NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

March 08, 2024

Asim Wahab Khan, CFA
Chief Investment Officer

During the outgoing week ending 8th March, the benchmark KSE-100 index gained 468 points, translating into WoW return of 0.71%. The majority of the index gains were contributed by the Oil & Gas Exploration, Investment Banks/Investment Cos, and Refinery sectors.

The week started off on a strong note after the election for Prime Minister concluded smoothly in the National Assembly on Sunday wherein Shahbaz Sharif was elected as the PM for the second time after securing 201 votes vs 92 votes of the opposition's candidate. Pakistan's Eurobonds also marked significant gains following election of PM with 2031 maturing bond price touching 77 cents as opposed to 66 cents pre-election and the bottom of 29 cents witnessed in Nov-22.

On the economic front, the IMF has recommended the FBR to bring several items into the standard rate of General Sales tax of 18% which primarily includes unprocessed food, stationary, medicines, and POL products. The fund estimated that this sales tax rationalization would yield revenues of 1.3% of GDP. Further, in a study shared to Govt of Pakistan, IMF's estimates Pakistan's tax capacity at 12.9% of GDP which is currently hovering at 10%.

In a recently held press briefing, IMF's spokesperson said that the fund is ready to send mission to Pakistan after the cabinet formation. Following this statement from the IMF, Pakistan's Euro bonds again surged in the international bonds market, marking Pakistani bonds among the top five performers in the Emerging Markets dollar bonds.

In the domestic capital markets, GoP raised PKR 527bn in the T bills auction against the overwhelming participation of PKR 1,350bn and target of PKR225bn. Following the ease in Feb-23 inflation reading to 23.1% & build up of expectations regarding likely rate cut by the SBP; cut off yields on 3M paper dropped by 30 basis points whereas 6M & 12M paper witnessed no significant change in yields. During the week, SBP has also released public debt figures wherein country's total debt stock was recorded at PKR 64,842bn as at Jan-24, witnessing a 18% YoY surge. There was a 9.8% increase in the domestic debt of the federal government, totaling Rs42.626 trillion between July and January of the fiscal year 2024 whereas external debt rose by 7.4% to Rs22.216 trillion by the end of January 2024. On external front, Pakistan's workers remittances were recorded at USD 2.2bn during Feb-23 after a 18% YoY increase. However, on MoM basis remittances declined by 6%. This takes 8MFY24 remittances to USD 18.08bn.

On sectoral front, cyclical sectors demand still continue to fall amid slower pace of economic recovery and underutilization of PSDP budget. With cement sector dispatches falling to 7-months low to record at 3.25mn tons in Feb-24 after witnessing a 19%/5% decline on YoY/MoM basis. Similarly, monthly HSD & Petrol sales also declined by 7% and 1% respectively during Feb-24 to record at 446KT and 544KT, respectively.

Looking ahead, we believe that the investors will be keenly following the developments on the political front where after the formation of government, 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 December result season has also concluded, wherein corporates continue to declare stellar results along-with the healthy cash payouts, that will anchor the market.

Despite the robust stock market performance, 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 14.2%. 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.

Disclaimer: *This publication is for informational purposes only and nothing herein should be construed as a solicitation, recommendation or an offer to buy or sell any fund. All investments in mutual funds are subject to market risks. Past performance is not necessarily indicative of future results. Please read the Offering Documents to understand the investment policies and the risks involved.*