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Weekly Stock Market Commentary

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Asim Wahab Khan, CFA
Chief Investment Officer

The equity market rally continued during the outgoing week ending 1st March as the benchmark KSE-100 index gained 2,510 points, translating into a significant WoW increase of 4.0%. The majority of the index gain was contributed by Commercial Banks, Fertilizer, and Oil & Gas Exploration sectors.

As highlighted in our note last week, the favorable developments on the political front have led to improved investors' confidence. Consequently, we saw a surge of around 5% in the benchmark index in the previous week and the strong performance continued during the current week as well. After the recent general elections, the first National Assembly and Provincial Assemblies sessions were called during the week, in which the recently elected parliamentarians took oath and afterwards took part in the election of chief ministers, speakers, and deputy speakers for the respective assemblies, endorsing the legitimacy of the controversial elections.

On the economic front, the CPI reading for Feb-24 clocked-in at 23.1% as price levels remained flat on a monthly basis. There was a notable month on month decline of 5.4% in perishable food basket, which led to an overall drop of 1.6% in food inflation in February. It also bears mentioning that this is the lowest inflation reading in the past 20 months and more importantly, the further drop in inflation is expected in March, that will pave way for monetary easing very soon. FBR provisional tax collection during Feb-24 came in at PKR 681 bn, which is PKR 33 bn short of the target. However, the cumulative tax collection for 8MFY24 clocked-in at PKR 5,828 bn, surpassing the target by PKR 56 bn. PBS released trade data for Feb-24, where trade deficit declined by 13%/2% MoM/YoY to USD 1.7 bn. With that, 8MFY24 trade deficit narrowed by 30% to USD 14.9 bn, down from USD 21.3 bn in corresponding period last year. Exports have risen by around 9% (up by USD 1.7 bn), while imports are down by around 12% on a YoY basis (down by around USD 4.7 bn). SBP reserves fell by USD 63 mn to reach at USD 7.95 bn on account of debt repayments. The rating agency, Moody's, in its announcement of the periodic review, maintained Pakistan's credit rating unchanged at 'Caa3' for long-term issuer rating, with a stable outlook. The ease off in repatriation of profits and dividends brought the outflow to USD 694 mn (+215% YoY) in 7MFY24. The outstanding dues to Chinese IPPs hit record USD 1.8 bn due to failure of power division to settle at least 90% of monthly claims. In the fortnightly review, petrol prices inched up by PKR 4.1/litre, while the HSD prices remain unchanged.

In terms of key sectoral developments, bank's deposits reached to PKR 27.5 trn in Jan-24, which is up 21% YoY. The auto financing continued to decline for 19th consecutive month and reached at PKR 246 bn by the end of Jan-24. Nepra has notified a hefty FCA adjustment of PKR 7.1/kWh for Discos for the month of Jan-24, which is to be collected in the month of Mar-24. The recent hike in gas prices pushed up the rates of urea as two of the fertilizer players have announced increase in urea prices.

Looking ahead, we believe that the investors will be keenly following the developments on the political front where formation of government and appointment of people at key ministries will be closely looked at. The incoming government will be holding back-to-back negotiations for the review of the ongoing loan program and the new extended loan facility, which will also hold the attention of market participants. 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.

Despite the robust stock market performance, as the valuations still remain remarkably cheap. Our universe's Price-to-Earnings Ratio (P/E) is around 4.3x, translating to earnings yield of 23.3%, 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.