Market Update

Strategy

Market Profitability: KSE100 Earnings up by +22%q/q during Sep-22 quarter

- With Sep-22 quarter corporate earnings season to an end, we have compiled KSE100 profitability for listed companies. Based on the data compiled, total market profitability increased to PKR 265.9bn up by +22% q/q or +4% y/y.
- On a sequential basis, the major contributions towards the increase is by Oil & Gas Exploration sector reporting PKR 101bn earnings (+2.7xq/q) followed banks reporting earnings of PKR 80.5bn (+73%q/q). These two cumulative have a 68% weight in overall market profitability.
- Looking ahead, elevated global energy prices particularly with approaching winter season will further complicate country already aggravated energy situation. Moreover, overlooking other global factors, domestic demand outlook has turned unfavorable following Sep-22 flooding. Hence we suspect earnings are likely to see further deterioration in coming quarters.

We review Sep-22 corporate earnings for KSE100.

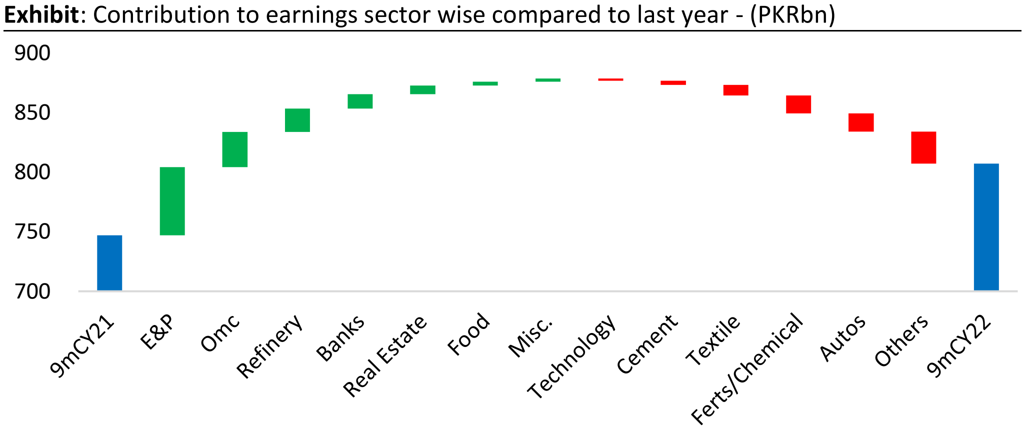
What has happened to earnings in Sep-22 Quarter?

With Sep-22 quarter corporate earnings season to an end, we have compiled KSE100 profitability for listed companies. Based on the data compiled, total market profitability increased to PKR 265.9bn up by +22% q/q or +4% y/y. This takes, 9MCY22 cumulative earnings to PKR 807bn an increase of +8%y/y as compared to the same period last year earnings of PKR 747bn. Annualizing the earnings data to 2022, KSE 100 profitability may likely be headed for a PKR 1,076bn a growth of +7.3%.

E&Ps and Banks contributed to earnings growth during Sep-22 quarter

On a sequential basis, the major contributions towards the increase is by Oil & Gas Exploration sector reporting PKR 101bn earnings (+2.7xq/q) followed banks reporting earnings of PKR 80.5bn (+73%q/q). These two cumulative have a 68% weight in overall market profitability. Key slowdown was witnessed in power sector reporting a loss of PKR 9.8bn primarily owing to PKR 16.3bn loss in KEL.

Exhibit: Contribution to earnings sector wise compared to last year - (PKRbn)



Source: PSX, Capital Stake, IGI Research

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Annualized earnings? Where do we stand?

To highlight market profitability got a major earnings push during 2021, whereby earnings crossed PKR 1.0trn mark compared to 5 years historic average of PKR ~625bn during 2016 to 2020. Simply annualizing the 9MCY22 earnings data, we estimate KSE 100 profitability may likely be headed for a PKR 1,076bn a growth of +7.3%. This is despite the challenging macroeconomic environment and contractionary domestic fiscal policies.

However, a closer look at market earnings suggest that if we exclude banks and E&Ps sector – mainly as the sector benefited on exchange rate and oil prices – overall market profitability is down by 37%q/q or 34%y/y to PKR 84bn.

Exhibit: Historical KSE100 Profitability quarter wise (PKRbn)

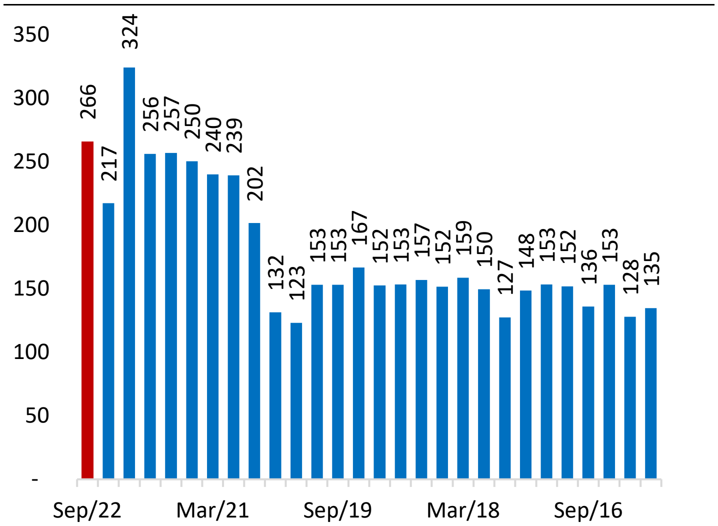
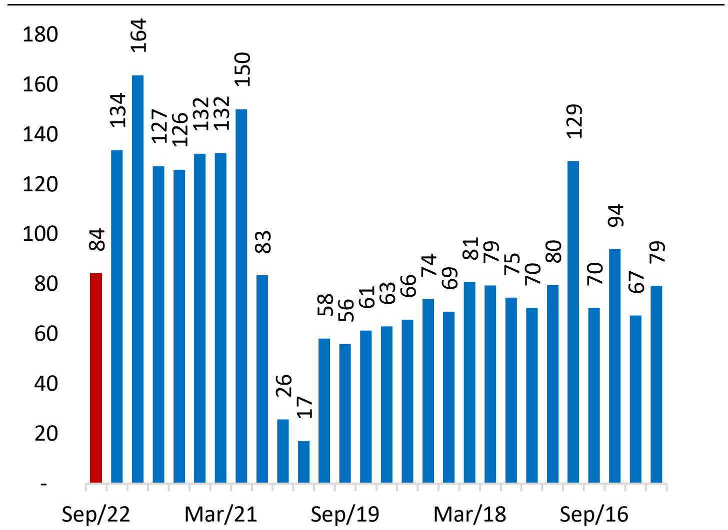


Exhibit: KSE100 Profitability (excluding Banks & E&Ps) (PKRbn)



Source: PSX, Capital Stake, IGI Research

Earnings outlook

Looking ahead, elevated global energy prices particularly with approaching winter season will further complicate country already aggravated energy situation. This present problems on multiple fronts. But more importantly, on inflation front as such that rising international energy prices will lead administrative price hike for end consumer (domestic and commercial). This will elongate inflation cooling-off period which was initially anticipated to show gradual descend from starting 2023.

"Nevertheless, headline inflation is still projected to gradually decline through the rest of the fiscal year [FY23], particularly in the second half. Thereafter, it should fall towards the upper range of the 5-7 percent medium-term target by the end of FY24."

SBP monetary Policy Statement Oct-22 (link)

Moreover, overlooking other global factors, domestic demand outlook has turned unfavorable following Sep-22 flooding. Hence we suspect earnings are likely to see further deterioration in coming quarters.

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