Weekly Stock Market Commentary

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The KSE 100 benchmark kicked off the new fiscal year on a strong note, posting a 2.2% week-on-week (WoW) return for the week ending on July 5th. During the week, the benchmark index gained 1,767 points, closing at a record level of 80,212. The majority of the index gains were contributed by the Commercial Banks, Oil & Gas Exploration, and Oil & Gas Marketing sectors.

Talks between the International Monetary Fund (IMF) and Pakistan continued regarding a larger bailout package. During the week, the government reportedly met the IMF's two conditions of increasing gas and electricity tariffs. Specifically, the government increased the gas tariff for the captive industry to PKR 3,000/mmbtu (+9%) while maintaining similar rates for other consumers, against the Oil and Gas Regulatory Authority's (OGRA) recommendation for an across-the-board tariff decrease. Additionally, the government submitted increased electricity tariffs to the National Electric Power Regulatory Authority (NEPRA) for final approval. While industrial sector tariffs saw a reduction of 7-8%, residential consumers experienced a tariff increase of 20-50% across different consumption brackets. Both of these developments are expected to support Pakistan's efforts to secure a larger bailout package from the IMF.

The ongoing disinflation trend paused in June 2024 as the headline Consumer Price Index (CPI) rose to 12.6%, up from 11.9% in May 2024, primarily due to rising prices of perishable food items, electricity charges, clothing, and health-related expenses. This brings the average inflation for FY24 to 23.4%, down from 29.2% in FY23. On the fiscal front, the Federal Board of Revenue (FBR) successfully exceeded its tax collection target of PKR 9,252 billion by PKR 54 billion. The revenue collection growth stands at 30% year-on-year (YoY), with the FBR adding PKR 2,142 billion during the outgoing fiscal year. Owing to a stable exchange rate and attractive returns on Treasury bills (T-bills), foreign inflows for T-bills in June reached an impressive USD 232 million, a significant monthly inflow last seen in 2020 during the peak of the COVID-19 pandemic. Equities also continued to attract foreign investors, with weekly net inflows of USD 7.6 million compared to last week's net inflows of USD 2.5 million. However, FTSE Russell downgraded Pakistan's market status from secondary emerging to frontier market, citing failure to meet the minimum securities count requirement. This decision follows Pakistan's placement on the watch list in September 2023 due to a steady decrease in its index weight within FTSE Russell global benchmarks. The reclassification will take effect from September 23, 2024 and may result in outflows from the stock market.

In other economic data releases, Pakistan's trade deficit for June 2024 was recorded at USD 2.3 billion, showing a 15% month-on-month (MoM) and 30% year-on-year (YoY) increase. This brings the FY24 trade deficit to USD 24.0 billion, a 12% YoY decrease. During FY24, Pakistan's exports increased by USD 2.9 billion (+10% YoY) to USD 30.6 billion, driven by a 78% YoY surge in rice exports, which totaled USD 3.8 billion.

In sectoral developments, Pakistan's cement industry dispatches declined by 13% YoY to 3.5 million tons. This brings FY24 dispatches to 45.2 million tons, a slight 2% YoY increase. Additionally, fertilizer offtake for June 2024 was recorded at 482 kilotons, reflecting a 21% YoY decline primarily due to the closure of Engro's Enven plant. Lastly, in key company notices, CPHL entered into a memorandum of understanding (MOU) with an Indian company for the exclusive distribution of key active pharmaceutical ingredients (APIs).

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 investor confidence. However, in the short term, we anticipate some consolidation until Pakistan secures a new IMF bailout program post-budget announcement. The conditions and size of the new loan program will also influence market sentiment and direction. 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.