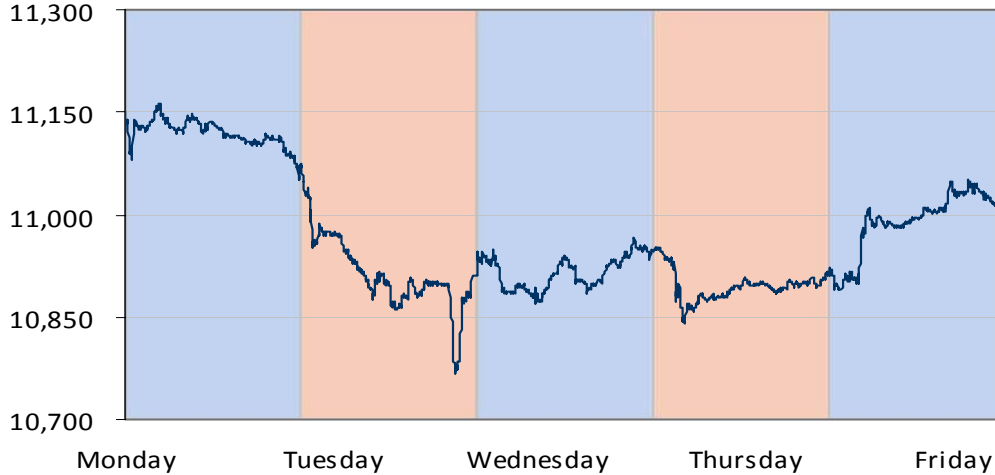


KSE: Fluid political circumstances set the tone



Source: KSE

Stock Market Overview

- Friction between state institutions took to another level, denting market sentiments. However a relief rally emerged on Friday as the SECP forwarded taxation proposals to the FBR for softening collection mechanism on CGT and revising corporate tax rates.
- The KSE-100 index closed at 11,014 points registering a weekly loss of 1.0%. Participation also remained dull with average volumes dropping by 33.4% WoW.
- Shifa Int Hospitals Ltd, TRG Pakistan, K.E.S.C., Colgate Palmolive and Jahangir Siddiqui & Co were the major gainers while Pak Telephone, Nestle Pakistan Limited, International Steel Limited, Dawood Hercules and Al-Ghazi Tractors were major losers in the benchmark KSE-100 this week.

News This Week

- Cement sales up 4% during 1HFY12
- FBR revenue division year book 2010-11 released
- Remittances increase 19% YoY in 1HFY12
- Trade deficit widens 38% in 1HFY12
- SECP forwards tax proposals for capital market

13 January 2012

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Market Review: Fluid political circumstances set the tone

Date	Open	High	Low	Close	Change	Vol (mn)
9-Jan-12	11,148	11,163	11,024	11,040	-0.8%	21
10-Jan-12	11,035	11,035	10,771	10,933	-1.0%	44
11-Jan-12	10,915	10,966	10,870	10,930	0.0%	23
12-Jan-12	10,925	10,925	10,841	10,909	-0.2%	21
13-Jan-12	10,910	11,051	10,897	11,014	1.0%	32

Source: KATS

Market This Week

The market plunged earlier on in the week as friction between state institutions heated up when the PM raised some concerns on the recent actions of the military leadership that in turn drew a sharp rebuttal from the latter. The govt. and the apex court also appeared to be heading on a collision course when the court censured the PM over failure to implement its NRO verdict and outlined six measures which the court may undertake in response. However after descending for three out of the first four sessions, the index embarked on a relief rally on Friday to bring the weekly decline to 1.0%. Poor average volumes were registered (28.1mn shares, -33.4% WoW), despite a nominal FPI inflow of US\$0.2mn this week. Friday's surge was attributed to reports that the SECP had forwarded taxation proposals to the FBR calling for a revision in mechanism for CGT collection, lowering corporate taxes for listed companies (from 35% to 25%) and introducing an amnesty scheme for brokers/investors to pay a nominal income tax. Apart from this, sector-specific news flow saw the PM inaugurate KPD field (100mmcf gas & 1100 bpd oil) where we estimate an incremental PRs1.3/sh earnings impact for the E&P giant, OGDC. On the macro front, while monthly remittances reverted to US\$1.1bn in Dec-11 (+26% YoY), an expansion in trade deficit in 1HFY12 (US\$11.5bn +38% YoY) kept a cloud of caution.

Outlook for the Future

All eyes will be zoned in on the political landscape on Monday as the larger bench of the Supreme Court will take up the NRO case and the Memo-gate commission will also resume its hearing. Politics will likely set the tone for market direction, however we highlight corporate result season hovering around the corner which should take some of the spotlight away from the political noise. We also advise a close watch on 1) preliminary news flow emerging on the IMF Letter of Comfort, and 2) MPS announcement scheduled for late Jan where an unchanged policy stance is likely on the cards. The IMF's detailed report will hold the trump card in determining the direction and extent of future sovereign flows and also have implications on the PRs/USD exchange rate. For our investment strategy, the energy space continues to remain prominent in our preference list, where a blend of attractive fundamentals and undemanding valuations are on display. We reiterate our liking for PPL, APL, PSO, OGDC, POL and Kapco. Other sectors that warrant a closer look include cements (Lucky, DGKC), fertilizers (FFC) and telecoms (PTCL).

News This Week

Cement sales up 4% during 1HFY12

Cement sales were up 4% to 15.4mn tons in 1HFY12, including 8% YoY growth in domestic sales while exports were down 4.6% YoY. During the month of Dec-11, total cement sales were up 7% YoY reflecting 13% YoY increase in domestic sales and 9% YoY decline in export sales.

FBR revenue division year book 2010-11 released

As per the year book floods during 2010 and energy shortage dented tax collection. Other factors: (1) cuts in PSDP adversely affecting the collection under WHT on contracts and suppliers and (2) collections from CGT on stock market falling short of projections. Looking ahead the FBR plans to generate sufficient revenues via: (1) phasing out FED in 3years and moving to two main taxes (sales and income tax) (2) development of fully automated refund system and (3) identifying 700k tax evaders

Remittances increase 19% YoY in 1HFY12

Remittances sent home by overseas workers recovered in Dec-11 at US\$1.09bn (up 17% MoM/26% YoY) against a dip recorded in Nov-11 at US\$925mn.

Trade deficit widens 38% in 1HFY12 to US\$11.5bn

Exports grew by only 4% YoY to US\$11.2bn while imports growth (+19%) outpaced significantly to US\$22.7bn. In Dec-11, exports recovered 19% MoM to US\$1.85bn, however were down 11% YoY; while imports were up 14% MoM and YoY to US\$4.3bn. Hence trade deficit increased by 11% MoM to US\$2.4bn in Dec-11.

SECP forwards tax proposals for capital market.

As per newspaper reports, the SECP has proposed the FBR to consider new taxation proposals for development of capital market and corporate sector. This includes revising the current mechanism of CGT collection, major reduction in corporate tax rate and increase in the tax rates on NSS. SECP is reportedly also considering providing amnesty scheme to investors/brokers, details of which are being fine tuned.

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This Week's Top Stories

Monday, January 09, 2012 - NRL: Risks priced in, up to Neutral

- We upgrade NRL to Neutral from U/P with a revised PO of PRs237/sh. A 30% correction in stock price since Nov. 2011 suggests the changed earnings environment for NRL is priced-in.
- We have lowered our earnings estimates by 25/14/16% for FY12/FY13/FY14E. Our estimates revision is based on (1) lower base-oil margin and (2) tweaking of fuel products spread.
- We now expect NRL to face first quarter of losses in 2Q12 since 2Q09 estimated at PRs4-5/sh led by weak base-oil margin, FX losses and turnover tax.
- We see limited downside from current price given (1) the stock is trading at FY13E P/E of 5.0x, and EV/EBITDA of 0.6x, (2) partial recovery in base oil margin.
- Potential upside in fuel oil margin from closure of refining capacity in the Europe indicates upside risk to our estimates.

Mohammad Fawad Khan, CFA

(Fawad.khan@kasb.com)

Tuesday, January 10, 2012 - Lucky Cement: Triggers unfolded; estimates

- We are revising up Lucky's earnings by 15% for FY12E and 17% for FY13E and PO by 5% on the back of strong cement prices, installation of TDF project and addition to other income from (1) power sales to HESCO and (2) revenue from trading carbon credits.
- Despite a 15% out-performance to KSE-100 index over the past 6-mths, Lucky is still trading at 15% discount to KASB Universe 12E P/E, which is not justified in our view.
- We expect Lucky to report strong earnings growth of 78% in 2QFY12 (to PRs4.07/sh) which can trigger the stock performance in the near term.
- Lucky is currently trading at 4.9x FY12E and 4x FY13E P/E, while it offers 28% upside to our revised PO of PRs100/sh.

Shagufta Irshad Khurram

(Shagufta.khurram@kasb.com)

Wednesday, January 11, 2012 - Cement: Recovery in domestic sales in Dec-11

- We have seen recovery in cement industry overall sales by 7.5% and 24% in domestic sales in Dec-11 compared to the previous month.
- During 6MFY12, total cement sales were up 4% reflecting 4.5% YoY decline in exports and 8.3% YoY growth in domestic sales.
- Cement producers have raised cement prices by PRs3/bag this month to offset the impact of 3.7% Pak Rupee devaluation against US\$.
- We expect a net increase in cost of producing cement by PRs15-20/bag in Jan-12 from 17% increase in gas prices and suspension of gas supply mitigating the impact of decline in int'l coal prices.
- We reiterate Buy on Lucky Cement (PO: PRs100, +30% upside) and DGKC (PO: PRs24; +21% upside).

Shagufta Irshad Khurram

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Thursday, January 12, 2012 Autos: Year-end factor slows Dec sales

- Sales of locally assembled cars and LCVs decelerated to 11,217 units in Dec-11, down by another 6% MoM owing to year-end factor.
- Indus experienced an expected 20% MoM drop in production though latent deliveries kept sales numbers intact (sales 400 units higher than production). Although PSMC also experienced similar effect, better electricity supply helped in improving production and sales by 12% and 1.5% respectively.
- We expect the effect of ban on CNG cylinders and kits to be fully visible during 2HFY12E and see flattish sales performance in FY12E where PSMC being the key player in small cars segment should be the worst hit by the decision.
- We flag Indus as the sole "Buy" in autos space. Indus is trading at FY12E P/E of 4.7x and offers 18% upside to our PO of PRs250. Start of seasonal sales uptick from Feb and interim DPS of PRs10 should act as key triggers for the stock.

Muhammad Saqib Sajjad

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Friday, January 13, 2012 - OGDC: Significant addition of volume from KPD

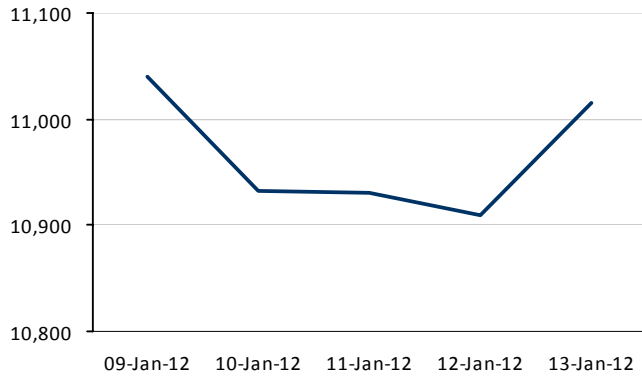
- We reckon Oil & Gas Development Company (OGDC) is poised to deliver strong volume growth in FY12 and beyond (3-year volume CAGR of 13%) with the addition of 100mmcf/d gas production from KPD from 12th Jan.
- The first phase of production start of 100mmcf/d from KPD represents 10% of OGDC's gas volumes and will have annual impact of PRs1.3/sh on OGDC's bottom line (6% of FY12 EPS).
- KPD adds ~3% to the country's production and comes online at a time when the govt. is struggling to meet a large deficit in gas supply in peak winter season.
- While the stock has corrected 12% since 2nd Jan, we believe recent volume addition coupled with 2Q strong results can calm the nerves with the focus shifting to the company's fundamentals.
- We see another quarter of strong earnings in 2Q for OGDC with EPS estimated at PRs4.98 (1H PRs10.07, up 37% YoY) and expect 2Q DPS of PRs2 (1H: PRs3.5).

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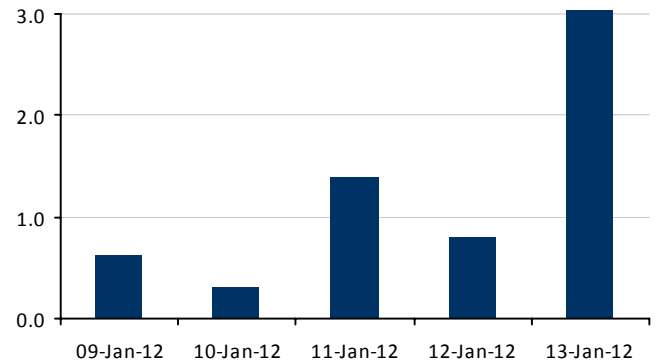
Stock Market – Last week in pictorals

Chart 1: KSE-100 Index



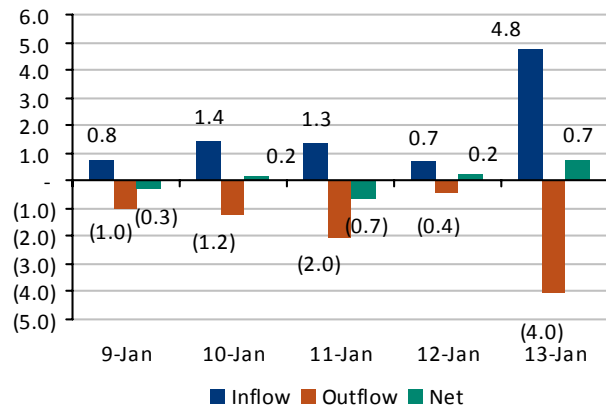
Source: KSE

Chart 2: KSE Advance/ Decline Ratio



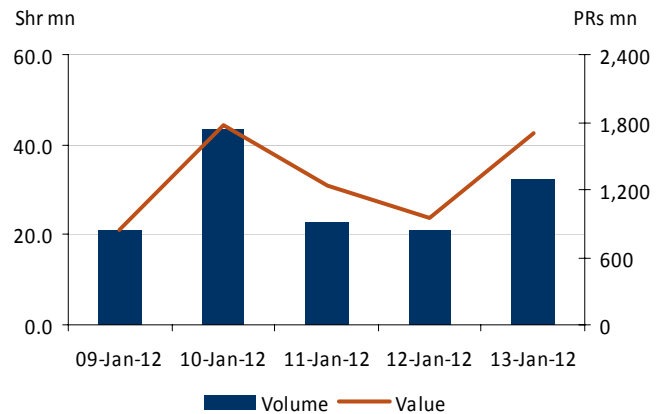
Source: KSE

Chart 3: Pak Foreign Portfolio Flows (US\$m; US\$=PRs87)



Source: NCCPL

Chart 4: KSE- Volumes & Values



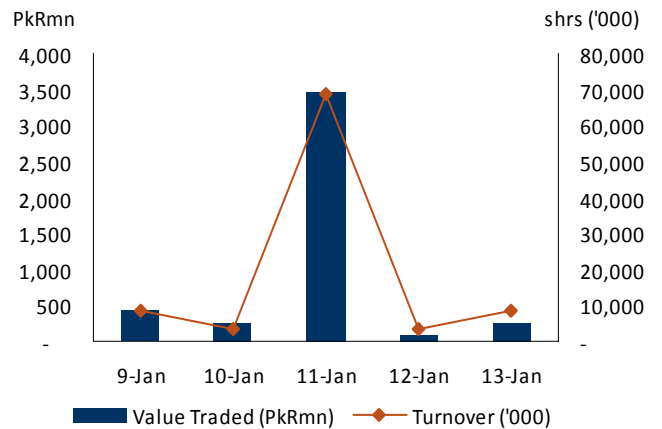
Source: KSE

Chart 5: Price to Money Ratio



Source: KSE

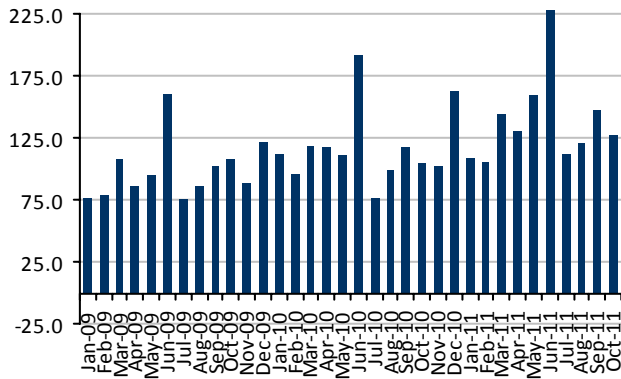
Chart 6: Off market activity



Source: KSE

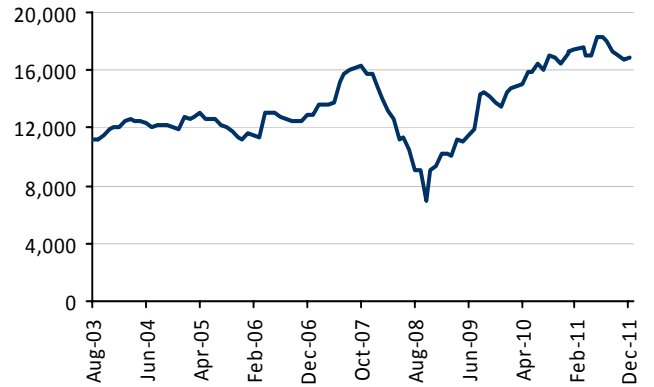
Economy Watch

Chart 7: Revenue Collection (PRsbn)



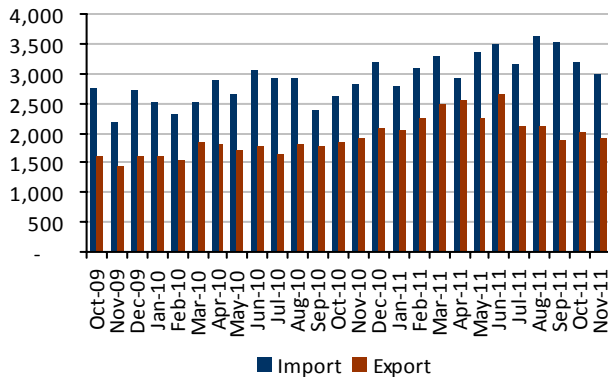
Source: SBP

Chart 8: Forex Reserves (US\$mn)



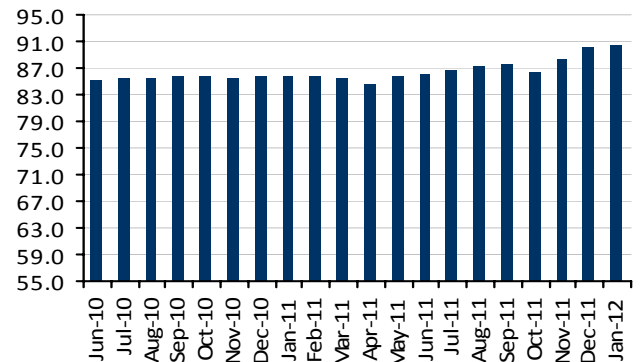
Source: SBP

Chart 9: Import & Export (US\$mn)



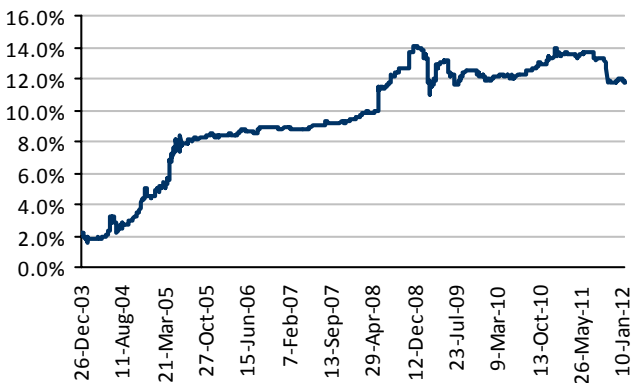
Source: SBP

Chart 10: Foreign Exchange Rate (PRs/US\$)



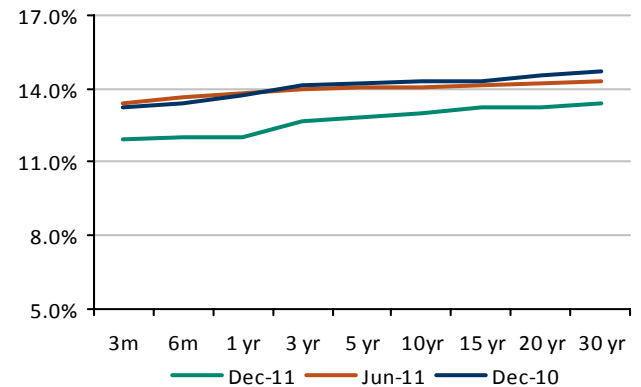
Source: DataStream

Chart 11: 6-mth T-Bill Yield (%)



Source: SBP

Chart 12: Yield Curve (%)

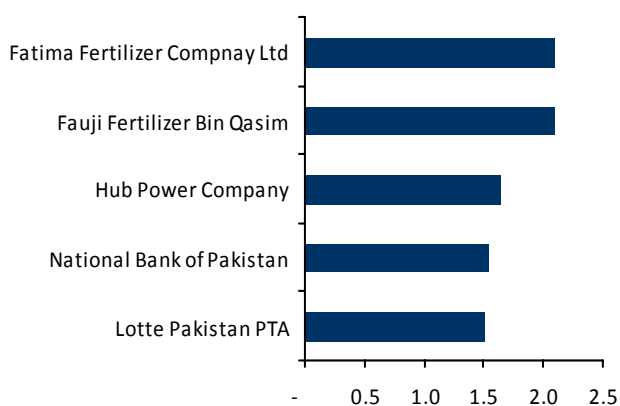


Source: SBP

Stock Market Synopsis

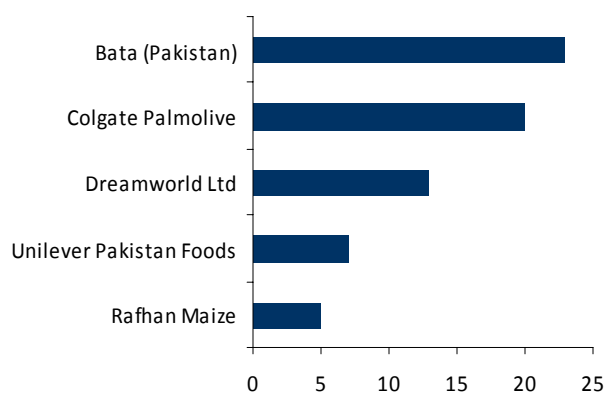
	Last week	This week	% Change	1M	3M	12M
Mkt. Cap (US\$bn)	32.11	31.75	-1.13%	32.81	36.20	39.32
Avg. Dly T/O (mn. shares)	42.21	28.13	-33.35%	39.27	50.09	75.16
Avg. Dly T/O (US\$ mn.)	20.40	14.43	-29.25%	17.98	27.49	38.24
No. of Trading Sessions	5.0	5.0	-	21	60	250
KSE 100 Index	11125.35	11014.46	-1.00%	11278.02	11966.29	12459.44
KSE ALL Share Index	7716.86	7645.11	-0.93%	7811.42	8292.03	8638.23

Chart 13: KSE-100 Active Issues (ADTO-million shares)



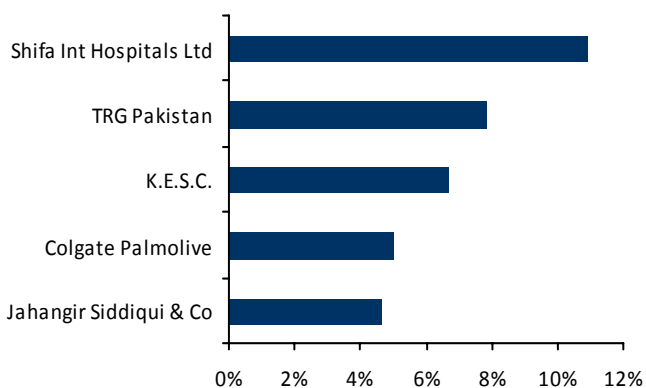
Source: KSE

Chart 14: KSE-100 Least Traded Issues (ADTO- shares)



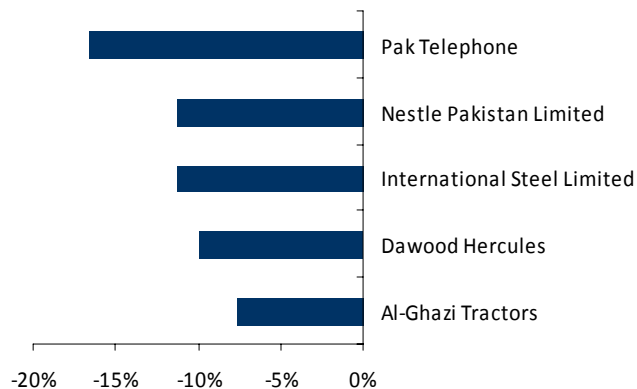
Source: KSE

Chart 15: KSE-100 Leaders (% change)



Source: KSE

Chart 16: KSE-100 Laggards (% change)



Source: KSE

Macro Economic Indicators

	FY08A	FY09A	FY10A	FY11E	FY12E
Real GDP growth %	3.7	1.7	3.8	2.4	4.0
Agriculture growth %	1.0	4.0	0.6	1.2	4.5
Manufacturing growth %	4.8	(3.6)	5.5	3.0	3.1
Services growth %	6.0	1.7	2.9	4.1	4.2
Exports USD billion	19.1	17.7	19.4	24.8	24.4
Imports USD billion	40.0	34.8	34.7	40.4	43.3
Trade account balance USD billion	(20.9)	(17.1)	(15.3)	(15.6)	(18.8)
Remittances USD billion	6.5	7.8	8.9	11.2	12.2
Current account balance USD billion	(13.9)	(9.3)	(3.9)	0.5	(2.9)
CPI (base year:FY08)	-	17.0	10.1	13.7	11.5
Money Supply (M2) growth %	14.0	9.6	12.5	15.9	14.0
Exchange rate PRs/USD	63.5	81.5	85.0	86.0	88.3
6m T-bill WAY%	11.5	12.8	12.2	13.7	12.8
Population (million)	164.7	168.2	171.7	175.3	179.0
Per Capita income (USD)	1,015.0	990.0	1,073.0	1,254.0	1,410.0
Development Exp (PSDP) (PRs billion)	452.0	397.5	518.0	450.0	730.0
SBP Foreign Exchange reserves (USD mn)	8,577.0	9,118.0	12,958.0	14,787.0	12,500.0
Tax Revenues in (PRs billion)	1,051.0	1,205.0	1,473.0	1,680.0	2,074.0
Foreign Direct Investment (USD million)	5,450.0	3,720.0	2,151.0	1,574.0	1,500.0
Pakistan External Debt (USD million)	43,078.0	48,835.0	52,107.0	55,604.0	60,000.0
Domestic Debt (PRs billion)	3,275.0	3,861.0	4,654.0	6,016.0	7,000.0
Pakistan External Debt as % of GDP	29%	31%	30%	27%	26%
Pakistan Domestic debt as % of GDP	32%	30%	32%	33%	32%
Pakistan total debt as % of GDP	61%	61%	62%	60%	58%
Budget deficit as % of GDP	7.0%	5.2%	6.3%	6.6%	6.0%
Investment as % of GDP	22.1%	18.2%	15.4%	13.4%	13.8%
Saving as a % of GDP	13.6%	12.5%	13.2%	13.8%	14.2%

Source: SBP, FBS and KASB estimates

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