

Weekly Stock Market Commentary

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The positivity in the equity market continued for the week ending 27th October, making it the sixth consecutive week of positive return for investors. During the outgoing week, the benchmark KSE-100 Index mounted by 212 points, translating into a weekly gain of 0.4%.

The outgoing week commenced by continuing the positive momentum established at the end of the preceding week, with an initial surge of approximately 339 points. Energy sector stocks contributed to this surge as investors pinned their hopes on the ECC meeting where they expected approval of the expected gas price hike. However, subsequent to the ECC's approval of gas price hike of up to 193%, investors resorted to profit taking in the Oil & Gas exploration sector, that capped index gains during the week. The resurgence of optimism is underpinned by a multitude of positive financial results and robust dividend distributions, particularly within the banking sector. There is also growing optimism amongst the investors owing to a developing consensus of a rate cut, where many are expecting rate reversal sooner than expected. Results of few market surveys also gave credence to this notion, which also bolstered market sentiment. In terms of progress related to the IMF's Stand-By Arrangement (SBA), the team is scheduled to visit Pakistan on November 2, 2023, and the country appears to be making strides in fulfilling the agreed-upon commitments. It is worth mentioning that the IMF's targets for Net International Reserves (NIR) and Net Domestic Assets (NDA) as of the end of September have been met. The fiscal numbers relating to 1Q were also released during the week, which showed decent performance of the government as fiscal deficit was contained to PKR 963 billion, close to around 1% of GDP and up by 18% on a yearly basis. More importantly, PKR 417 billion primary surplus was recorded, surpassing the IMF condition. Lastly, the week concluded with foreign exchange reserves standing at USD 7.5 billion, reflecting a decrease of USD 220 mn over the previous week.

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 favorably 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 stricter regulation and heightened oversight on Exchange Companies is also an important reform. After much delay, the government finally announced gas price increase during the outgoing week, which bodes well for index heavy oil and gas sector. The improvement in their cashflows will likely lead to better cash payout to shareholders and will lead to improved stock prices. The discussion with IMF team is set to begin next week. The successful review will help Pakistan unlock USD 710 mn loan tranche from the lender and will also instill confidence in the market. Geo-political risks have escalated with Israeli and Palestinian (Hamas) forces locked in intense battle and there is a possibility of further escalation as tensions have mounted significantly in the region. 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 4.1x (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.