

Government to sell stakes in OGDC and Pakistan Petroleum

By S Anuradha

SINGAPORE, Jan 10 (IFR) - Pakistan plans to resume sales of shares in state-owned companies after a five-year hiatus, with the hope that recent economic and capital market reforms will prove a draw for investors.

The country's Privatisation Commission is set to hire banks to manage share sales totalling Rs83bn (US\$535m) in Pakistan Petroleum and Oil & Gas Development this month. Both sell-downs are likely to take place in the first half and will be the first sales of state-owned shares since 2015 when the state sold its residual 41.5% stake in Habib Bank for Rs102bn.

Since then, the privatisation programme was dogged by political and economic uncertainty. The country's inclusion into the MSCI Emerging Market Index in June 2017 did not help much in attracting foreign investors because of an extremely low weighting of 0.15% initially, which has now fallen to a paltry 0.03%.

In contrast Pakistan enjoyed a 63% weighting in the MSCI Frontier Markets Asia Index and around 9% weighting in the MSCI Frontier Market Index in December 2016.

"Frontier market investors allocated a large portion of their funds to Pakistan but we have disappeared in the emerging markets universe. It will be a relief if we are downgraded," a Karachi-based ECM banker said.

IMPROVING FUNDAMENTALS

Some market participants, though, have not given up hope.

Ruchir Desai, fund manager at Asia Frontier Capital, said investors are likely to view Pakistan favourably as the country has started work on reforms after a much-needed IMF loan programme that began in the second half of 2019.

"The economic story is improving and foreign investors will possibly look at Pakistan more actively now," Desai said.

Economic indicators have improved. The current account deficit has fallen to around 1.5% of GDP in the first five months of the fiscal year that ends on June 30 2020 versus 6% in 2019.

The improvement in trade competitiveness follows a 40% depreciation of the rupee against the US dollar since the start of 2018.

With interest rates set to fall from the second half of the year, market sentiment will pick up, according to Desai. More importantly, Desai says valuations are very attractive compared to other frontier markets. Pakistan trades at a 2020 P/E multiple of seven while Vietnam trades at 15.8, Sri Lanka at 11.1 and Bangladesh at 9.8. This is despite a 44% rise in the benchmark KSE 100 index from its 52-week low of 28,674 touched on August 16 2019. In addition, Pakistan last week also eased rules for loss-making companies and greenfield projects to access the capital markets. (See People and Markets.)

Still the PP and OGDC sales may not be blowout deals given that both of them are from the defensive energy sector with no major new oil and gas finds adding to their reserves.

"Stocks in the automobile and cement sectors look attractive as they have corrected significantly over the past two years making valuations very attractive with a 2-3 year investment horizon," Desai said.

Two groups comprising local and international arrangers are vying for the PP and OGDC mandates. A consortium of Credit Suisse, Arif Habib and AKD Securities is competing for the PP mandate against CLSA and Alfalah Securities, while the OGDC job is contested by CS/Arif/AKD and Citigroup, HBL and Next Capital.

The government plans to sell a 10% stake in PP, worth up to Rs38bn at current prices. Around 7% of OGDC, currently valued at Rs45bn, will be sold.

The government owns 67.5% of PP and 74.97% of OGDC.

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