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Weekly Stock Market Commentary

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During the short outgoing week ending 5th May, the stock market posted gains on a week-on-week basis, as the benchmark KSE-100 increased by 661 points (up by 1.6%).

During the outgoing week, the market continued to operate in a positive territory. The week started off on a strong footing, gaining 347 points on Monday. Throughout the week, the index closed in positive note, reflecting improved investors' sentiments. During the week, bulk of the index gains were contributed by Banking and Cement sector stocks and the key catalysts were the announcement of strong financial results and buybacks during the week. The sponsors of HBL (AKFED) expressed their intent to acquire additional shares of HBL from open market by utilizing accumulated unrepatriated dividends of PKR 3.5 billion, that sent a strong signal to the market. The same was the case for Lucky Cement, which announced its second back to back stock buy-back plan of around 23.8 million shares, after the completion of first buy back of 10 million shares. This triggered strong price performances in the companies, and its spillover impact was visible in other companies in the sectors, as investors doubled down their bets. Trade deficit figures were released for the month of April, which clocked-in at USD 829 mn for the month (lowest deficit in last 12 years), a drop of 78% YoY, led by a sharp decrease in imports of 56% YoY. This lent further support to investor sentiments. Consumer Price Index (CPI) readings were also released during the week, which reached another high at 36.4%, albeit slightly below industry expectations. Moreover, the government decided to keep petrol prices unchanged for the next fortnight while reducing the prices of HSD and Kerosene Oil by PKR 5 and PKR 10, respectively. On the IMF front, no significant progress was made, and the negotiations remained in dead-lock. Reports suggest that IMF is still looking to attain additional financing agreements from AIIB and World Bank, which would help to support the country's financing gap. In addition, the recent reports also suggest that IMF is preparing to discuss the key targets for the budget of 2023-2024, which could further delay the Staff Level Agreement (SLA). Lastly, the FX reserves of the country continue to be at precariously low levels, clocking-in at USD 4.46 bn, providing an import cover of around 1 month.

Looking ahead, we acknowledge heightened economic risks emanating from delay in resumption of IMF program, amidst abysmally low FX reserves held by SBP and runaway inflation. The under-target tax collection during April and as well as 10MFY23, by around PKR 100 bn & PKR 380 bn, respectively, is another challenge for the authorities. The political quagmire and impasse between state institutions and the government is further fueling the economic incertitude & is taking toll on both economic indicators and as well as stock market performance. Although some tangible gains have been made on IMF front, as the two gulf nations have stepped up their support and confirmed their commitment to IMF directly, the SLA is still not in sight, owing to various reasons, which is also agonizing investors. The differences over the external financing gap remains a key issue, the resolution of which should fast-track the SLA.

Having said this, we also find it pertinent to highlight that despite challenges facing the economy, the corporate profitability and its outlook remains robust and the ongoing 1QCY23 results reaffirm this view, as cumulative profits announced so far have shown a yearly growth of around 15-18%. The ongoing wave of buyback and stock purchases by leading corporates and sponsors in their respective industries also remain key catalysts which have strengthened investors' confidence in select companies and sectors. At the same time, it has been a source of much needed liquidity for the market.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.8 times (earnings yield of around 26.3% as against 10-yr PIB yield of 15.1%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.