

Pakistan Politics

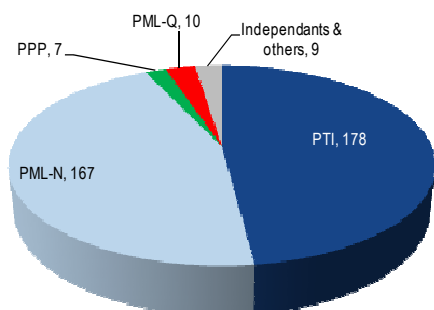
Greater possibility of early elections

The PTI has retained 15 of the 20 seats on which by-elections were held yesterday in Punjab and the PML-N has accepted the results. This should allow PTI and allied PML-Q to wrest back control of Pakistan’s largest province. Biting inflation has seemingly hurt PML-N’s popularity, and the ruling party will now potentially have to contend with a fractious relationship between the Center and Punjab. This could encourage populist decision making, which may imperil fiscal discipline and weaken adherence to the IMF programme. That said, the by-election results increase the possibility of early general elections as the PML-N may choose to cut its losses, with a caretaker government to navigate the fragile economic landscape in this scenario. A galvanized Imran Khan has already reiterated his call for general elections. A government with a clearer, fresh mandate may arguably be better for reforms and Pakistan’s investment case.

PTI demonstrates its popularity; high inflation hurts PML-N

The PTI’s ouster at the Center a few months ago was matched by its government being toppled in Punjab as well. Unlike the National Assembly where PTI’s allied parties deserted it, Punjab saw PTI dissidents switch allegiance to PML-N, enabling Hamza Shehbaz (Prime Minister Shehbaz Sharifs son) to become Chief Minister. Courts later ruled that voting across party lines was not legal in such instances, disqualified the PTI dissidents, and ordered fresh elections on their vacant seats. PTI has now won 15 of these 20 seats. This should allow PTI and PML-Q to regain majority in Punjab. Incumbent Hamza Shehbaz now has to decide whether to dissolve the Punjab assembly altogether or futilely go through the CM election process again.

Punjab Assembly seats (after by-elections)



PTI & allies		PML-N & allies		Others	
PTI	178	PML-N	167	Independent	6
PML-Q	10	PPP	7	Vacant	2
		Rah-e-Haq	1		
Total	188		175		8

Source: Media reports, & Punjab Assembly

Outlook: Greater chances of early elections

The Punjab by-election results heap pressure on the PML-N, back it into a corner, and strengthen Imran Khan’s narrative that his government was unfairly dismissed. The PML-N led government at the Center may yet see out its term until 2H 2023, in which case we believe populist decision making is likely, which could extend the stop-start nature of the IMF programme. This would be risky considering Fx reserves stand at less than US\$10bn and the import cover is just c 1.5 months. Alternatively, given the tough economic environment punctuated by 20%+ inflation, the PML-N may not risk a further hit to its popularity, and may opt for new general elections. A new government with a clearer, fresh mandate will likely be better placed to conduct reforms, which would ultimately be better for Pakistan’s investment case. We believe the chances of early general elections have increased.

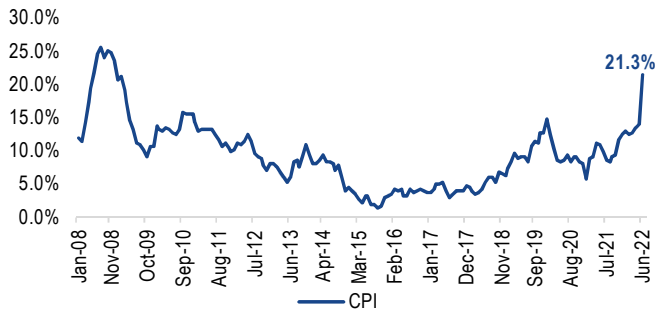
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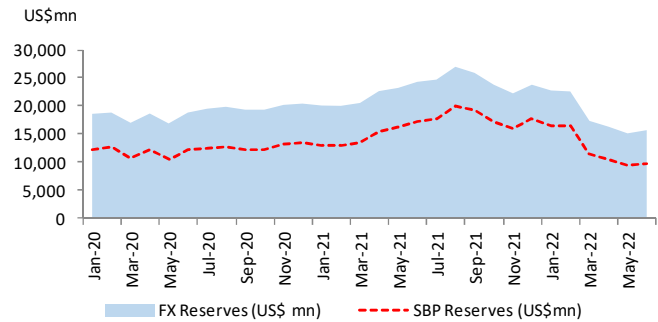
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Inflation is the highest since 2008



Source: PBS, IMS Research

Fx reserves imply little shock absorption capacity

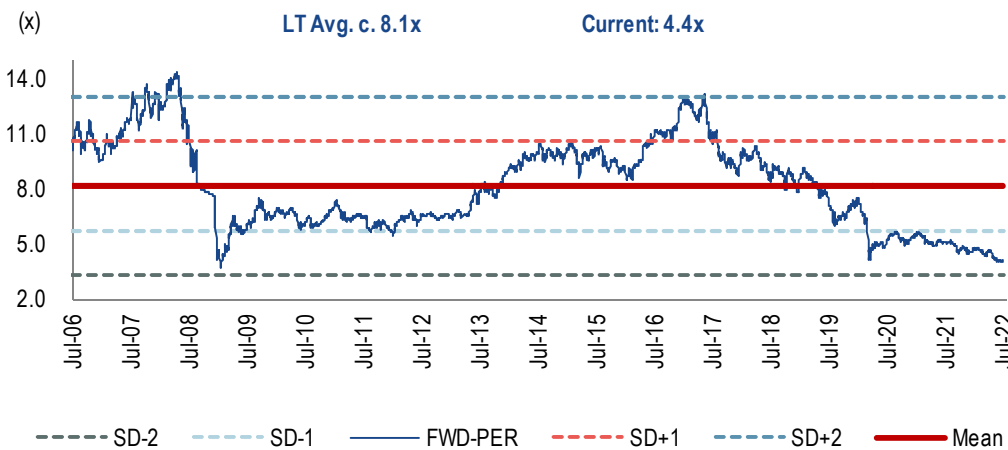


Source: SBP, IMS Research

Equities: Short-term uncertainty but long-term positives

The KSE100 gained a muted 1.8% last week, despite the staff-level agreement with the IMF. Investors may continue to remain circumspect as political noise is set to rise while the economy is still fragile. While we understand this reticence in the short-term, we believe much of the risks are priced in already, with forward P/E of 4.4x at a steep c.45% discount to the last 5yr average. If early elections are indeed held, possibly this year, Pakistan’s derailed reforms theme could yet get back on track. We retain our constructive medium-term outlook on Pakistan equities. Preferred stocks are MEBL, UBL, EFERT, SYS, LUCK and ILP.

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) Not applicable

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