



REP-057

December 28, 2021

Foreign selling at PSX continue in 2021

Net Selling of US\$2.6bn in last 7-years

Umair Naseer
umair.naseer@topline.com.pk
Tel: +9221-35303330 Ext:133
Topline Securities, Pakistan



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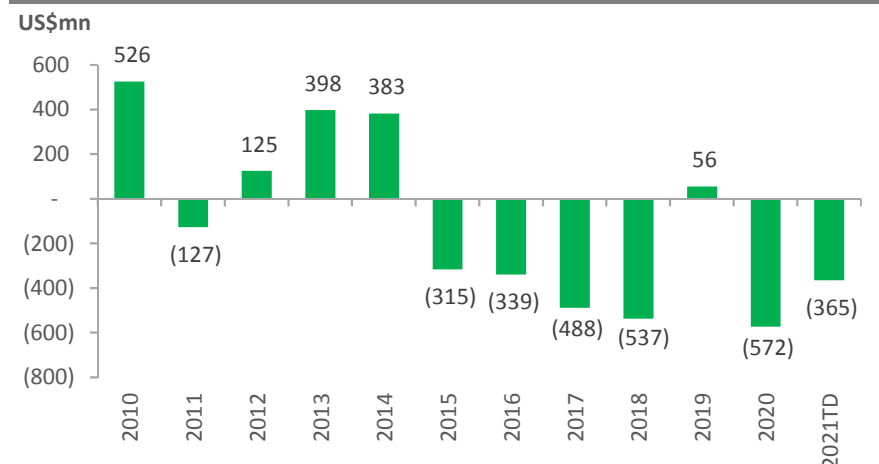
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House 2018,19-20

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Brokers Poll 2011-14, 2016-20

Foreign selling continued in 2021

Foreign Portfolio Investment (FPI) – US\$mn



Source: NCCPL, Topline Research,

Regional Markets Flows (US\$mn)

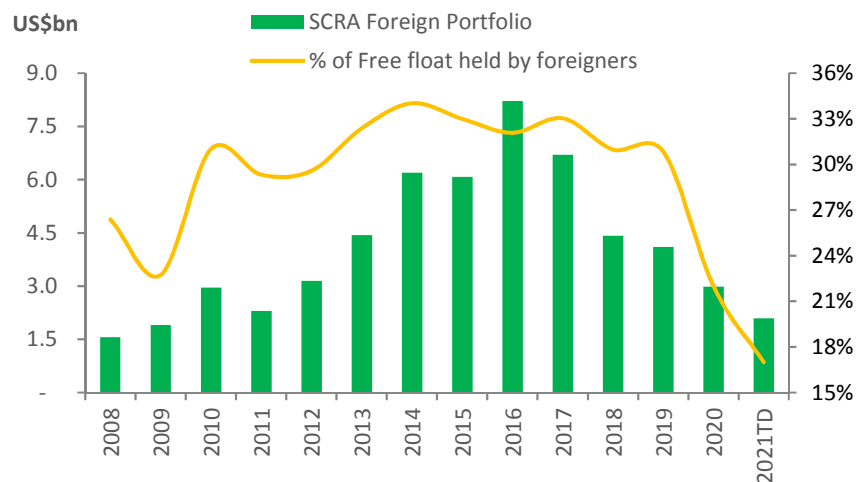
Country	Market	MTD	QTD	2021 YTD
China	Emerging	10,946	-34,044	30,656
India	Emerging	-1,666	-4,694	3,836
Indonesia	Emerging	65	778	2,653
Philippines	Emerging	1710	1723	-18
Srilanka	Frontier	-3	-30	-257
Pakistan	Frontier	-3	-175	-365
Malaysia	Emerging	-274	144	-771
Thailand	Emerging	229	379	-2,098
Vietnam	Frontier	-182	-832	-2778
Taiwan	Emerging	927	-776	-17,456

Source: Bloomberg, Topline Research

- Foreign corporate selling continued to impact Pakistan stock market sentiment in 2021 as net foreign selling has clocked in at US\$365mn till Dec 27, 2021 vs. US\$572mn in 2020.
- The selling in 2021 was dominated in Banking, Oil & Gas exploration and Fertilizer sectors, amounting to US\$167mn, US\$60mn, and US\$55mn, respectively.
- Pakistan was also reclassified from Emerging to Fronter Market by MSCI recently as the country saw gross and net outflows of US\$107mn and US\$58mn, respectively on rebalancing date that is Nov 30, 2021.
- During the past seven years, total net foreign selling has been recorded at US\$2.6bn, which is around 15% of average free float market capitalization.
- Last time when Pakistan saw any major foreign inflows was in 2017 when Pakistan was upgraded to MSCI Emerging Market (EM index) as the country saw gross foreign buying of US\$452mn on May 31, 2017 – which was the rebalancing date.
- Similarly, secondary market offerings of Habib Bank (HBL) and United Bank (UBL) by government of Pakistan saw inflows of over US\$1bn in 2014/15.
- Sharp currency devaluation, volatile macro environment, lesser concentration of IT stocks, and outflows from emerging markets have been few of the key factors behind the outflow over the years at PSX.
- Pakistan current account deficit in 5MFY22 rose to US\$7.1bn vs. US\$1.9bn in the same period last year. Consequently, Pak rupee lost 11% of its value against USD in 2021 to date.
- Within the regional markets, except for India, China and Indonesia, other markets saw foreign outflows in 2021.
- Consequent to this foreign selling, the stocks and sectors having high foreign portfolio investments (FPI) have largely been underperformers at the Pakistan Stock Exchange (PSX) in last few years.

Foreigners hold ~US\$2bn; major selling in 2022 not likely

Foreigner holding as % of free float market cap at its lowest



Source: SBP, Topline Research

- Due to non stop selling by foreign funds, total foreign ownership of Pakistani stocks has now reached at a decade low of US\$2.1bn (17% of free float and 5% of market cap) as per latest SBP data from a peak of US\$8.3bn (30% of free float and 9% of market cap) seen on Jan 6, 2017.
- We believe that out of the US\$2.1bn, shares worth of US\$0.4-0.8bn is held by foreign sponsors or strategic investors as classified by SBP which are likely not to be offloaded in market.
- Even out of the remaining foreign holding, some foreign holding pertains to illiquid stocks like Nestle Pakistan (NESTLE), Colgate Palmolive (COLG), Pakistan Tobacco (PAKT), Murree Brewery (MUREB) etc. These illiquid shares may be privately placed and not directly affect local liquidity. Hence, any major selling in 2022 is not likely.
- With respect to inflows from Frontier Funds post Pakistan classification to Frontier Markets, it is difficult to gauge the expected inflow due to lack of data availability. However, given Pakistan small weight of 1.25% in MSCI FM index and reduced foreign ownership of Pakistani stocks, we expect small inflow/outflow of US\$50-100mn in 2022.
- Moreover, many Frontier Funds tracking Pakistan have either closed down or their Assets Under Management (AUMs) have come down significantly due to redemptions. Hence, major inflows from frontier markets is also less likely.
- International money managers also believe that foreign flows in frontier and frontier market performances will be dependent upon how well these countries manages COVID-19 challenge and address economic challenges specially of rising inflation rates.

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Rating

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Neutral

Sell

Expected Total Return

Stock will outperform the average total return of stocks in universe

Stock will perform in line with the average total return of stocks in universe

Stock will underperform the average total return of stocks in universe

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Rating

Over Weight

Market Weight

Under Weight

Sector’s Proposed Weight in Portfolio

> Weight in KSE-100 Index

= Weight in KSE-100 Index

< Weight in KSE-100 Index

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