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Weekly Stock Market Commentary

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The equity market remained under pressure during the outgoing week ending 15th March as the benchmark KSE-100 index lost 977 points, translating into a WoW decline of 1.5%. The majority of the index losses were contributed by the Oil & Gas Exploration, Banking, and OMC sectors.

The week started off on a bearish note and decline in index was witnessed during 4 out of the 5 trading sessions during the period ahead of the MPS announcement scheduled on Monday. This has come despite the positive political developments that have taken place during the course of the week. Asif Ali Zardari clinched victory as the 14th president of Pakistan by securing 411 votes vs 181 votes secured by opposition's candidate. During the week, Prime Minister Shahbaz Sharif also made much awaited announcement of cabinet members. Amongst the key ministers, a career banker and former president of HBL Muhammad Aurangzeb was sworn in as Pakistan's new finance minister. Various participants on Bloomberg viewed this as a positive step to steer the country's economy in the right direction. Bloomberg economist, Ankur Shukla who covers Pakistan, said in a report that Shehbaz Sharif had a track record of carrying out reforms and his return as prime minister for a second term increased the chances of securing a new IMF package.

Soon after the distribution of portfolios to federal ministers, Muhammad Aurangzeb invited IMF team for the second review of the ongoing SBA program. The IMF and Pakistani authorities commenced discussions on 14th March and are scheduled to continue till 18th March. The finance ministry stated that Pakistan has met all the structural benchmarks, qualitative performance criteria, and indicative targets set for the second review, which has invited some criticism from the lender since it was too early to claim. The successful review with the IMF would lead to disbursement of the third and the final tranche of USD 1.1bn, and will bring the current 9-month SBA program to conclusion.

On the economic front, Pakistan will have to service debt repayments of USD 4.33 bn during the last quarter of FY24 including USD 1 bn on account of maturity of international bond, which remained a concerning factor for investors and dented the sentiments. Forex reserves held by SBP inched by USD 17 mn to USD 7.9 bn, while overall country's reserves increased by USD 131 mn to USD 13.2 bn. PIBs cut-off yields declined in the recent auction where 3-10 yr yields inched down in a range of 2-15 bps.

On sectoral front, the automobile sales witnessed a substantial YoY increase of 118% to 7,953 units in Feb-24 compared to last year; however, the overall car sales number in 8MFY24 went down by 41% to 46,417 units. In another development, FBR has imposed 25% sales tax on locally manufactured cars with invoice price above PKR 4 mn in addition to already imposed 25% sales tax on vehicles having engine capacity above 1400cc. The imports of used cars surged in first six months of FY24 after the removal of regulatory duty in FY23-24 budget on used cars of up to 1800cc. The furnace oil exports surged to over 500,000 tons in 8MFY24 as local power plants shifted to other fuel sources for power generation. However, in last two months, the furnace oil exports dropped as local power plants using furnace oil as hydel generation took a hit in winter months.

Looking ahead, investors will be keenly watching the upcoming Monetary Policy Committee (MPC) meeting scheduled on Monday where the market remains evenly divided in its opinion of the rate cut. The ongoing back-to-back negotiations of government with IMF for the review of the current loan program and the new extended loan facility will shape the market in the short term. 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.

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.