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Weekly Stock Market Commentary

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During the outgoing week ending on 7th June, the equity market remained in the bearish territory with the benchmark KSE-100 Index losing 2,124 points (-2.79% WoW). It was a broad-based decline; however, the index was majorly dragged down by Commercial Banks, Oil & Gas Exploration, and Fertilizer sectors.

The outgoing week remained marred with uncertainty ahead of the announcement of FY25 budget, which is scheduled on 12th June. Investors were dismayed by the various budgetary proposals that came to the fore. Other than imposition of higher taxes & withdrawal of various exemptions extended to many sectors, investors were dispirited by the rumor of higher tax on capital gains on stocks and higher withholding tax on receipt of dividends. It led to a broad-based sell-off in the market which remained in negative zone in each of the 5 trading sessions of the week.

Investor looked past several positive news during the week. Firstly, May-24 inflation clocked in at 11.8% as against 17.3% in April-24, which was materially below consensus estimates (in the range of 13.5% to 14.5%). It is pertinent to note that this was the lowest reading since Nov-21. Although it was partly due to high base effect but the ongoing disinflation particularly in food prices had a major role that led to 3.2% MoM drop in CPI basket during May. Following this inflation reading, secondary market yields on T-Bills across various tenors witnessed a reduction in the range of 27 basis points to 48 basis points during the week. FBR tax collection during May-24 clocked in at PKR 760 bn, as against PKR 572 bn in SPLY, reflecting 33% YoY growth. The cumulative tax collection during 11MFY24 was reported at PKR 8.1 trillion, falling short by PKR 40 bn against the target for 11MFY24. Trade deficit during May-24 improved by 15% MoM to USD 2.1 bn compared to USD 2.5 bn reported earlier in April-24. As a result, cumulative trade deficit (goods) narrowed by 15% to USD 21.7 bn, down from USD 25.6 bn in same period last year. Exports have risen by around 11% (up by USD 2.7 bn), while imports have contracted by around 2% on a YoY basis (down by USD 1.2 bn). Lastly, on the last trading day of the week, the highest ever monthly remittances number of USD 3.24 bn (+54%/15% on YoY/MoM basis) of May-24 caught market participants by positive surprise. This takes 11MFY24 remittances to USD 27.1 bn, up by 8% YoY.

Other news-flow centered around various revenue measures being discussed between the govt and the IMF. Reportedly, the annual tax collection target is likely to be set at PKR 12.9 trn. Such a significant jump in tax collection target from last year's target of PKR 9.4 trn is likely to be met with the imposition of PKR 2 trn new taxes in the budget. To meet this tax target, the IMF has reportedly suggested bringing several dozen items into the standard rate of General Sales Tax, including unprocessed food, stationery items, medicines, POL products, and several others. Also, the IMF has recommended eliminating the fifth schedule, removing exemptions from the sixth schedule, and removing the reduced rate of tax under the eighth schedule of Sales Tax. IMF also wants to tax the pension income beyond a certain threshold. Moreover, IMF is also insisting upon reducing the tax slabs of salaried and non-salaried persons, in addition to raising the maximum threshold of these people. On external financing, govt is also targeting to tap USD 1.5 bn in Euro bonds/Sukuk and Panda Bonds from the international market to meet the country's FY25 external financing needs.

In the corporate sector, Aramco completed the acquisition of a 40% stake in Gas & Oil Pakistan Ltd. (GO), marking a significant milestone in its global retail expansion strategy. This investment is poised to enhance the dynamics of Pakistan's energy sector, signaling robust foreign interest and potential growth.

The market has risen at a blistering pace since the start of FY24, whereby the KSE-100 Index has surged by around 78%. The improving macro-economic conditions have restored investors' confidence and the continuation of this improvement will sustain this rally in our view. However, in the short term, we believe that there might be some consolidation ahead of the budget as it is expected to entail several new revenue measures that may dampen investors sentiments, but will be crucial to secure the new bailout program which is critical for the country. The conditions and size of the new loan program will also shape the sentiments and direction of the market. SBP is also scheduled to announce the monetary policy on Monday, 10th June. With steep decline in inflation, the market is expecting at least 100-200 basis points cut in rates and any deviation in decision will also have bearing on the market in the short term. However, in the long term, we expect the market to sustain its momentum. After the endorsement of the budget by the parliament, IMF is also likely to approve the new loan program for the country, which will be bigger in size and longer in duration. We would also like to reiterate that despite the solid stock market performance, the valuation still remains inexpensive, as evidenced by the forward PE multiple of 4.6 times. 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.