

# FATF REVIEW & EQUITY MARKET

Pakistan unlikely to be included in blacklist; Rally in equities seems temporary

Monday, 7 October, 2019

After deeply analyzing the evaluation report of Pakistan issued by Asia Pacific Group (APG), we expect Pakistan would remain in “Grey List” in the upcoming review of FATF scheduled from 13<sup>th</sup> October 2019 to 18<sup>th</sup> October 2019

Improved ties with US government and Pakistan’s enhanced importance with respect to US-Afghan and Saudia-Iran conflicts likely to rescue Pakistan from going into “Blacklist” as the country’s performance is not very satisfactory with respect to FATF’s guidelines

Mainly banks and cements are leading the ongoing stocks’ rally which seems to be over soon amid gloomy economic outlook

## APG Depicted Pakistan’s Performance as “Unsatisfactory”

APG evaluation report has denied the claims of Pakistani authorities that they have made a lot of progress related to FATF guidelines. According to the report, out of 11 effectiveness ratings parameters, Pakistan has “Low” rating in 10 parameters and “Moderate” rating in only one parameter. As far as technical compliance rating is concerned, out of 40 parameters, Pakistan is “Compliant” with only 1 parameter, “Largely Compliant” with 9 parameters, “Partially Compliant” with 26 parameters and “Non Compliant” with 4 parameters. We have done a quantitative analysis (see next page) with respect to these ratings by assigning equal weights to all parameters. According to our calculation, Pakistan has scored 55% marks which will hardly shield it from getting included into FATF’s Blacklist.

## Pakistan Unlikely to be Blacklisted

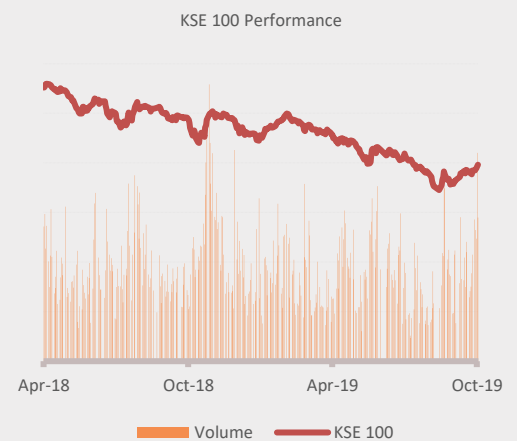
The emerging role of Pakistan in international politics has abruptly changed the dynamics of the country’s international relationships. US president Donald Trump, who once used to curse Pakistan for not being helpful in war against terror, is now praising and acknowledging our efforts and want to engage us in order to resume peace talks with Afghan Taliban. Furthermore, after the realization of PM Khan’s effective communication skills and his relationships with other world leaders, Saudia and US now want Pakistan to be a mediator in Saudia-Iran conflict as well. Given the increased interests of world powers in Pakistan, we expect Pakistan not to be included in FATF’s blacklist even with unsatisfactory performance over FATF’s guidelines. However, In our view, it will remain in greylist unless complied with all 40 technical parameters.

## Ongoing Stocks Rally to be Over Soon

KSE 100 has witnessed a rally of over 2,200 points in last seven consecutive working days amidst the government is weighing the option of allowing builders and developers to invest in construction projects without questioning the source of equity. The initiative will definitely help in ailing the construction sector though, also raises concerns that black money may find its way into the sector. Furthermore, banking sector is also leading the rally as the expectations of rate cut in November 2019 have weekend now amid increased inflation in September 2019. Moreover, the underlining of COAS that the govt. and the army ‘are on the same page’ with respect to the revival of the economy and NAB’s assurance to the business community that its officials will not interfere in the affairs of FBR have also created the positive sentiment for investors. However, we expect the market has already incorporated the impact of all these developments and the ongoing rally probably would not last for a long period amid gloomy economic outlook of the country.

### Key Statistics

<b>Total Effectiveness Rating Parameters</b>	<b>11</b>
Moderate Rating	1
Low Rating	10
<b>Total Technical Compliance Rating Parameters</b>	<b>40</b>
Compliant	1
Largely Compliant	9
Partially Compliant	26
Non Compliant	4
<b>Total Effectiveness Ratings Score</b>	<b>2.0</b>
Pakistan’s Score	1.1
Percentage	54.5%
<b>Total Technical Compliance Ratings Score</b>	<b>4.0</b>
Pakistan’s Score	2.2
Percentage	54.4%



Sources: ACPL Research, APG Pakistan Mutual Evaluation Report, Oct-19

**M. Fawad Naveed**

Phone: (+92) 42 38302028; Ext: 117  
Email: fawad@abbasiandcompany.com

**Effectiveness and Technical Compliance Ratings**

Sr. No.	Effectiveness	Rating	Weight	Score	Final Score
1	Risk, policy and coordination	Low	9.1%	1	0.09
2	International cooperation	Moderate	9.1%	2	0.18
3	Supervision	Low	9.1%	1	0.09
4	Preventive measures	Low	9.1%	1	0.09
5	Legal persons and arrangements	Low	9.1%	1	0.09
6	Financial intelligence	Low	9.1%	1	0.09
7	ML investigation and prosecution	Low	9.1%	1	0.09
8	Confiscation	Low	9.1%	1	0.09
9	TF investigation and prosecution	Low	9.1%	1	0.09
10	TF preventive measures and financial sanctions	Low	9.1%	1	0.09
11	PF financial sanctions	Low	9.1%	1	0.09
	<b>Total</b>		<b>100.0%</b>	<b>2</b>	<b>1.09</b>

Sr. No.	Technical Compliance	Rating	Weight	Score	Final Score
1	Financial institution secrecy laws	C	2.5%	4	0.10
2	National cooperation and coordination	LC	2.5%	3	0.08
3	Money laundering offence	LC	2.5%	3	0.08
4	Confiscation & provisional measures	LC	2.5%	3	0.08
5	Terrorist financing offence	LC	2.5%	3	0.08
6	Record keeping	LC	2.5%	3	0.08
7	Correspondent banking	LC	2.5%	3	0.08
8	Wire transfers	LC	2.5%	3	0.08
9	International instruments	LC	2.5%	3	0.08
10	Extradition	LC	2.5%	3	0.08
11	Assessing risk & applying risk-based approach	PC	2.5%	2	0.05
12	Targeted financial sanctions – terrorism & terrorist financing	PC	2.5%	2	0.05
13	Targeted financial sanctions – proliferation	PC	2.5%	2	0.05
14	Non-profit organisations	PC	2.5%	2	0.05
15	Customer due diligence	PC	2.5%	2	0.05
16	Record keeping	PC	2.5%	2	0.05
17	Money or value transfer services	PC	2.5%	2	0.05
18	New technologies	PC	2.5%	2	0.05
19	Reliance on third parties	PC	2.5%	2	0.05
20	Internal controls and foreign branches and subsidiaries	PC	2.5%	2	0.05
21	Higher-risk countries	PC	2.5%	2	0.05
22	Reporting of suspicious transactions	PC	2.5%	2	0.05
23	Tipping-off and confidentiality	PC	2.5%	2	0.05
24	DNFBPs: Other measures	PC	2.5%	2	0.05
25	Transparency & BO of legal persons	PC	2.5%	2	0.05
26	Regulation and supervision of financial institutions	PC	2.5%	2	0.05
27	Powers of supervision	PC	2.5%	2	0.05
28	Financial intelligence units	PC	2.5%	2	0.05
29	Responsibilities of law enforcement and investigative authorities	PC	2.5%	2	0.05
30	Powers of law enforcement and investigative authorities	PC	2.5%	2	0.05
31	Cash couriers	PC	2.5%	2	0.05
32	Statistics	PC	2.5%	2	0.05
33	Guidance and feedback	PC	2.5%	2	0.05
34	Sanctions	PC	2.5%	2	0.05
35	Mutual legal assistance	PC	2.5%	2	0.05
36	Other forms of international cooperation	PC	2.5%	2	0.05
37	Transparency & BO of legal arrangements	NC	2.5%	1	0.03
38	Regulation and supervision of DNFBPs	NC	2.5%	1	0.03
39	DNFBPs: Customer due diligence	NC	2.5%	1	0.03
40	Mutual legal assistance: freezing and confiscation	NC	2.5%	1	0.03
	<b>Total</b>		<b>100.0%</b>	<b>4</b>	<b>2.18</b>

Ratings: C – compliant, LC – largely compliant, PC – partially compliant, NC – non-compliant

Source: ACPL Research, APG Pakistan Mutual Evaluation Report, October 2019

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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#### RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

#### HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

#### BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com