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Weekly Stock Market Commentary

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The equity market remained bullish during the outgoing week ending 29th March, as the benchmark KSE-100 gained 1,853 points, translating into a healthy WoW (week-on-week) return of 2.8%. In the process, KSE-100 has achieved new highs as the index surged past 67,000 points at close of the week. The majority of the index gains were contributed by the Commercial Banks, Fertilizer and Cement sectors.

The week started off with restructured Economic Coordination Committee (ECC) of the cabinet wherein Finance Minister has been appointed as its chairman after the withdrawal of Prime Minister Shahbaz Sharif; instilling much needed confidence among the investors. In a first, the newly appointed Finance Minister has vowed to tap Chinese bond market through the issuance of USD 250-300 mn yuan-denominated Panda Bonds.

In the remainder part of the week, market continued its upward momentum post IMF staff level agreement and surpassed the previous Index peak of 66,547 with some modest correction happening on the last trading day of the week. During the period, foreign investors remained net buyers with USD 3.6 mn inflows. Significant inflows of USD 9 mn were also seen from the Insurance sector, whereby the largest state insurance company increased its equity allocation that propped up valuation across banking and fertilizer sector stocks. Further, FTSE Russell has also decided to retain Pakistan's equity market in the secondary emerging market category for the next six months, providing further boost to foreign investors' confidence. During the week, IMF asked Pakistan authorities to review various tax incentive regimes along with the imposition of 18% GST on Petroleum products. Furthermore, the Fund also asked to jack up FED rate on cigarettes and other luxury goods in an attempt to increase country's tax to GDP ratio.

On the economic front, the country's Gross Domestic Product (GDP) posted a modest growth of 1% during the 2QFY24 against the revised 2.5% in the preceding quarter. Sector wise growth showed that agriculture has topped the table after recording 5.02% YoY growth during the second quarter, driven by healthy improvement in crop output (cotton, rice & maize). On the other hand, Industrial sector continued to drag GDP growth after experiencing 0.84% contraction during the quarter (due to decline in mining & quarrying industry and slowdown in construction sector), while Services sector growth also remained muted at 0.01%. Private sector credit remained abysmally low as net borrowing by the sector stood at merely PKR 73 bn during July to March 8th, indicating the frail state of industries. Country's forex reserves remained stable throughout the week, with SBP's reserves recording at USD 8.02 bn.

Things continue to move at faster pace on privatization front with PIA's newly formed board approving the Scheme of Arrangement during the week. Also, as per the news flow, commercial banks have rolled over their lending of PKR 268 bn at a significantly low rate of 12% fixed for its 10-year tenure.

On the sectoral front, the Oil Companies Advisory Council (OCAC) has urgently called for the stringent enforcement measures to combat smuggling of retail fuels that are hurting both OMCs & refineries. Along with this, dealers' association has asked government to increase dealer margins on Petrol & HSD to cover rising costs of operations. In the power sector, NEPRA approved PKR 85 bn Quarterly Tariff Adjustment (QTA) for the 2QFY24, having uniform impact of PKR 2.79/kWh. The said adjustment would become applicable from April-24 onwards after the end of ongoing previous QTA adjustment of PKR 4.43/kwh. In a significant development, the U.S. State Department has said that it does not support Pakistan's plan to build a pipeline to import gas from Iran. These remarks from the US came after Pakistan govt decided to formally request US authorities for the waiver of sanctions on this project.

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 continuation of strong price performance in equities given the favorable conditions in the backdrop of 1) steep decline in Policy Rate expected in CY24 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.