NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

October 20, 2023

Asim Wahab Khan, CFA
Chief Investment Officer

During the outgoing week ending 20th October, the benchmark KSE-100 Index surged by 1,238 points, translating into a weekly gain of 2.5%. FYTD stock market return has been 22.4%, as the benchmark KSE-100 Index has risen by 9,279 points since 30th June 2023.

Building on the positive momentum of last week, the market kicked-off on a positive note on Monday, recording its 11th consecutive positive session. The rally was led by the continuous appreciation of PKR against USD and the ongoing quarterly results season, where companies are declaring record profits. Additionally, on Sunday, the caretaker government announced a cut of PKR 40/litre and PKR 15/litre in the prices of petrol and HSD, respectively. The index touched the 50,000-point mark, albeit briefly, as investors looked to book gains. Thereafter, the positive streak snapped, and two negative sessions were recorded at the bourse. During this time, the rupee also lost its value by around 1%, which contributed negatively to the investors' mood. The depreciation, however, was short-lived and the rupee once again recovered during the latter part of the week. Thursday marked another momentous occasion, whereby the market gained 931 points and closed above the 50,000-point mark. To note, the index last witnessed this level in 2017. Across-the-board buying was witnessed during the week, however, bulk of the Index gains were contributed by Banks, Fertilizers, Power & Cement sectors. However, in terms of sectoral return, Engineering, Autos and Fertilizers led the pack. The optimism led by rupee's rally, and the expectations of the IMF review sailing smoothly, contributed to the positive sentiments. Meanwhile, improved economic numbers also played a part as Pakistan's Current Account Deficit for Sep'23 amounted to a mere USD 8 mn, marking a significant 98% YoY decrease. It takes 1QFY24 CAD to USD 947 mn as against USD 2.3 bn in same period last year. Industrial output rose to the highest level since February this year, as LSM numbers rose sharply by 8.4% on a monthly basis and exhibiting 2.5% growth on a YoY basis. Consequently, Large Scale Industrial growth has been recorded at 0.5% during July-August compared to the same period last year. The government also raised PKR 1.1 trn through the auction of T-bills to meet the target of PKR 900 bn. Cutoff yields saw a reduction of 30-45 bps across all three tenors, which also energized investors. Finally, the FX reserves held by SBP at the end of the week clocked-in at USD 7.7 bn, with an increase of USD 67 mn.

Looking ahead, investors will be keenly following developments on the economic, political, and geopolitical front. 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 favourably by the market. The government has also 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. The increase in gas prices is overdue but the decision remains pending, with reports suggesting that IMF is pushing the government to administer price increases soon. 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. 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 20%, despite imposition of higher 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 15.2%) 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.