Weekly Stock Market Commentary

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The equity market performance remained lackluster during the outgoing week ending 2nd February as the benchmark KSE-100 index lost 810 points, translating into a WoW decline of 1.3%. More than half of the index decline was contributed by the Fertilizer, Oil & Gas Marketing, and Chemical sectors.

Owing to amplified foreign selling pressure and uncertainty surrounding the general elections and its outcome, the KSE 100 index declined in the first three trading days. However, towards the end of the week, the market staged a modest recovery as robust corporate results along with healthy cash dividends ignited investors' interest. On Monday, the Monetary Policy Committee (MPC) of the central bank maintained the Policy Rate at 22% for the fifth time in a row since 26th June 2023. Going forward, SBP expects real interest rates to remain significantly positive on a 12-month forward basis as inflation is expected to continue its downward trend, creating room for possible rate cuts in the upcoming monetary policy announcements. During the week, PBS released inflation numbers wherein Jan-24 headline inflation clocked in at 28.3% vs 29.7% in the last month, as MoM inflation again surged by around 1.83%. On a monthly basis, 2.9% price gains in Food & non-alcoholic beverages, 2.5% increment in housing, water, elec. & gas propelled the monthly CPI. On a yearly basis, around 2/3rd of inflation is on account of the food segment that contributed the highest share in the YoY inflation at 9.9%, followed by the Housing, Water, Electricity, Gas & Fuel segment with a 7.7% share. Going forward, the Ministry of Finance expects inflation to cool down further to 27.5% in February. In another positive turn of events, weekly inflation also eased down by 0.28% on a WoW basis for the second consecutive week.

Monthly data related to external trade was also released during the week, exhibiting ongoing moderation in numbers. The goods/merchandise deficit for Jan-24 was recorded at USD 1.94 bn after witnessing a 25% YoY decline (though it increased slightly from USD 1.83 bn from the previous month). This takes the 7MFY24 trade deficit to USD 13.2 bn from USD 19.6 bn, down by 33% YoY. During 7MFY24, exports have shown a healthy growth of 8% (up by USD 1.3 bn), while imports were contained by around 14% (down by USD 5.1 bn). During the week, the Ministry of Finance also released fiscal data for 1HFY24 wherein the country's budget deficit has increased significantly by 43% YoY to record at PKR 2.4 trillion (2.3% of GDP) primarily due to higher mark-up payments, compared to a deficit of PKR 1.7 trillion (2% of GDP) in the same period last year. On the revenue collection front, FBR has collected PKR 681 bn during Jan-24, registering an uptick of 25% YoY. This takes 7MFY24 revenue collection to PKR 5,150 bn, translating into excess collection of PKR 35 bn. Concerns on the inflation trajectory going forward persist as the government has hiked Petrol & HSD prices by 5% & 1%, respectively from Feb 01st, 2024. Further, NEPRA has announced another Fuel Charges Adjustment of PKR 4.56/kWh which will be applied in Feb-24 electricity bills. Along with this, NEPRA is yet to approve the Quarterly Tariff Adjustment of at least PKR 4/kWh for 2QFY24.

In key sectoral developments, the caretaker govt announced a 3% R&D (research and development) incentive for the local handset manufacturing industry to support the manufacturing of high-end phones. In the pharma sector, the government has approved Maximum Retail Prices of 146 hardship drugs which is expected to bode well for the pharma sector profitability. Lastly, to boost local gas production, the government has finally announced a new Tight Gas Policy which offers investors USD 7.5/mmbtu wellhead prices along with other benefits, expected to result in higher gas flow to the tune of 500-1000 mmcfd in the coming years.

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 corporates to declare stellar results along with healthy cash payouts, acting as strong catalysts. 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 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.