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Weekly Stock Market Commentary

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Asim Wahab Khan, CFA
Chief Investment Officer

After 6 consecutive weeks of positive return, the equities finally took a breather in the outgoing week ending 3rd May. The benchmark KSE-100 Index fell by 841 points on a week on week basis, translating into a modest decline of 1.2%. The majority of the Index decline was contributed by the Technology & Communication, Fertilizer and Commercial Bank sectors.

The Index lost more than 1k points on Monday, ahead of the Monetary Policy Committee (MPC) meeting scheduled later during the day, we witnessed caution and as well as some profit taking by investors. MPC decided to keep the policy rate unchanged at 22%, for the 7th consecutive time. MPC noted that level of inflation was still high and commodity prices appeared to have bottomed out with recent geo-political events further adding uncertainty. It pointed out that outlook remained susceptible to risks due to the upcoming budgetary measures and potential impact of resolution of circular debt. It certainly dampened investors' sentiments and prompted further profit taking in the market as the index underwent some further correction, before staging a sharp reversal on Friday. April-24 inflation clocked in at 17.3% as against 20.7% in March-24. This is the lowest reading since May-22. Moderating inflation was driven by high base and some disinflationary trends, whereby the MoM prices witnessed modest decline of 0.4% in April (mainly driven the two largest components of CPI basket, as Food inflation witnessed MoM drop of 0.9% while the Housing component saw a MoM drop of 0.4%). The IMF's executive board approved the final tranche of USD 1.1 bn, which brought the total disbursement to USD 3 bn under 9-month Standby Arrangement (SBA) program. This marks the second bailout program the country has completed in the last 8 years after Extended Fund Facility (EFF) USD 6 bn program in 2013-16. SBP's forex reserves clocked-in at USD 8 bn after USD 25 mn increase on a weekly basis. The disbursement of IMF's USD 1.1 bn would reflect in next week reserves, which would take the SBP reserves in excess of USD 9 bn. On political front, the minister for foreign affairs Ishaq Dar has been appointed as deputy Prime Minister as per cabinet division notification.

Tax collection fell short of the target by PKR 53 bn during Apr-24 and was recorded at PKR 654 bn against the target of PKR 707 bn. This takes 10MFY24 collection to PKR 7.36 trn, falling short by PKR 48 bn from the target of PKR 7.41 trn. On fiscal front, the fiscal deficit of PKR 3.9 trillion was recorded in 9MFY24 viz-a-viz PKR 3.1 trillion in SPLY, reflecting an increase of 27%. Total Revenues clocked in at PKR 9.8 trillion, helped by 91% YoY increase in non-tax revenues (due to 2x PDL collection) and on account of 29% rise in tax collection. Total expenditure rose by 37% to PKR 13.7 trillion versus PKR 10 trillion driven by 54% YoY increase in mark-up payments. Primary balance of PKR 1.6 trillion was recorded in 9M, equivalent to 1.5% of GDP in 9MFY24. PBS released trade data for April-24, which showed that trade deficit increased by 3% MoM to USD 2.4 bn. With that, 10MFY24, trade deficit narrowed by 17% to USD 19.5 bn, down from USD 23.5 bn in same period last year. Exports have risen by around 9% (up by USD 2.1 bn), while imports are down by around 4% on a YoY basis (down by around USD 1.9 bn). With the conclusion of recent IMF loan program, the authorities have already initiated discussions with IMF for a larger and longer program with more focus on reforms. The IMF is scheduled to visit Pakistan in mid-May to hold detailed discussions which will be closely followed by investors. The size and conditions of the program will set the stage for equities in the near term. The geo-political tensions in the Middle East have also eased off in recent days and crude oil prices have also retreated from the recent highs, that augurs well for the country. A 50-member business and official delegation from the Kingdom of Saudi Arabia (KSA) is due today to conduct meetings with focus on trade deals and investment in joint ventures with Pakistani entrepreneurs. Talks are scheduled for May 6-7 in various sectors of economy. The visit of Saudi Crown Prince is also slated later during the month, where authorities expect crystallization of some of the G2G and B2B projects. It will also be of keen interest to investors and may provide short term impetus to the market. In the medium to long term, we expect strong momentum in equities to continue given the favorable conditions in the backdrop of 1) steep decline in Policy Rate expected in CY24 on the back of visible disinflationary trends, 2) sizeable inflow of foreign and institutional liquidity into equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations.

The cumulative PAT of KSE-100 Index has surged by 27% in 9MFY24 over the previous year which is why despite solid stock market performance, the valuation still remains inexpensive, as evidenced by the forward PE multiple of 4.5 times. 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.