

Weekly Stock Market Commentary

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During the outgoing week ending 21st July 2023, the benchmark KSE-100 increased by 853 points (1.9%) on a week on week basis. Bulk of the index gain was contributed by robust price performance of the banking sector stocks, whereby the overall sector surged by around 7% on a weekly basis.

During the past week, the stock market experienced a somewhat sluggish start, with investors opting to book profits and resulting in a flat performance for the first three trading sessions. However, the situation took a positive turn, and the market gained momentum from Thursday onwards. Over the next two sessions, the index mounted cumulatively by around 800 points and surpassing the 46,000-point mark (during the Friday intraday session). The key development during the week pertained to the foreign exchange reserves of the country, that increased by a massive USD 4.2 bn, clocking-in at nearly USD 8.73 bn, a nine-month high, after the receipt of flows of USD 3 bn from Saudi Arabia and UAE, and USD 1.2 bn from IMF. During the week, the index-heavy banking sector played a major role in driving the market rally and the key trigger was better than expected result of UBL, along-with higher than expected dividend payout, reinvigorating the confidence of investors. Other banking sector stocks also followed the lead, as investors hoped for similar results by peer companies. Amidst these developments, the IMF's country report on Pakistan was released, emphasizing that the SBA program is fully financed but carries notable risks. Nevertheless, funding support from bilateral and multilateral partners is expected to help meet the gross external financing needs for the fiscal year 2024, with the projected reserve position aligning with the program's objectives. Other developments during the week included the release of current account data, whereby a surplus of USD 334 mn was reported, bringing the cumulative deficit for FY23 to USD 2.56 bn, down from USD 17.5 bn from a year ago.

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 of 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. As per the recently published country report by the IMF, the Fund is forecasting a higher CPI as attributable to increased price pressures, and deviating from SBP's estimates of the same. Furthermore, the report also highlights SBP's need to continue the tightening cycle to re-anchor inflation expectations. In light of that, we do not rule out the possibility of further rate hikes. Lastly, IMF once again reiterated the need of restoring the viability of the energy sector, requiring urgent and tangible reforms. To note, the Fund had demanded an increase in base tariff of electricity, which was recently approved, and an increase of PKR 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 15.7%) and compensates for the risks highlighted earlier. In the same manner, the dividend yield of the market is also around 9-10%. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds, which have the history of providing superior return to investors.