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Weekly Stock Market Commentary

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Sajjad Anwar, CFA
Chief Investment Officer

During the week ending August 21st, ahead of the future contract rollover week, some selling pressure was witnessed at the local bourse with the benchmark KSE 100 Index declining by 669 points (1.7%) on a weekly basis. We see this as a much-needed pause /consolidation after a strong rally off the market low it hit on March 25th, 2020. What caused this recent lacklustre performance of the market? The Supreme Court's verdict pertaining to Gas Infrastructure Development Cess (GIDC) on Thursday, August 13th, directing recovery of Rs. 417 billion GIDC payables from the industries weighed on the market sentiment. Rumours of souring Pak-Saudi relations after the announcement of a deal between the UAE and Israel for normalization of ties also disconcerted the market. The Index heavy-weight select Oil & Gas Exploration stocks came under pressure as the Cabinet Committee on Privatization on Friday approved divestment of up to 7% of the government's stake in Oil and Gas development Company (OGDCL) and up to 10% in Pakistan Petroleum Limited (PPL) through public offering.

Looking at the participant-wise activity during the week, Insurance Companies and Individual Investors stood as the largest buyers in market, accumulating fresh positions worth USD 8 million and USD 7 million, respectively. On the other hand, Banks/DFIs and Foreign Investors were seen as major sellers, liquidating their positions to the tune of USD 9 million and USD 4 million, respectively.

Looking ahead, we hold on to our positive view on the stock market for the medium to long-term. On the healthcare front, Alhumdulillah, the number of active cases of the Covid-19 in the country has further dropped to 10,600 from the peak of 109,000. Researchers around the world are developing more than 165 vaccines against the coronavirus, 32 vaccines are in human trials, eight are in large-scale efficacy test, and two are approved for limited or early use.

On the economic front, despite recent spike, inflation as measured by the CPI for FY21 is expected to moderate to 7-8% after clocking-in at 10.7% in FY20. To mitigate the impact of the Coronavirus-induced disruption to the economy, the SBP has slashed the Policy Rate by 6.25% to 7%. Helped by resilient workers' remittances and a relatively large contraction in the imports vis-à-vis exports, the Current Account Deficit (CAD) has narrowed to USD 3 bn (1.3% of the GDP) in FY20. Workers' remittances for July stood at USD 2.77 billion, the highest level for a single month. Similarly, helped by a healthy 25% growth in exports and a paltry 0.4% decline in imports on a month-on-month basis, the trade deficit for July 2020 clocked-in at USD 1.7 billion versus USD 2.1 billion in June 2020. We anticipate the CAD to widen to a still manageable level of USD 4.4 bn (1.6% of the GDP) in FY21.

From the valuation perspective, the stock market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7.9x and Price-to-Book value of 1.0x. The market also offers a healthy dividend yield of 5.3%. While Coronavirus induced slowdown in the economic activity would impact corporate profitability in the short-term, we expect strong corporate earnings growth over the next two to three years. The development on the policy, economic, and healthcare fronts may cause large swings sporadically, we maintain our positive view on the stock market over the medium to long-term.

Bottom Line: For investors with medium to long-term investment horizon, we see any dips in the market as an opportunity to build position in equities.