

Market Monitor

Weekly

Indices Movement



News This Week

- Highest ever remittances received during FY10
- FY10: CPI inflation rises by 11.73%
- Leverage product approval by SECP on the cards
- Trade deficit shrinks by 10.54% YoY in FY10

Corporate Highlights

- SSGC to get US\$125mn WB loan

Stock Market Overview

- The KSE-100 Index witnessed a WoW increase of 1.8% to close at 10,154 on Friday. Volumes improved by 46% to average 80mn shares.
- Bestway Cement, Azgard Nine, Pak Electron Ltd, Netsol Technologies, Attock Refinery, were major gainers while Pak Telephone, Kohinoor Energy, Royal Bank, KASB Bank, and ICI Pakistan, were major losers at KSE this week.

Inside: Momentum carries the market beyond 10k

Market Review: Momentum carries the market beyond 10k

Date	Open	High	Low	Close	% Change	Volume
12-Jul-10	9,979.98	10,053.38	9,945.44	9,979.07	0.05	64,704,681
13-Jul-10	10,001.16	10,131.37	9,979.79	10,114.65	1.36	67,917,298
14-Jul-10	10,137.33	10,238.30	10,130.23	10,187.00	0.72	121,264,029
15-Jul-10	10,212.53	10,258.81	10,082.89	10,095.80	-0.90	91,695,899
16-Jul-10	10,109.24	10,177.35	10072.25	10153.85	0.57	55,815,251

Source: KSE

Market This Week

Buoyant sentiments due to expectations of positive news on leverage product spilled into the outgoing week as well with KSE-100 index recording a gain of 1.8%, crossing the 10k mark with 46% WoW increase in volumes. Continuation of foreign inflows (US\$5.7mn) also played their role in sustaining the momentum. News flow on the macro front was however a mixed bag. Current account deficit for FY10 clocked in 62% lower YoY at US\$3.5bn but inflation statistics remained punchy at 12.69% YoY for June 2010 (11.7% YoY for FY10). Of greater concern however were provisional numbers depicting that fiscal deficit for FY10 could clock in at 6.2% of GDP vs IMF target of 5.2% and the same could spill over to FY11 where fiscal deficit could touch 5.2% compared to the budgeted 4%. Fiscal slippage poses an upside risk to market yields and hence policy rate and the same reflected in increased participation in 3M paper in T-Bill auction during the week. On the sovereign flows front, while the realized amounts fell 50% short of commitments in FY10, the to-date consistent IMF flows could also be under threat if Pakistan is not able to deliver on the revenue reforms committed to IMF.

Outlook for the Future

Market sentiments remained linked to news flow on leverage product and potential clarity on capital gains tax (CGT). However sharing the limelight going forward would be expectations from 1) monetary policy due in end July and 2) corporate result season. In addition, news flow on negotiations with IMF will also keep the market interested in terms of the macro situation. Our top picks at the KSE remain intact where we like FFC, Hubco & PTCL as the potential defensive plays. For investors looking for growth and wanting to play the domestic demand theme in Pakistan, Engro Corporation, Lucky Cement (recent increase in cement prices should help) and United Bank (compelling risk reward profile) are the preferred choices. In the energy theme, we recommend Hubco, PSO, PPL and POL where any developments on resolution of intercorporate debt should trigger a re-rating in PSO, in our view.

Fundamental Changes

The major developments this week were:

- **Highest ever remittances received during FY10** According to the data released by State Bank of Pakistan (SBP), overseas Pakistanis remitted the highest ever amount of US\$8.91bn in FY10, up 14% YoY. Remittance in Jun-10 recorded an inflow of US\$841.44mn, which in itself is the highest-ever in a single month, surpassing the previous record of US\$806.12mn received in Sept-09. The monthly average remittances in the period from Jul-09 to Jun-10 average to US\$742.16mn as compared to US\$650.95mn during the corresponding period of the FY09.
- **FY10: CPI inflation rises by 11.73%** As per the figures released by the Federal Bureau of Statistics (FBS); the Consumer Price Index (CPI) inflation surged by 11.73% during FY10 (Jul-Jun), largely due to increase in the price of essential commodities. FBS numbers indicate that prices of perishable food items rose by 20.76% followed by 16.36% increase in the cost of fuel and electricity. The Sensitive Price Index (SPI) increased by 13.23%, whereas the Wholesale Price Index (WPI) index went up by 12.63% during FY10. In Jun-10, the CPI inflation increased by 12.69% YoY, SPI by 14.94% YoY and the WPI by 17.62% YoY.
- **Leverage product approval by SECP on the cards** Reportedly, the Securities and Exchange Commission of Pakistan is likely to approve the proposed modalities of leverage product by Friday. The SECP is currently reviewing the product version submitted by the SECP sub committee on leverage product, comprising of all stakeholders. While the details

of the products are yet to be made public, it remains to be seen how banks and other financing institutions would react to the new product concept.

- **Trade deficit shrinks by 10.54%YoY in FY10** As per Federal Bureau of Statistics (FBS), Pakistan's trade deficit for FY10 declined to US\$15.32bn, showing a decline of 10.54% against a US\$17.13bn deficit last year. Synopsis of the deficit shows that, as per provisional trade figures, exports registered an increase of 9.58% YoY to US\$19.38bn; whereas imports marginally declined by 0.32% YoY to US\$34.71bn during FY10. On a monthly basis, the trade deficit declined by 22.69% YoY to US\$1.40bn in Jun-10 due to +19.5% YoY increase in exports to US\$1.82bn against a 3.45% YoY decline in imports to US\$3.34bn.
- **SSGC to get US\$125mn WB loan** As per newspaper reports, Sui Southern Gas Company (SSGC) is in the final stage of negotiations to get US\$125mn financing from the World Bank. The loan proceeds will be used to reduce line losses over the next five years. According the report, SSGC's line losses account for ~PRs8-9bn that can cause UFG (Unaccounted for Gas, the amount SSGC losses due to its line losses growing beyond what OGRA allows) penalties of PRs3bn (PRs4.5/sh) for the utility in FY10.

KASB Research (021-111-222-000)

This Week's Top Stories

Monday, July 12, 2010

CGT modalities continue to gradually unravel

- Modalities regarding the capital gains tax continue to unravel at a gradual pace two weeks after its implementation. A KSE press release over the weekend briefed the outcome of the recent meeting of the subcommittee working on CGT issues.
- 1) Intraday trading will be taxed @ 10% and 2) income to financiers of leverage products will be taxed @10%, which combined with proposed KIBOR+8% rate provides financiers an attractive tax-adjusted return on future leverage product.
- However, issues related to 1) source of income and 2) carry forward of tax losses remain unclear. While sentiments will remain linked to clarity on CGT, continuation of recent up-tick in FPI could provide an interim buffer to sentiments in our view.

KASB Research

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Tuesday, July 13, 2010

Auto sales end FY10 with a bang

- The FY10 auto sales numbers of locally manufactured cars and LCVs increased by 43% YoY to 141,654 units, higher than our expectations of 39% YoY growth.
- Apart from a rebound in demand during the year, the performance was lifted by strong June numbers as buyers rushed to get deliveries ahead of the 1ppt GST rise.
- Looking ahead, we expect volumes to improve by 12% YoY in FY11E. However, like FY10, we expect the cash-rich buyers, particularly supported by farm income, to be key drivers. Resultantly, Indus should lead industry sales with 14% YoY growth.
- Trading at FY11E P/E and EV/EBITDA of 7x and 2.6x respectively, Indus remains our preferred sector play.

Muhammad Saqib Sajjad

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Wednesday, July 14, 2010

Macro: Inflation cycle reaches 30 months

- Inflation (CPI) has been in double digit over the last 30 months with latest data depicting YoY and 12 month avg inflation (CPI) of 12.69% and 11.73% respectively.
- Historically, inflation has generally been led by fiscal lapses and delayed policy response, and, exacerbated by food and energy prices. In this regard, the current inflation cycle has not been different either.
- We believe near term persistence in inflation is inevitable due to structural drivers such as electricity tariffs (~30% gap b/w avg tariff & cost; annualized CPI impact 120bp), higher GST/VAT (annualized CPI impact ~100-150bp) and Ramadan factor.
- However, medium term, Pakistan's inflation cycle is likely to return to mean (i.e. -8% YoY) in 2011E as (i) high comparison base kicks in, (ii) exchange rate has normalized & (iii) agflation should moderate.

Hamza A. Marath

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Thursday, July 15, 2010

E&Ps: FY11 drilling and volume targets

- While overall FY11E lacks completion of any high-profile development project or increased drilling, preparation for heightened future exploration and progress on key development projects should pave the way for a more dynamic times ahead.
- PPL and POL will both rely on exploration in non-operated areas. The current outlook suggests only 2 and 3 wells to be drilled in operated areas. OGDC may improve its target drilling to 25 wells.
- We expect volume growth of 7% for listed E&P companies in FY11E. We estimate volume growth of 9% (impact of drop in production in FY10), 4% and 36% (full year impact of Manzalai, volume addition) for OGDC, PPL and POL, respectively.
- We like POL and PPL as both (1) will benefit from FY11E volume growth, (2) are exposed to high profile exploration in the Kohat region and (3) trade at an attractive valuation (FY11E P/E of 6.1x and 5.7x respectively).

Muhammad Fawad Khan

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Friday, July 16, 2010

Cement: Price recovery extends to 4Q10/1Q11

- After a dismal 9MFY10 on the domestic pricing front, late May-10 price recovery has extended into 4QFY10/1QFY11 as well with retail cement prices currently at the level of PRs310/bag, up from a low of PRs250-260/bag (Dec-Jan).
- Triggers for the price increase are (1) robust domestic demand and supply curtailment which have lifted utilization (~91% effective FY10 utilization); and (2) 1% increase in sales tax (GST) effective Jul 1st.
- FY10 domestic cement demand rose by an above-expected 21% YoY. On the back of the same, total FY10 cement sales are up 11% YoY despite 7% decline in exports.
- Key question is extent of margin accretion, given uptick in thermal coal cost. We estimate that ~PRs33/bag cement price hike since Mar-10 outstrips PRs20/bag cost increase and could deliver upside to 1QFY11E margins if status quo is maintained.
- Key to look out for is 1QFY11E demand supply balance where we eye uptick in supply (FCCL expansion) and softer demand (Ramadan + monsoon impact). We highlight Lucky Cement (PO: PRs94/sh) as our key pick in the Pak cement space.

Farrah Marwat

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Stock Market Last Week in Pictorials

Chart 1: KSE-100 Index

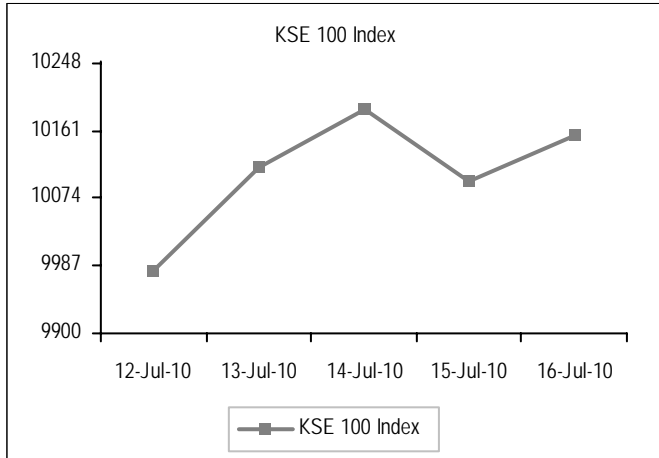


Chart 2: Advance Decline Ratio

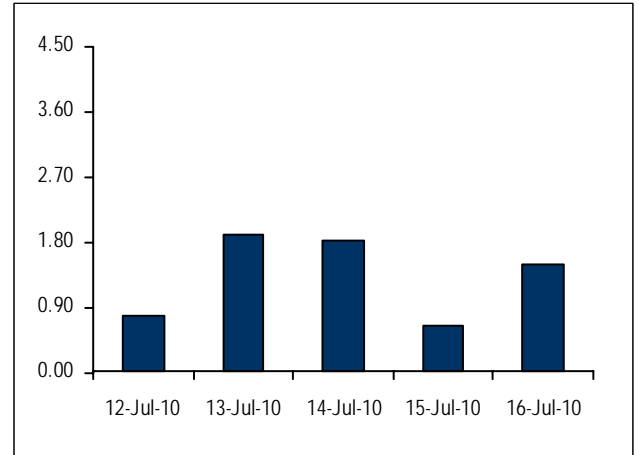


Chart 3: Pak Foreign Portfolio Flows (US\$m; US\$=PRs84)

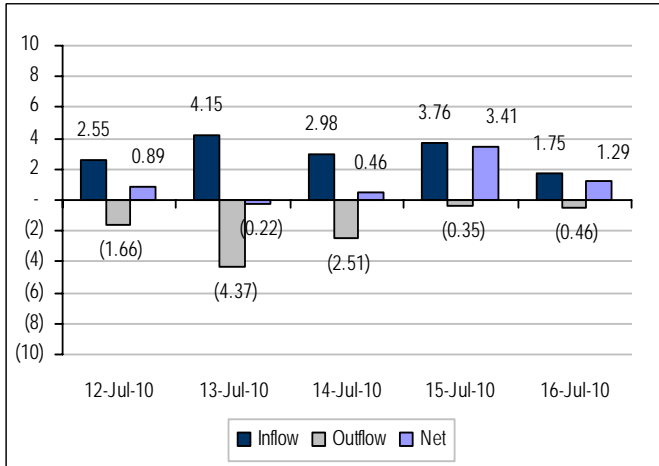


Chart 4: KSE - Volume & Value

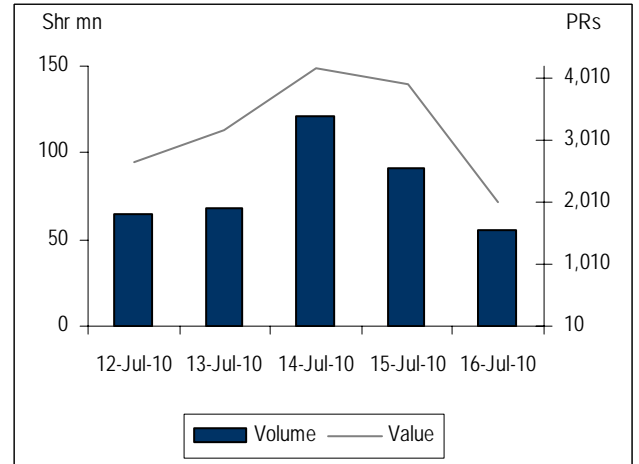
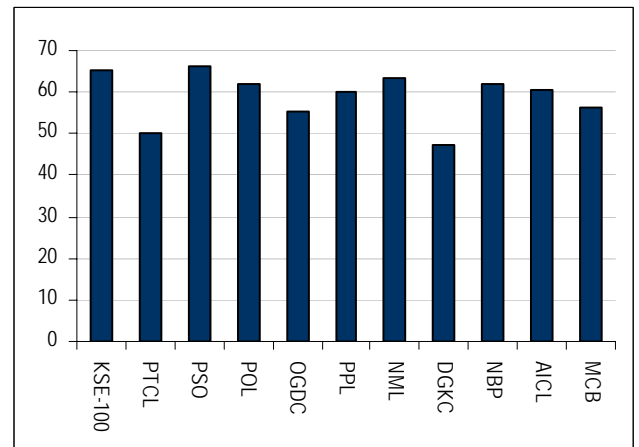


Chart 5: Price to Money



Chart 6: RSI of Key Index



Economy Watch

Chart 13: Revenue Collection (PRsbn)

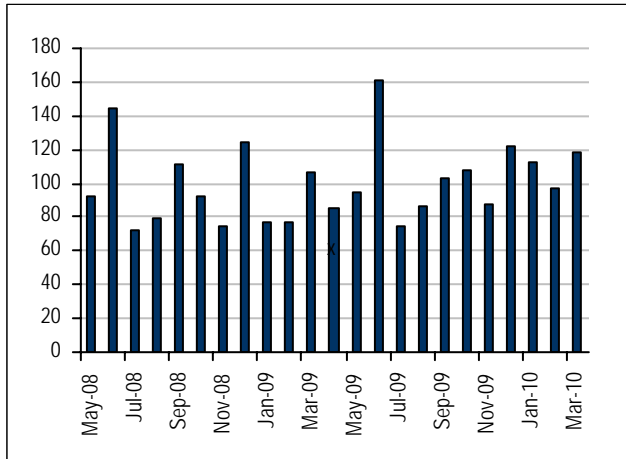


Chart 14: Forex Reserves (US\$mn)

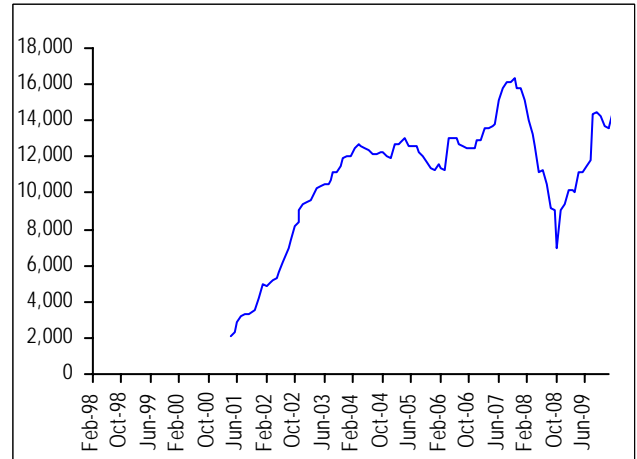


Chart 15: Import & Export (US\$mn)

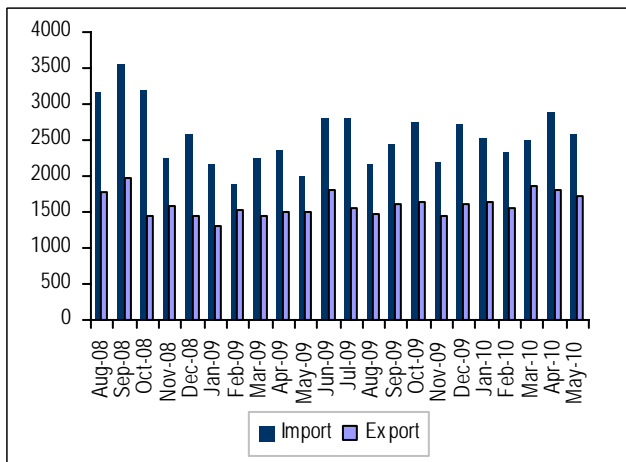


Chart 16: Foreign Exchange Rate (PRs/US\$)

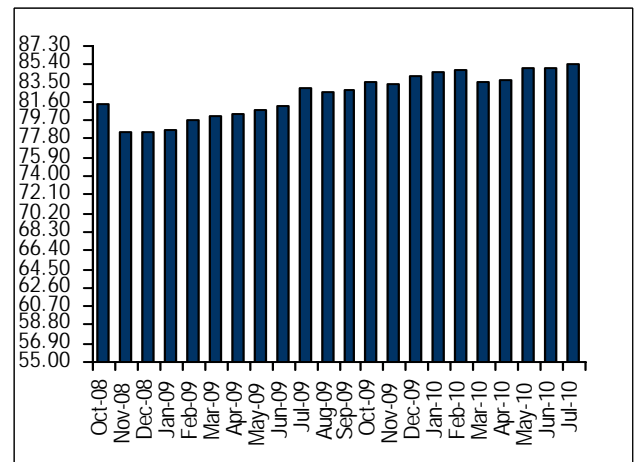


Chart 17: 6-mth T-Bill Yield (%)

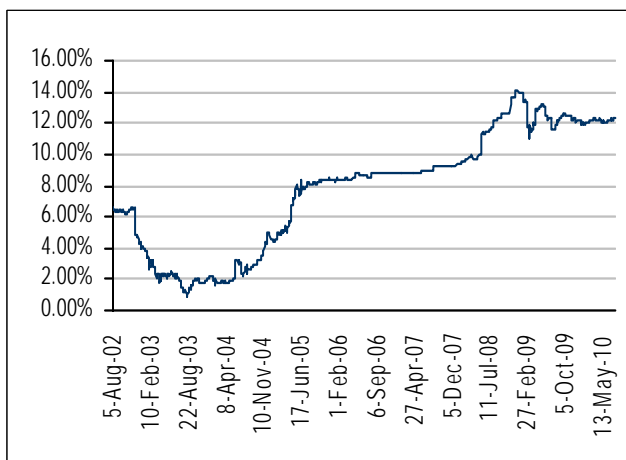
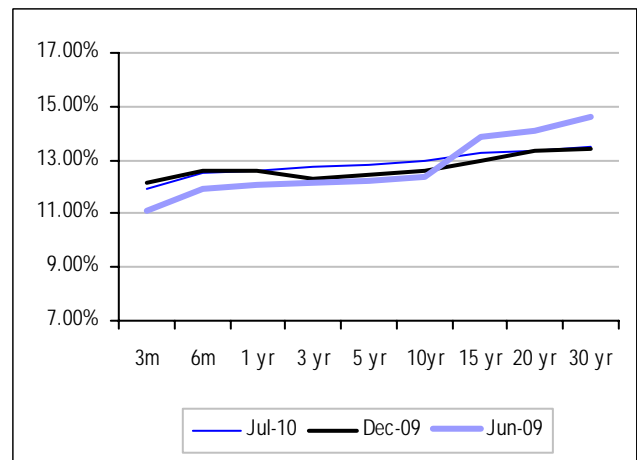


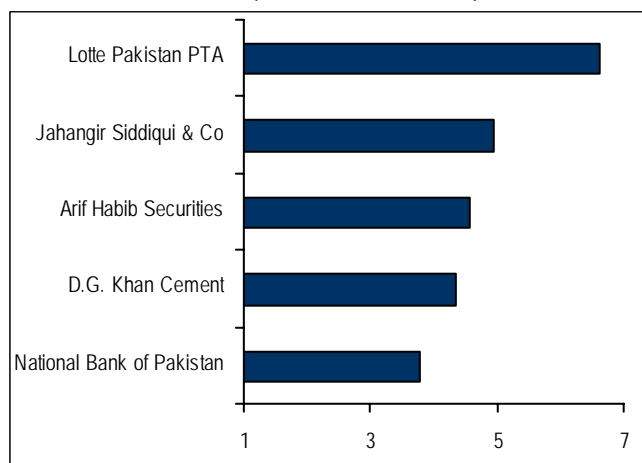
Chart 18: Yield Curve (%)



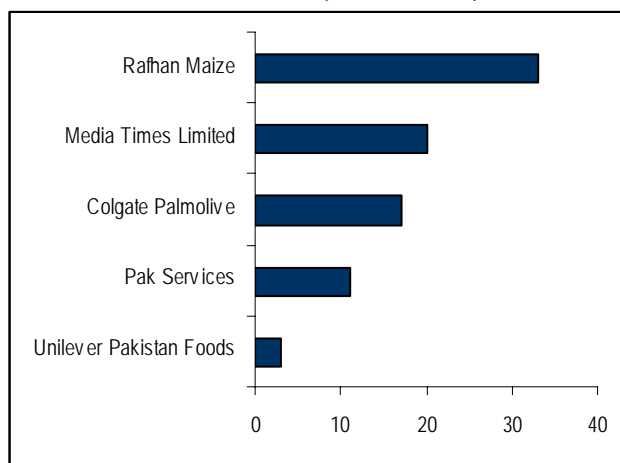
Stock Market Synopsis

	Last week	This week	% Change	1M	3M	12M
Mkt. Cap (US\$bn)	32.79	33.37	1.77%	31.18	36.00	27.90
Avg. Dly T/O (mn. shares)	55.15	80.28	45.57%	73.90	99.76	155.20
Avg. Dly T/O (US\$ mn.)	23.45	37.13	58.34%	30.49	39.39	80.65
No. of Trading Sessions	5	5		23	66	249
KSE 100 Index	9974.4	10153.85	1.80%	9436.88	10659.21	7764.01
KSE ALL Share Index	6990.24	7110.11	1.71%	6623.13	7510.76	5533.19

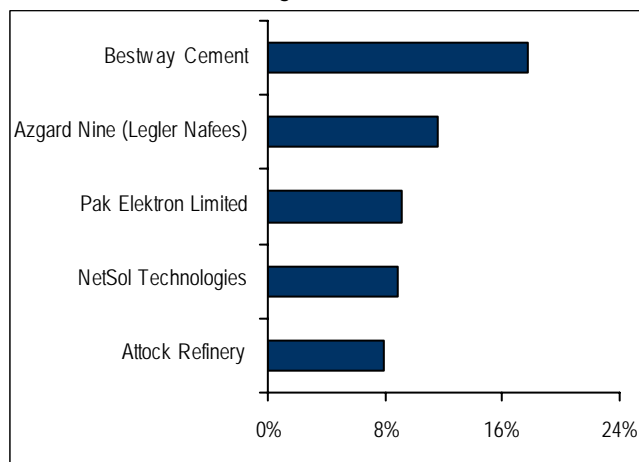
KSE-100 Active Issues (ADTO-million shares)



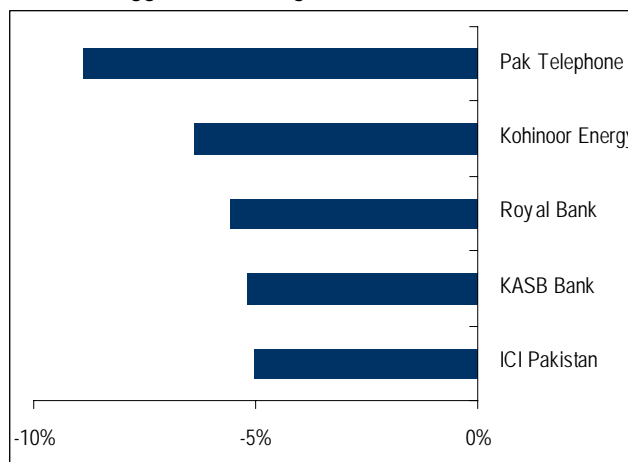
KSE-100 Least Traded Issues (ADTO- shares)



KSE-100 Leaders (% change)



KSE-100 Laggards (% change)



Macro Economic Indicators

	FY07A	FY08A	FY09A	FY10A	FY11E
Real GDP growth %	6.8	3.7	1.2	4.1	4.0
Agriculture growth %	4.1	1.0	4.0	2.0	3.8
Manufacturing growth %	8.3	4.8	-3.7	5.2	4.0
Services growth %	7.0	6.0	1.6	4.6	4.1
Exports USD billion	17.1	19.2	17.8	19.3	19.9
Imports USD billion	30.4	39.9	34.8	34.7	36.5
Trade account balance USD billion	-13.3	-20.7	-17.0	-15.3	-16.6
Remittances USD billion	5.4	6.5	7.8	8.9	9.0
Current account balance USD billion	-7.0	-14.0	-8.8	-3.5	-6.5
CPI	7.8	12.0	20.8	11.7	10.7
Money Supply (M2) growth %	19.3	14.0	9.6	12.5	11.0
Exchange rate PRs/USD	60.4	63.5	81.5	85.0	89.0
6m T-bill WAY%	8.9	11.5	12.8	12.2	12.0
Population (million)	158.2	161.0	163.9	166.9	169.7
Per Capita income (USD)	921.0	1,038.0	1,018.0	1,095.0	1,146.0
Development Exp (PSDP) (PRs billion)	425.0	424.0	486.0	510.0	663.0
SBP Foreign Exchange reserves (USD million)	13,345	8,577	9,529	13,112	16,784
Tax Revenues in (PRs billion)	889.6	1,050.7	1,314.2	1,483.0	1,779.0
Foreign Direct Investment (USD million)	5,140	5,450	3,720	2,205	3,000
Pakistan External Debt (USD million)	39,008	44,467	50,759	55,235	58,309
Domestic Debt (PRs billion)	2,600.6	3,266.0	3,860.7	4,633.6	5,132.6
Pakistan External Debt as % of GDP	27%	28%	29%	32%	31%
Pakistan Domestic debt as % of GDP	30%	32%	29%	30%	31%
Pakistan total debt as % of GDP	57%	59%	59%	62%	62%
Budget deficit as % of GDP	4.5%	7.0%	5.2%	5.2%	4.0%
Investment as % of GDP	23.0%	21.6%	20.0%	16.6%	17.9%
Saving as a % of GDP	18.0%	13.9%	14.8%	13.8%	14.5%

Source: SBP, FBS and KASB estimates

KASB Securities and Economics Research

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