

Monthly Market Perspectives

June 2024 - PSX up 3.4%MoM - (+2,566 points)

- PSX hits all-time high of 80,060 points. KSE-100 index up 89% during FY24.
- The IMF expresses satisfaction over an ambitious Federal Budget for FY25.
- SBP cuts policy rate by 150bps amid significantly positive real-interest rates.
- Some stability restored. However, multiple challenges ahead.

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KSE-100 index up 3.4%MoM in June 2024 (+2,566 points)

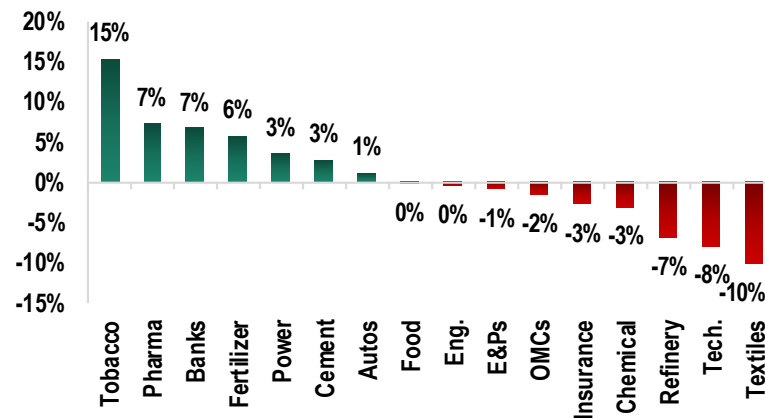
Monthly Index Performance:

- KSE-100 index closed at 78,445 as of Jun'24, up 3.4%MoM (+2,566 points). Net FIPI inflow clocked-in USD 1.8Mn during Jun'24.
- **Average value traded in Jun'24:** PKR 16.5Bn – down 20%MoM.
- **Average volume traded in Jun'24:** 403.0Mn shares – down 28%MoM.

Key triggers for the market during Jun'24

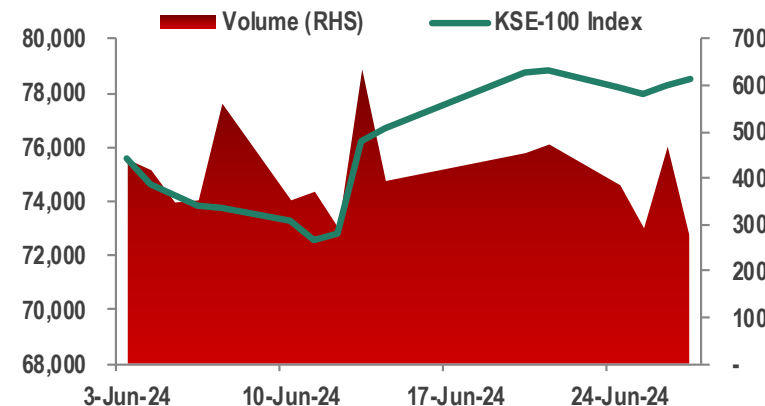
- Federal Budget for FY25 presented on the lines of IMF prescriptions; outlining additional taxation measures of PKR 3.7Trn. Direct taxation up 48%YoY.
- SBP-MPC cuts the benchmark policy rate by 150bps to 20.50%.
- FY24 real GDP is provisionally expected to grow at 2.38%. LSMI was up ~6% in Apr'24, translating into LSM growth of 0.45% during Jul-Apr'24.
- Electricity prices for industry and export sector cut by PKR 10.69/unit.
- MS and HSD prices reduced by 5% and 2%, respectively during Jun'24.
- Headline inflation in May'24 falls to just 11.8%YoY.
- May'24 CA turned a deficit of USD 270Mn. 11MFY24 CAD stood at USD 464Mn, down ~88% over the SPLY. May'24 remittances surge to USD 3.2Bn. 11MFY24 Trade Deficit clocked-in at USD 21.7Bn, down 15.3% over the SPLY.
- PKR remains stable with the SBP reserves at ~USD 9Bn.
- FDI was up 15%YoY during 11MFY24, recorded at USD 1.7Bn.

Major Sector-wise return - Jun'24



Source: PSX & TSL Research

KSE-100 Index Performance - Jun'24



Source: PSX, TSL Research

FY24 Real GDP to grow 2.38%; FY25 GDP Growth target of 3.6%

- Real GDP growth in FY24 is likely to be 2.38% driven mainly by the strong performance of the Agriculture sector (up 6%YoY) with both Industrial & Services sectors growing only marginally. For FY25, the Government is targeting real GDP growth of 3.6%, driven on the back of 2%, 4.4% and 4.1% growth in Agriculture, Industrial and Services sectors, respectively.

KSE-100 index crosses 80,000 level; hinges upon optimistic outlook

- KSE-100 index reached a new all-time high during the month, surpassing 80,000 points, driven by positive sentiment on the macro front including strong expectations of subsiding inflation and rate cuts, as well as continued stability on the external front. Consequently, net FIPI buying in Jun'24 stood at ~USD 1.8Mn.
- Going forward, valuations remain cheap with further upside likely to come in the form of more stabilization on the economic front, political consensus and conclusion of a new IMF program, negotiations for which are already ongoing.

Rupee remains resilient amid stable reserves and outlook

- SBP's FX reserves continued to maintain their ground, hovering around ~USD 9Bn as of Jun 24, 2024 majorly driven by the strategic dollar purchases made by the SBP coupled with the receipt of final tranche of USD 1.1Bn under the SBA. Wherein, the SBP aims to increase its reserves further during next year.

- Furthermore, May'24 current account balance posted a deficit of ~USD 270Mn, down 2.7xYoY, after consecutive months of surplus, despite strong remittances. 11MFY24 CAD is down 88%YoY. FY25 CAD is estimated to clock-in ~1.2-1.4% of the GDP.
- Similarly, remittances clocked-in at ~USD 3.2Bn, posting a growth of 54% over the SPLY and 15%MoM on account of Eid-ul-Adha and Government initiatives. Resultantly, 11MFY24 remittances stand at over USD 27Bn, up 8% over the SPLY.
- Moreover, as per the SBP foreign dividend and profit repatriation FY24TD stands at over USD 2Bn. Also, net FDI during 11MFY24 is up ~15%YoY arriving at ~USD 1.7Bn.

On-going disinflationary trend may see a reversal post budget

- Despite the recent downturn in headline inflation, we anticipate NCPI in FY25 to average ~14% on account of: i) inflationary impact of budgetary measures including increase in WHT rates and withdrawal of exemptions; ii) increase in utility tariffs; iii) uptick in fuel prices as international oil prices rise along with higher PDL; and iv) PKR devaluation in the build-up to the next IMF program as trade flows more freely.
- However, for now real-interest rates are significantly positive even after a 150bps cut in the policy rate by the SBP. But markets remain watchful of the fluid inflation scenario. Hence, more substantial monetary easing will be subject to the forward NCPI.

Additional taxation measures may hurt consumption

- The proposed measures i.e. PKR 1.8Trn in additional income tax and PKR 1.3Trn in additional sales tax coupled with PKR 267Bn and PKR 348Bn in additional Customs Duty & FED, respectively, are likely to hit consumption and aggregate demand, as the common man's disposable income is squeezed. This is also likely to increase inflation going forward. Higher taxation coupled with higher inflation due to increases in utility tariffs etc. may make it challenging for the Government to achieve its taxation targets.

Colossal mark-up payments continue to hit fiscal balance

- Gross public debt as of Apr'24 stands at PKR 66Trn, up 13%YoY, of which 67% belongs to domestic lenders mainly scheduled banks. Consequently, mark-up payments during 9MFY24 are up 54%YoY. For FY25, mark-up payments are projected to increase to PKR 9.8Trn (~94% of forecast Federal Revenue) - culminating in a target fiscal deficit of 5.9% of GDP, 92% to be financed through domestic bank borrowings according to the Budget Brief.

External risks are significantly high

- The IMF in its latest Staff Report has projected Pakistan's gross external financing requirements at ~USD 124Bn over FY25-29. A significant portion of which is expected to come from borrowings which means timing will be of essence in securing another Extended Fund Facility from the IMF.

- Accordingly, the IMF has flagged Pakistan's external risks as significantly high. As per the SBP, Pakistan's expected FX debt repayments over FY25 stand at ~USD 15.6Bn as of Apr'24.

Privatization of SOEs on cards for the coalition Government

- The Government has been diligently advancing its agenda to privatize SOEs, with an initial emphasis on divesting loss-making entities, followed by other SOEs. It is noteworthy that privatization has been a pivotal requirement from the IMF to address the fiscal drag of inefficient SOEs effectively. Significant progress in this regard has been made to privatize PIA very soon.
- Also, the Government along with the SIFC is playing an active role in attracting foreign investment in the country. Recently, the Government has approved settlement of PKR 170Bn in TFCs issued by the Power Holding Limited to OGDC as part of its efforts to reduce circular debt and improve OGDC's balance sheet in order to attract potential foreign investment.

Political uncertainty to remain a key downside risk for economy

- The IMF has identified political uncertainty as a significant downside risk to the economy going forward. In particular, it has referred to the policy slippages and delays as a result of social unrest in the aftermath of economic reforms. Most of these reforms are likely to have significant repercussions for inflation. Conflict between key stakeholders of the country could also make it difficult to reach a national consensus on key economic issues.

Key highlights of the Federal Budget FY25 – PKR 18.9Trn outlay

- **GDP growth target:** 3.6%. **Inflation target:** 12%.
- **FBR tax collection target:** ~PKR 13Trn (up 40%YoY).
- **Non-tax revenue target:** ~PKR 4.8Trn (up 64%YoY).
- **Current expenditure target:** ~PKR 17.2Trn (up 21%YoY).
- **Primary Deficit:** 1% of GDP. **Fiscal Deficit:** 5.9% of GDP.
- **Sector-wise GDP growth targets:** i) Agriculture: 2.0%; ii) Industrial sector: 4.4%; and iii) Services sector: 4.1%
- PKR 1.2Trn allocated under Federal PSDP along with PKR 2Trn budgeted under Provincial PSDP. In addition, PKR 1.4Trn has been allocated for targeted subsidies, mainly for the power sector.
- Petroleum Development Levy target set to PKR 1.3Trn.
- FBR tax collection is expected to post a growth of 48%YoY and 35%YoY in direct and indirect taxes, respectively – exacerbating the burden of taxes on the common man.
- Withdrawal of final tax regime for exporters.
- Minimum wage also increased to PKR 36,000/month.
- FBR tax collection is expected to post a growth of 48%YoY and 35%YoY in direct and indirect taxes, respectively – exacerbating the burden of taxes on the common man.
- Income tax collection to increase 48%YoY i.e. by PKR 1.8Trn driven by mainly changes to the tax slabs as well as tax rates for both the salaried and the non-salaried class and significant increase and expansion of the WHT regime covering dealers, distributors and retailers plus the entire value chain. Tax on dividends, capital gains and immovable property also enhanced.
- Sales tax collection budgeted at PKR 4.9Trn, up 36%YoY, on the back of withdrawal of zero-rated regime, exemptions and special rates and rationalization of GST. Collection of customs duties to go up 20%. FED expected to post a growth of 58%YoY.
- Current expenditure to go up 21%YoY, driven by 18%YoY growth in markup payments i.e. PKR 9.8Trn (~94% of Federal Revenue). Development expenditure including net-lending to jump 80%YoY.
- Majority of the fiscal deficit to be financed through domestic bank borrowings. Privatization proceeds expected to bring in PKR 30Bn during FY25. External sources to fund 8% of the budget deficit.

Macroeconomic indicators continue to show signs of improvement

LSM index grew by 6%YoY in Apr'24; but fell 8% on a sequential basis

- LSMI was up 6%YoY in Apr'24. Similarly, during 10MFY24 the index was up 0.45%YoY, driven by increased production of Food (0.32%YoY), Garments (0.93%YoY), Petroleum Products (0.49%YoY), Chemicals (0.52%YoY), Pharmaceuticals (0.97%YoY) and Furniture (0.54%YoY). The increase was partly offset by drop in the production of Textiles, Tobacco, Cement, Electrical Equipment, Automobiles and Iron & Steel.

FBR's tax collection arrived at PKR 760Bn in May'24, up 33%YoY

- During May'24 FBR surpassed its revised monthly collection target by ~PKR 15Bn. Cumulatively, 11MFY24 tax collection stood at PKR 8.12Trn, up 31%YoY against the target of PKR 8.2Trn.

NCPI arrived at 11.8%YoY in May'24. June'24 NCPI expected at 13.4%YoY

- Jun'24 NCPI is expected to arrive at 13.4%YoY, mainly due to surge in food prices and utilities, despite drop in fuel prices; as well as a lower base. Cumulatively, average NCPI during FYFY24 is expected to clock-in at 24%.

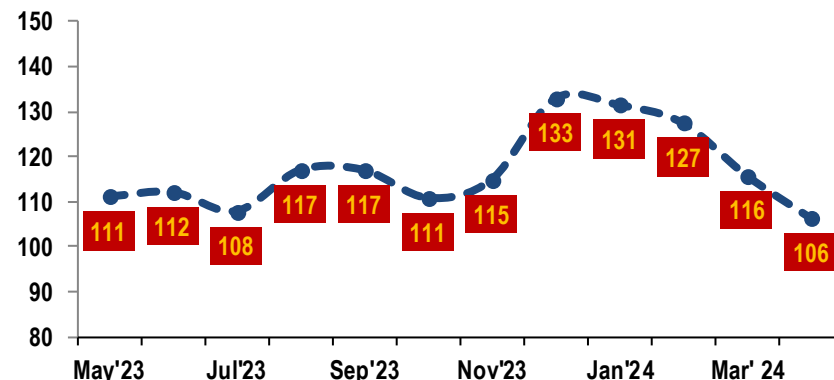
Current Account posted a deficit of ~USD 270Mn in May'24

- After three consecutive months of surplus, the current account turned negative reflecting a deficit of USD 270Mn in May'24. Accordingly, 11MFY24 CAD amounted to USD 464Mn, down 88% over the SPLY.

Jun'24: PKR continues to hold its ground as FX reserves remain stable

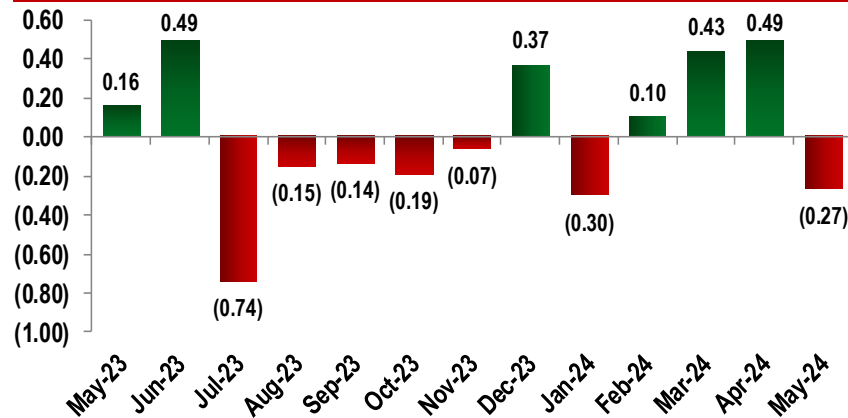
- Currently trading at ~PKR 278/USD, the Rupee continues to remain stable. While, SBP reserves amounted to ~USD 9Bn as of June 21, 2024.

LSMI up 5.8%YoY in Apr'24



Source: PBS & TSL Research

Monthly Current Account Balance (USD Bn)



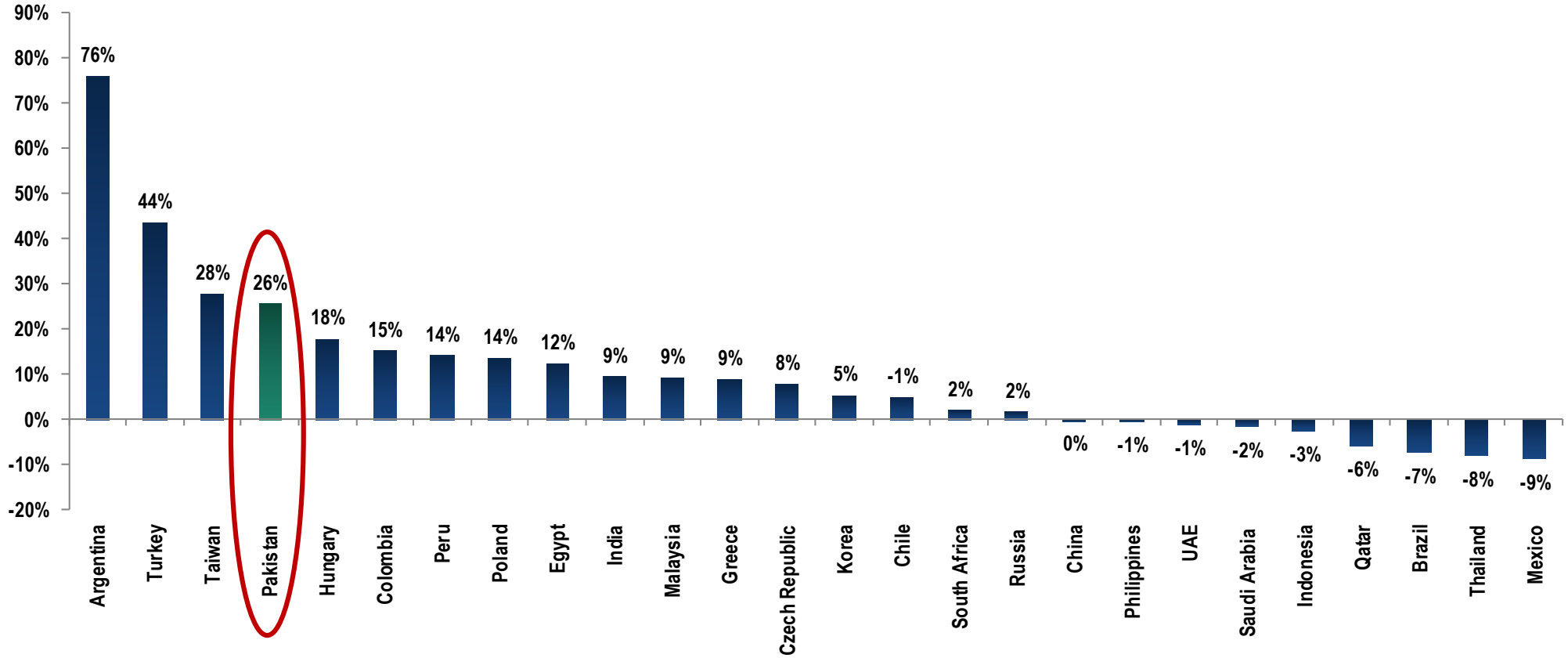
Source: SBP & TSL Research

Forecasts for Key Economic Indicators

Gross Domestic Product		FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25F
Real Growth	YoY %	4.1%	4.6%	6.1%	3.1%	-0.9%	5.8%	6.2%	-0.2%	2.4%	3.5%
Nominal Value	USD (Bn)	314	340	357	322	301	349	375	341	377	425
Monetary Indicators		FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25F
NCPI (% YoY)	FY Avg.	3.9%	4.1%	3.9%	7.3%	10.7%	8.9%	12.1%	29.0%	23.9%	14.1%
Policy Rate (% YoY)	FY Avg.	6.0%	5.8%	6.0%	9.7%	11.8%	7.0%	9.7%	17.5%	21.3%	19.8%
Policy Rate (% YoY)	FY End	5.8%	5.8%	6.5%	12.3%	7.0%	7.0%	13.8%	22.0%	20.5%	19.0%
PKR/USD	FY Avg.	104.2	104.7	109.8	136.1	158.0	160.0	177.5	248.0	283.7	295.9
PKR/USD	FY End	104.6	104.8	121.3	162.0	167.7	157.3	204.6	286.1	281.2	310.6
External Indicators		FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25F
Goods Imports	USD (Bn)	41.3	48.7	55.7	51.9	43.6	54.3	71.5	52.7	52.2	57.5
Goods Exports	USD (Bn)	22.0	22.0	24.8	24.3	22.5	25.6	32.5	27.9	30.6	33.2
Trade Deficit	USD (Bn)	(19.3)	(26.7)	(30.9)	(27.6)	(21.1)	(28.6)	(39.1)	(24.8)	(21.6)	(24.3)
Services Deficit	USD (Bn)	(3.5)	(4.7)	(6.4)	(5.0)	(3.3)	(2.5)	(5.8)	(1.0)	(2.3)	(1.9)
Remittances	USD (Bn)	19.9	19.4	19.9	21.7	23.1	29.4	31.3	27.3	29.6	32.3
Current Account	USD (Bn)	(5.0)	(12.3)	(19.2)	(13.4)	(4.4)	(2.8)	(17.5)	(3.2)	0.1	(5.3)
Foreign Reserves (FY End)	USD (Bn)	23.1	21.4	16.4	14.5	18.9	24.4	15.4	9.2	14.6	17.8
Fiscal Indicators		FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25F
Total Revenue	PKR (Bn)	4,447	4,937	5,228	4,901	6,272	6,903	8,035	9,634	12,200	17,815
Total Expenditure	PKR (Bn)	5,796	6,801	7,488	8,346	9,648	10,307	13,295	16,155	20,588	26,315
Fiscal Deficit	PKR (Bn)	(1,349)	(1,864)	(2,260)	(3,445)	(3,376)	(3,403)	(5,260)	(6,521)	(8,388)	(8,500)
Deficits % of GDP Summary		FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25F
Fiscal Deficit	%	4.1%	5.2%	5.8%	7.9%	7.1%	6.1%	7.9%	7.7%	7.4%	5.9%
Current Account	%	1.6%	3.6%	5.4%	4.2%	1.5%	0.8%	4.7%	0.9%	0.0%	1.2%
Trade Deficit	%	-7.3%	-9.2%	-10.5%	-10.1%	-8.1%	-8.9%	-12.0%	-7.6%	-6.3%	-6.2%

Source: International Monetary Fund, Ministry of Finance, State Bank of Pakistan, Pakistan Bureau of Statistics and TSL Research

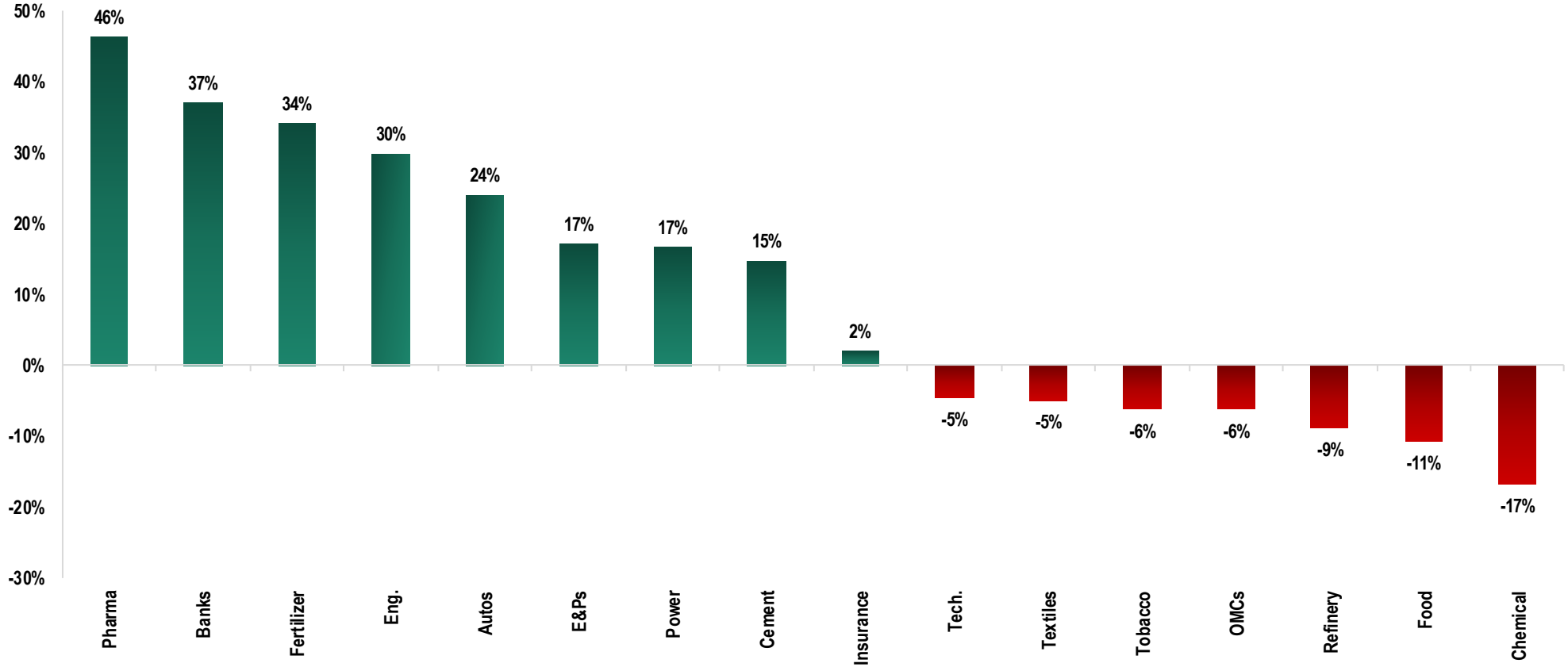
Emerging Markets Performance – CY24 TD – PSX up 26%



Source: Investing.com & TSL Research

As of June 28, 2024 close

KSE-100 Index CY24 TD Return for Major Sectors



Source: PSX & TSL Research

Foreign Portfolio Investment Flows for Jun'24

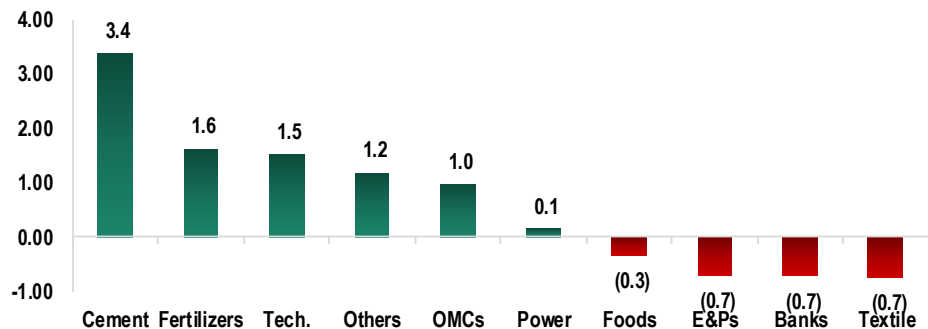
Jun'24 Portfolio Flows - FIPI vs LIPI (USD Mn)												
Sectors	FIPI			LIPI								
	Gross Buy	Gross Sell	Net.	Banks	Broker	Comp.	Indivi.	Insur.	Funds	NBFCs	Others	Net.
Cement	11.09	(12.54)	(1.45)	(0.40)	0.72	2.67	(4.52)	0.21	3.36	(0.08)	(0.54)	1.42
Banks	21.04	(12.77)	8.28	(8.88)	2.89	2.11	(3.47)	1.16	(0.74)	(0.13)	(1.09)	(8.15)
Technology	22.63	(20.58)	2.05	1.05	(0.26)	(0.27)	(4.55)	(0.43)	1.51	(0.02)	0.96	(2.02)
Textile	2.44	(2.53)	(0.09)	(0.02)	(0.17)	1.08	(0.30)	0.23	(0.74)	(0.01)	0.03	0.09
Fertilizer	3.35	(5.16)	(1.81)	(1.59)	4.44	4.02	(9.98)	3.44	1.63	(0.13)	(0.05)	1.77
Others	33.34	(35.36)	(2.02)	3.97	(2.69)	1.10	(1.42)	0.79	1.18	0.02	(0.97)	1.99
OMC	2.88	(3.75)	(0.87)	(0.42)	0.01	(0.34)	0.11	0.37	0.96	0.08	0.08	0.85
E & P	11.78	(16.85)	(5.07)	0.87	(0.23)	5.11	3.41	(0.53)	(0.72)	(0.01)	(2.94)	4.98
Power	11.49	(8.70)	2.79	(5.71)	0.33	(1.69)	3.53	0.41	0.14	0.00	0.25	(2.74)
Food	2.54	(2.52)	0.02	(0.16)	0.01	0.16	0.28	0.05	(0.35)	(0.00)	(0.01)	(0.02)
Debt Market	0.00	0.00	-	0.74	(0.87)	(0.63)	0.12	0.37	(0.39)	0.06	0.61	0.00
Total	122.58	(120.76)	1.83	(10.55)	4.20	13.31	(16.79)	6.06	5.85	(0.23)	(3.68)	(1.83)

Source: NCCPL & TSL Research

- *Foreigners (including overseas Pakistanis) were net buyers of USD 1.83Mn worth of shares.*
- *Individuals were the biggest sellers on the local front followed by Banks & Others.*
- *Companies were the only buyers on the local front followed by Insurance & Mutual Funds.*

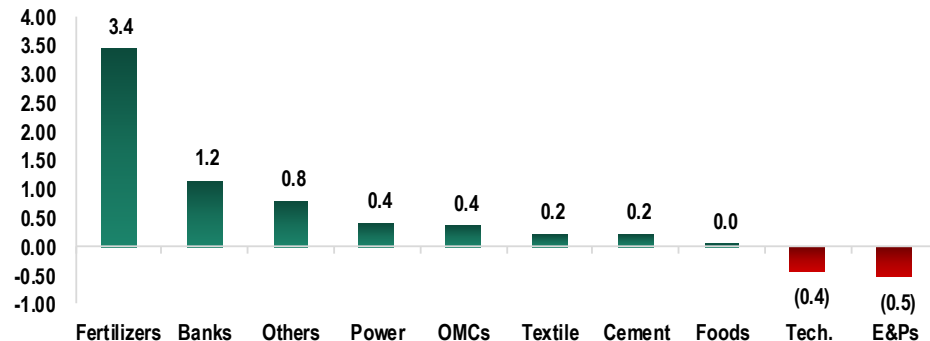
Local Investment Portfolio Flows during Jun'24

Mutual Fund activity for the month (USD Mn)



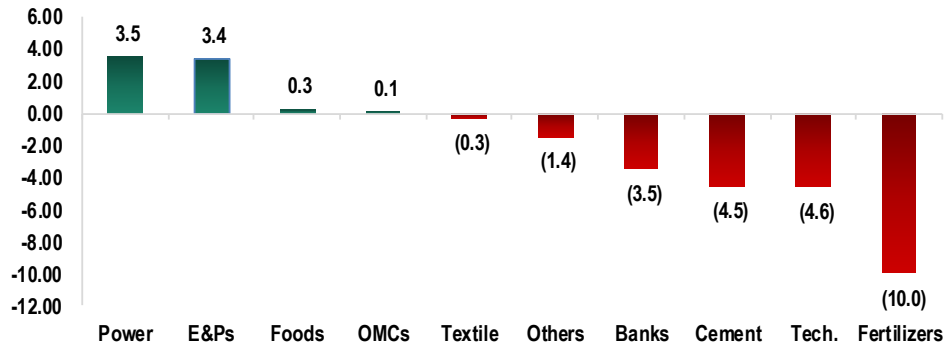
Source: NCCPL & Research

Insurance activity for the month (USD Mn)



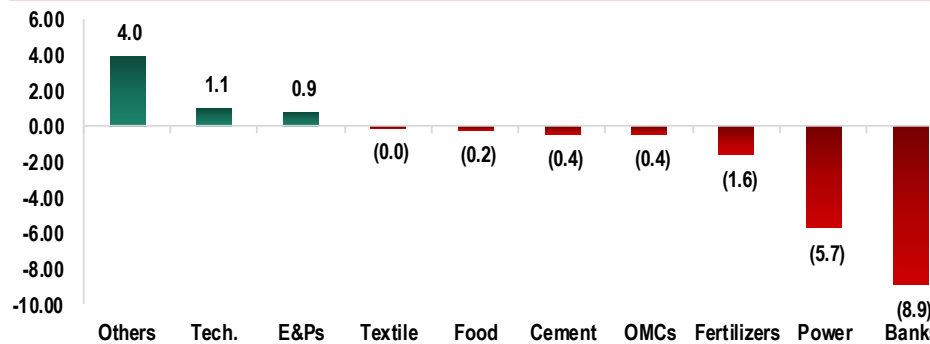
Source: NCCPL & TSL Research

Individuals activity for the month (USD Mn)



Source: NCCPL & TSL Research

Banks/DFIs activity for the month (USD Mn)



Source: NCCPL & TSL Research

Sectors	Stance	Top-Picks	Triggers
Banks	Overweight	FABL, HMB, B AHL, UBL and BAFL	<ul style="list-style-type: none"> NIMs to increase sequentially on the back of re-pricing lag between assets and liabilities, as interest rates are cut further during CY24. (Positive) Banks to benefit from increased Government borrowing appetite. (Positive) Asset quality remains robust with increased coverage levels. (Positive) Robust and stable CARs at large. (Positive) <ul style="list-style-type: none"> Banks expected to maintain high payouts amid strong earnings during CY24. Earnings expected to grow 13% in CY24. (Positive) TSL Banking Universe is currently trading at ~P/B(x) 0.7x, offering 14% dividend yield on a CY24 basis. (Positive) Across the board focus on digital and Islamic Banking to boost ROEs in the long-term for the industry. (Positive)
Fertilizer	Overweight	FFC & EFERT	<ul style="list-style-type: none"> Urea offtake up 22%MoM in May'24 on account of revitalizing growth in crops post record breaking rainfall in the month of Apr'24. (Positive) Fertilizer manufacturers have agreed to reduce Urea prices in order to ensure price stability in the market during the Kharif Season. (Neutral) Delay in MARI's gas tariff adjustment to be in line with the gas tariffs for connections on SSGC and SNGP networks. (Negative for EFERT) <ul style="list-style-type: none"> Proposals to impose/increase GST on agriculture inputs may dent fertilizer off-take going forward. (Negative) EFERT completes maintenance activity of its EnVen Plant with the investment of USD 50Mn. (Positive for EFERT) FBR has launched a nationwide audit against Urea and other Nutrients dealers to increase transparency over their income tax amount paid on their earnings. (Neutral)
E&Ps	Overweight	OGDC, MARI & PPL	<ul style="list-style-type: none"> Arab Light price averaged ~USD 87/bbl. during Jun'24, slightly up compared to last month amid increasing geo-political tensions. (Negative) Ongoing discoveries and production enhancement projects to help arrest the natural decline in production and also increase future earnings. (Positive) Increase in consumer gas prices to increase collections from Sui companies going forward. (Positive for OGDC & PPL) 3QFY24 universe PAT down 27%QoQ; 9MFY24 PAT up 12%YoY. (Neutral) <ul style="list-style-type: none"> Approval of amendments to the Petroleum Policy 2012 to bode well for the industry including use of old licenses and leases for new exploration activity. Further, the CCI has also approved the draft Tight Gas Exploration and Production Policy 2024. (Positive) Positive developments on the Reko Diq front, including foreign investment as well as production from Abu Dhabi Block 5. (Positive for OGDC, PPL and MARI) Settlement of PKR 170Bn PHL TFCs for OGDC. (Positive for OGDC)
Cements	Marketweight	LUCK and FCCL	<ul style="list-style-type: none"> Cement dispatches showed a robust growth in May'24 (up 45.2%MoM), almost double than the previous month. (Positive) Export sales continue to show strong growth amid improved retention prices and demand outlook. (Positive) The revised FED (PKR 4 per kg of bag) may result in substantial price increases from FY25 onwards. (Positive) <ul style="list-style-type: none"> Cement dispatches likely to decline in Jun'24 due to fewer working days amid Eid Holidays. (Negative) Prices in North likely to increase by 4%MoM to an average 1,275/bag, while prices in South region to remain unchanged in Jun'24. (Neutral) Capacity utilization surged to 62% in May'24 from 42% in the previous month. (Positive)

Sectors	Stance	Top-Picks	Triggers
Power	Overweight	HUBC	<ul style="list-style-type: none"> Power Generation jumped ~46%MoM/3%YoY during May'24. (Positive) Cost of generation was up 2% on a sequential basis in May'24 owing to uptick in generation from expensive FO and Coal sources. On a YoY basis, cost of generation was down 8% due to higher share of Hydel. (Negative) Circular debt from power sector stands ~PKR 2.6Trn. (Negative) Contribution from strategic investments including acquisition of ENI portfolio to support HUBC's consolidated earnings. (Positive for HUBC) Commencement of dividends from CPHGC in case of HUBC; and COD achieved for TEL, ThalNova and SECMC-II. (Positive for HUBC) The Government has allocated PKR 1.2Trn for the power sector in subsidies for FY25 according to the Federal Budget Brief. (Positive) Dues to CPEC based IPPs stand at PKR 493Bn. (Negative HUBC) HUBC's associate company to enter into business of manufacturing EVs with BYD Auto Industry Company, Pakistan. (Positive for HUBC)
Pharma	Marketweight	AGP	<ul style="list-style-type: none"> FBR imposes 20% duty on import of multivitamins, natural health product, food supplements against the importers stance to charge 11%. (Negative) Increase in sales tax from 1% to 18% on materials used in production of active pharmaceutical components expected to squeeze the sector's profitability. (Negative) Stable Rupee to bode well for margins. Earnings to benefit from cut in interest rates also. (Positive) Pharma exports clocked in at ~USD 38.5Mn in May'24, up 60%YoY/30%MoM. Similarly, exports posted uptick of ~2%YoY during 11MFY24. (Positive) Pharma production subdued by 3%YoY in Apr'24. However, production was up 1% on a sequential basis. Similarly, for 10MFY24 the production posted a significant growth of 20%YoY. (Neutral)
Autos	Marketweight	INDU	<ul style="list-style-type: none"> Continued demand slowdown has led to inventory pileups, adversely impacting the pricing power of manufacturers. (Negative) Car sales in May'24 totaled 10,949 units, up 4%MoM/1.0xYoY. 11MFY24 sales were 90,544 units, down 25%YoY owing to lower demand. (Negative) Auto-financing declined 1.2%MoM/~22.5%YoY during May'24. (Negative) Higher sales tax on tractors to hurt demand. (Negative for MTL) CKD imports up USD 78Mn in May'24. 11MFY24 CKD imports stand at USD 678Mn, down 5% YoY. (Neutral) Government has withdrawn the proposal to impose a 25% GST on hybrid electric vehicles (HEVs) and restored the existing 8.5% in the Finance Bill 2024. (Positive) Advance tax on registration to apply on market value basis. (Negative)
Engineering	Marketweight	ISL & MUGHAL	<ul style="list-style-type: none"> Demand to recover on account of recovery in construction activity. (Positive) Allocation to total PSDP of PKR 1,250Bn for FY25 – significantly higher than last year. (Positive) Regulatory duty on flat rolled products and non-alloy steel from FY25. (Positive for Flat steel players) Exemption of ST on Iron and steel scrap (Positive for Long steel Players) Hikes in energy tariff to further dent the margins. (Negative) Diversified products portfolio. (Positive for MUGHAL) Rebar prices dipped ~PKR 5K/ton during the month, averaging at ~PKR 262K/ton during Jun'24. (Neutral) Extension in exemption of sales tax on FATA/PATA for FY25. (Negative)

Sectors	Stance	Top-Picks	Triggers
Chemical	Underweight	NA	<ul style="list-style-type: none"> Volumes are expected to show a mixed recovery during CY24, with more growth expected during 2HCY24 as the economy recovers. (Neutral) Hike in energy tariffs are expected to increase input costs drastically which might not be fully passed-on. Hence, putting pressure on gross margins across the sector. (Negative) PVC-Ethylene margin increased to ~USD 356/ton, up 19%MoM. However on a yearly basis the prices decreased by 12%. (Positive for EPCL) Expect payout for EPCL to fall amid lower earnings. (Negative) High Temperature Direct Chlorination (HTDC) and Hydrogen Peroxide is expected to come online in CY24. (Positive for EPCL)
Textile Composite	Marketweight	ILP	<ul style="list-style-type: none"> Textile exports grew 18%YoY. On a sequential basis exports witnessed significant jump of 26%MoM arriving at ~USD 1.56Bn. (Positive) Income from exports previously taxed at 1% under the final tax regime will now be subject to the normal tax rate and treated as minimum tax in the future. (Negative) Beaten-down valuations make the case for turnaround amid falling interest rates scenario. (Positive) ILP's approval of capital expenditure for expanding across various business segments is expected to yield long-term benefits (Positive ILP) Allocation for export refinance scheme increased for FY25. (Positive) The recent heat-wave has damaged 9% of the total Sindh cotton plantation. (Negative) Textiles production continued upward trajectory for the second consecutive month, up 3.4%YoY in Apr'24. However, during the 10MFY24, production declined by 7%YoY. (Neutral) ST rate on supplies made by point of sale (POS) retailers dealing in leather and textile products has been raised from 15% to 18%. (Negative) Timely settlement of Drawback on local taxes and duties expected to enhance the sector's working capital position. (Positive) Cotton imports from Brazil and USA held at port for last 3 months leading to demurrage charges. (Negative) Companies working on optimizing energy mix. (Positive)
OMCs	Marketweight	PSO	<ul style="list-style-type: none"> OMC's volumes surged 26%MoM/ 7%YoY arriving at ~1.4Mn tons. However, cumulatively 11MFY24 oil volumes fell 10%YoY. (Neutral) Volumetric oil imports were up 5%MoM for the month of May'24. Cumulatively, during 11MFY24 oil imports were down 6%YoY. (Neutral) ECC approval of ~PKR 9Bn for clearing the outstanding claims of OMC's on account of price differential. (Positive) Expected increase in PDL may further put pressure on POL volumes, going forward. (Negative) PSO receivables have accumulated to PKR 810Bn. With major receivables resulting from SNGPL on import of LNG amounting to PKR 500Bn. (Negative for PSO) PSO plans to secure foreign debt to fund a substantial portion of its anticipated USD 1.5-2Bn investment in PRL. (Negative PSO) Monetary easing to reduce finance costs. (Positive for PSO)

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To arrive at our period end target prices, TSL uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: www.JamaPunji.pk

Frequently Used Acronyms

TP	Target Price	DDM	Dividend Discount Model	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings ratio	PB	Price to Book ratio	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	ROE	Return on Equity
ROA	Return on Assets	SOTP	Sum of the Parts	JPB	Justified Price to Book