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Weekly Stock Market Commentary

December 15, 2023

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After 10 consecutive positive weekly sessions, the KSE-100 witnessed a decline, albeit a meager 93 points during the week ending December 15th, 2023. The bulk of the index losses were contributed by the heavyweight banking sector. On the other hand, Oil & Gas Exploration companies, Fertilizers, and Cable & Electrical Goods outperformed the index. The daily traded volumes remained healthy, averaging above 1 billion shares, reflecting massive investor participation in the market. It is also noteworthy to mention that since the start of FY24, after signing off the SLA with the IMF, the stock market has experienced a meteoric rise of 60%.

The week commenced on a pessimistic note with profit-taking observed on the stock exchange. Despite a partial recovery on Tuesday, prior to the Monetary Policy Committee (MPC) meeting, the market experienced a decline of 1.7% on Wednesday. Various sectors, including Commercial Banks, Fertilizers, Technology and Communications, Exploration and Production (E&P), Oil Marketing Companies (OMC), and Cement, witnessed widespread selling. Despite positive performance in the subsequent sessions, the overall losses could not completely be offset.

During the week, in line with the expectations of market participants, the Monetary Policy Committee (MPC) decided to maintain the policy rate at 22%. This decision considered the significant impact of the recent increase in gas prices on inflation, deviating from the MPC's earlier projections and potentially influencing the inflation outlook. The committee also reiterated that on a 12-month forward-looking basis, real interest rates continue to remain positive. Following the MPC’s decision, the T-bill auction saw massive participation of PKR 4.6 Tn, the bulk of which was concentrated in the 12-month tenor, against a total target of PKR 2.25 Tn, while cut-off yields across all three tenors remained broadly unchanged. Additionally, Aramco, a global integrated energy and chemicals company, made headlines by signing definitive agreements to acquire a 40% equity stake in Gas & Oil Pakistan Ltd. ("GO"), keeping the E&P and OMC sectors in the limelight at the stock market. PTCL also announced entering into a share purchase agreement with the Norwegian Telenor group for the acquisition of Telenor Pakistan. Furthermore, the caretaker government on Friday reduced the prices of petrol and diesel by PKR 14/litre and PKR 13.50/litre, respectively. The Ministry of Finance attributed this adjustment to two key factors: the recent decline in international oil prices and a positive improvement in Pakistan's exchange rate. Lastly, the SBP’s reserves increased by USD 21 mn to USD 7.041 bn up from USD 7.02 bn a week earlier.

There is growing optimism amongst investors that the 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. Though it has again pushed up the monthly inflation print in November, it was a much-needed step to lower the burden on the government. It will also help improve the cash flows of the energy chain and pave the way for higher cash dividends going ahead. 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 a 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 IMF’s Board is expected to meet on 11th January to finalize the release of the second tranche of USD 700 mn. It will also pave the way for flows from other countries, taking pressure off the reserves.

Despite the robust performance of the equity market in the last 5 months, we would like to reiterate that valuations of the market still remain very cheap. Cumulative profitability of our universe, accounting for around 75% of the market cap of the KSE-100 Index, has grown by around 123% during the 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 our universe is still merely at 4.5x (earnings yield of around 22.2% as against the 10-year PIB yield of 15.0%). In the same manner, the dividend yield of the market is also around 9-10%. Therefore, we advise investors with a medium to long-term investment horizon to build a position in the stock market through our NBP stock funds, which have a history of providing superior returns to investors.