Weekly Stock Market Commentary

November 17, 2023

Asim Wahab Khan, CFA
Chief Investment Officer

The strong uptrend in the equity market continues and in the process the benchmark KSE-100 has crossed 57,000 points and now trades in the uncharted territory. It was the 7th straight week of positive return for investors, as the benchmark KSE-100 Index mounted further by 1,672 points, translating into a weekly gain of 3%. It also bears mentioning that since the commencement of FY24, after singing of SLA with IMF, the benchmark Index has risen by a cumulative 15,610 points, translating into a phenomenal FYTD return of 38%.

During the week under review, equities sustained their ascent driven by positive economic indicators and progress in talks with the IMF. The KSE-100 began on a high note and continued to trade in positive territory for most of the week, before giving in some gains on Friday. Market attention was focused on discussions with the IMF for the release of the second tranche of around USD 700 million under the Stand-By Agreement (SBA), with anticipation for a favorable outcome. Midweek, IMF Managing Director Kristalina Georgieva also expressed the likelihood of a deal to be reached during the week. Consequently, on the same day, Pakistan and the IMF authorities reached a Staff-Level Agreement (SLA), leading to a 717-point rally in the KSE-100 on the next day, surpassing the 57,000-point mark. The banking sector, however, faced selling pressure due to the approval of a 40% tax on windfall profits from foreign exchange transactions, approved by the cabinet. Followed by the successful completion of the staff level agreement, the rupee also broke its 17-session depreciation streak and appreciated by 0.26%. Thereafter, profit-taking and a 333-point dip occurred in the market on the week's last trading session. Other developments during the week included the release of monthly remittances data whereby the remittances for the month of Oct-23 clocked-in at USD 2.5bn, up 11.5% from Sep-23. Moreover, the auction for treasury bills was also conducted during the week, whereby the cut-off rates clocked-in at 21.4997% (-45 bps), 21.4999% (-49 bps) and 21.51001% (-50bps) for 3-month, 6-month and 12-month papers, respectively. Lastly, the government slashed the price of petrol and HSD by PKR 2/litre and PKR 6.5/litre, respectively. During the week, SBP's reserves decreased by USD 115 million to USD 7.4 bn due to debt repayments.

The equities have displayed very strong performance since July-23 (after SLA with IMF was signed) despite the continuing macroeconomic headwinds. The rally was further intensified by the SLA on the first review for the 9-month SBA. There is growing optimism amongst investors that government has finally started to address long standing issues grappling the economy. The government is actively pursuing privatization/rehabilitation of SOEs like PIA & PSM and improvement of governance in the energy sector, especially in the Discos to bring efficiencies in their operations. The federal government has initiated reforms in the Afghan Trade Transit which will help curb smuggling and bring more revenues. The effect of reforms in the Exchange Companies is also visible, as speculation in the open market has been reduced substantially. After many years, the pricing in the gas sector has been brought to cost parity, after the ECC and later on the cabinet approved substantial gas hike earlier this month. It will help alleviate the burden of circular debt which hampered the economy and the energy chain. The approval with the IMF has sent a very positive signal to market participants and the fund has appreciated the efforts made by the government to fix key issues. The fund reiterated its stance on maintaining market determined exchange rate and acknowledged and praised recent administrative measures taken against speculative currency dealings, which contributed to stabilizing imports and bolstering reserves. The fund also highlighted that proactive monetary policy is necessary to lower inflation towards its target. The successful review of the IMF will also enable flows from other Multilateral Development Banks (MDBs) and friendly countries, and take pressure off the reserves. Going forward, the approval of the second loan tranche and the smooth election process, along with the entering into a new IMF program will shape market sentiments. Geo-political risks remain heightened as Israeli and Palestinian (Hamas) forces are locked in intense battle and there is a possibility of further escalation.

Despite robust performance of the equity market since start of FY24, we would like to reiterate that valuations of the market still remain very attractive. Cumulative profitability of our universe, that accounts for nearky 80% of mkt cap of the KSE-100 Index, has grown by around 120% during FY21 to FY23 period. 1QFY24 results have also surpassed expectations by a wide margin. As a result, the Price-to-Earnings Ratio (P/E) of market is still merely at 4.3x (earnings yield of around 24.4% as against 10-yr PIB yield of 14.9%). 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.