

Weekly Stock Market Commentary

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During the week ending July 10th, the market continued the positive momentum, again closing on the positive note on all five trading days, with the benchmark KSE 100 Index rising by 1,139 points (3.2%) on a week-on-week basis. This bullish trend at the local bourse is attributable to positive developments on the public health and economic fronts. Covid-19 new infection cases in the country have gradually declined since last month and fatalities have decreased significantly. Moreover, the recovery ratio has increased to 60% from 42% in June. To provide further relief to the export sector, the SBP has reduced mark-up rate on investment under Temporary Economic Refinance Facility (TERF) to 5% from 7% and on Long-Term Financing Facility (LTFF) to 5% from 6%. After sizeable inflows from the Asian Development Bank, World Bank and Asian Infrastructure Investment Bank and loan disbursements from Chinese banks, the SBP's FX reserves increased to USD 12 billion during the week ending July 3rd after falling below the psychological level of USD 10 billion in week ending June 19th. Earlier, the Current Account balance for May 2020 showed a surplus of USD 13 million. This rise in SBP's FX reserves and better than expected CAD lent much-needed stability to the Rupee. The approval of Federal Budget FY2021 on June 29th, despite the opposition's vow to not let it sail through the lower house put to end potential uncertainty in the domestic politics.

In terms of participant-wise activity during the week, Foreign Investors continued to remain main sellers in the market, offloading positions worth USD 9 million. Alongside, Banks/DFIs sold stocks worth USD 2 million. On the contrary, net buying was witnessed mainly from Insurance, Companies, and Mutual Funds to the tune of USD 5 million and USD 3 million, USD 2 million, respectively.

What lies ahead for the market? We reiterate our view that the market would take cue from the path of virus and development of an effective & universal vaccine. More than 140 vaccines are in the different stages of the development with many in the advanced stage. In terms of treatment, Remdesvir is helping some, and the steroid Dexamethasone is preventing deaths among the severely ill. Encouragingly, during July, infection cases in Pakistan have regressed. According to some studies, Coronavirus cases are expected to peak in July.

From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.4x against the 10-year average of 8x. The market also offers a healthy dividend yield of 5.8%. In our view, the stock market holds potential to deliver strong returns in the medium to long-term given: (i) attractive valuations as captured in the Earnings Yield of 13.5% versus 10-year PIB yield of 8.7%; (ii) benign near-term inflation outlook and loose monetary conditions; (iii) barring short-term blip, a healthy corporate earnings growth over the next 2-3 years; (iv) plentiful local liquidity; and (v) manageable Current Account Deficit (CAD). We advocate that investors with medium to long-term investment horizon should focus on an end to the public health crisis; and ensuing economic recovery and pick-up in corporate profitability in FY21. Therefore, we advise investors to consolidate position in equities, keeping their long-term investment objectives in mind.