Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

October 2023

Stock Market Review

The equity market posted a blistering return during the outgoing month of October-23, as the benchmark KSE-100 Index surged by a massive 5,688 points on a monthly basis, translating into a solid return of 12.3%.

Carrying the strong momentum of previous month, the equities continued their ascent in October buoyed by sublime sentiments. The increase in the Index was gradual and consistent as there were merely 4 trading sessions with negative Index close during the whole month. The continued strengthening of PKR instilled confidence in the investors, as the currency steadily gained the lost ground during the first half of October. After strengthening to around PKR 276.8 against USD, it moved sideways afterwards. Secondly, the ongoing result season was also phenomenal, despite the ongoing challenging macro-economic environment and slowdown in demand across various sectors. The listed corporate space declared stellar results with equally impressive dividend announcement by select companies. It bears mentioning that cumulative profitability of KSE-100 Index surged by around 59% YoY during September quarter results. We also find it worthwhile to mention that sequential improvement in earnings was also broad based, as almost all sectors except pharma and technology (mainly due to TRG) posted healthy double-digit growth on a yearly basis, which ignited investors' interest. During the month, one of the largest auto players announced its intention to delist its shares from the bourse which acted as a key catalyst. It sent a very strong signal that the major shareholder is ready to purchase all outstanding shares from other investors and then apply for delisting of the stock. It also prompted investors to look for other deeply undervalued stocks that are trading at a fraction of their replacement cost. Lastly, the crackdown on hoarding and smuggling also started to yield results as price reversal in various items and commodities was witnessed, though sharp price decline in retail fuel prices may also have played some role. It led to building up of expectations of market participants of earlier than expected start of monetary easing cycle. Current account deficit (CAD), for September was recorded at USD 8 million, taking 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, exhibiting 2.5% growth on a YoY basis. Consequently, LSM growth has been recorded at 0.5% during July-August compared to the same period last year. The Monetary Policy Committee (MPC) of central bank in its recent meeting decided to maintain the Policy Rate at 22%. CPI print for October clocked in at 26.9%, as MoM inflation moderated to 1.1% during the month.

During October, Auto Assemblers and Parts & Accessories, Cable & Elec. Goods, Banks, Engineering, Fertilizers, Oil & Gas Marketing, Paper & Board, Power Generation & Distribution, and Refinery sectors outperformed the market. While, Cements, Chemicals, Food & Personal Care Product, Glass & Ceramics, Insurance, Miscellaneous, Oil & Gas Exploration, Pharmaceuticals, Sugar & Allied Industries and Technology & Com., Textile Composite, and Transport sectors lagged the market. On participant-wise activity, Companies and Individuals emerged the largest buyers, with net inflow of USD 15 mn, and USD 5 mn, respectively. On the contrary, Foreigners & Mutual Funds sold stocks worth USD 12 mn, & USD 7 mn, respectively.

The equities have displayed very strong performance since start of July (after SLA with IMF was signed) despite the continuing macro-economic headwinds. 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. 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 hampering the economy and the energy chain. The effect of reforms in the Exchange Companies is also visible, as speculation in the open market has been reduced substantially. In the near term, investors will also be keenly following developments on the IMF front, since the government is set to begin talks with IMF on quarterly review from 2nd November. 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.

Despite robust performance of the equity market in the last 4 months, we would like to reiterate that valuations of the market still remain very cheap. Cumulative profitability of our universe, that accounts for around 75% of mkt cap of the KSE-100 Index, has grown by around 123% 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 4.1x (earnings yield of around 24.4% as against 10-yr PIB yield of 15.2%). 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.

Money Market Review

The Monetary Policy Committee (MPC) in its meeting held on October 30, 2023 maintained the policy rate at 22% despite the mild market expectations of reduction in policy rates. The monetary policy statement outlined the improvement in macroeconomic indicators along with the administrative measures taken during the quarter, to curb inflation & improve its outlook. However, MPC statement also noted that the risks to inflation outlook to achieve price stability still persist, owing to the base effect and further surge in global oil prices. The net liquid foreign exchange reserves with SBP as at 27-Oct-23 stands at around USD 7.5 billion (down by USD 108 million compared to Sep 2023).

SBP held two T-Bill auctions with a target of Rs. 1,500 billion against the maturity of Rs. 1,437 billion. In the first T-Bill auction, an amount of Rs. 520 billion was accepted at a cut-off yield of 22.50%, 22.85% and 22.84% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 914 billion was accepted at a cut-off yield of 22.20%, 22.40% and 22.40% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 115 billion were realized for 3-years, 5-years and 10-years at a cut-off yield of 19.16%, 16.93% and 15.23%. However, no bids were received for 15-years, 20-years and 30-years tenures.

We have calibrated the portfolio of our money market and income funds based on our macro-economic outlook and will remain vigilant to any developments that may influence our investment strategy.

Capital Market Review

NBP FUNDS Aitemaad — Islamic Savings

NBP Fund Management Limited

October 2023

Stock Market Review

The equity market posted a blistering return during the outgoing month of October-23, as the benchmark KMI-30 Index surged by a massive 10,555 points on a monthly basis, translating into a solid return of 13.6%.

Carrying the strong momentum of previous month, the equities continued their ascent in October buoyed by sublime sentiments. The increase in the Index was gradual and consistent as there were merely 5 trading sessions with negative Index close during the whole month. The continued strengthening of PKR instilled confidence in the investors, as the currency steadily gained the lost ground during the first half of October. After strengthening to around PKR 276.8 against USD, it moved sideways afterwards. Secondly, the ongoing result season was also phenomenal, despite the ongoing challenging macro-economic environment and slowdown in demand across various sectors. The listed corporate space declared stellar results with equally impressive dividend announcement by select companies. It bears mentioning that cumulative profitability of KSE-100 Index surged by around 59% YoY during September quarter results. We also find it worthwhile to mention that sequential improvement in earnings was also broad based, as almost all sectors except pharma and technology (mainly due to TRG) posted healthy double-digit growth on a yearly basis, which ignited investors' interest. During the month, one of the largest auto players announced its intention to delist its shares from the bourse which acted as a key catalyst. It sent a very strong signal that the major shareholder is ready to purchase all outstanding shares from other investors and then apply for delisting of the stock. It also prompted investors to look for other deeply undervalued stocks that are trading at a fraction of their replacement cost. Lastly, the crackdown on hoarding and smuggling also started to yield results as price reversal in various items and commodities was witnessed, though sharp price decline in retail fuel prices may also have played some role. It led to building up of expectations of market participants of earlier than expected start of monetary easing cycle. Current account deficit (CAD), for September was recorded at USD 8 million, taking 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, exhibiting 2.5% growth on a YoY basis. Consequently, LSM growth has been recorded at 0.5% during July-August compared to the same period last year. The Monetary Policy Committee (MPC) of central bank in its recent meeting decided to maintain the Policy Rate at 22%. CPI print for October clocked in at 26.9%, as MoM inflation moderated to 1.1% during the month.

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