

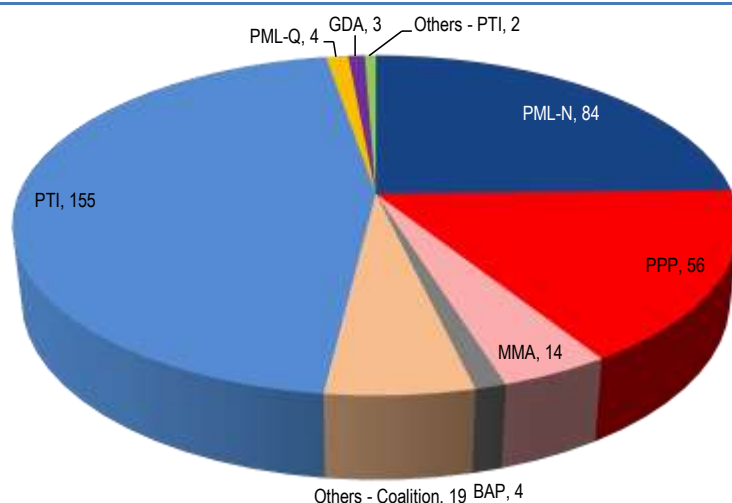
## Politics

### Politics: PML-N's Shehbaz Sharif to form new government; markets can rally in near-term

Former Prime Minister Imran Khan lost the No Confidence Vote in the National Assembly over the weekend. PML-N's Shehbaz Sharif is in pole position to replace him later today and form a coalition government. Mr. Sharif is a capable administrator and brings a successful track record in running Punjab, Pakistan's most populous province, where he was hailed for the quick delivery of mega infrastructure projects. He is also perceived to have amicable ties with the Army, which appear to be intact despite his brother and former Prime Minister Nawaz Sharif having a hardline stance.

Given the PML-N only has c 25% seats in the NA, appeasing the large number of allied parties will likely be challenging, and it is difficult to say whether the current Assembly will see out its term until mid-2023 or early elections will be held. The economy requires unpopular measures, beyond simply resuming the IMF programme, which may erode support for incumbents if elections are held as per schedule. Alternatively, the coalition could seek to avoid giving an opening to PTI until it has had a chance to discredit it, more so after seeing the strong demonstration of street power in PTI's support yesterday. The PTI, currently contemplating en masse resignations from the National Assembly, should have at least six months to regroup, sustain its popular momentum, and be better prepared ahead of the next elections.

#### National Assembly Composition



Source: Geo.tv

Pakistan's new Finance Minister is likely to be Dr. Miftah Ismail, who has earlier served in the post, albeit only for a few months ahead of the 2018 elections. Dr. Ismail has already sounded his intention to approach the IMF quickly, with a view to rescuing the ongoing programme that has been hostage to the high political drama over the last few weeks. He has also echoed Shehbaz Sharif's view to deliver better administrative performance by galvanizing the bureaucracy. The initial sound bites from both are encouraging, and conducive for restoring confidence to markets. This confidence may be supported by Pakistan beginning to deliver on the 1 remaining FATF action item i.e. to demonstrate the prosecutions of commanders of UN-designated terrorist groups (JuD/LeT Chief Hafiz Saeed was handed an additional 30+ year prison sentence last week).

*Continued on the next page...*

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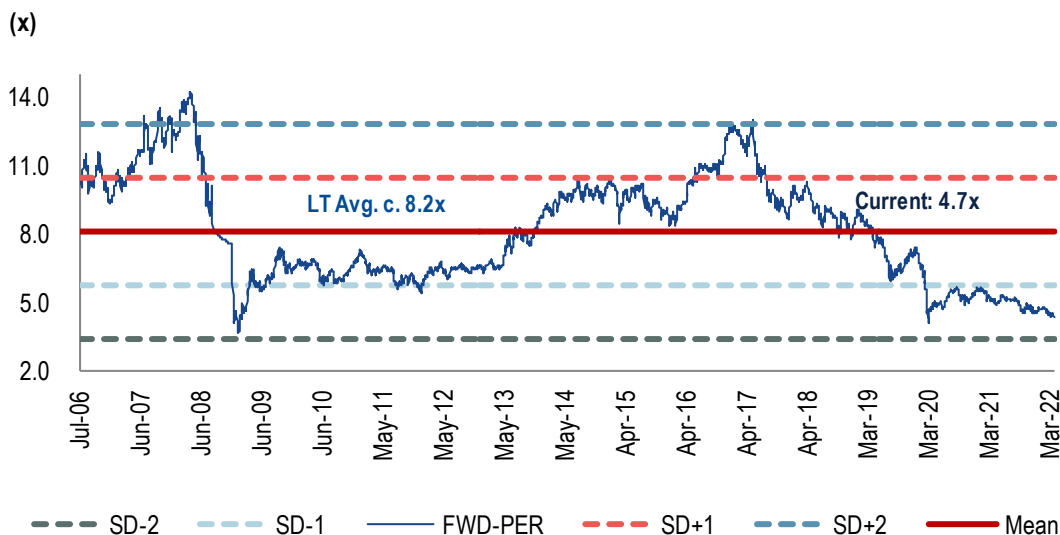
- Age: 70 years
- President, Pakistan Muslim League – Nawaz (PML-N)
- 3-time Chief Minister Punjab; 1997-1999, 2008-2013, 2013-2018
- Younger brother of 3-time Prime Minister Nawaz Sharif (currently disqualified)
- Son Hamza Shahbaz looks well placed to be elected Chief Minister Punjab

**Dr. Miftah Ismail Ahmad**

- Phd in Public Finance and Political Economy from Wharton, University of Pennsylvania
- Former Finance Minister; 2018
- Former Chairman Board of Investment
- Former Chairman, Punjab Board of Investment
- Has worked for the IMF early in his career

PTI's ouster may be temporarily disruptive for meaningful reforms but the market, for now, is likely to focus on the relative calm after the high political noise over the last few weeks. The KSE100 rose 1.5% and the PKR recovered by c. 2% vs. the US\$ on Friday, after the Supreme Court ruled for the No Confidence Vote to go ahead. We reiterate our view that Pakistan equities can rally in the near-term, with higher interest rates already in the price and Pakistan moving nearer to continuing the IMF programme. There is ample room for rerating - forward P/E of 4.7x is c 40% below the 10yr mean; the discount on Market Cap to GDP is a similarly wide 30% - and the KSE100 can make a strong move towards the 50,000pts mark in the next few months. Our top picks are UBL, FFC, ILP, LUCK and SYS. In addition, some high-beta names that could outperform in the near-term include MLCF, MUGHAL, TGL and AVN.

**Market P/E (x)**



Source: IMS Research

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Ratings Guide*	Criteria
Buy	Total return expectation of $\geq 15\%$ or expected to outperform the KSE-100 index
Neutral	Total return expectation of $> -5\%$ or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

\*Based on 12 month horizon unless stated otherwise in the report.

**Valuation Methodology:** We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

**Risks:** (i) street protests by PTI workers, (ii) failure to go to the IMF in the timely manner, (iii) major personnel changes e.g. at the central bank

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