NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

February 14, 2020

Sajjad Anwar, CFA
Chief Investment Officer

During the week ending February 14th, amid abysmally low trading volumes, amplified volatility was witnessed at the local bourse as the benchmark KSE-100 Index managed to close the week with a paltry gain of 100 points (0.2%) on a week-on-week basis. In the wake of second review of the visiting IMF team under the Extended Fund Facility (EFF), the market started off the week on a faltering note as the Index fell by a hefty 847 points (2.1%) on the first trading day of the week. However, media talks of an understanding between the government and the IMF team on the downward revision in the revenue target sparked a strong rebound in equities during the subsequent two trading days that helped the market to close the week with a marginal gain.

Regarding the notable developments for market during the week, despite a massive 46% YoY increase in mark-up payments, amid a hefty 39% growth in revenue, the budget deficit for 1HFY2020 clocked-in at 2.3% versus 2.7% for the same period last year. Unabated interest of foreign investors in the government securities has taken the total inflow to USD 3.17 billion as of February 13th. In the T-Bills auction held on February 12th, the cut-off yield on 1-year tenure increased by 39 basis points to 13.52% from 13.13% while, for other tenures, the yields remained almost unchanged. The visiting IMF team issued end-of mission statement that states that "Considerable progress has been made in the last few months in advancing reforms and continuing with sound economic policies. All end-December performance criteria were met, and structural benchmarks have been completed".

Looking at the participants-wise activity during the outgoing week, Insurance Companies, Other Organizations, and Individuals were major buyers in the market, accumulating fresh positions to the tune of USD 9 million and USD 6 million, USD 2 million, respectively. On the contrary, Foreign Investors were main sellers in the market, liquidating shares worth USD 11 million. Similarly, Mutual Funds and Companies each sold shares amounting to USD 3 million.

What lies ahead for the stock market? We acknowledge that the market may exhibit amplified volatility periodically, amid policy developments; however, we stick to our view that it holds potential to deliver robust return in 2020, and beyond. From the valuation perspective, after around 7% correction from its recent peak of 43,220 points hit on January 13th, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.8 and offers about 6% dividend yield. Notwithstanding slowdown in the economic activity, as per our estimates, corporate earnings are expected to grow at double-digit rate for 2020 and 2021. Amid ongoing drive for the documentation of economy and widening of tax net, odds have increased for abundant local liquidity to enter the market. External account, the Achilles' heel of economy has improved significantly as the Current Account Deficit (CAD) for 1HFY2020 has clocked-in at USD 2.2 billion versus USD 8.6 billion for the same period last year. We also expect net foreign buying in the market during 2020 as the ongoing economic stabilization under the IMF Extended Fund Facility (EFF) takes root.

The point being: We advise investors to consolidate their position in the stock market, keeping their long-term investment objectives in mind as the stock market is well poised to deliver strong returns in 2020, and beyond.