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Weekly Stock Market Commentary

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Asim Wahab Khan, CFA
Chief Investment Officer

During the outgoing week ending 14th July 2023, the benchmark KSE-100 increased by 861 points (1.95%) on a week on week basis.

The positive sentiment of last week carried over into the outgoing week, resulting in a continuation of optimistic momentum at the bourse. During the week, the IMF executive board approved the new USD3.0 bn Stand-By-Agreement (SBA) whereas Fitch also upgraded Pakistan's Long-Term Foreign Currency Issuer Default Rating. The momentum gained traction when the Finance Minister, Ishaq Dar, made an announcement that the State Bank of Pakistan (SBP) had received USD 2 billion from Saudi Arabia. This development propelled the market to break through the psychological barrier of 45,000 points. In addition to this, on Wednesday, the United Arab Emirates (UAE) also approved a deposit of USD 1 billion, and the International Monetary Fund (IMF) officially sanctioned the first tranche of USD1.2 bn of the SBA. These combined inflows are projected to bolster the foreign exchange reserves in the vicinity of USD9.0 bn in July 2023. However, after the initial surge, the market entered a phase of profit-taking towards the end of the week. During the week, Large-Scale Manufacturing Industries data for July to March 2023 was released, indicating a decline of 9.87% during this period. In the auction for treasury bills, cut-off yields were seen rising in the range of 80-99 basis points.

The re-entry into the IMF program has come at a crucial time as the reserves had reached precariously low levels. It was expected that these flows would also enable the country to gain access from additional funds from other friendly countries and the deposits from UAE and Saudi Arabia bear witness to that. This development will also enable the country to access funds from other international lenders more easily, providing much needed external financing support. That said, it is important that the appropriate policies are undertaken, as the absence of reforms can once again put the country in a difficult situation. It is pertinent to mention that the country has fulfilled all the conditions of IMF. The Fund had demanded an increase in base tariff of electricity, which was recently approved, and an increase of Rs 4.96/unit will be administered effective from 1st July 2023.

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.

Looking at the fundamentals, the listed companies are poised to exhibit healthy double-digit growth in FY23 and FY24 despite imposition of super-tax. Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 4.0x (earnings yield of around 25% as against 10-yr PIB yield of 15.4%) 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.