Weekly Stock Market Commentary

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The equity market remained range-bound during the outgoing week ending 12th July, as the benchmark KSE-100 index lost 269 points, translating into a slight week on week decline of 0.3%. The majority of the index losses were contributed by Oil & Gas Exploration, Commercial Banks, and Automobile Assembler sectors.

Some consolidation was witnessed in the equity market in the outgoing week and the ongoing negotiations with IMF and associated conditions for the new Extended Fund Facility (EFF) shaped the investors' sentiments. The lender is requiring imposition of up to 45% tax on agriculture income as it constitutes around 24% of the total economy but does not even contribute 0.1% of the tax collection. The wholesale and retail trade also remain a focus area for the lender as well as for the government to bring it into tax net to broaden the tax base and enhance the revenues. Federal Board of Revenue (FBR) has also drafted simple tax system to bring trader, shopkeepers and retailers by imposing market/area wise flat tax rate based on the locality of shops/outlets in 42 cities of the country.

The strong trend in remittances number continued as the country recorded second highest monthly inflow of USD 3.2 bn in Jun-24, though down 2.6% MoM from an all-time high number in May-24, but was up massively by 44.4% on a YoY basis. This takes the total inflows to USD 30.3 bn in FY24 compared to USD 27.3 bn last year, up 10.7% YoY. Pakistan's external debt & liabilities have soared to USD 130.2 bn by the end of May-24 as compared to USD 124.3 bn at Jun-23 end. The government's borrowing recorded at PKR 8.6 trn in FY24, which is more than twofold of PKR 3.7 trn borrowed amount last year. As per estimates, the exchange companies sold around USD 425 mn to interbank in Jun-24, taking the total amount to USD 4.0 bn sold to banks during the course of FY24. Forex reserves held by SBP increased by USD 16 mn on a weekly basis to reach at USD 9.4 bn, while the fx reserves held by commercial banks increased by USD 56 mn to USD 5.2 bn. This takes the total reserves to USD 14.6 bn as of 5th July.

In a recent T-bill auction, the government raised PKR 442 bn against the target of PKR 150 bn. The cut-off yields for 3M and 6M declined by 10 and 18 bps to 20.05% and 19.78%, respectively, while the cut-off yields for 12M remain unchanged. PIB auction also took place during the week, where the government raised PKR 81 bn against the target of PKR 190 bn. The cut-off yields for 3-yr and 5-yr bonds remain unchanged at 16.60% and 15.45%. On sectoral front, passenger car sales posted an 18-month high number of 10,128 units during Jun-24, taking FY24 number to 81,577 units (down 16% YoY).

During FY24, Pakistan's stock market emerged as the world's best-performing stock market, with the highest PKR/USD returns of 89%/94% over the past 20 years. We believe the stock market bull run is set to continue, though the majority of returns for FY25 will be driven by re-rating and dividends. On the other hand, improving macroeconomic conditions are expected to continue strengthening investors' confidence. On the weekend, on 12th July, the IMF staff and the Pakistani authorities have reached a Staff-Level Agreement (SLA) on a 37-month EFF Arrangement of about USD 7 bn, aiming to cement macroeconomic stability and create conditions for a stronger, more inclusive, and resilient growth. The key policy goals are to strengthen fiscal & monetary policy and to broaden the tax base, improve SOE's management, strengthen competition, secure level playing field for investment, enhance human capital, and scale up social protection. Though this agreement is subject to approval by the IMF's Executive Board and the timely confirmation of necessary financing assurances from Pakistan's development and bilateral partners, we expect the country to secure the bailout from IMF very soon, which should further strengthen the confidence of both local and foreign investors. We reiterate that despite the solid stock market performance, valuations remain inexpensive, as evidenced by a forward price-to-earnings (PE) multiple of 4.8 times. Additionally, the market boasts a healthy dividend yield of 8-9%. For investors with a medium- to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds.