

Weekly Stock Market Commentary

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During the outgoing week ending November 5th, 2021, positivity was witnessed at the local bourse, that extended the gains of the previous week as the benchmark KSE-100 Index surged by 1,111 points (an increase of 2.4%) on a week-on-week basis. The market started off the outgoing week on a strong note as the Index advanced by a hefty 790 points on Monday, November 1st, 2021. This positivity at the local bourse is attributable to robust earnings announcements in the undergoing corporate results season and USD 4.2 billion Saudi financial support to Pakistan that include USD 3 billion safe deposit for one year and USD 1.2 billion deferred oil payment facility, announced last week. The market sentiment was also boosted by the recent strengthening of the Pak Rupee versus US Dollar that closed the week at around 170. An end to a 10-day long protest by a religious party was also seen positively by the market participants. However, as we see it, market gains were capped by the delay in announcement of successful completion of the 6th review by the IMF under the EFF.

Regarding participant-wise activity during the week, Foreigners remained the largest sellers in the market, liquidating their equity holdings to the tune of USD 11 million. Alongside, Mutual Funds and Banks / DFIs sold shares worth USD 6 million and USD 4 million, respectively. On the contrary, Individuals emerged as the largest buyers, adding their equity positions by USD 14 million. Likewise, Insurance Companies and Broker Proprietary Trading stood as other major buyers of equities amounting to USD 6 million and USD 3 million, respectively.

Going forward, we maintain our sanguine view on the stock market driven by: undemanding market valuations; robust economic growth; strong corporate profitability expected over the next two years; plentiful market liquidity; and easier financial conditions. We believe that the recent currency devaluation is unlikely to derail the ongoing growth momentum. The policy makers seem well prepared to better navigate the pressure on the Balance of Payment (BoP) position by deploying the right mix of the available policy tools. We strongly believe that the IMF and Pakistan would soon reach staff level agreement. The successful completion of the review will pave the way for the release of the USD 1 billion from the IMF and facilitate flows from other multilateral agencies such as the Asian Development Bank, World Bank, and Islamic Development Bank.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6x versus 10-year average of 8.3x. The market also offers a healthy 5.5% dividend yield. We expect healthy corporate earnings growth over the next two years as companies are gradually passing on the increasing input costs to maintain profit margins due to resilient consumer demand. As cited by the SBP in its last monetary policy statement in September, we anticipate a gradual and measured increase in the Policy Rate, going forward.

Taken together, the market is well poised to deliver a healthy double-digit return in FY22, and beyond. Therefore, investors with medium to long-term investment horizon are advised to build position in the stock market through our NBP stock funds.