NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

September 08, 2023

Asim Wahab Khan, CFA
Chief Investment Officer

During the week ending 8th September 2023, the benchmark KSE-100 rebounded by 701 points on a weekly basis, translating into WoW return of 1.5%.

After witnessing severe pressure last week that led to an index decline of 2,359 points, the outgoing week kicked-off on a positive note, gaining nearly 400 points during the first session of the week. This resurgence in positive sentiment was largely attributed to a pivotal meeting that took place on Sunday, wherein army chief engaged with prominent figures from the business community. The army chief emphasized outlined the crucial role of Special Investment Facilitation Council (SIFC), highlighting its potential to attract substantial investments, reaching up to USD 100 bn from nations such as Saudi Arabia, the UAE, Kuwait, among others. Additionally, he made a commitment to bring exchange companies within the purview of taxation. Consequently, the subsequent days witnessed a notable upswing in the value of the Pakistani rupee, particularly in the open market. The heightened monitoring of exchange companies played a pivotal role in facilitating this positive development. Further to this, the SBP also introduced reforms for exchange companies, that included raising the minimum capital requirement (MCR) from PKR 200 million to PKR 500 million and the consolidation of various types of existing exchange companies and their franchisees into a single category, each with a clearly defined mandate. The announcement of these reforms further alleviated the pressure on the rupee in the kerb market, leading to an overall gain of approximately PKR 20-25 during the week against the USD. After this, the interbank and open market rates of PKR converged and the massive gap between the two rates of around 8% came down to 1%. This was well received by market participants. However, the T-Bill auction somewhat dampened this momentum. The cut-off yield on the three-month paper rose to 24.49% from 22.88%, while the yield on the 12-month paper climbed to 25.08% from 22.94%. This raised expectations among market participants of a potential 2-3% rate hike in the upcoming MPC meeting. Following the public uproar of last week, the International Monetary Fund (IMF) is in talks to grant Pakistan permission to extend the payment of electricity bills for consumers using up to 200 units over three months. In exchange, Pakistan has to announce an increase in gas prices of around 50-60% effective from July and a crackdown against electricity theft. Lastly, the foreign exchange reserves held by SBP declined by USD 70 mn, clocking-in at USD 7.8 bn.

Looking ahead, the outlook of the market will be shaped by the key macro-economic and political developments. The interim government has been successfully appointed and there is dire need of meaningful and constructive reforms on multiple fronts. The stubborn inflation, high recurrent fiscal deficit, inefficiencies in energy sector that is crippling economic growth, low tax base, haemorrhaging SOEs, increased level of smuggling and low export base are few of the areas that require immediate attention. The crackdown on exchange companies and Hundi/Hawala channels is a positive development which will help to arrest the persistent decline in the value of rupee and is a step in the right direction. Moreover, the increase in gas prices, if administered, will further prevent build-up in the stock of circular debt and will unlock value in Index-heavy Oil & Gas sector. However, it will have negative inflation out-turn which is already running very high. In light of the recent cut-offs in the T-bill auction, possibility of a 2-3% rate hike cannot be ruled out. The government is also increasingly focusing on fiscal austerity, acknowledging that there is little to no space for concessions or subsidies. Alongside, the government is also laying roadmap for revival of economic growth, though it remains to be seen what plan is chalked out and how its implementation takes place given short tenure of the caretaker setup. It is thus imperative for the caretaker and the subsequent new government to remain steadfast on the reform agenda for long term and sustainable growth.

Despite challenges on the economic front, the corporate listed space has shown resilience in terms of operations and profitability over the recent past. In the last 2 years, during FY21 and FY22, the cumulative profitability has almost doubled and the companies are poised to exhibit further 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 3.9x (earnings yield of around 25.6% as against 10- yr PIB yield of 16.4%) and compensates for the economic challenges 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.