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Weekly Stock Market Commentary

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During the volatile outgoing week ending 12th May, the stock market posted losses on a week-on-week basis, as the benchmark KSE-100 fell by 754 points (down by 1.8%).

The outgoing week started on a negative note, breaking a 13-day streak of positive sessions and shedding 475 points due to negative news flow regarding the revival of the IMF program that disappointed investors and led to profit selling across the board. The comments made by the ratings agency, Fitch also disconcerted market participants. Fitch pointed out that the country is facing a substantial debt payment of USD 3.7 bn during the months of May and June. It also highlighted that elevated debt payments underscore the crucial need for Pakistan to resume its bailout program with IMF that has been stalled since November last year. The negative momentum continued on the next day, and intense selling pressure was witnessed towards the end of the trading session after reports surfaced that the PTI chairman & former prime minister Imran Khan was arrested in the Al-Qadir Trust Case by the National Accountability Bureau (NAB). The market continued to remain in the negative territory as protests broke out in major cities, and the rupee shed its value by around PKR 14 against USD. However, some positivity was witnessed on Thursday, as investors took cue from reports that the IMF remains engaged with Pakistan for the 9th tranche of stalled program. The market opened in the green zone on Friday after Supreme Court ordered Imran Khan's immediate release and scheduled a hearing in Islamabad High Court. The investors breathed a sigh of relief as the court announced two weeks of bail for Imran Khan on all charged cases. The rupee also recovered the lost ground, settling at PKR 285/USD. On the IMF front, the talks continued to be at a standstill, and no significant progress was made. Finance Minister Ishaq Dar insisted that Pakistan would not default on any foreign liability and the repayments worth USD 3.7 bn would successfully be made, while the IMF stated that the country is going through a challenging situation and needs additional financing commitments. Other developments during the week included the release of the remittances data for the month of April 2023, showing a 13% MoM decline, clocking-in at USD 2.2 bn. Lastly, the FX reserves of the country remained at a low level of USD 4.38 billion, providing an import cover of around one month.

Going forward, we recognize the heightened economic headwinds caused by the continued delay in resumption of the IMF program, given the woefully inadequate foreign exchange reserves held by the State Bank of Pakistan and unabated increase in inflation. Additionally, authorities face the challenge of the tax collection shortfall, as they missed their target by approximately PKR 100 billion and PKR 380 billion during April and the first ten months of the fiscal year 2023, respectively. The ongoing political unrest within the country, coupled with the persistent conflict between the government and opposition, is exacerbating economic uncertainty and adversely affecting both economic metrics and stock market returns. 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, corporate profitability & 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.