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Weekly Stock Market Commentary

January 01, 2021

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During the week ending January 1st 2021, positivity was witnessed at the local bourse as the benchmark KSE 100 Index rose by 1,018 points (2.3%) on a weekly basis. The news of agreement between the government and IPPs on schedule for overdue payment of Rs. 450 billion triggered heavy buying in the Oil and Gas Exploration & Production, Power Generation & Distribution, and OMC sectors, that led to a gain of 679 points on Friday to finish the week at the Index level of 44,435. At the outset of the week, expectation of extension of fixed rate tax regime for the construction sector and exemption for builders announced earlier revived investors' interest in the Cement and Steel sectors. Shifting focus of the market from the emergence of new strain of the Coronavirus towards the start of vaccination in the developed countries instilled hope for the end of the Coronavirus pandemic, and earlier than expected acceleration in the global economic activity.

Looking at the participant-wise activity during the week, Companies emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 41 million. Individuals, Mutual Funds, and Insurance Companies stood as other major buyers of the equities, amounting to USD 20 million, USD 10 million, and USD 6 million, respectively. On the contrary, Foreign Investors remained the largest sellers in the market, trimming their positions by USD 46 million. Similarly, Banks/DFIs were other main sellers, liquidating their positions to the tune of USD 32 million.

Going forward, we reiterate our positive outlook on the stock market given improving economic prospects and attractive market fundamentals. The economic activity has picked up pace in the recent months, post re-opening of the economy from the lockdown. Large Scale Manufacturing (LSM) data also corroborates pick-up in industrial activity. Inflation as measured by the CPI moderated to 8% on a year-on-year basis for December 2020 versus 8.35% in November 2020. In our base case scenario, we expect the reversal of the monetary easing from the 4th quarter of FY21. The external account continued the improving trend as the current account surplus of USD 1.64 billion was recorded during July-November 2020 compared with a Current Account Deficit (CAD) of USD 1.75 billion during the same period last year. We expect the CAD to widen to a still manageable level of USD 1.6 billion (0.6% of the GDP) during FY21 due to pick-up in economic growth.

From the valuation standpoint, the stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.2x, versus 10-year average of 8.5x. Earnings Yield of 13.9% offered by the market looks appealing compared with 10-year PIB yield of 10%. The market is valued at a P/B of 1.1x compared to the long-term average of 1.7x. The market also offers a healthy dividend yield of 5.1%. Corporate earnings are expected to grow at a double-digit rate over the next two to three years. Low interest rates, robust corporate earnings growth rate, and manageable current account deficit make a strong case of the market rerating.

Taken together, in our view, the stock market is well poised to deliver robust returns over the medium to long-term. Our bullish view on the market is supported by: (i) attractive market valuation as captured in the attractive forward Price-to-Earnings multiple of 7.2x; (ii) robust corporate earnings growth for the next 2-3 years; (iii) a strong case for flow of funds toward equities; and (iv) accommodative monetary policy regime. Therefore, we advise investors to build positions in the market through our NBP stock funds, which have a superior long-term performance track record.