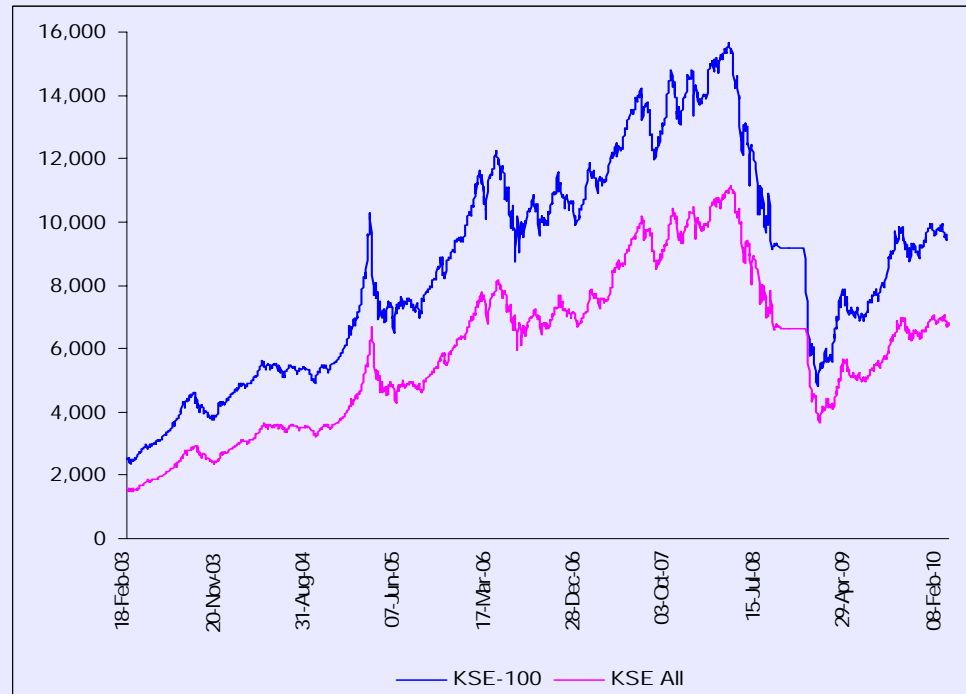


Market Monitor

Weekly

Indices Movement



News This Week

- Government to inject PRs40bn to offset circular debt
- July-Dec budget deficit estimated at 2.7% of GDP
- Banking spread declines by 10bp MoM in Jan 10
- Provisional revenue collection data released

Corporate Highlights

- SBP allows two banks to conduct due diligence of RBS

Stock Market Overview

- The KSE-100 Index witnessed a WoW decline of 0.33% to close at 9,626.29 on Friday. Volumes also decreased by 9.01% to average 128.68mn shares.
- Colgate Palmolive, National Bank, Media Times, Unilever Pakistan and Sui South Gas were major gainers while Sigma Leasing, Pakistan Service, Habib Metropolitan Bank, Bannu Woollen and Lakson Tobacco were major losers at KSE this week.

Inside: All is well... that ends well

Market Review: *All is well... that ends well*

Date	Open	High	Low	Close	% Change	Volume
1-Mar-10	9,658.45	9,684.52	9,471.80	9,498.56	-1.65	100,205,759
2-Mar-10	9,499.77	9,583.31	9,451.75	9,546.38	0.50	109,288,544
3-Mar-10	9,560.48	9,605.80	9,408.81	9,419.43	-1.33	115,865,616
4-Mar-10	9,426.37	9,518.12	9,370.80	9,511.53	0.98	160,836,635
5-Mar-10	9,536.74	9,646.17	6,511.13	9,626.29	1.21	157,226,824

Source: KSE

Market This Week

Market started the week cautiously on growing concerns of TFC default, so much so that good dividend announcements, strong corporate earnings and foreign flows failed to impress the market or turn sentiments. The twist and turn continued for a better part of the week, driving down KSE-100 index by net 2.5% in the first three sessions. Uncertainty on modalities and future of capital gain tax and its ramification on volumes added to investors' worries which were compounded by uncertainty on appointment of future finance minister/advisor. The last two trading session paint a totally different picture. Having survived an important psychological level of 9,400 on closing basis, good Banks' corporate results triggered an upward rally with market recovering most of its ground, closing the week marginally lower (-0.33%). Key macro data released was a mixed reading. Fiscal deficit of 2.7% in 1HFY10 remains largely within reasonable limits. However, revenue collection of PRs783bn during Jul-Feb 10 surprised on the downside substantiating our concerns that overall FY10 target of PRs1.3trn can prove to be challenging. UBL and NBP unveiled above expected results with NBP dishing out a big earnings/cash surprise owing to NIT related capital gains. We, however, maintain underweight stance on NBP.

Outlook for the Future

With results season coming to end, the key question that investors face is what the next trigger is. While the KSE-100 index closed in the negative zone last week, the key going forward, in our view, is the momentum and the investors' expectations of continuation of foreign flows, the only driver investors have finally got to find solace in. Last week, a net US\$27mn (net US\$59mn YTD) FPI flowed into the market which is almost 10% of total KSE-100 value. Just to reiterate, YTD, KSE is the best performing market in Asia Pac (ex Japan). Other than foreign flows, any development towards the elimination of the thorny inter-corporate debt can trigger a rally in energy stocks namely PSO, HUBCO and PPL. We also recommend taking exposure in FFC and Engro, PTCL while MCB and UBL are our preferred Banking sector plays. On the risk angle, investors are well advised to keep a close eye on political development which can drag the market performance and turn the momentum.

Fundamental Changes

The major developments this week were:

- **Government to inject PRs40bn to offset circular debt.** Reportedly the government has decided to inject PRs40bn into the energy chain and raise PRs12bn TFC to provide relief to energy companies on intercorporate debt issue. To settle the issue of Pepco receivables from provincial government, the government has decided to deduct the amount at source from payment made by federal government to provincial governments. The total amount under the energy debt jumped significantly in the last few weeks, raising concerns on possible disruption in fuel and power supplies. The government estimates total amount under intercorporate debt at PRs81-90bn. The above measures, if materialized will provide a meaningful relief to energy companies.
- **July-Dec budget deficit estimated at 2.7% of GDP.** As per Ministry of Finance, budget deficit for 1HFY10 has been estimated at PRs403bn, which is 2.7% of GDP. Most of the actual numbers have been in-line with budgetary expectations, including Defence expenditure (PRs165bn or 48% of budgetary allocation) as well as tax and non-tax revenue targets for the 1HFY10. However variance was witnessed in external flow expectations, which came in lower than estimated at PRs193bn (38% of budgetary expectations) with net external financing of PRs110bn (26% of 1HFY10 deficit). Given the short-fall in external flows, government's dependence through bank borrowing increased heavily in 1HFY10, around 74% of the budgetary provision for the entire FY10.
- **Banking spread declines by 10bp MoM in Jan 10.** After posting record high spread in 2009, an average of 7.48%, banking sector spread has declined to 7.25% in the first month of 2010. Month-on-

month, spread was down 10bp in Jan-10 from a base of 7.35%. Both public and private sector banks witnessed MoM drop in spread in Jan-10. Our thesis of a secular decline in banking sector spread going forward is intact.

- **Provisional revenue collection data released.** As per newspaper reports, Federal Board of Revenue (FBR) has provisionally collected PRs89.3bn during Feb-10 as compared to PRs77.2bn in Feb-09, resulting in an increase of PRs12.1bn YoY. According to provisional figures compiled by FBR, overall revenue collection stood at nearly PRs783bn in Jul 09-Feb 10 as compared to PRs707bn in Jul 08-Feb 09. We believe that the tax collection target of PRs1.38tr may prove challenging for the government, and FBR may need to take serious enforcement and administrative measures to improve overall revenue collection.
- **SBP allows two banks to conduct due diligence of RBS.** In a notification to KSE, the State Bank of Pakistan (SBP) has given approval to two banks, namely, Faysal Bank and Egypt's EFG-Hermes for commencing due diligence for the acquisition of Royal Bank of Scotland (RBS) operations in Pakistan. Recall that RBS has put on sale its business in 36 countries including Pakistan after world-wide losses of US\$38bn in 2008 due to the global economic recession. Earlier, MCB Bank had also shown interest to acquire RBS, however, the deal could not materialized due to non issuance of NOC by the central bank.

KASB Research (021-111-222-000)

This Week's Top Stories

Monday, March 01, 2010

MCB: Estimates raised post 2009 result

- MCB posted healthy earnings of PRs22.67/sh, +2% YoY with final cash dividend of PRs3.5/sh (PRs11.5/sh full yr) and 10% stock dividend.
- High asset yields, provisions and increase in opex were the key drivers of the side-ways trend in earnings in 2009. However adjusting for pension income, PBT increased by 18% YoY.
- Asset risk trend improved with sub-standard category NPLs declining to PRs3bn from a peak of PRs5.4bn in 4Q08. Likewise, Net NPL and coverage ratios improved to 2.7% and 71%.
- We raise our 2010-11E earnings by 7% due change in credit cost and opex estimates. We have lowered provisioning expense by 22% and 31% and opex by 4% and 7% respectively for 2010E and 2011E.
- Our conviction on MCB's growth potential and relatively low tail risk vs peers is intact but we await further clarity on capital mgmt and remain neutral on the stock.

Hamza A. Marath

(Hamza.marath@kasb.com)

Tuesday, March 02, 2010

Feb 2010: Lackluster month at KSE

- Feb-10 turned out to be a lackluster month for KSE. While volumes remained thin and second tier centric, index performance (+0.4% MoM) was marred by capital gains tax news and resignation of the Finance Minister towards end of the month
- FPI too remain muted as delay in disbursement of committed funds cast a doubt over currency outlook and MSCI review (retaining KSE in MSCI FM) hurt sentiments. Barring a couple of exceptions, the result season too failed to generate any significant excitement at the bourses.
- We believe that the market will continue hunting for triggers in March led by 1) any development on margin financing and 2) monetary policy in end March.
- We maintain our liking for energy stocks where any development on intercorporate debt will provide impetus to PSO and Hubco in particular. While fertilizer stocks (FFC, Engro) continue to remain on our preferred list, we believe the incrementally positive news flow on PTCL also warrants attention

KASB Research

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Wednesday, March 03, 2010

Unilever: Strong result; Reiterate Buy

- Unilever reported 54% YoY growth in 2009 earnings to PRs229.80/sh and announced dividend of PRs229/sh.
- Robust topline growth of 23% YoY was fuelled by 27% growth in HPC, 22% growth in beverages, and 46% growth in the ice-cream business. Equivalent increase in costs meanwhile resulted in relatively flat gross margins (+23bp YoY).
- While on a QoQ basis topline declined 8% and gross margins dipped by 500bp in 4Q09, we attribute the same to 3Q09 seasonality (Ramadan/Eid peak consumption).
- We remain cognizant of the rising input costs, inflation and resurgent competition, but feel that higher product prices and relative infancy of competition should shield Unilever. We reiterate our Buy on Unilever with a fair value of PRs3,210/share.

Gul-e-Zehra Jafri

(zehra.jafri@kasb.com)

Thursday, March 04, 2010

UBL: PO raised on Asset-Liability mgmt.

- We are raising our PO for United Bank to PRs70/sh post 2009 detailed results where expedition on balance sheet management underpins our calibration on the stock valuation.
- We however maintain our Neutral rating as low visibility from Middle East operations keeps our conviction bounded on any material re-rating in multiple.
- 2009 results came in above street expectations, PRs8.56/sh, due to lower than expected Opex. & expeditious asset-liability mgmt. (ALM) progressed in the right direction with CAR, CASA and gearing showing improvement.
- We raise our earning estimate by 10% and 8% for 2010E-11E by tweaking assumption on margins and opex growth. Meanwhile we keep credit cost estimates unaltered at 1.3% and 0.8%.
- UBL is trading at 2010E P/B of 0.95x on prospective ROE of 16.7% with asset gearing of 9.5x. Key upside trigger to our stance remains improving visibility on Middle East market.

Hamza A. Marath

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Friday, March 5, 2010

NBP: NIT & Tax credit drive earning growth

- NBP posted upbeat bottom-line growth of 18% YoY in 2009 to PRs16.92/sh with cash dividend of PRs7.5/sh and stock dividend of 25%.
- Earnings were primarily driven by gain from NIT (PRs4.0bn) and tax credit of prior years. Adjusting for these two, core net profit declined ~19% YoY to ~11.6/sh.
- Pre-prov op profit (PPOP) was down 1% YoY, despite NIT gain, mainly due to decline in net interest margin (NIM) and higher operating expenses (up 24% YoY).
- While divergence in op. performance between NBP and peers is evident, the stock has rallied +24% in 2010 vs +1.1% for sector. Trading at 36% discount on P/B as compared to historical discount of 30% we maintain underperform on NBP.

Hamza A. Marath

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Stock Market Last Week in Pictorials

Chart 1: KSE-100 Index

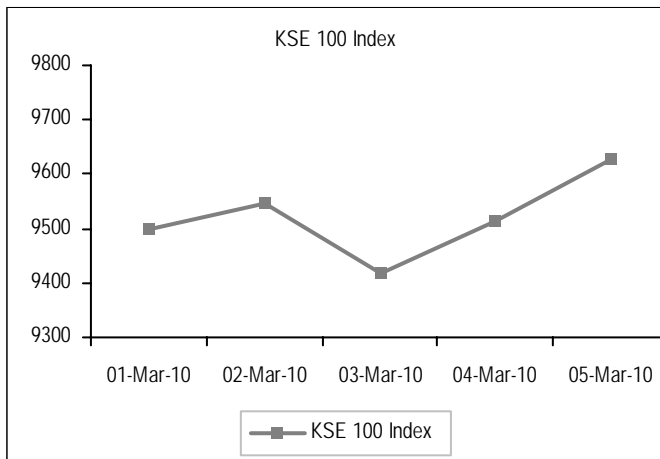


Chart 2: Advance Decline Ratio

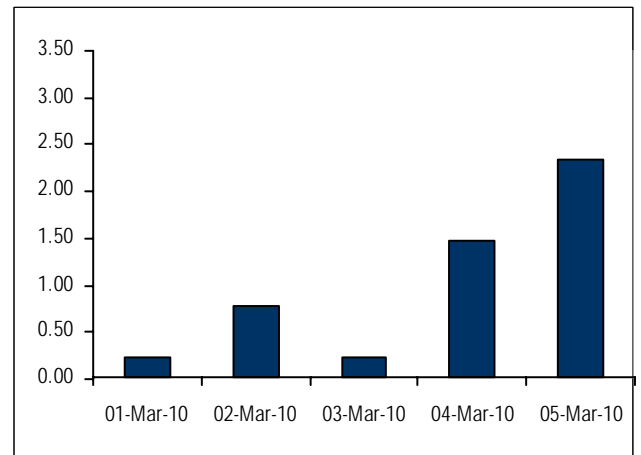


Chart 3: Pak Foreign Portfolio Flows (US\$mn; US\$=PRs82)

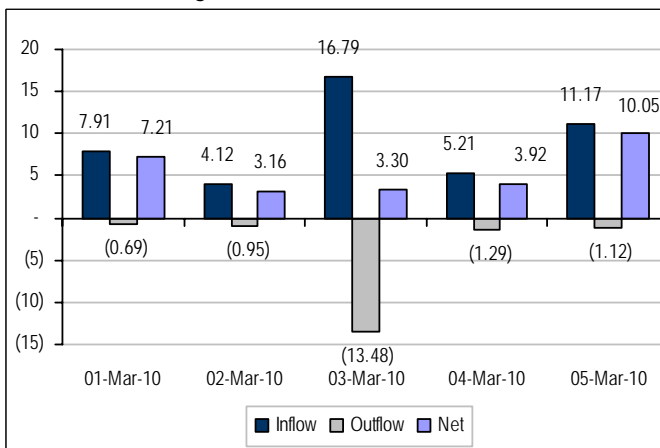


Chart 4: KSE - Volume & Value

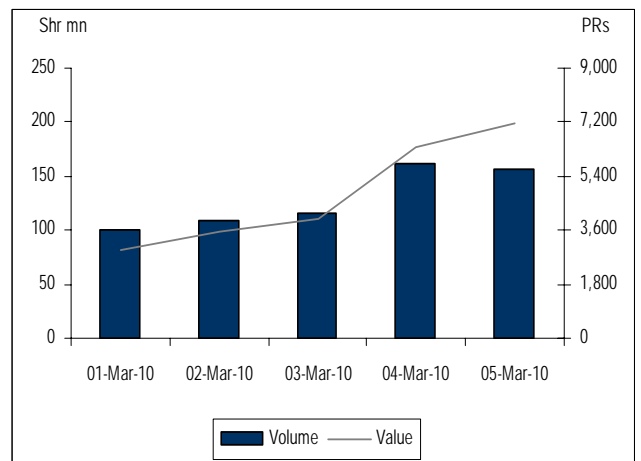
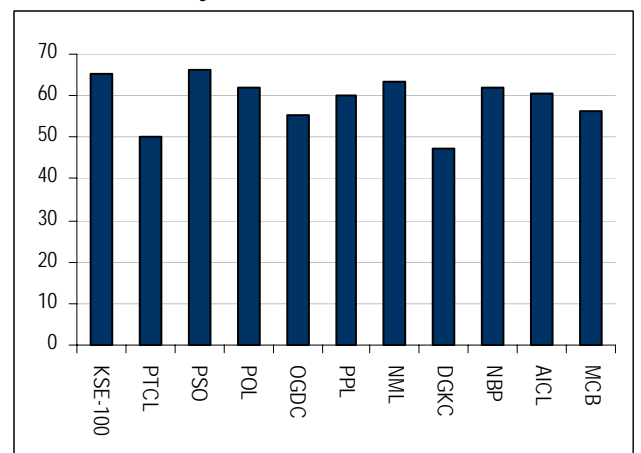


Chart 5: Price to Money



Chart 6: RSI of Key Index



Economy Watch

Chart 13: Revenue Collection (PRsbn)

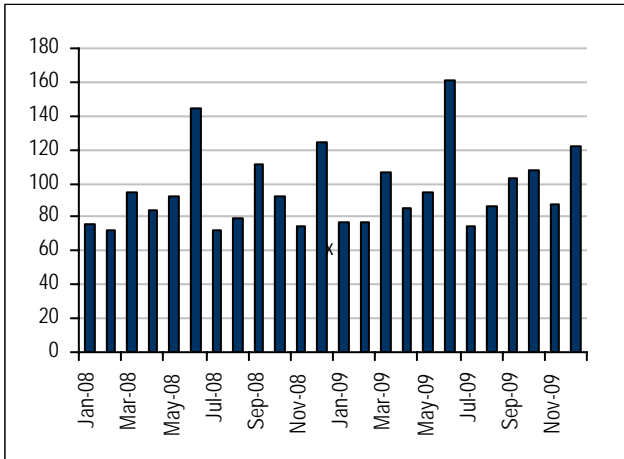


Chart 14: Forex Reserves (US\$mn)

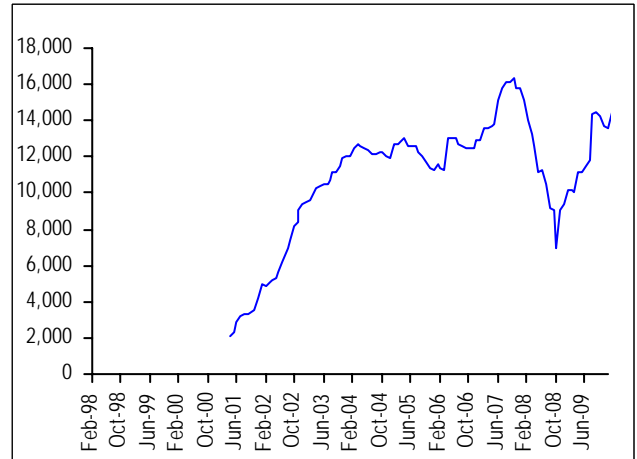


Chart 15: Import & Export (US\$mn)

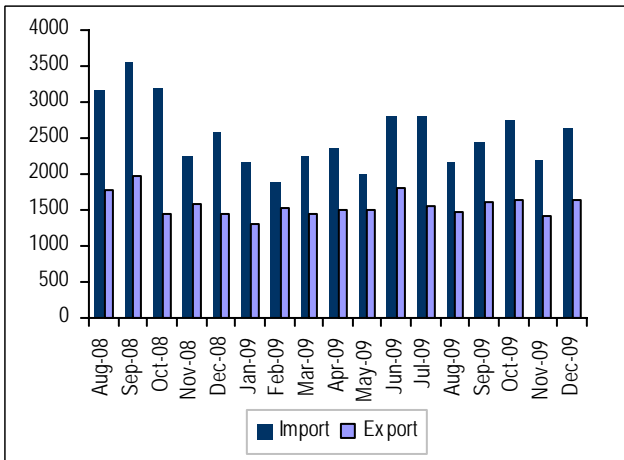


Chart 16: Foreign Exchange Rate (PRs/US\$)

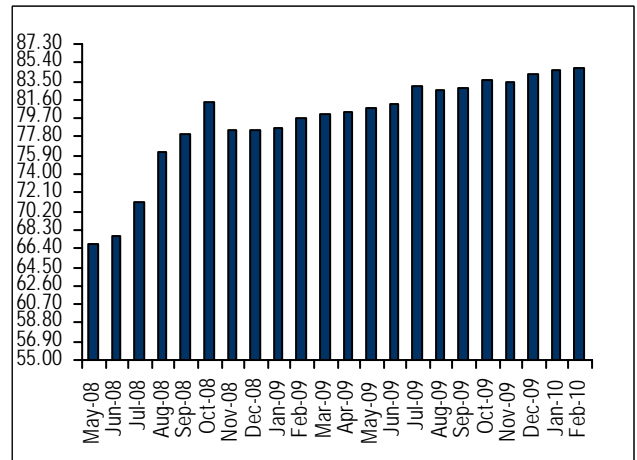


Chart 17: 6-mth T-Bill Yield (%)

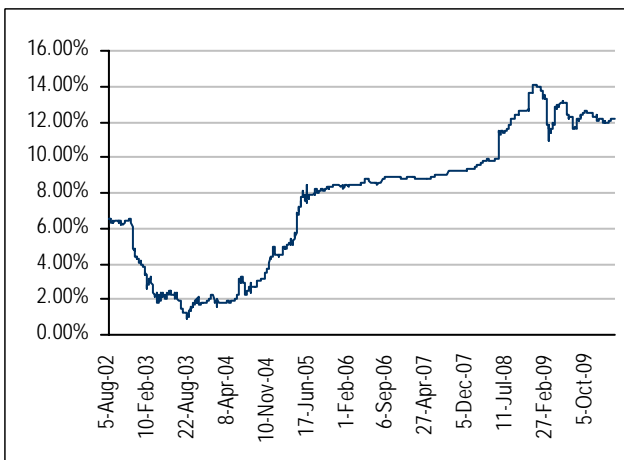
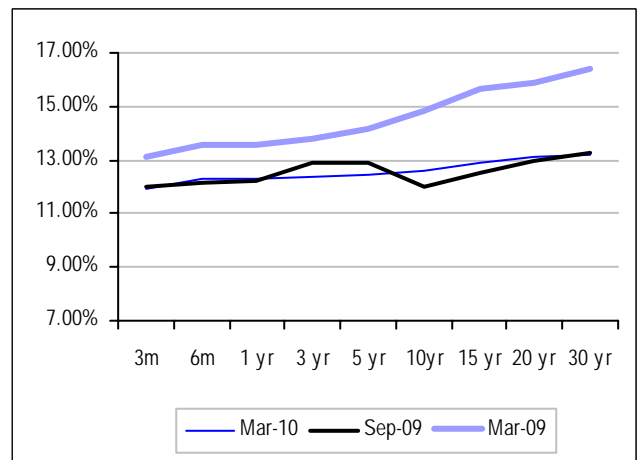


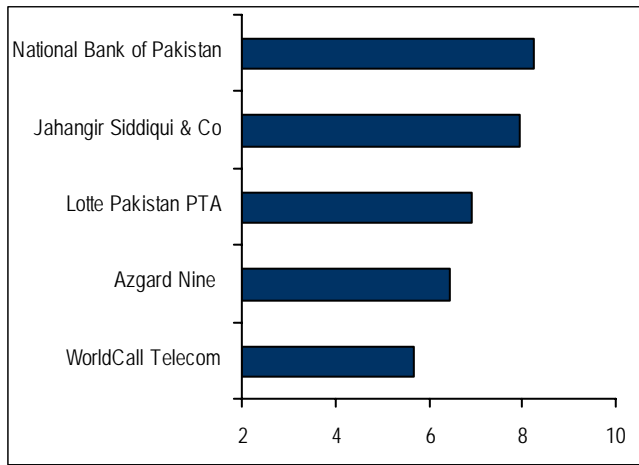
Chart 18: Yield Curve (%)



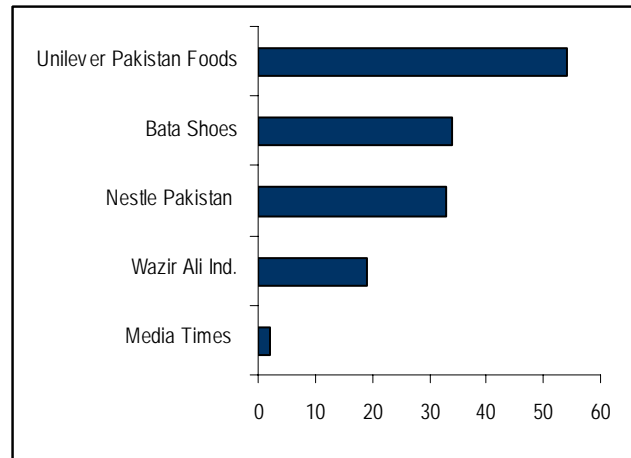
Stock Market Synopsis

	Last week	This week	% Change	1M	3M	12M
Mkt. Cap (US\$bn)	32.66	32.54	-0.37%	33.10	31.28	22.25
Avg. Dly T/O (mn. shares)	141.42	128.68	-9.01%	155.91	156.64	174.52
Avg. Dly T/O (US\$ mn.)	58.74	56.55	-3.73%	61.87	73.25	95.87
No. of Trading Sessions	5	5		21	62	247
KSE 100 Index	9657.79	9626.29	-0.33%	9769.70	9009.13	5748.10
KSE ALL Share Index	6844.07	6807.76	-0.53%	6926.60	6408.96	4228.52

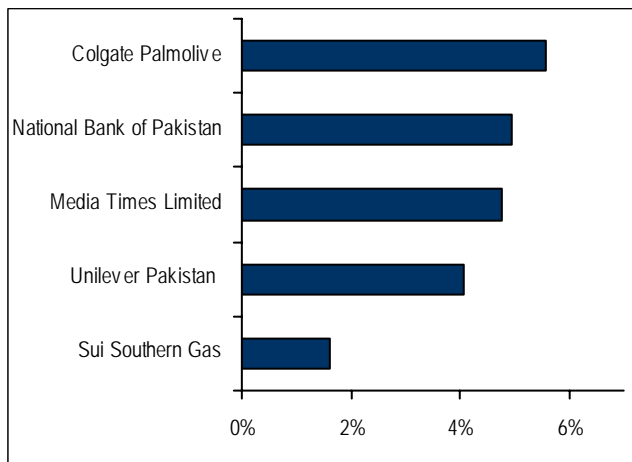
KSE-100 Active Issues (ADTO-million shares)



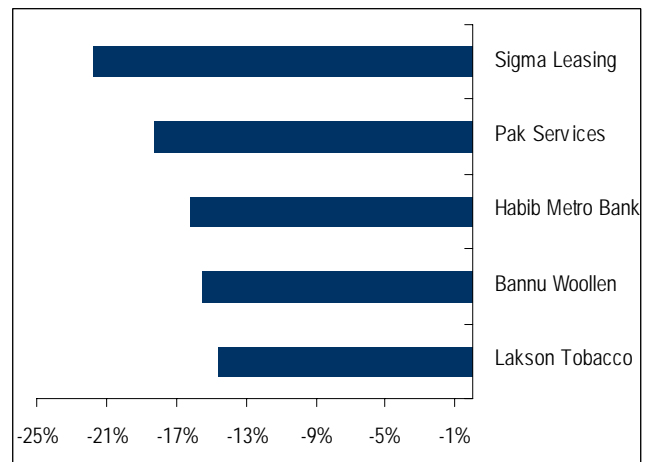
KSE-100 Least Traded Issues (ADTO- shares)



KSE-100 Leaders (% change)



KSE-100 Laggards (% change)



Macro Economic Indicators

	FY06A	FY07A	FY08A	FY09A	FY10F
Real GDP growth %	5.8	6.8	4.1	2.0	2.8
Agriculture growth %	6.3	3.7	1.5	4.7	2.9
Manufacturing growth %	8.3	8.6	4.8	-3.3	1.8
Services growth %	6.5	7.6	8.2	3.6	3.4
Exports USD billion	16.5	17.1	19.2	17.8	18.0
Imports USD billion	28.6	30.4	39.9	34.8	33.1
Trade account balance USD billion	-12.1	-13.3	-20.7	-17.0	-15.1
Remittances USD billion	4.6	5.4	6.5	7.8	8.5
Current account balance USD billion	-5.0	-7.0	-14.0	-8.8	-7.1
CPI	8.0	7.8	12.0	20.8	11.5
Money Supply (M2) growth %	15.2	19.3	14.0	9.6	11.0
Exchange rate PRs/USD	60.2	60.4	63.5	81.5	85.0
6m T-bill WAY%	8.5	8.9	11.5	12.8	11.7
Population (million)	155.4	158.2	161.0	163.9	166.9
Per Capita income (USD)	833.0	956.0	1,020.0	1,046.0	1,085.0
Development Exp (PSDP) (PRs billion)	306.0	435.0	458.0	418.0	646.0
Foreign Exchange reserves (USD million)	10,765	13,345	8,577	9,118	14,469
Tax Revenues in (PRs million)	700,000	835,000	1,000,000	1,158,000	1,479,000
Foreign Direct Investment (USD million)	3,500	5,140	5,450	3,720	2,500
Pakistan External Debt (USD million)	35,888	39,008	44,467	50,759	57,417
Domestic Debt (PRs million)	2,296,869	2,600,600	3,266,000	3,852,600	4,270,000
Debt Servicing as % of GDP	2.2%	2.1%	1.8%	2.0%	2.0%
Pakistan External Debt as % of GDP	28%	27%	28%	29%	31%
Pakistan Domestic debt as % of GDP	31%	30%	32%	29%	31%
Pakistan total debt as % of GDP	59%	57%	59%	59%	62%
Budget deficit as % of GDP	4.2%	4.5%	7.0%	5.2%	4.9%
Investment as % of GDP	21.8%	23.0%	21.6%	19.6%	18.5%
Saving as a % of GDP	16.4%	18.0%	13.9%	14.3%	14.5%

Source: SBP, FBS and KASB estimates

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