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Weekly Stock Market Commentary

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The equity market showed muted performance during the outgoing week ending on 19th July, as the benchmark KSE-100 index just gained 173 points, translating into a week-on-week return of 0.2%. The majority of index gains were contributed by the Oil & Gas exploration, Technology & Communication, and Fertilizer sectors.

Trading activities during the week remained limited due to two public holidays on Tuesday & Wednesday. The market kicked off the week on a strong note after Pakistan reached Staff Level Agreement with IMF for a USD 7bn program. However, some profit taking was witnessed towards the end of the week as investors preferred to book gains amidst rising global and local political noise. GoP also continues to face challenges over increased taxation measures on the retail sector from different quarters of the economy. After Petroleum dealers strike, Cement dealers and flour mills have also called out country wide strike to oppose Govt's increased WHT tax measure announced in FY25 budget.

During the week, IMF has released its "World Economic Outlook" wherein the fund has maintained GDP growth forecast for Pakistan at 3.5% for FY25, slightly below the Govt target of 3.6%. Over the week, Fitch also released Country Risk Report on Pakistan wherein the rating agency has forecasted 3.2% GDP growth for FY25. In another important development, Govt is expected to request Chinese authorities for rescheduling of CPEC IPPs debt of USD 15.4bn by five years. The kay macro data released during the week included:

- Pakistan's June-24 current account deficit: USD 329mn, compared to a surplus of USD 490mn in the same period last year (SPLY).
- FY24 current account deficit: USD 681mn, significantly lower than USD 3,275mn in the previous year, marking the lowest in 13 years.
- IT exports for June-24: USD 298mn, up by 33% year-over-year (YoY).
- FY24 IT exports: USD 3.2bn, showing a 24% YoY increase.
- Foreign Direct Investment (FDI) in June-24: USD 344mn, up by 190% YoY.
- FY24 FDI: USD 1,519mn, marking a 153% YoY increase.
- May-24 Large Scale Manufacturing (LSM) index growth: 7.4% YoY, the highest in the last two years.
- State Bank of Pakistan's (SBP) reserves: Stable at USD 9.4bn, with a weekly increase of USD 19mn.

In key corporate developments, FFC's board of directors has in principle approved amalgamation of FFBL into the company by the way of scheme of arrangement. The potential amalgamation is expected to allow for certain synergies which are likely to add value to the combined enterprise. Also, in PSX filings, Pakistan Oilfields has announced that significant quantity of hydrocarbons has been encountered from Jhandial-03 well. POL has 80% stake in this well. In another important development in the Fertilizer sector, Fatima fertilizer has decided to attempt procurement of various instrument of Agritech instruments (i.e. Ordinary Shares, Convertible Preference Shares, Non-Convertible Preference Shares and Zero Coupon Bonds /Sukuks) held by banking and other financial institutional investors of Agritech".

During FY24, Pakistan's stock market emerged as the world's best-performing stock market, with PKR/USD returns of 89%/94%. 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. Re-entry into the IMF program will ensure fiscal discipline, aiming to cement macroeconomic stability and create conditions for a stronger, more inclusive, and resilient growth. 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.