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Weekly Stock Market Commentary

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The stock market performance remained listless during the outgoing week ending 9th August, as the benchmark KSE-100 index gained 344 points, translating into a week on week return of 0.4%. The majority of the index gains were driven by Oil & Gas Exploration Sector, with Mari Petroleum Company Limited (MARI) alone contributing 447 points to the index. On the contrary, Fertilizer and Power Generation & Distribution sectors contributed negatively to the index.

The equities started off the week on a frail note, and the KSE-100 Index fell sharply on Monday. The equities have been in the consolidation phase in the recent weeks due to profit taking by opportunist investors and due to rising uncertainty on the domestic & international front and possibility of escalation in conflict in the Middle East. The global equity markets witnessed major upheaval on Monday, as unwinding carry trade in Japan, after Japanese central bank increased its target policy rate to 0.25%, up from a range of zero to 0.1%, had a cascading impact on the world-wide equities, which further unnerved domestic investors. The activity remained muted during the two subsequent days until MARI announced its highest ever quarterly profit of PKR 25.7 bn (EPS: PKR 192.3), along with a cash dividend of PKR 134/sh. and a whopping 800% bonus dividend. The result single-handedly changed the investors' sentiments and sparked excitement into the lackluster market, propelling the stock to hit the upper circuit for two consecutive days. Other Oil & Gas companies also emulated Mari's performance as KSE-100 Index recovered during the last 2 days of the week.

In an effort to seal the deal with International Monetary Fund (IMF) for a USD 7 bn program, Finance Minister Muhammad Aurangzeb informed that China, KSA, and UAE have agreed to roll over USD 12 bn debt for one year. The IMF Executive Board is scheduled to meet on 28th Aug to likely approve USD 7 bn Extended Fund Facility (EFF), as Pakistan has fulfilled a key pre-condition by securing debt rollovers from bilateral creditors. To tap into international capital markets, Pakistan has appointed an adviser in China to facilitate the issuance of Panda Bonds as five Chinese banks expressed interest in the offering.

On the economic data front, remittance surged nearly 48% YoY to reach at USD 3 bn in Jul-24. The numbers declined slightly by 5% on MoM basis; however, the strong trend in remittances persisted as the country recorded inflows in excess of USD 3.0 bn in May and June also. Inflows from Roshan Digital Account (RDA) fell by 11% to USD 200 mn during Jun-24, down from USD 224 mn last month. This bring the total inflows to reached at USD 8.26 bn through RDA since its launch.

In the latest T-bill auction, the government raised PKR 355 bn against the target of PKR 210 bn. The cut-off yields fell significantly, with the 3-month paper yield decreasing by 52 basis points to 18.98%, the 6-month paper yield dropping by 54 basis points to 18.75%, and the 1-year paper yield falling by 50 basis points to 17.74%.

On sector news front, cements local dispatches declined by 11.4% YoY during Jul-24 as dealers were on the strike due to increase in advance tax on wholesalers and retailers in the FY25 budget. Auto industry continue to face supply chain challenges as Indus Motor Company temporarily closed its production plant for three days this week due to low levels of inventory, while Pak Suzuki Motor Co. had also shut down its plant as government was not allowing to release CKD kits from the port, resulting in detention and demurrage charges for the company.

In terms of outlook, though domestic political uncertainty and fluid global and regional events (upcoming elections in US, rising tensions/escalations in Middle East) have unhinged investors' confidence. However, the medium to long term outlook for equities appear promising, underpinned by gradually improving macro-economic indicators and resilient corporate earnings despite slowing demand and still elevated interest rates. As the FM, Muhammad Aurangzeb, has expressed optimism on securing the deal from IMF Executive Board on 28th August, it will provide a clear road map of macro-economic framework going forward. It will also ensure fiscal prudence and provide support to the FX reserves of the country, both of which will strengthen the confidence of local as well as foreign investors. The monetary easing cycle will catalyze flow of liquidity and will likely lead to PE expansion of the market which is still at around 4.7 times despite robust performance in the outgoing year. Additionally, the market boasts a healthy dividend yield of 8-9%. For investors eyeing a medium to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds.

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