Weekly Stock Market Commentary

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During the outgoing week ending 13th October, the benchmark KSE-100 Index surged by 2,000 points, translating into a weekly gain of 4.2%.

The week commenced on a somber note due to the upswing in international oil prices, triggered by the Israel-Hamas conflict. However, the market swiftly rebounded, bolstered by the continued strength of the PKR against the US dollar, fostering optimism among market participants. Furthermore, during the week, the news of a substantial increase in gas tariffs also ignited interest in energy sector stocks. Thursday witnessed a remarkable milestone as the index closed above 49,000 points for the first time after a period of six years. The announcement of the potential delisting of a key automotive player, Pak Suzuki Motor Company (PSMC), sparked renewed interest in the automobile sector stocks, prompting investors for value hunting. The forthcoming earnings season and positive expectations of market participants played a pivotal role in propelling the market to new heights. During the latter part of the week's final trading session, reports emerged about a statement from the State Bank of Pakistan (SBP) governor indicating that the country was "very comfortably placed to meet" the International Monetary Fund's (IMF) targets for September-end. This revelation further infused a bullish sentiment among market participants. Furthermore, on Friday, the PKR celebrated its 27th consecutive positive session, closing at a rate of PKR 277.6 against the USD. Other notable developments in the week included release of remittance data for Sept-23, which came in at USD 2.2 bn, reflecting a 5% MoM increase. Additionally, the IMF revised its GDP growth forecast for Pakistan for the fiscal year 2024, lowering it from 3.5% to 2.5%. Finally, the week concluded with foreign exchange reserves standing at USD 7.6 billion, indicating an increase of USD 31 million during the week.

Looking ahead, investors will be keenly following developments on the economic, political, and geopolitical front. The interim government has initiated some steps that have started to yield desired results. However, more meaningful reforms are still needed which will unlock both economic & stock market potential. The government has expressed the intention to privatize SOEs like PIA and PSM and improve the governance in the energy sector, especially the Discos to bring efficiencies in their operations, and any tangible development on this front will be eyed favorably by the market. The government has recently announced a 10% processing fee on items imported under the Afghan transit trade agreement, which is another noteworthy step. The gas sector, which in recent years has emerged as another source of circular debt, is reportedly under scrutiny and a plan is being chalked out to raise tariffs to make this sector sustainable. On Thursday, reports suggested that the government is expected to announce new gas tariff in the range of 5% - 193%. The external account requires keen attention because as per reports, the Ministry of Finance has worked out conservative estimates of the external financing gap and estimated that even if all external inflows materialized within the stipulated timeframe there would still be a gap of USD 2.4 bn. IMF has also said that elevated public sector gross financing needs are still a significant challenge, which will reach 21% of GDP by 2024 for Pakistan. The investors will also be keenly following developments on the IMF front, since the government is set to begin talks with IMF on quarterly review in October. This review will be based on the September-end data that will help Pakistan unlock USD 710 mn loan tranche from the lender and will also instill confidence in the market that Pakistan is not deviating from the track. Geo political risks have escalated with Israeli and Palestinian (Hamas) forces locked in intense battle. Oil prices along with shipping rates have jumped, whereas heightened volatility is expected in global equity and currency markets.

Despite challenges on the economic front, the corporate listed space has shown resilience in terms of operations & profitability over the recent past. During FY21 & FY22, the cumulative profitability has almost doubled and in the outgoing year of FY23, it has further surged by an impressive 19%, despite imposition of higher 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 16.1%) 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 returns to investors.