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Weekly Stock Market Commentary

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Asim Wahab Khan, CFA
Chief Investment Officer

The equity market witnessed modest correction during the outgoing week ending 19th January as the benchmark KSE-100 retreated 1,355 points during the week, translating into WoW decline of 2.1%. The majority of the index losses were contributed by Cements, Oil & Gas Exploration and Power Generation & Distribution sectors.

The stock market performance remained subdued during the outgoing week. Though the economic data points and news-flow were broadly positive during the week, profit-taking by investors, heightened domestic political uncertainty ahead of upcoming general elections, and the rising geopolitical tensions between Iran and Pakistan shaped the market during the period under review. Iran's unprovocative strikes in the province of Baluchistan brewed tensions between the two countries. This was very concerning in the back drop of an ongoing conflict in the Middle East and the possibility of widening scale of conflict rattled investors. However, retaliatory strike by Pakistan and the subsequent de-escalatory messages by both countries helped deescalate the tensions.

In terms of other major news-flow, State Bank of Pakistan (SBP) released the current account data for Dec-23, in which the country posted a significant surplus USD 397 mn. The previous month data also posted a surplus of USD 9mn; however, the revised figures in current month data turned surplus into USD 15mn deficit. This took the 1HFY24 Current Account Deficit to USD 831 mn, a sharp reduction of 77% YoY. On external front, the SBP received the IMF's second loan tranche of USD 705 mn during the week, while UAE also rolled over its two deposits of USD 1.0 bn each for one year that were scheduled to mature in Jan-24. In 1HFY24, the net FDI rose by 35% YoY to USD 863 mn mainly contributed by China, mostly in the Power, Oil & Gas, and Financial sector. Economic Affairs Division (EAD) also revealed data for Dec-23, where the country received inflows of USD 1.6 bn mainly sourced from multilaterals. This took the 1HFY24 borrowed amount to USD 5.97 bn. Overall, the news flows remained extremely positive on the external account front in the shape of first current account surplus in FY24, receipt of IMF tranche, roll over of UAE deposits, improvement in FDI figures, attractive inflows from RDA, and borrowing from multilaterals.

Similar to decline seen in short term government papers seen in the previous week, the recent auction of long-term government papers also witnessed a notable decline in cut-off yields whereby yields fell by 40, 38 and 50 basis points in 3yr, 5yr and 10yr papers. The petrol prices were also slashed by PKR 8/liter in fortnightly petroleum products review. Large-Scale Manufacturing data was up by 1.6% YoY in Nov-23, while it slightly fell by 0.8% YoY during Jul-Nov'24 period on a yearly basis. Lastly, the forex reserves declined by USD 112 mn to USD 8.0 bn on account of external debt repayment.

The key developments in the sectors were the acceptance of minimum price of PKR 609/share by PSMC for delisting, extension of plant shutdown operations by LOTCHEM, fall in power generation by 8.2% YoY in Dec-23 to 7726 GWH, and SRVI announcement to further increase investment by PKR 1.5 bn in Service Long March Tyres.

PSMC delisting is of high importance from market view point, as just 6 months back in June-23, PSMC traded at PKR82/share whereas KSE-100 was at 40,000 points. The delisting price is nearly 650% higher than the bottom price. The delisting offer, if fully accepted, will result in inflow of PKR13.2bn for the minority shareholders. For investors, this development should be a clarion call to reevaluate their investment strategies and consider the PSX as an attractive destination. The market's resilience, as evidenced by the positive response to buybacks, acquisitions, and delistings, suggests a latent strength that is yet to be fully realized. Despite the robust performance of the equity market, it is important to note that valuations remain remarkably attractive. Our universe's Price-to-Earnings Ratio (P/E) stands at a modest 4.2x, translating into an earning yield of approximately 23.8%, surpassing the 10-year PIB yield of 14.3%. Additionally, the market boasts a healthy dividend yield of 9-10%.

For investors eyeing a medium to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds. Our funds have demonstrated a track record of delivering superior returns. Notably, our flagship Nafa Stock Fund (NSF) exhibited outstanding performance in the outgoing CY23, yielding an impressive 60.1% return compared to the benchmark KSE-100 Index return of 54.5%. This resulted in a substantial outperformance of 5.6% (net of all expenses) for our valued investors, reaffirming the fund's commitment to generating significant returns beyond market benchmarks.