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Weekly Stock Market Commentary

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The equity market remained under pressure during the outgoing week ending 16th February as the benchmark KSE-100 index lost 3,071 points during the week, translating into a significant WoW decline of 4.9%. During the week, most of the index decline was contributed by the Oil & Gas Exploration, Cement, and Power Generation sectors.

The week started off on a bearish note due to prevailing political uncertainty in the country post General Elections held on 8th February. Despite the passage of one-week, leading political parties still remain undecided on the formation of a new government which stoked uncertainty and led to heightened volatility in the market. As per the official ECP results, PML-N emerged as the largest party as it has secured 75 seats, followed by the 54 seats of PPPP and 17 seats of MQM. However, the situation has become complicated as independent candidates backed by PTI have bagged 92 seats, leading to a political limbo. Furthermore, PTI also announced country wide protests on 17th Feb against the alleged irregularities in the elections process. In another major development, the much-talked circular debt reduction plan submitted by the caretaker govt to IMF has been declined by the Fund citing financial risks involved in the transactions along with the provision of supplementary grants. Similarly, IMF has also refused to accept electricity tariff rationalization plan on the premises that it will put further burden on the vulnerable households. This development has triggered a major sell-off in index heavy weights PPL & OGDC, contributing 1/3rd in the KSE-100 decline during the period under review.

During the week, the bourse closed in positive territory only on 14th February after some short-lived certainty emerged on the formation of a new government. In a major development, the caretaker govt has approved much awaited increase in the gas tariffs. With this increase, the national weighted average selling price of gas has been increased by c.10-15% from existing rates and we believe that it will bring an end to further build-up in gas sector circular debt. It bodes well for the energy chain companies and will help unlock value in the E&P and Oil Marketing & Gas Distribution sectors as it will pave way for improved dividend payouts going forward. The largest increase was seen in the fertilizer sector wherein feed gas price has been increased by 175% along with the implementation of uniform gas prices of PKR 1,597/mmbtu both for feed and fuel purposes. We believe that the fertilizer sector can comfortably pass on the price hike impact on urea fertilizers resulting in sustainable profitability going forward. Residential consumers both in protected & unprotected categories have also witnessed price increases in the range of 50-60%.

In terms of other major news, workers' remittances for Jan-24 clocked in at USD 2.4 bn, registering a 26%/1% increase on YoY/MoM basis. This takes 7MFY24 remittances to USD 15.8 bn, down by 3% YoY. On the inflation front, weekly SPI has declined by 0.78% WoW, marking it the third consecutive weekly decline. In monthly trade data released by PBS, the Food & Agriculture sector continued to outperform with exports recording at USD 787 mn in Jan-24, registering a 105% YoY increase. This takes 7MFY24 Food sector exports to USD 4,268 mn, up by 58% YoY. In the pharma sector, news flows suggest that the federal cabinet is deliberating on the deregulation of non-essential drugs in the coming days. This development is expected to bode well for the sector which is still reeling under the all-time high inflation and volatile exchange rate environment. Lastly, during the week MSCI announced its quarterly index review wherein BAHL, ILP, and SNGP were added in the MSCI Main Frontier Standard Pakistan index. The main Frontier Market Index now comprises of 20 constituents. After this review, Pakistan's weight in the Index is expected to be around 3.0 percent.

Looking ahead, the stock market may remain jittery in the near term due to prevailing political uncertainty surrounding the fate of new govt after the general elections. However, in the medium to long term, we expect continuation of strong price performance in equities given the favorable conditions in the back drop of 1) steep decline in Policy Rate expected in CY24 on the back of easing inflationary pressures, 2) sizeable inflow of foreign and as well as institutional liquidity in equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations. The result season has also kicked-off from January, wherein corporates continue to declare stellar results along-with the healthy cash payouts, that will anchor the market. Furthermore, the softening of commodity cycle augurs well for Pakistan's external position and the repeat of healthy surplus on current account will augment the sentiments of the market.

After the robust market performance, the recent decline in Index from its peak hit in December has again opened up valuation gap and offers good entry point to investors, as valuations remain remarkably cheap. Our universe's Price-to-Earnings Ratio (P/E) has again fallen to around 4.0x, translating to earnings yield of 25%, 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.