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Weekly Stock Market Commentary

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During the holiday shortened week ending 29th September, the benchmark KSE-100 Index fell by a modest 189 points, translating into a weekly loss of 0.4%.

After the bout of optimism witnessed towards the end of last week followed by the announcement of the election week by the ECP, the equity market once again turned lackluster during the outgoing week. The index kicked off the week on a slightly negative note and no material recovery was witnessed throughout the week either. In the absence of any major positive triggers, the investors chose to remain on the sidelines. In anticipation of the upcoming review by the IMF as part of the Stand-By Agreement, the caretaker government is actively engaged in formulating meaningful reforms aimed at improving the state of the economy. The economic revival plan is being carefully crafted and proposes a comprehensive fiscal consolidation over 3% of GDP or approximately PKR 3.2 trn, by withdrawing tax exemptions and realizing prudent cost-savings measures in expenditures. Efforts to address the currency devaluation are also yielding positive results, with the rupee settling at 287.74 against USD. It is also noteworthy to mention that PKR has appreciated by around 7% since the government proposed reforms for exchange companies (ECs) and initiated crackdown on illicit USD transactions. This is despite of loosening of controls in foreign trade and profit repatriation. Data released during the week highlighted that repatriation of profits & dividends by foreign investors sharply rose by 74.5% during the first two months of FY24. Additionally, the total inflows into the Roshan Digital Account (RDA) reached USD 6.6 bn. Lastly, the FX reserves at the end of the week clocked in at USD 7.6 bn, a slight decline of USD 59 mn over the previous week.

Looking ahead, the outlook of market will be shaped by key macro-economic & political developments. The positivity seen in equities after the announcement of election period by ECP reflects how investors value political stability which would lay foundation for economic reforms. The stubborn inflation, high recurrent fiscal deficit, inefficiencies in energy sector that are crippling economic growth, low tax base, haemorrhaging SOEs, increased level of smuggling, and low export base are few areas that require immediate attention. Any tangible development on this front will be eyed favorably by the market. The crackdown on ECs and Hundi/Hawala channels is also a positive development which will help to arrest the unabated decline in the value of rupee and is a step in the right direction. The federal government is also all set to impose restrictions on import of those items through Afghan Transit Trade which are being smuggled to Pakistan and hurting its industry and economy, which will be another noteworthy step. In an attempt to increase the USD inflow through formal channels, the central bank last week announced an increase in financial incentives for banks, Microfinance Banks, and ECs to bring more home remittances into the country. Moreover, the increase in gas prices, expected to be administered soon, will further. The government is 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 the 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. 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.

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 3.8x (earnings yield of around 26.3% 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 has the history of providing superior returns to investors.