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Weekly Stock Market Commentary

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After listless performance during the last couple of weeks, some positivity was witnessed at the local bourse during the holiday shortened outgoing week ending May 7th as the benchmark KSE 100 Index rose by around 912 points (an increase of 2.1%) on a week-on-week basis. The market started off the week on a faltering note, as the Index declined by 186 points (0.4%) on Monday, May 3rd. However, positivity returned to the market in the subsequent trading days of the week as the Index surged by a cumulative 2.5% from Tuesday to Thursday. However, overall, the stock market performance remained lackluster during the last couple of months despite robust earnings posted by companies across various sectors, such as cement, engineering, banks, autos, glass & ceramics and OMCs in the ongoing corporate results season. We reckon that the fear of another full-blown lockdown in the country in the wake of recent spike in the Coivd-19 cases spooked investors who preferred to opt cautious approach. The country is currently passing through the third wave and though the daily infection ratios and fatality rates are at elevated levels, we still believe that the probability of nationwide lockdown and the resultant major damage to the economic activity is low.

In terms of trading activity during the week, Insurance Companies, Individuals, and Banks/DFIs emerged as main sellers in the market as each offloaded equities to the tune of USD 3 million. On the contrary, Other Organizations and Companies remained the major buyers with net inflows of around USD 8 million and USD 2 million, respectively.

Going forward, we hold a positive view on the stock market driven by improving economic outlook, attractive stock market valuations, easier monetary conditions, comfortable external account position, and promising corporate earnings prospects. On the economic front, GDP is well poised to grow at around 2.5-3% during FY21 driven by uptick in agriculture sector and buoyancy in the manufacturing sector. External account is also favorably placed as 9MFY21 current account number stands at a surplus of around USD 959 million. To augment Balance of Payment (BoP) position, the recently introduced Roshan Digital Account (RDA) has also achieved great success. The recent surge in the Covid-19 cases and rising infection and fatality ratio are a potential threat to the ongoing economic recovery, however the authorities have opted more targeted controls to contain the spread of this pandemic. Thus, we reckon that this time around, the economic cost of the restrictions/smart and targeted lockdowns will be limited.

On the market valuations, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.3x, versus 10-year average of 8.4x. The stock market also offers a healthy dividend yield of 6%. 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.

Taken together, the stock market holds potential to deliver robust return in CY21, and beyond driven by: (i) double-digit corporate earnings growth rate over the next two to three years; (ii) a healthy 6% 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.