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Weekly Stock Market Commentary

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The equity market continues to deliver solid return to investors and during the outgoing week ending 4th August 2023, the benchmark KSE-100 further rose by by 1,509 points on a weekly basis, translating into WoW return of 3.2%.

Maintaining the positive momentum seen in the recent weeks, the stock market commenced on a firm footing on Monday, surging around thousand points. The market closed in green throughout the week, before the mild decline on Thursday & Friday as the sharp gains made in the previous days prompted investors to book some gains and close their positions. Since the signing of the staff-level agreement (SLA) with IMF, the stock market has been on a tear, rising massively by 17% in just 24 trading sessions. During the current week, most of the index gains were contributed by Oil & Gas sector stocks and the strong price performance was attributable to last week's announcement of an MOU signed between local refining companies and Saudi Aramco, along with the government's commitment to resolving the circular debt issue. Contribution of Banking sector to Index increase was also significant as key sponsor of HBL, Aga Khan Foundation, announced another round of stock purchase of HBL from market worth PKR 3.5 billion, after completion of first round, which reinforced the confidence of the market in the large cap bank, triggering strong price performance during the week. On Monday, the SBP's Monetary Policy Committee (MPC) opted to maintain the policy rate unchanged at 22%, citing a reduction in the inflation rate for June. This decision contributed positively to the market sentiment, as participants were expecting a hike. The market reached a six-year high before experiencing profit-taking activities on both Thursday and Friday. Other noteworthy events during the week included the release of inflation data, revealing that inflation for July 2023 stood at 28.3%. Higher than expected reading was driven by 2 key components in the CPI basket, namely food and electricity. During the week, the Senate passed legislation for the establishment of the Pakistan Sovereign Wealth Fund, designed to encompass government-owned assets. Additionally, the government announced a substantial hike of approximately PKR 20 per liter in the prices of petrol and diesel. In the provisional data released by the FBR, tax collection in July 2023 stood at PKR 538bn, exceeding the target by PKR 4 bn. Meanwhile, the country's total liquid foreign exchange reserves experienced a decline of USD 32 mn during the preceding week, standing at USD 8.2 bn.

Looking ahead, the outlook of the market will be shaped by the key macro-economic and political developments. PM Shahbaz Sharif has announced to dissolve the National Assembly on 9th August, while at the same time he hoped to hold elections based on the results on the recent census. Investors will be keenly following developments on these fronts and accordingly adjust capital market expectations. As highlighted in the latest IMF report as well, Pakistan's path to recovery is narrow with little leeway, and the country has to tread very carefully and undertake meaningful reforms across various fronts to remain solvent and achieve sustainable economic growth. So, it is imperative for the caretaker and the subsequent new government to embark upon various reforms on taxation, state owned enterprises, and energy sector.

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 4.1x (earnings yield of around 24.4% as against 10-yr PIB yield of 15.8%) 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 has the history of providing superior return to investors.