NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

September 17, 2021

Sajjad Anwar, CFA
Chief Investment Officer

During the week ending September 17th 2021, the stock market remained under pressure as benchmark KSE 100 Index fell by 562 points (a decline of 1.2%) on a week-on-week basis. Despite attractive market fundamentals, what caused this lackluster market performance? The PKR remained under pressure during the week as it traded at an all-time intra-day low of 170.50 on Thursday before recovering to close the week at 168.26. This pressure on Rupee can be attributed to widening Current Account Deficit (CAD) that clocked-in at USD 1.5 billion in August 2021 versus USD 800 million in the previous month. Foreigners remained sellers at the local bourse linked to the MSCI's decision to reclassify Pakistan from Emerging Market (EM) to Frontier Market (FM) that may lead to an outflow of around USD 100-150 million from EM funds, according to various estimates. We also hear investors expressing concerns on the corporate earnings outlook due to rising raw material & energy costs and weakening PKR. However, we maintain our sanguine view on the equities that is premised on the continuation of economic growth momentum, upbeat business confidence, healthy corporate profitability, easier financial conditions, and more importantly attractive market valuations.

Regarding participant-wise activity during the week, Individuals remained the largest buyers in the market, accumulating fresh positions to the tune of USD 17 million. Alongside, Banks/DFIs emerged as other main buyers, adding shares worth USD 7 million. On the other hand, Foreigners remained the largest sellers, offloading their equity holdings by USD 11 million. Likewise, other major sellers in the market were Broker Proprietary Trading and Companies as each liquidated shares to the tune of USD 6 million.

What to expect from the stock market going forward? We reiterate our view that market is well poised to deliver robust returns in FY22. Our sanguine view on the market is underpinned by: (i) attractive market valuations as captured in the undemanding Price-to-Earnings multiple of 6x; (ii) upswing in the economic activity; (iii) easier financial conditions; and (iv) healthy corporate profitability.

On the economic front, we don't see any major disruption to the ongoing growth momentum from the recent currency devaluation. More importantly, companies are gradually passing on the increasing input costs due to robust demand. In addition to this, from the profitability perspective, many Index heavy sectors such as Oil & Gas Exploration, Textile Composite, and Technology & Communication are net beneficiary of currency devaluation and other sectors such as Commercial Banks and IPPs are currency neutral. Regarding external account, unlike the past episodes, this time around the central bank seems prepared to better manage the pressure on the Balance of Payment emanating from widening CAD. Since May 2021, the SBP has let the PKR devalue by around 10% that clearly indicates that the central bank is prepared to use this policy tool to contain import-based demand pressure.

Foreigners have been large sellers in the stock market for the last few years and their outflows were easily absorbed by the local investors, notably Individuals and Insurance Companies. Therefore, any foreign selling at these market levels would not materially impact the market. We believe that in the long run the reclassification to Frontier Market from Emerging Market may turn out to be beneficial for Pakistan in terms of foreign portfolio investment. From the fundamental standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.0x, versus 10-year average of 8.3x. The market also offers a healthy dividend yield of 5.5%. We expect continuation of prevailing accommodative monetary policy with a gradual and measured increase in the Policy Rate, going forward.

Taken together, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.