NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

Capital Markets Review

March 2014

Stock Market Review

The stock market started off the month on a positive note amid sanguine valuations, positive developments on the peace talks between GoP and Tehreek-Taliban Pakistan (TTP), unexpected healthy flows from Saudi Arabia, above expected earnings & payouts by the selected banks, muted Russia's response against the sanctions over annexation of Crimea and above all healthy mutual funds flows in equities. During the latter half of the month, foreign selling in the selected stocks unnerved the local investors. However, healthy buying by the mutual funds absorbed this foreign selling. Unexpected increase in FX reserves on account of receipts to the tune of US $ 1.5 billion helped mitigate concerns on the external accounts, however the associated sharp appreciation of PKR clouded the outlook of companies where exports make up sizable share of the revenues. During the month, foreign investors' net outflow was recorded at US $ 5 million versus inflow of US$ 10 million during the previous month. Trading activity remained thin with average daily trading volume of 206 million shares. For the month, the market advanced by 5.34% to close at around 27,200 levels lead by the banking sector.

During March, Banking, General Industrials and Automobile & Parts sectors outperformed the market. On the other hand, Oil & Gas, Chemicals, Construction & Materials, and Electricity sectors lagged the market. Sanguine valuations, healthy payouts in the outgoing results season and expectations of gains on the PIB portfolios resulted in the upbeat performance of the banking sector. Optimistic earnings outlook on the expectations of improvement of GP margins and currency gains premised on the depreciation of JPY against Pak Rupee drew investors to the Automobile and parts sector. Foreign selling in key oil and gas exploration companies was a drag on the performance Oil and Gas sector. Subdued earnings & payouts by the selected power companies and challenging near-term earnings outlook kept the investor from power sector. Appreciation of Pak rupee against the US dollar in the backdrop of rising input costs dampened the outlook of the export dependant textile sub-sector resulting in lagged performance of Personal Goods sector.

Currently, the market is valued at 8.7 times estimated earnings and offers 5.8% dividend yield. As per our estimates, corporate earnings are likely to grow at around 20% over the next year. We believe, going forward, key catalysts for the performance of the stock market are inflation & interest rates outlook, foreign investors' activity, foreign capital and financial flows, domestic security situation and developments on structural reforms agenda.

Fixed Income Review

Receipt of US $ 1.5 billion lent much needed support to precarious forex reserves position, increasing the import cover to around 6 weeks. In line with the broader market expectation, SBP maintained the discount rate at 10% in its bi-monthly monetary policy announcement in March. YoY CPI for March 2014 clocked in at 8.5% in line with market consensus. Notable development of the month was sharp recovery of Pak rupee against the US dollar, which closed at PKR 98.5 versus 105 at the beginning of the month. The latest IMF review on Pakistan points to an overall improved economic picture, where IMF recognizes that "economic developments have been slightly better than expected." The IMF has also expressed optimism about the fiscal outlook and external accounts position, however warned that inflation is likely to rebound in coming months. With recent strengthening of Pak rupee against US dollar and further delay in upward revision of gas tariff, we expect inflation to remain anchored in the near-term.

Turning to the money market, in the two T-Bills auctions during the month, MoF accepted Rs 528 billion (realized amount) against the target of Rs 1,000 billion and maturity of Rs 938 billion. The cut-off annualized yields for the last T- Bill auction was noted at around 9.96%, 9.98% and 9.99% for 3, 6 and 12 month tenors respectively. Conversely to the previous trend, T-Bills auction bid pattern skewed towards the 12-month as compared to 3 and 6 months. In PIB auction during the month, an amount of Rs. 535 billion was accepted against the target of Rs. 60 billion at a cut-off yield of 12.1%, 12.55% and 12.9% in the 3 year, 5 year and 10 year respectively. The bid pattern showed major tilt towards 3 year tenor followed by 5 and 10 year tenors. We have increased the maturities of our fixed income funds based on our interest rate outlook.

Our Contacts

Contact our Investment Consultant for free Investment advice
Helpline (Toll Free): 0800-20001 or UAN: 111-111-632 (nfa)
Email: info@nafafunds.com
www.nafafunds.com