Pak-Qatar Asset Management Company Limited

Keynote June 13, 2024

PAK-QATAR ASSET MANAGEMENT

Market Summary

	13-Jun-24	MTD	30days	90days	FYTD	CYTD
KSE100	76,208	7.18%	2.3%	17.6%	83.8%	22.0%
KMI30	125,821	5.34%	1.5%	14.3%	77.8%	20.1%
KMIAll	34,483	3.64%	-0.5%	10.7%	68.6%	12.5%

Global Markets

	13-Jun-24	MTD	30days	90days	FYTD	CYTD
UK	8,168	-0.3%	3.2%	-5.4%	-7.8%	-5.3%
USA	17,666	-11.4%	-6.5%	-9.6%	-22.0%	-15.0%
China	3,029	2.5%	3.9%	0.8%	5.7%	-1.8%
Japan	38,714	-0.8%	-0.9%	0.0%	-14.3%	-13.6%
India	76,811	-3.0%	-4.8%	-5.4%	-15.7%	-6.0%

Portfolio Investments (USD mn)

	7 days	30 days	90 days	365days	FYTD	CYTD
FIPI (net)	(8)	(0)	67	140	136	136
LIPI (net)	8	0	(67)	(140)	(136)	(139)
Ind.	(11)	(23)	(47)	(57)	(59)	(23)
Banks/DFIs	(1)	3	(25)	(128)	(127)	(103)
Companies	7	(0)	(21)	36	26	103
M.Funds	11	1	9	(50)	(43)	(123)
Brokers	2	(5)	(3)	(35)	(29)	(36)
Others	(1)	(2)	(18)	(29)	(30)	(21)
Ins.	2	26	39	124	127	66
NBFC	(0)	(0)	(1)	(1)	(1)	1

Key Economic Figures

		FY20	FY21	FY22	FY23	13-Jun
Policy Rate	13-Jun-24	7.0%	7.0%	13.8%	22.0%	20.5%
1yr KIBOR	13-Jun-24	7.4%	8.1%	15.7%	23.3%	19.5%
Inflation	Oct End	7.8%	9.8%	21.3%	29.4%	11.8%
PKR USD*	13-Jun-24	168.2	157.3	204.8	286.0	278.5%

Key Economic Figures

		FY20	FY21	FY22	FY23	FY24-TD
Imports	USD'mn	46,417	56,380	72,048	51,979	43,353
Exports	USD'mn	23,462	25,304	32,450	27,903	25,669
Trade Deficit	USD'mn	(22,955)	(31,076)	(39,598)	(24,076)	(17,684)
Remittances	USD'mn	23,131	29,370	31,238	27,028	27,093
FX Reserves	USD'mn	18,886	24,398	15,742	9,181	14,384

PKRV Rates (change in bps)

	Rate %	15day Δ	1m Δ	3m Δ	6m Δ	12m Δ
PKRV 1Y	18.96	(184)	(167)	(138)	(223)	(299)
PKRV 3Y	16.30	(31)	(34)	(42)	(13)	(285)
PKRV 5Y	15.28	(17)	(17)	(17)	(65)	20
PKRV 10Y	14.03	(15)	(17)	(19)	(90)	(107)
PKRV 20Y	13.93	(8)	(8)	(9)	(76)	(122)

**Inter Bank Rate*

KSE100 Index Top Ten Sector Details (on Free Float Market Capitalization)

SECTORS	Index Weight (%)	Current Market Cap (PKR'Bn)	Previous Market Cap (PKR'Bn)	Change (%) in Market Cap.
COMMERCIAL BANKS	19	599	600	(0.20)
FERTILIZER	7	315	311	1.16
OIL & GAS EXPLORATION COMPANIES	14	300	304	(1.41)
CEMENT	5	199	189	5.13
CHEMICAL	4	47	50	(5.80)
OIL & GAS MARKETING COMPANIES	2	72	72	1.03
PHARMACEUTICALS	2	63	59	6.81

Commentary

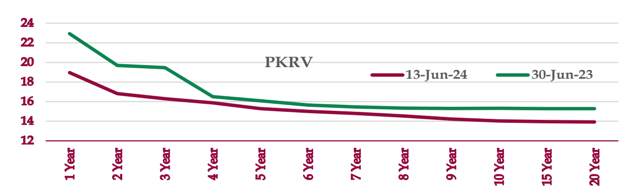
Economic Review

The Federal government revealed the budget for the next fiscal year FY25, with total expenditures set at PKR 18,877 billion, reflecting a 25% rise from the revised budget for FY24. GDP growth rate is projected at 3.6%, alongside an inflation target of 12% for the upcoming year. Although these targets seem feasible, there are potential challenges posed by the impacts of budgetary measures, fluctuations in food prices, and uptick in international commodity prices. On the fiscal front, the government aims to achieve a consolidated deficit of PKR7.3 trillion, equivalent to -5.9% of GDP, compared to the estimated PKR7.8 trillion, or -7.4% of GDP, for the current year. The federal budget deficit is primarily financed by bank borrowings, which account for 90% of the deficit. The tax revenue target has been raised from 8.7% to 10.4% of GDP, stimulating growth primarily involves significantly increasing the PSDP by PKR 1400 billion, allocated for infrastructure development and social protection expenditures.

The government, guided by the IMF, is steadfast in its commitment to fiscal consolidation, aiming for a primary surplus of 2.0% of GDP for FY25B, up from 0.4% of GDP in FY24R. Despite focusing on consolidation, the government plans to boost the development budget to provide support. The FBR has set an ambitious tax target of PKR 12.9 trillion, representing a 40% year-on-year increase. Non-tax revenue is forecasted to grow by 64%, reaching PKR 4.8 trillion, which constitutes 3.9% of GDP. This growth is primarily driven by a significant increase in the SBP's profit, expected to reach PKR 2.5 trillion (a 157% rise), and the collection of petroleum levy amounting to PKR 1.3 trillion (a 33% increase). With expected rises in petroleum levy rates, there is a likelihood that collections will surpass the targeted amounts. These comprehensive measures reflect the government's strategy to balance fiscal consolidation with economic growth, considering potential challenges from external economic fluctuations and inflationary pressures. The ambitious tax reforms and increased development spending aim to stimulate the economy and support infrastructure and social protection.

Stock Market Review

During the fortnightly basis, the KSE 100 recorded a gain of 7.18%, and the KMI 30 also showed positive returns, marking a 5.34% increase. Notably, the Pharmaceuticals, Cement and Fertilizers have experienced positive sentiments. The Central Bank maintained a stable policy rate, leading market participants to adopt a stable approach, anticipating the peak of the interest rate cycle. Notable performers in the KMI 30 index for the month included DGKC, LUCK, SEARL, PIOC and MTL witnessing increased trading prices. Conversely, CNERGY, MEBL, PRL, TPLP and COLG experienced noticeable decreases in their trading prices.

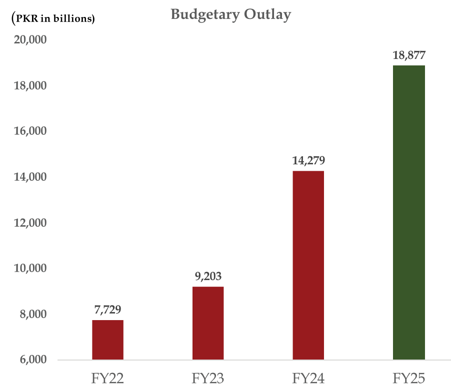


13-Jun-24

Pakistan Macro Report - Budgetary Estimates

Federal Government unveiled the Budget for the upcoming fiscal year FY25, with a total budget allocation of PKR 18.8 trillion, marking a 25% increase compared to the budgeted outlay for FY24. Total Revenue has been projected at around PKR 17.8 trillion while FBR tax collection target has been set at PKR 12.9 trillion. The gov. has also been negotiating for an IMF EFF facility which has also while also managing external loan maturities.

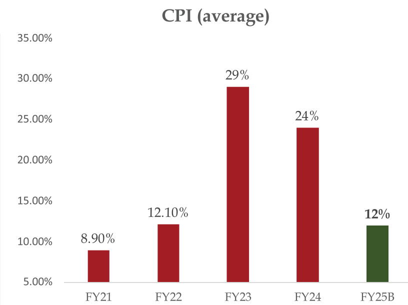
- Gross revenue receipts are projected at PKR 17.8 trillion, reflecting a 46% YoY increase from the revised estimates for FY24.
- Non-tax revenue is anticipated to be PKR 4.8 trillion, a 64.3% YoY increase from FY24R.
- Government has allocated PKR 18.9 trillion for current expenditure, mainly for mark-up payments, which are expected to be 18.5% higher YoY than the FY24 target, and 24.5% higher than FY24 revised estimates.
- Defense budget is targeted at PKR 2.1 trillion, marking a 14.5% YoY increase from the FY24 revised estimates.
- Subsidies to various sectors are set at PKR 1.4 trillion, a 27.3% increase YoY compared to FY24's revised estimate of PKR 1.1 trillion.
- Federal PSDP is budgeted at PKR 1,400 billion, representing a 112.4% increase YoY from the FY24 budget of PKR 550 billion.
- Fiscal deficit is budgeted at PKR 8.5 trillion, accounting for 6.8% of GDP, down from 7.9% in the FY24 revised estimates.
- Government plans to finance the budget primarily through domestic financing of PKR 7.8 trillion, a 64% increase from FY24's budgeted amount.
- Net external loans are budgeted at PKR 0.7 trillion, 76% lower than FY24's budgeted amount.
- The majority of domestic financing is expected to come from bank financing, budgeted at PKR 5.1 trillion, an 80% increase from FY24's budgeted PKR 2.9 trillion.
- Mark-up payments on domestic loans are budgeted to be 36% higher next year, while external loan mark-up payments are expected to increase by 19% YoY.
- Government has set a GDP growth target of 3.6% for FY25, up from 2.4% in the revised estimates for FY24.
- Government anticipates an inflation rate of approximately 12% for the FY25 budget.



Pakistan Fiscal Accounts (PKR in Billions)

	FY22	FY23	FY24	FY25	Change %
FBR Taxes	**6,143**	**7,169**	**9,252**	**12,970**	**40.2%**
Direct Tax	2,181	2,850	3,719	5,510	48.2%
Indirect Tax	3,647	4,349	5,531	7,458	34.8%
Costum Duties	785	1,084	1,324	1,591	20.2%
Sales Tax	2,506	2,808	3,607	4,919	36.4%
Federal Excise	356	457	600	948	58.0%
Non-Tax Revenue	**1,185**	**1,711**	**2,948**	**4,845**	**64.3%**
Mark-up	125	147	389	294	-24.4%
Dividends	90	81	92	138	50.0%
SBP Profits	650	371	972	2,500	157.2%
Petroleum Levy	610	542	960	1,281	33.4%
Others	420	484	533	631	18.4%
Total Revenues	**7,328**	**8,880**	**12,200**	**17,815**	**46.0%**
Share of Provinces	3,589	4,223	5,426	7,438	37.1%
Net Revenues	**3,739**	**4,657**	**6,774**	**10,377**	**53.2%**
Total Expenditure	**9,186**	**9,933**	**15,160**	**18,877**	**24.5%**
Current Expenditure	**8,485**	**9,043**	**14,232**	**17,203**	**20.9%**
Interest Payments	3,182	5,831	8,251	9,775	18.5%
Defense	1,412	1,586	1,854	2,122	14.5%
Pension	542	666	821	1,014	23.5%
Grants	1,239	1,070	1,482	1,777	19.9%
Subsidies	1,530	1,080	1,071	1,363	27.3%
Others	547	634	753	1,152	53.0%
Development Expendture	**701**	**890**	**928**	**1,674**	**80.4%**
Federal PSDP	558	743	659	1,400	112.4%
Others	143	147	269	274	1.9%
Budget Balance Federal	**(5,309)**	**(6,400)**	**(8,388)**	**(8,500)**	**1.3%**
Provincial Surplus	570	459	539	1,217	125.8%
Budeget Balance - Consolidated	**(4,739)**	**(5,941)**	**(7,849)**	**(7,283)**	**-7.2%**
Primary Balance	**(2,077)**	**(690)**	**403**	**2,492**	**518.4%**
GDP (at current Prices)	**66,950**	**84,658**	**106,045**	**124,150**	**17.1%**
% of GDP					
FBR Revenue	9.2%	8.5%	8.7%	10.4%	
Non-Tax Revenue	1.8%	2.0%	2.8%	3.9%	
Total Expenditure	13.7%	11.7%	14.3%	15.2%	
Current Expenditure	12.7%	10.7%	13.4%	13.9%	
Budget deficit	-7.1%	-7.0%	-7.4%	-5.9%	

Source: MoF, PQAMCL Research



FY25 budget set the GDP growth target of 3.6% with an expected average inflation of 12%. These expectations are based on a higher base affect, stable PKR:USD, and passive commodity and energy prices. Gov. has also set primary deficit targets inline with IMF expectations along with expected achievement of agricultural targets. Gov. aims to achieve a tax to GDP of around 13% over long term for which it has imposed certain penalizing measure on non filers in the budget amid taking a soft approach for the upcoming fiscal year. Pakistan also expect a smooth flow in the form of workers' remittances which will aid to normalize the balance of trade deficit going forward.

The FY25 budget aims to put more pressure on the informal economy by increasing the financial penalties for non filers as well as late filers. By extending the added tax burden to more informal sectors and supply chains and initiating soft penalties, the government hopes to expand the net of direct taxes through documentation.

The gross revenue is expected to grow by 46% to PKR 17,815 billion, mainly due to a projected 48% increase in income tax collections. This target seems ambitious, as exporters, particularly in the IT sector, may resist a normal tax regime, possibly leading to profit underreporting to avoid taxes.

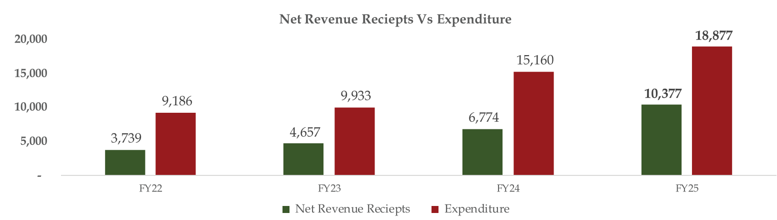
Additionally, a significant portion of the increase in non-tax revenue comes from a 157% rise in SBP profits, reaching PKR 2,500 billion. Indirect taxes are set to grow by 34.8% to PKR 7,458 billion, driven by increases of 20%, 36.3%, and 58% in customs duties, sales tax, and excise duty collections, respectively.

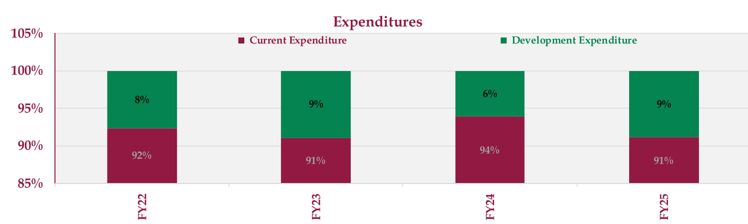
After giving provinces their share, the net federal revenue declines by 53%, reaching 8.4% of the GDP. The total expenditure is planned to rise by 30%, reaching PKR 18.8 trillion, which is 15% of the GDP compared to 14% in FY24. The largest expense in FY25 will be debt servicing, which is 7.9% of GDP and is increasing by 19% due to high costs and reliance on expensive domestic debt to cover the fiscal deficit. Additionally, high allocations have been made for pensions, subsidies, and government operations, mainly salaries.

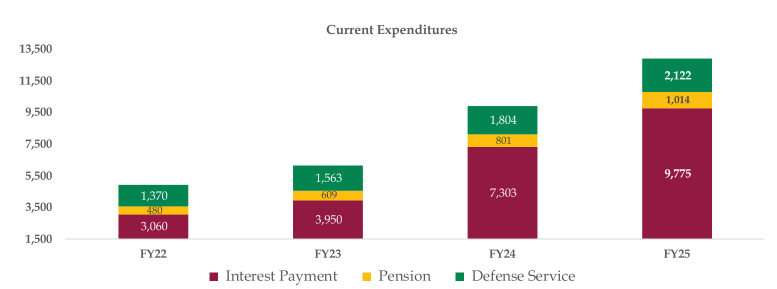
1. Pensions will be increased by 15%.
2. Government employee salaries will be increased by 25%.
3. Sales tax will be exempted on iron and steel scrap.

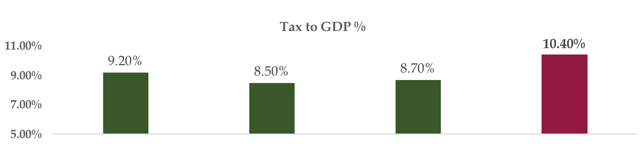
The budget for FY25 targets current expenditure at 17.20 trillion, reflecting a 20.9% YoY increase with interest payment, defense and pension forming the bulk of total Current Expenditure.

Gov. has enhanced the Development budget by 47% y/y, The enhanced spending is an attempt to push up the development expenditures to aid in Gross Fixed Capital Formation which had staggered at 6% in FY24. Although positive, it does represent challenge given the primary deficit constraints demanded by IMF.









Pakistan Macro Report - Budgetary Estimates

Overall the budget has remained neutral for the capital markets with some glitches for textile and financial sector. Gov. enhanced its grip for non-filers with Capital Gains Tax on securities increased to 45% while Capital Gains tax remained unchanged for filers at 15%. Textile sector exports were moved to normal tax regime which had negative implications for the sector. This in our view is a set in backward and might not reap the benefit for the government. Banking sector also came in limelight with loan provisioning being disallowed as tax expense putting some pressure on their earnings. Despite these and a few increased in FED for cements, a pass on item, the budget remained a well fiscal consolidatory exercise.

- **Markets**: Capital gains tax on the sale of securities will no longer depend on the holding period; a flat rate of 15% will apply. The tax on dividends from mutual funds that earn 50% or more of their income from debt profits is proposed to increase from 15% to 25%. For non-filers, the capital gains tax has been raised to a minimum of 15% and a maximum of 45%. Additionally, the tax on capital gains income from mutual funds and collective investment schemes has been increased from 10% to 15%.

- **Banks:** Commercial banks won't be allowed to label "substandard" or "doubtful" bad debts, nor can they consider provisions for advances, off-balance sheet items, or other financial assets categorized in stages 1, II, or III as expenses under any accounting standard, including IFRS 9. This change is expected to have a negative impact on the sector. Provisions or Expected Credit Losses (ECL) for advances, off-balance sheet items, or any other financial asset, whether existing before or after Jan 1, 2024, under IFRS 9, will not be permitted as an expense or deduction. Additional taxation resulting from a decrease in the Average Daily Room (ADR) rate has been reinstated due to the absence of an extension in exemption provided in the budget.

- **Cement:** The Public Sector Development Program (PSDP) allocation has surged by 47%, reaching PKR 1.4 trillion IN FY25 compared to PKR 950 billion in FY24. Furthermore, there has been a hike in the Federal Excise Duty (FED) on Cement, escalating from PKR 2/kg to PKR 3/kg. Additionally, there is an increased rate of Withholding Tax (WHT) applicable to the sale and purchase of immovable property, and the holding period benefit for Capital Gains Tax (CGT) on immovable property has been revoked. Moreover, a 5% Federal Excise Duty (FED) has been imposed on commercial properties and the first sale of residential properties.

- **Textiles:**The textile industry is anticipated to encounter considerable challenges due to the inclusion of export-oriented companies under the Normal Tax Regime, resulting in increased taxes. This change is expected to negatively affect the sector's profitability. Moreover, the sales tax rate for point-of-sale (POS) retailers selling leather and textile products has been raised from 15% to 18%, further impacting the industry.

- **Autos**:The upcoming revisions in tax policies for automobile assemblers are anticipated to have a notable impact on the industry. Firstly, eliminating custom duty exemptions on completely built-up (CBU) hybrid vehicles is likely to boost demand for locally assembled completely knocked-down (CKD) hybrid vehicles. Secondly, changing the basis for advance tax from engine capacity to the car's value could influence pricing strategies. Additionally, removing tax exemptions on luxury electric vehicles may lead wealthy buyers to prefer domestic purchases over imports.

- **Oil Marketing Companies**:The government is raising the petroleum development levy (PDL) limit from PKR 60/ltr to PKR 80/ltr, which will generate an additional PKR 383 billion in non-tax revenue. This increase of PKR 20/ltr is expected to drive up petroleum prices, leading to a likely decline in demand. Additionally, the zero-rating of petroleum products is being converted into an exemption.

- **Power:**The government has allocated PKR 253 billion for the development of the energy sector. This includes installing an asset performance management system on distribution transformers, developing a 1,200 MW coal power plant in Jamshoro, and upgrading NTDC systems. Additionally, there are plans to privatize nine DISCOs and GENCOs. Furthermore, PKR 1,190 billion has been budgeted for power sector subsidies.

- **Steel:** The GST exemption for the FATA/PATA region will be removed. However, residents of these areas will continue to benefit from an income tax exemption for an additional year.

- **Others:**The customs duty on aerosol product containers has been raised from 11% to 16%. Exporters will now be subject to the regular tax regime. The tax rate on DAP has been increased to 18%. Mobile phones will be taxed at the standard rate, except for those valued over US$ 500, which will continue to be taxed at the existing rate of 25%.