

Pakistan – Where do we go from here?



Since the peak on May 24th earlier this year, the Pakistan equity market has corrected significantly. From peak to bottom the MSCI Pakistan Index Net TR fell 32% in USD, and 38% in SEK to the bottom on September 7th. It is natural for investors to wonder whether this is a buying opportunity or a sign of worse times to come. In the report, we discuss the reasons behind the market correction, and address the factors that, in our view, are behind the correction. We also discuss what could eventually signal a more lasting turnaround in the market. What started as political uncertainty has now developed into fears of an imminent devaluation. We believe this is more a result of a change in perception than a changed reality. In our analysis, we try to explain why we believe this is the case.

- We reason that the market has since long discounted any negative effects from a devaluation.
- Based on our analysis of Pakistani corporate profits we believe a devaluation will have a slight positive effect on the market, and this is before any counter actions are taken by Pakistani corporates.
- The contraction in market multiples from close to 11x, down to close to 8x, many times discounts a theoretic contraction in multiples in the range of 6-7%.
- This said, in order for the market to regain footing on solid ground, we believe, political uncertainty needs to be eliminated. We argue that investors' ability to see beyond elections (due tentatively in late July to early August) will mark the strongest turning point. This could be as early as November, more likely in January-February 2018 and worst case late spring 2018.
- Although we have a hard time motivate the extent of the correction from fundamentals we recognize that the uncertainty that has been plaguing the market could continue to pressure the market for some time.
- Potential "black swans" could be significant outflows from local mutual funds or a deteriorating relationship with the US.

The Pakistani equity market has been one of the best performing equity markets of the world for the last 20 years, despite facing significant challenges. We argue that even with the prevailing uncertainty and continued risk of short term volatility the pre-conditions for Pakistani equities for the coming 20 years appear significantly improved from where they were twenty years ago. Read the full report [here](#).