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Weekly Stock Market Commentary

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CIO Note: Week Ending 04th April, 2024

The equity market continued its bullish run during the outgoing week ending 04th April, as the benchmark KSE-100 gained 1,412 points, translating into a healthy WoW (week-on-week) return of 2.1%. In the process, KSE-100 has achieved new highs as the index surged past 68,000 points at the close of the week. The majority of the index gains were contributed by the Commercial Banks, Fertilizer, and Cement sectors.

The Consumer Price Index (CPI) for Mar-24 released during the week recorded a 20.68% YoY increase, taking 9MFY24 average inflation to 27.06% against 27.26% during the same period last year. On a MoM basis, the inflation increased by 1.7% mainly due to a surge in food prices in the month of Ramzan. The CPI numbers were in-line with market expectations, with expectations of further slowdown in next month inflation numbers below 20%. In the latest T-Bill auction data, the government raised PKR 558 billion against the target of PKR 225 billion. The yield in 6M paper went up 101bps to 21.39%, while the 3M and 12M yields remained stable at 21.66% and 20.90%, respectively. While movement in treasury yields off-late indicate reducing optimism over the possibility of rate cut in April-24, we maintain our view of start of monetary easing cycle from this month.

Trade data was also released during the week where the trade deficit widened by 56.3% and 24.5% on a YoY and MoM basis to USD 2.17 billion in Mar-24. However, the cumulative trade deficit for 9MFY24 plummeted by around 24.9% YoY to record at USD 17.03 billion. Tax collection figures stood at PKR 6.710 trillion in 9MFY24, just slightly exceeding the targeted amount of PKR 6.707 trillion. Tax authorities express confidence in achieving the assigned collection target of PKR 9.4 trillion in FY24, and any shortfall in the coming months would be overcome through direct taxes instead of a mini-budget.

In the recent bi-weekly review, petroleum prices went up by PKR 9.66/litre to PKR 289.41/litre while HSD prices dropped by PKR 3.32/litre to PKR 282.24/litre. The oil prices in the international market continued to rally to reach USD 90/bbl, which is the level last seen in Oct-23, as OPEC+ members led by Saudi Arabia and Russia agreed to extend voluntary output cuts to 2.2 million barrels per day until the end of Jun-24.

On the sectoral front, cement dispatches posted modest recovery in Mar-24 with total dispatches recorded at 3.9 million tons (+3.85% YoY) led by 38.0% growth in export dispatches to 0.6 million tons. The Competition Commission of Pakistan (CCP) issued show-cause notices to six leading manufacturers for allegedly fixing urea prices. In the Pharmaceutical sector, the case of deregulation of MRPs of non-essential drugs has been disposed of in favor of the pharmaceutical industry, and the stay order against MRPs deregulation has been vacated. OMC sales data were also revealed for Mar-24, where the sales increased by 3%/4% MoM/YoY to settle at 1.15 million tons. The cumulative 9MFY24 sales fell by 11% to 11.34 million tons against 12.80 million tons last year. Textile exports posted a modest increase of 3% YoY, reaching USD 1.3 billion against USD 1.26 billion last year. In the recent notification at PSX, Engro Corporation (ENGRO) announced to enter into a definitive agreement with Liberty Power Holdings to sell its entire energy chain for a cumulative amount of PKR 34.8 billion.

With the current IMF’s program concluding on April 11th, the government is considering a new medium-term program with the IMF; detailed discussions for which will commence next month on the occasion of the upcoming spring meetings of Bretton Woods Institutions. The size and conditions of the new loan program will set the stage for equities in the near term. 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) start of monetary easing cycle from the next MPS on the back of easing inflationary pressures, 2) sizeable inflow of foreign and institutional liquidity into equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations. Despite the robust stock market performance, valuations remain remarkably cheap. Our universe's Price-to-Earnings Ratio (P/E) is around 4.4x, translating to earnings yield of 22.7%, 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.

Note: In observance of Eid-ul-Fitr, there will be a break in our weekly briefing note. The next note will be released after a brief hiatus of two weeks.