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Weekly Stock Market Commentary

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It has been a positive start to the new calendar year, as during the first week of CY2022, the stock market rose by a decent 1.7% (up 749 points) on a week on week basis. The market remained positive throughout the week and main board sectors, mainly Fertilizers, Power, Banks, and Oil & Gas sectors contributed most to the index gain.

As the country inches towards the resumption of the IMF program, investors appeared optimistic about the outcome. Key prior actions included bringing a mini budget, giving absolute autonomy to the central bank by approving the State Bank of Pakistan Amendment Bill, and increasing electricity prices. In the past 2 weeks, substantial progress has been made on the SBP Amendment Bill (that was approved by the Federal Cabinet last week), and the finance supplementary bill, for which the government has convened National Assembly session on 10th January, where it is likely to be approved after some amendments. Furthermore, in order to meet another condition of the International Monetary Fund (IMF), the federal cabinet has also agreed to make details of the sovereign guarantees public. During the week, Power Division paid over PKR 60 billion to 12 IPPs of Power Policy 2002, 40% of total agreed amount as first installment, which sparked interest in the Power sector, as it will ease cashflow woes of the sector. Inflation reading also came during the week, that clocked in at 12.3%. Although it was the highest inflation reading in around 2 months, the number was in line with market expectations. Trade deficit numbers for December again remained at an elevated level of USD 4.9 billion, despite imports coming off by around USD 300 million.

In terms of activity of the market participants, Foreigners emerged as the largest buyers in the market, with net inflows of around USD 24 million. The inflows remained heavily concentrated in the Technology sector (majority going to a single stock). Other than Foreigners, Banks remained other large buyers that increased their holdings by USD 7 million, as they appear to have made fresh equity allocation in CY22. Individuals and Mutual Funds remained large sellers in the market, with outflows of around USD 15 million and USD 8 million, respectively.

Looking ahead, we continue to hold our sanguine outlook on the stock market, and our thesis is premised on the robust corporate earnings and overall improvement in growth outlook. As most high-frequency indicators - including automobile sales, POL (petroleum, oil and lubricants) sales, and electricity generation – highlight the durable positioning of the economy. In our opinion, the market is overly occupied with the recent Current Account Deficit (CAD) which is mainly due to record high commodity prices and a phenomenon also prevalent elsewhere in the world. The softening of the commodity cycle will help in this regard and we highlight that government & central bank have been very proactive this time around to bring stability and preserve growth. Several policy measures by central bank and government aim to cool down domestic demand that will help arrest CAD and ease off inflationary pressures going forward. The revival of EFF facility with the IMF will not only allow resumption of multilateral flows of IFIs, easing pressure on the BoP, it will also bring discipline on part of the government towards macroprudential measures.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.8x versus 10-year average of 8.3x. The market also offers a healthy 5.7% dividend yield. As we see it, the recent sell-off has sent the market valuations near the crisis eras. Therefore, given a strong investment case for equities, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.