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Weekly Stock Market Commentary

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During the outgoing week, the stock market remained directionless, trading in a narrow range of around 350 points. At the close of the week, the benchmark KSE 100 Index managed to increase by a paltry 119 points (a mere rise of 0.3%) on a week-on-week basis. On one hand, the quarterly corporate result season kicked off during the week, wherein the companies continued to post robust results, as expected amidst strong demand and favorable business dynamics. On the other hand, the rising number of Covid-19 cases perturbed the investors. During the week, Pakistan's total liquid foreign exchange reserves crossed USD 23 billion mark following inflows from the sale of Eurobond. Likewise, the reserves held by SBP also surpassed USD 16 billion, the highest level since July-17. Though LSM number reported during the week, for the month of Feb-21 came off at 4.85%, output of large industries still grew by 7.45% on YoY basis during 8MFY21. Auto numbers for the month of March-21 were also released during the week, which continue to show robust output (and demand) of the segment. Moody's in its latest report said that IMF's additional Special Drawing Rights (SDRs) allocation would provide some meaningful support to Pakistan, as it would enhance the allocation to the country by another USD 2.5 to 3 billion.

In terms of trading activity during the week, Companies emerged as the largest sellers in the market, squaring off their equity holdings by USD 9 million. Likewise, Insurance Companies, and Mutual Funds each trimmed their positions to the tune of USD 2 million. Foreigners' outflow during the week was only USD 1 million. On the other hand, Individuals and Other Organizations were the main buyers in the market, with net inflows amounting to USD 10 million and USD 4 million, respectively.

Going forward, we reiterate our sanguine outlook on the stock market. Frequently released economic data shows that the economic recovery is on firm footing. Large scale manufacturing data also validate strong rebound in output of large industry thus far. And based on the initial assessment, bumper wheat crop is expected this season owing to favorable weather and higher support prices. As a result, the GDP looks set to grow by around 2.5% in FY21 after Coronavirus-induced contraction of 0.4% in FY20. External account has improved significantly as we expect a manageable CAD of around USD 1 billion during FY21; FX reserves also remain in comfortable position after issuance of Eurobonds of USD 2.5 billion & receipt of IMF tranche of USD 500 million; and fairly valued PKR as reflected by the latest REER reading of 97.1. Though recent surge in Covid-19 cases and rising infection ratio is a potential threat to the ongoing economic recovery, we reckon that the valuable experience from the past, and the medical advances/knowledge have allowed the authorities to opt for more targeted controls to restrict the spread of the virus. Thus, we think that this time around, the economic cost of the restrictions/smart and targeted lockdowns will be limited.

From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.6x, versus 10-year average of 8.4x. The stock market also offers a healthy dividend yield of 5%. Earnings of the corporate listed sector are well poised to grow at double-digit rate over the next two to three years, based on our estimates.

We hold on to our view that the market is well poised to deliver robust returns in CY21, and beyond driven by: (i) double-digit corporate earnings growth rate over the next two to three years; (ii) a healthy 5% dividend yield; and (iii) some P/E re-rating. Therefore, investors with medium to long-term horizon are advised to build position in equities through our NBP stock funds.