

Weekly Stock Market Commentary

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Despite rising noise in the domestic politics, positivity returned to the market after a brief pause in the previous week as the benchmark KSE-100 Index increased by 720 points (2.1%) during the week ending November 1st 2019. Investors ignored the FATF's conclusion where Pakistan was given till February 2020 as the final deadline to complete its full action plan. In addition to this, investors also looked past the ongoing so called long-march/sit-in by the opposition parties. Encouragingly, in the ongoing corporate results season, the Index heavy companies belonging to the defensive sectors such as Oil and Gas Exploration & Production and Fertilizer sectors posted strong results with healthy payouts that provided some support to the market. The market also cheered government's decisions to defer axle load limit and relax conditions on retailers for a smoother transition to bring this sector into the tax net. Above all, declining yields on the government securities and significantly improved Current Account Deficit (CAD) situation are being seen as major positives on the economic front.

During the outgoing week, Companies and Mutual Funds were the main buyers in the market, accumulating positions to the tune of USD 5 million and USD 3 million, respectively. On the contrary, Foreign Investors sold positions to the tune of USD 3 million. Similarly, Banks/DFIs and Insurance Companies each liquidated position to the tune of USD 2 million.

What lies ahead? We hold on to our sanguine view on the stock market. The key catalysts for the market would be the move by the central bank in the upcoming Monetary Policy Review in November and progress on issuance of the Euro Bonds/sukuks to shore up the FX reserves. We expect year-on-year CPI inflation at 10% for October 2019 due to base effect and project it to peak at around 12% in January 2020. From the valuation perspective, despite a strong 20% recovery from its recent low of 28,765 points on August 16, 2019, the market is trading at a cheap forward Price-to-Earnings (P/E) multiple of 6.1 (Earnings Yield of 16.4%) and is offering an attractive dividend yield of 6.9%. Overall, profitability of the corporate listed sector remains resilient helped by the Index heavy Oil & Gas Exploration, Banking, Fertilizer, and Power sectors and we expect corporate earnings to grow at double-digit rates for 2020 and 2021. Furthermore, odds are increasing for the continuation of net foreign buying in the market. Declining yields on the fixed income avenues has made a strong case for flow of funds to equities.

In a nutshell, we reiterate our view that the market is well poised to deliver robust returns in FY2020 and beyond. Therefore, we advise investors to consider consolidating their position in the market unfazed by the bouts of volatility.