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The outgoing week remained lackluster for the stock market. Not only the volumes and value traded remained thin, the market remained directionless and traded in a very thin range throughout the week. At close of the week, the benchmark KSE-100 index was down by 404 points, translating into WoW decline of 0.9%. Since the start of CY22, the market is up by around 2.4%.

The start to the week was frail as PSX took cue from the weakening international markets, declining by 435 points on Monday. Heightened tensions between Ukraine and Russia over the possibility of break out of war unnerved the market participants who opted to remain on the sideline. The mounting tensions also propelled the crude oil prices to the highest level since 2014, just a few dollars short from the dreaded \$100/bbl level. This further agonized investors as the crude oil import remains the largest component in term of country's trade bill. As the week progressed, news of de-escalation and re-escalation of Ukraine situation kept the market in a range. During the week, due to the ongoing upcycle in crude oil prices, the government raised petrol and diesel prices by around PKR 12 / 9.5 per liter respectively, sending the respective prices to record high, stoking inflation concerns of the market participants. Remittance numbers for the month of January-22 were released during the week, which undershot the market expectations, as the inflows clocked in at USD 2.14 billion, the lowest receipts since Aug-20 (on a MoM basis, the decline is around USD 375 million). The government on Thursday passed amended Weighted Average Cost of Gas (WACOG) Bill that gives Ogra the right to revise the price of local and imported gas without giving notice to the public & without holding public hearing. If implemented in true spirit, it will go a long way to arrest & resolve the menace of gas circular debt in the country. LSM numbers for 1HFY22 were also published during the week. As per the FY06 base year, the LSM growth in 1H was recorded at 3.4%. However, with the new base year of FY16, the growth during the same period jumps up to 7.4%.

In terms of trading activity during the week, Banks/DFIs and Individuals remained the main buyers in the market as they increased their positions by USD 5 million and USD 2 million, respectively. On the other hand, main sellers in the market were Mutual Funds and Foreigners, with net outflows amounting to around USD 5 million and USD 2 million, respectively.

Looking at stock market outlook for CY22, we reiterate our favorable view on the market, whereby the market is expected to provide around 15-20% upside during the year. Our liking for the stock market is underpinned by strong profitability of corporate listed space as evidenced by robust results seen in the ongoing result season, and undemanding valuations. And as highlighted earlier, the inclusion of Pakistan in MSCI FM indices will likely bring inflows of around USD 40 million, as per various estimates, which will provide much needed fresh liquidity in the market and may trigger strong price performance. Other than that, we expect continuation of institutional liquidity to keep pouring in the market. After many years, we have seen Banks turn as net buyers, which is a good omen for the market. IMF program has also been restored and subsequently the government is eyeing further flows from the international debt market, along-with the resumption of flows from other multilateral agencies, such as World Bank, ADB and IDB. These will buttress the reserves and lend stability to PKR, which has also been a cause of concern for the market. Lastly, any sustained improvement on the external side due to softening of demand or any commodity price decline will act as a key catalyst.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.2x versus 10-year average of 8.0x. The market also offers healthy dividend yield in excess of 6%. As we see it, the recent market valuations are equivalent of the crisis eras. Therefore, given a strong investment case for equities, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.