

Weekly Stock Market Commentary

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The outgoing week ending 7th July witnessed celebration at the bourse, with the benchmark KSE-100 soaring by 6.6% on a week on week basis.

The outgoing week kicked off on a celebratory note, recording the highest ever daily increase in terms of index points (2446.3 points), which translates to a single day gain of 5.9%, as investors celebrated the signing of long-awaited Staff-Level-Agreement (SLA) between IMF and Pakistan. The new USD3.0 bn Stand-By-Arrangement (SBA) is for a period of nine months, and is a significant positive development, given the heightened concerns surrounding the short-term external account outlook. The IMF has also taken consent of various political parties, including PTI, on the SBA, and the board level approval is expected Mid July. Following the announcement of the agreement, Pakistan's dollar bonds also rallied in the international market, with the April 2024 bond soaring to nearly 80 cents as opposed to their low of about 40 cents, a gain of almost 100%! On Thursday this week, The KSE-100 Index finally managed to cross and close above 44,000 points after a period of 14 months, driven primarily by buying from a large state institution, as it looks to gradually increase its equity allocations. Investors also celebrated the disbursement of funds to Independent Power Plants (IPPs) by the Central Power Purchasing Authority (CPPA). Moreover, during the week, the rupee strengthened by PKR 8 against the dollar, settling at PKR 277 in the interbank market. Other developments during the week included the release of monthly inflation data whereby the inflation for the month was recorded at 29.4%, easing off from a historic high of 38% last month. Furthermore, the trade deficit narrowed by 43% to USD 27.54 bn during the fiscal year 2022-23 (July-June) as compared to USD 48.35 bn during the same period of last year. The government kept the petrol prices unchanged for the next fortnight, and increased the price of HSD by PKR 7.5/litre. The week also saw a positive movement in the FX reserves of the country, which increased by about USD 1 bn to USD 4.5 bn compared to USD 3.5 bn at 23rd June 2023, supported by successful refinancing of a USD 1.3 bn worth of loan from China.

The SBA has given a breather to the economy and would resolve the issue of unlocking funds from other international lenders. These inflows are expected to bolster the country's foreign exchange (FX) reserves and provide relief from external pressures, at least in the short-term. In the longer-term, appropriate reforms would have to be constructed to be able to negotiate a longer-term arrangement with IMF. While the specific details of the new SBA are yet to be revealed, it is highly likely that energy sector reforms, including tariff hikes, will be implemented to address the circular debt issue. These reforms are expected to contribute to elevated inflation levels.

Importantly for the market, buyback activity, which had gained momentum in FY23, is expected to pick up pace especially considering the recent hike in income tax and taxation on bonus shares, which makes buybacks a much more viable and attractive option of returning capital to the shareholders.

From fundamentals standpoint, the listed companies are poised to exhibit healthy double-digit growth in FY23 and FY24. Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 4.0 times (earnings yield of around 25% as against 10-yr PIB yield of 15.3%) and compensates for the risks highlighted earlier. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.