up 57% in FY18). We Expect CAD will further widen on the back of currency devaluation, upward trajectory in international oil prices and minimal growth in remittances. On the other hand, currency depreciation may push the exports further upward but with minimal net impact. Moreover, we expect the measures taken under amnesty scheme may bring some liquidity and transparency in economic structure.

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Potential to target price	
Buy Upside	More than +10% from last closing price
HOLD	In between -10% and +10% from last closing price
SELL	Less than -10% from last closing price

Equity Valuation Methodology

WE Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Relative valuation (P/E, P/B, P/S)
- Equity & Asset return based (EVA, Residual income)

Risks

The following risks may potentially impact our valuations of subject security(ies);

- Market Risk
- Interest Rate Risk
- Exchange rate risk

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