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Weekly Stock Market Commentary

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During the outgoing week, amid thin trade volumes, the stock market depicted lacklustre performance as the benchmark KSE-100 Index declined by 382 points (0.9%) on a week-on-week basis. The market ignored encouraging developments notably, the announcement of successful stage 3 trial of Coronavirus vaccines by Pfizer & BioNTech during the last week with 90% efficacy, and during the week by Moderna, with 94% efficacy. Russia has also claimed 92% effectiveness for its Sputnik V vaccine candidate. The external account continued to show improving trend as the current account surplus of USD 382 million was recorded for October-2020. It was the 4th month in row with current account surplus, taking 4MFY21 surplus to USD 1.16 billion versus Current Account Deficit (CAD) of USD 1.4 billion in same period last year. SBP's FX reserves also exhibited encouraging trend with the overall FX reserves of the country crossing USD 20 billion threshold after almost 3 years. All these positives were brushed aside by the market as investors remained wary of surge in coronavirus cases during the week. We see this lacklustre market performance during the last couple of months as a healthy consolidation in a bull cycle.

Looking at the participant-wise market activity during the week, Individuals, Companies and Insurance Companies emerged as major buyers in the market, adding equities worth USD 6 million, USD 4 million and USD 3 million, respectively. On the contrary, Foreign Investors and Mutual Funds remained main sellers, each liquidating their positions to the tune of USD 7 million.

Going forward, we reiterate our bullish view on the stock market over the medium to long-run. Our positive view on the market is underpinned by improving economic prospects and attractive market fundamentals. On the Coronavirus front, though the rising number of daily cases is a cause of concern, with active cases now around 35,000, up from 5,500 in mid-September, we do not see major disruption to the economic activity. In our view, healthcare systems now have a better understanding of COVID-19 and a better supply of medical equipment such as personal protective equipment, ventilators and antiviral drugs. Researchers are testing 54 vaccines in clinical trials on humans worldwide, with thirteen vaccines under large-scale efficacy test, and six approved for early / limited use.

On economic front, things are also looking up, as reflected by the frequently released economic data. The industrial output has bounced back sharply and higher crop prices are likely to incentivize farmers, leading to better crop output going forward. The external sector is also in a much better shape and we expect a manageable CAD of USD 3.2 billion during FY2021. Inflation is also expected to moderate in the coming months and we anticipate continuation of the prevailing accommodative monetary policy regime in the near future, considering clouded global economic outlook.

From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.2x, versus 10-year average of 8.5x. The Earnings Yield of 13.9% offered by the market also looks appealing compared with the 10-year PIB yield of 9.9%. In addition to this, the market also offers a healthy dividend yield of 5.5%. Corporate earnings are expected to grow at a double-digit rate over the next two years, based on our estimates.

Bottom Line: Taken all together, we believe that the market holds potential to deliver a heathy double-digit return over the medium to long-term. Therefore, we see any market weakness as an opportunity to build position in equities.