Weekly Stock Market Commentary

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The equity market turned negative during the outgoing week ending 28th Jun, as the benchmark KSE-100 index lost 366 points, marking a week on week decline of 0.5%. The majority of the index losses were contributed by Fertilizer and Power Generation & Distribution sectors. However, this week also marked the end of FY24, where KSE-100 remained the best-performing market globally, providing returns of 89% (95% in USD terms). This represents the highest annual return by the market in the last two decades, driven mainly by the Banks, Fertilizer, and E&P sectors. The activity at the bourse was robust with average traded volumes reaching the second-highest levels in history at 461 mn shares. The buying in Foreign Investor Portfolio Investment (FIPI) were USD 141 mn during FY24, which is the highest level in last 10 years.

The government passed the Federal Budget 2024-25 on 28th Jun-24 from the National Assembly, incorporating a few amendments to the Finance Bill announced on 12th Jun-24. The key changes included in the amended bill documents are: i) sales tax benefits for FATA/PATA extended for another year vs gradual increase in sales tax proposed, ii) Individuals/AOPs earnings exceeded above PKR 10mn would have to pay a surcharge of 10% on their tax amount, iii) rate of Capital Gains Tax if dividend receipts are less than capital gains reduced to 15% vs 20% announced earlier, iv) levy on petrol and diesel to be PKR 70/litre vs PKR 80/litre proposed in Finance Bill, v) exports income would charge in normal income tax regime, which is same as announced in Finance Bill, vi) FED on Cement bags increased to PKR 4/bag compared to PKR 3/bag announced earlier, and vi) Hybrid vehicles reduced sales tax would continue till 30th Jun-26 compared to bring them at standard sales tax proposed in Finance Bill.

Several economic data figures were also released during the week. The current account turned into a deficit of USD 270 million, mainly led by the highest-ever monthly outflow of USD 1.5 billion in primary income likely due to dividend repatriation and interest payments. The deficit comes after consecutive surpluses recorded in the last 3 months, taking the 11MFY24 deficit to USD 464 million (-89% YoY) compared to USD 3.8 billion recorded last year. The repatriation of profits and dividends surged to a record USD 918 million (+476.5% YoY) during May-24 likely due to a backlog of unpaid dividends and profits to overseas investors. This takes 11MFY24 numbers to USD 1.7 billion compared to USD 257 million last year, depicting a significant increase of 561% YoY. The State Bank of Pakistan (SBP) also released Foreign Direct Investment (FDI) data, showing the country fetched USD 1.7 billion FDI during 11MFY24 compared to USD 1.5 billion last year (+15% growth YoY). Forex reserves held by SBP dipped below USD 9 billion as week-on-week reserves declined by USD 239 million to USD 8.9 billion due to external debt repayment, while total reserves witnessed a decline of USD 207 million to clock-in at USD 14.2 billion.

In the recent T-Bills auction, the government raised PKR 777 billion against the target of PKR 450 billion. The cut-off yield remain unchanged for 3M at 20.15%, while 6M and 12M reduced by 1bps, and 41 basis points to reach 19.96%, and 18.54%, respectively.

Improving macro-economic conditions have restored investors' confidence, and the continuation of this improvement will sustain the phenomenal rally at PSX. However, in the short term, we believe there might be some consolidation till Pakistan secures a new IMF bailout program, which is highly likely. The conditions and size of the new loan program will also shape the sentiments and direction of the market. We reiterate that despite the solid stock market performance, the valuation remains inexpensive, as evidenced by the forward PE multiple of 4.8 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.