January 2024

Stock Market Review

The stock market performance remained muted during January as the benchmark KSE-100 Index fell by a modest 0.8% on a monthly basis. Equities started the month on a firm footing, driven by strong momentum continuing from December and supported by gradually improving macro-economic indicators. The IMF executive board met on 11th January and accorded its approval for the 1st review, paving the way for a USD 700 million loan tranche. In addition, USD 2 billion loans due to the UAE were successfully rolled over. Another driving force was the optimism surrounding the resolution of circular debt. Purportedly, the caretaker government approved a plan to reduce the outstanding stock of circular debt (CD) under the umbrella of SIFC by around PKR 1.25 trillion, subject to IMF approval, garnering strong investors' interest. Moreover, the Council of Common Interest (CCI) also offered increased tariffs and incentives under the revised tight gas policy. However, the market could not sustain the momentum and lost steam towards the end, as pre-election anxiety, some procedural delays in CD resolution, and sizeable foreign outflows dampened sentiments. The ex-PM Imran Khan was indicted in various cases which also added to political uncertainty.

Market Highlights:
- A major development for the market was the acceptance of a minimum price of PKR 609/share by PSMC for delisting, which was at least 6-7 times higher than the prevailing price before the announcement of delisting and around 50% higher compared to the first announced delisting price of PKR 406/sh. The delisting offer, if fully accepted, will result in an inflow of PKR 13.2 bn for the minority shareholders. Reportedly, minority shareholders are unwilling to dispose their shares even at these rates. This clearly reflects the true upside potential of the listed corporate space, which trades at a fraction of their replacement cost.
- Sizeable foreign outflows of around USD 37.2 million were witnessed in January.
- The Monetary Policy Committee (MPC) maintained the Policy Rate at 22%, noting that real interest rates were now significantly positive on a forward-looking basis, a precursor to the imminent start of the rate downcycle.
- Despite sizeable payments on account of scheduled debt repayments, the SBP FX reserves were maintained at USD 8.2 bn.
- The fixed-income yields extended their decline as yields across various tenures further receded in the range of 25 bps to 75 bps.
- The result season kicked off during January, where corporates across various sectors (food, banks, cements) reported record profitability along with healthy cash payouts.

Economic Indicators:
- The current account balance reported a surplus of USD 397 million during Dec-23, after 5 consecutive months of deficits. Pertinent to note that the current account in CY23 remained in a surplus of USD 563 mn.
- LSM data reflected a 1.59% YoY increase in output during November-23, with 5M LSM reflecting a modest 0.8% decline on a yearly basis.
- December's inflation print came in at 28.3%, slightly higher than industry estimates.
- The consolidated fiscal deficit stood at 2.3% (PKR 2.4 trillion) in 1HFY24 due to a massive increase in debt servicing costs compared to 2% (PKR 1.7 trillion) in the comparative period last year. However, a notable improvement was seen in the primary balance, which stood in a surplus of PKR 1.8 trillion, compared to PKR 890 bn in the same period last year.
- Tax collection by FBR stood at PKR 5.15 trillion, versus PKR 3.97 trillion, reflecting a healthy increase of 30%.

Sectoral Performance:
Outperformers: Auto Assemblers, Commercial Banks, Fertilizers, Insurance, Oil & Gas Exploration Companies, Sugar & Allied Industries, Transport sectors.
Underperformers: Auto Parts & Accessories, Cable & Electrical Goods, Cements, Chemicals, Food & Personal Care, Glass & Ceramics, Leather & Tanneries, Miscellaneous, Oil & Gas Marketing Companies, Paper & Board, Pharmaceuticals, Power Generation & Distribution, Refinery, Technology & Communication, and Textile Composite sectors.

Participant Activity:
- Foreigners trimmed their positions by USD 37.2 million.
- Insurance companies were major buyers with net inflows of around USD 28.9 million.
- Companies and Other Organization increased their holdings by USD 11.7 million and USD 1.3 million, respectively.

Market Prospects:
Looking ahead, the stock market may consolidate in the near term due to prevailing political uncertainty surrounding the general elections, slated for 8th February. However, in the medium to long term, we expect the continuation of strong price performance in equities given the favorable conditions in the backdrop of 1) a steep decline in the Policy Rate expected in CY24 on the back of easing inflationary pressures, 2) a sizeable inflow of foreign and institutional liquidity in equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations. The result season has also kicked off from January, where we expect the corporates to declare stellar results along with healthy cash payouts, which will act as a strong catalyst. Furthermore, the softening of the commodity cycle augurs well for Pakistan's external position, and the repeat of a healthy surplus on the current account will augment the sentiments of the market.

Despite the robust market performance, valuations remain remarkably attractive. Our universe's Price-to-Earnings Ratio (P/E) stands at a modest 4.3x, translating to an earnings yield of 23.3%, surpassing the 10-year PIB yield of 14.2%. 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.

Money Market Review

The Monetary Policy Committee (MPC), in its latest meeting held in January 2024, maintained the policy rate at 22%. The MPC highlighted that FX reserves have increased, driven by a surplus in the current account and substantial financial inflows. Moreover, business sentiments indicated a positive outlook; whereas the net liquid foreign exchange reserves of SBP stood at around USD 8.22 billion (as at 26-Jan-24). However, there were concerns about escalated geopolitical tensions, leading to increased global freight charges that pose risks to global trade & commodity prices.

The increase in capacity utilization in the manufacturing sector resulted in positive business sentiments, boosting momentum in the industrial sector during the second half of the fiscal year. The current account deficit decreased by 77% to US$ 0.8 billion. This improvement was attributed to a 7% year-on-year growth in exports and a considerable decline in imports during 1HFY24. Inflation expectations have improved, but sizable adjustments in administered energy prices diluted this positive trend. These adjustments have impacted both the inflation outcomes and the outlook.

SBP held two T-Bill auctions with a target of Rs. 325 billion and against the maturity of Rs. 374 billion. In the first T-Bill auction, bids worth Rs. 238.74 billion were accepted at cut-off yields of 21.00%, 20.96% and 20.84% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, bids worth Rs. 161.64 billion were accepted at cut-off yields of 20.50%, 20.40% and 20.23% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth Rs. 162 billion were accepted in 3-years, 5-years and 10-years tenures at cut-off yields of 16.80%, 15.50% and 14.50% respectively. 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.

January 2024

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