

Weekly Stock Market Commentary

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During the outgoing week, the market sentiments remained upbeat with the benchmark KSE 100 Index surging by around 1,211 points (a hefty gain of 2.6%) on a week-on-week basis. In the process, the Index closed the week above the psychological level of 47,000 (highest level since June-17). To put things into perspective, the market (KSE 100 Index) has surged by 37% during FYTD through May 28th 2021 and it has delivered a remarkable return of 73% from its bottom hit in March 2020. The renewed optimism at the local bourse is attributable to developments on the healthcare and economic fronts. Encouragingly, coronavirus situation in the country has improved significantly as infection ratio has fallen to 4.4% from a high of 11.6% recorded on April 20th 2021. The market celebrated the 3.94% GDP growth estimates for the year 2020-21 based upon an estimated 2.8% growth for Agricultural, 3.6% for Industrial, and 4.4% for Services sectors, as per the planning ministry. The statement of Finance Minister, Shaukat Tarin for no new taxes and no power tariff hike in the upcoming budget was also well received by the market. Looking ahead, we reiterate our view that the prevailing market valuations under-appreciate improvement on the economic & corporate fundamental fronts. Therefore, we see current market levels as good entry point for investors with medium to long-term investment horizon.

In terms of trading activity during the week, Broker Proprietary Trading and Other Organizations emerged as main buyers in the market as each added equities to the tune of USD 11 million and USD 8 million, respectively. On the contrary, Individuals and Mutual Funds stood as the major sellers in the market, liquidating their equity positions by USD 10 million and USD 7 million, respectively.

What lies ahead for the market? We maintain our sanguine view on the market driven by: (i) improving economic outlook; (ii) attractive stock market valuations; (iii) easier monetary conditions; (iv) comfortable external account position; and (v) promising corporate earnings prospects. On the economic front, despite raging pandemic, the economy is on the firmer footing. The buoyancy in the manufacturing sector is corroborated by a hefty 8.99% increase in the overall output of Large-Scale Manufacturing Industries (LSMI) for 9MFY21 compared to same period last year. The recovery is also expected in the agriculture sector that has benefited from higher support prices and subsidies on fertilizer, bank credit and other farm inputs (seeds, tractors etc). External account is also favorably placed as 10MFY21 current account number stands at a surplus of around USD 773 million compared to a Current Account Deficit (CAD) of USD 4.66 billion in the corresponding period last year.

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. On a relative basis, the Earnings Yield of 15.15% offered by the stock market also looks appealing compared to 9.91% yield on 10-year PIBs. In addition to this, the stock market also offers a healthy dividend yield of 5.5%. Based on our estimates, earnings of the corporate listed sector are well poised to grow at double-digit rate over the next two to three years. In line with the market consensus, the SBP left the Policy Rate unchanged at 7% in its bi-monthly Monetary Policy review. More importantly, looking ahead, *"the MPC expects monetary policy to remain accommodative in the near term, and any adjustments in the policy rate to be measured and gradual...."*

The Bottom Line: Taken together, the market holds potential to deliver robust returns in CY21, and beyond driven by: attractive valuations as captured in the Price-to-Earnings (P/E) multiple of 6.6x; a decent double-digit corporate earnings growth rate expected over the next two to three years; and a healthy 5.5% dividend yield. Therefore, investors with medium to long-term horizon are advised to build position in equities through our NBP stock funds.