



Economic Update

After a weak month of April due to the COVID-19 lockdown, the economy began to crawl back to life in May as easing restrictions in the lead up to Eid celebrations saw a pick-up in activity. Inflation continued to slow as the government passed on the impact of lower oil prices and interest rates dropped again in line with our expectations.

Our projections suggest further sharp dip in inflation in the second half of 2020, due to lower oil prices and lower overall demand. We expect YoY inflation to drop to around 6% mark by the last quarter of 2020 which should bring interest rates into the 7.0%-7.5% range i.e. an additional 100-150bps easing from here.

Current account deficit (CAD) for the month of Apr plunged to USD 572 mn compared to USD 1,165mn for Apr'19. The decline in CAD was driven by 26% YoY decline in total imports along with a 1% YoY rise in remittances during Apr. On a MoM basis remittance declined by 6% taking the 10MFY20 remittances to USD 18,782mn (up 6% YoY) compared to USD 17,801mn during 10MFY19. However, as expected exports also fell by 30% YoY during Apr due to global lockdowns. We expect May numbers to demonstrate a sharp rebound as world markets began to open up and exports orders re-established. We expect CAD levels to stay manageable at 1.5% - 2.0% of GDP for 2021 and committed support from IMF and other multilateral agencies will keep the devaluation of PKR against the USD to the tune of 5%-7% p.a., in line with our expectations.

On the policy front, in a scheduled MPS meeting on 15th May, 2020 State Bank of Pakistan decided to further cut the Policy Rate by 100 bps to 8%. This was the fourth cut in the policy rate since mid-March, taking cumulative easing to 525bps. The reasons cited by SBP for this decision were significant decrease in oil prices, improved inflation outlook, and the slowdown in overall demand due to outbreak of Coronavirus.

Market Performance

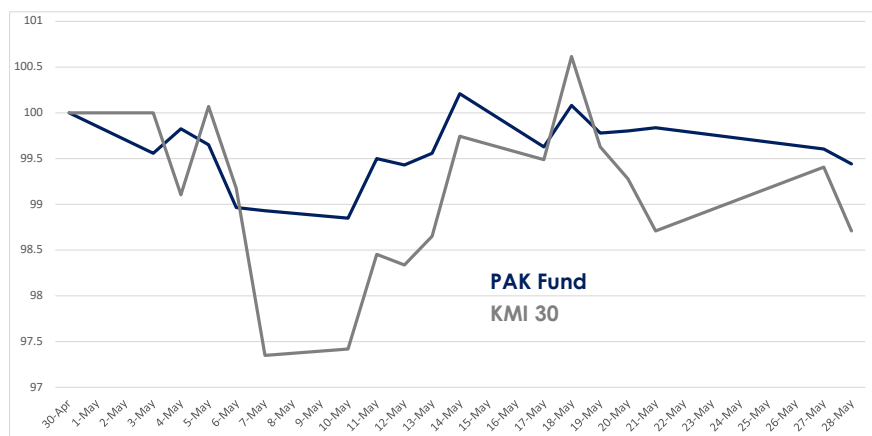
The KMI-30 was flat in May 2020 (down 0.5% MoM), taking CYTD decline to 15%. There were some positive triggers, including the lifting of lockdown conditions by the government and the cut in policy rate further by 100bps to 8% by the SBP. However, the market reacted earlier in April to these developments as it rebounded approx. 33% from its low in March. Much of May focused on earnings announcements keeping markets range-bound as it absorbed the future impact of COVID-19 on earnings attrition. Ramadan also kept trading activity somewhat lower and we expect better market performance post Eid break in early June.

Notable sectors which generated the largest monthly contribution to the KMI30 Index were E&P (+4.6% return), food & Personal care (+8.9% return) and pharmaceuticals (+7.7% return). Major laggards this month were Fertilizers (-2.6% return), Power Generation (-5.3% return), Cements (-3.1% return) and Textile composite (-3.1% ret

Our Performance, Exposures & Strategy

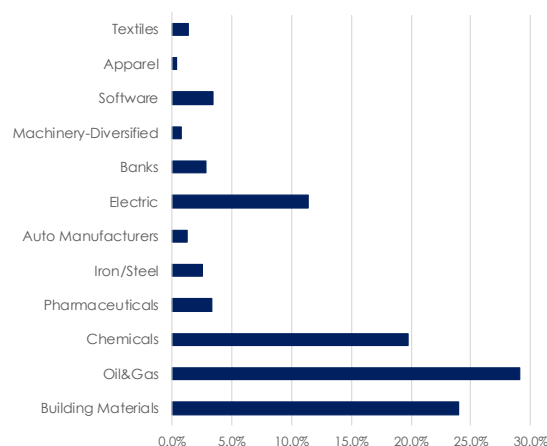
We continue to build positions in the market and we raised overall exposure to equities to approx. 40% from 20% in early April. As per our expectations we have witnessed slight recovery (prices up 1.5% - 2%) on the debt side as well during the month under review. The fund has returned +7.3% since hitting its bottom. We will continue to build towards 50% exposure in equities initially with a strict buy on dips strategy and then target 60-65% as confidence builds on the sustainability of the economic recovery.





Brief Overview of the favored sectors

As mentioned previously as well, the potential for recovery in underlying assets of the fund is high both on the equity and the fixed income side. Our allocation on the equity side is focused on quality stocks across various sectors, especially those which have more earnings visibility going forward, safer demand/supply dynamics in the current situation and will recover fast given any reversal in economic activity. Our portfolio has a forward Price-to-Earnings (P/E) multiple of approx. 6.5x against the 10- year market average of 8x. Cements, Oil and Gas Exploration, Fertilizers and Power Generation & distribution sectors constitutes approximately 75% of our equity portfolio. Our investment thesis for these sectors is listed below.



Cements

Domestic demand theme mainly due to

- Population size of more than 200mn
- Strong propensity to spend (household consumption = 83% of GDP)
- Focus of the government on the construction sector

Steep monetary easing, soft coal prices and price recovery after a 3-year expansion cycle will only boost sector's profitability

Fiscal stimulus by the Government with kick start of mega projects like Dams construction and low budget housing scheme supports our view of having a positive stance on the sector

Oil & Gas Exploration

At a sustainable oil price of USD 30 and lower interest rate environment, selective stocks in the E&P space are very cheap on valuation basis. As economies have eased lockdowns we have seen oil prices jump from their lows seen in April. On the back of more demand with economies attaining normalcy we expect E&P companies to further perform in the short to medium term.





Fertilizers

We expect the fertilizer off take to remain intact in the current scenario as the Government focus would be to ensure food security.

The stocks we have in the Fertilizer space have sustainable earnings and offers double digit dividend yield in current scenario.

Power Generation & Distribution

Our preferred play in power sector is HUBC as we consider it one of the safest and lucrative growth company which offers significant earnings growth on the back of timely investments in key projects. The return on these projects offers a guaranteed ROE and are hedged to both inflation and USD, making it less prone to economic shocks.

Future Outlook

We believe that governments focus is now firmly on reviving economic growth thereby relegating Covid19 to a health issue rather than an economic issue. As lockdowns ease across the world over June-July, the markets should respond positively to a revival of this economic activity. Upcoming events include the government's fiscal budget announcement in mid-June 2020 which will set the tone for further stimulus measures. Fiscal space remains limited, however given the circumstances, we may be in for an expansionary budget via tax reliefs in certain segments. Revival in corporate operations post easing of lockdown and resultant increased demand along with government efforts to restore the economic activity will improve the investor sentiment and market performance.

IMPORTANT DISCLAIMER

This document is intended to be of general interest only and does not constitute legal or tax advice nor is it an offer for shares or invitation to apply for shares in the DIFC domiciled Azimut Pakistan Equity Fund (OEIC) Plc (the "Fund"). Nothing in this document should be construed as investment advice. Opinions expressed are the author's at publication date and they are subject to change without prior notice. Given the rapidly changing market environment, Azimut (DIFC) Limited disclaims responsibility for updating this material.

Subscriptions to shares of the Fund can only be made on the basis of the current Prospectus of the Fund and any supporting fund information. The value of shares in the Fund and income received from it can go down as well as up, and investors may not get back the full amount invested. Past performance is not an indicator or a guarantee of future performance. Currency fluctuations may affect the value of overseas investments. When investing in a fund denominated in a foreign currency, your performance may also be affected by currency fluctuations.

In emerging markets, the risks can be greater than in developed markets. Investments in derivative instruments entail specific risks that may increase the risk profile of the fund and are more fully described in the Fund's Prospectus. If the fund invests in a specific sector or geographical area, the returns may be more volatile than a more diversified fund.

* The average rating of the portfolio is based on ratings issued by S&P, Moody's or Fitch when available. When ratings are not available the rating is defined based on internal classification developed by Azimut Group. The rating criterias may differ from rating agencies public criterias.

The investment activities will be undertaken in accordance with the Shariah Guidelines. As a consequence, the performance of a Fund may possibly be lower than other investment funds that do not seek to strictly adhere to the Islamic investment criteria.. The Shariah Supervisory Board of Amanie Advisors LLC has certified that the Fund is in compliance with the requirements of the Shariah principles.

No shares of the Fund may be directly or indirectly offered or sold to residents of the United States of America. Shares of the Fund are not available for distribution in all jurisdictions and prospective investors should confirm availability with their local Azimut (DIFC) Limited and / or AZ Funds S.A. representative before making any plans to invest.

Any research and analysis contained in this document has been procured by Azimut (DIFC) Limited for its own purposes and is provided to you only incidentally. References to particular industries, sectors or companies are for general information are not necessarily indicative of a fund's holding at any one time. Issued by Azimut (DIFC) Limited, authorized and regulated by the Dubai Financial Services Authority.

Azimut (DIFC) Limited, Central Park Towers, Dubai International Financial Centre, Office Tower, Floor 16, Unit 45.

