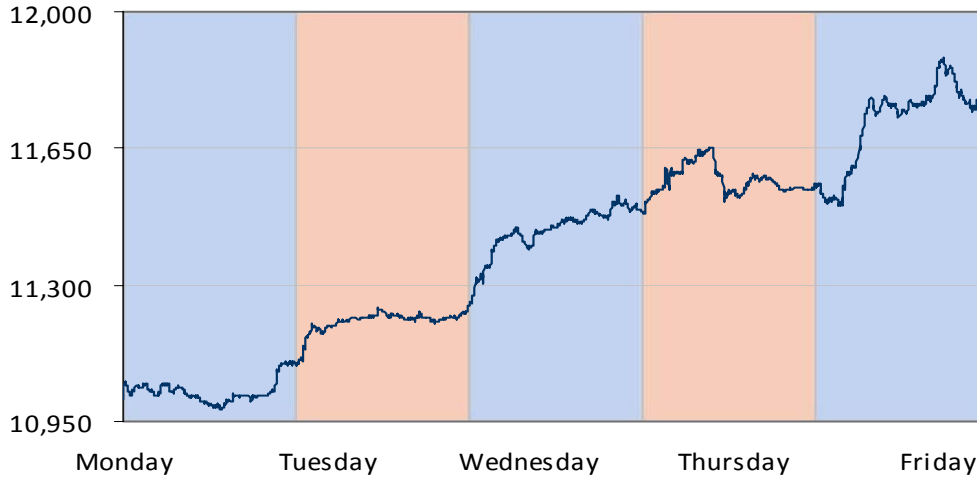


KSE: Hopes of CGT relaxation ignite a rally



Source: KSE

20 January 2012

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Stock Market Overview

- Govt. efforts to tackle energy sector debt through fresh issuance of a TFC (PRs140-150bn) augmented the optimistic sentiments at the bourse that were already soaring on account of possible regulatory relief on the CGT front.
- Overall the week was a profitable one for the market, as an impressive index gain of 6.9% WoW was accompanied by a sizeable surge in volumes to 86.9mn shares/day (+209% WoW).
- Jahangir Siddiqui & Co, TRG Pakistan, Pak Telephone, Nestle Pakistan Limited and Pace (Pak) Ltd were the major gainers while Silkbank Limited, Grays Of Cambridge, Indus Dyeing, Agritech Limited and Bata Pakistan were major losers in the benchmark KSE-100 this week.

News This Week

- SECP proposes freezing capital gain tax
- SBP targets over US\$13bn workers' remittances
- Current account posts US\$160mn surplus in Dec-11
- Pakistan to re-open Nato supply route

Market Review: Hopes of CGT relaxation ignite a rally

Date	Open	High	Low	Close	Change	Vol (mn)
16-Jan-12	11,024	11,116	10,982	11,113	0.9%	27
17-Jan-12	11,121	11,330	11,121	11,305	1.7%	53
18-Jan-12	11,339	11,552	11,335	11,548	2.1%	84
19-Jan-12	11,570	11,653	11,501	11,516	-0.3%	92
20-Jan-12	11,552	11,883	11,544	11,775	2.2%	178

Source: KATS

Market This Week

The local bourse saw an impressive index appreciation of 6.9% WoW which was accompanied by a sizeable surge in volumes (86.9mn shares +209% WoW) as sentiments remained buoyed due to continued positive newsflow. Volumes recorded on Friday are the highest since Oct 2011 and the FPI outflow of US\$3.72mn did little to dampen the rally. Local politics was the focal point at the beginning of the week, as the apex court instructed the PM to appear before the bench and justify his stance on non-implementation of the NRO verdict. The hype created over the PM's appearance at the apex court fizzled out as no radical changes emerged with the NRO hearing adjourned till 1st Feb.

News flow regarding regulatory respite kept trickling in as the SECP proposed to the tax authorities to adopt CGT calculations at a central level in order to facilitate investors and eliminate the cumbersome paperwork. Excitement regarding the same was fuelled further on the news that the Finance Minister is visiting the KSE over the weekend to apprise market participants of the progress on discussions related to this matter. News reports on likely liquidity injection in the energy chain through a fresh TFC issuance of PRs140-150bn also buoyed sentiments. The move, expected to be completed next week, will cleanse the balance sheets of IPPs, enable them to retire ST borrowing and provide relief to downstream OMCs (PSO, APL). From a banking sector's perspective, this will increase exposure to power sector by ~PRs28bn and will improve their risk profiles. Macro news flow also brought about a positive surprise as C/A jumped to a surplus of US\$160mn in Dec-11 on the back of 17% MoM growth in remittances and a decline in trade deficit to US\$1.03bn (-17% MoM).

Outlook for the Future

With expectation gaining grounds on possible CGT relaxation, the Finance Minister's scheduled visit to the bourse on Saturday (21st Jan) is turning out to be of paramount importance. In the event that regulatory respite materializes, we feel the market momentum will carry over into the next week. Political noise is expected to shift down a gear, and with corporate results around the corner, fundamentals and earnings expectations will re-emerge at the forefront to dictate stock prices. FPI flows are the key wild factor with any big outflow can potential clip the rally. For our investment strategy, energy names continue to remain prominent in our preference list, where a blend of attractive fundamentals and undemanding valuations are on display. We reaffirm 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

SECP proposes freezing capital gain tax

The SECP has proposed the Ministry of Finance to freeze capital gains tax at current level of 8% for securities held between 6mths-12mths and 10% for holdings less than 6mths instead of gradually increasing CGT by 0.5% pa to 10% and 17.5% for the respective holdings by FY16.

SBP targets over US\$13bn workers' remittances

According to State Bank of Pakistan Deputy Governor Operations, SBP has targeted to achieve over US\$13bn remittances from overseas Pakistani workers in FY12 (against our est. of US\$12.2bn). Given that US\$6.33bn was received in 1HFY12, the monthly average run rate of remittances will need to be over US\$1.1bn for the next six months for the target to be met.

Current account posts US\$160mn surplus in Dec-11

As per latest data released by State Bank, current account balance turned surplus in Dec-11 at US\$160mn vs. deficit of US\$688mn in Nov-11. This is mainly on the back of (1) 17% MoM decline in trade deficit to US\$1.025bn and (2) 17% MoM improvement in remittances inflow at US\$1.09bn.

Pakistan to re-open Nato supply route

As per news reports, Islamabad is expected to re-open supply routes for NATO forces after they were blocked off following the deadly cross-border strike in Nov-11 that killed 24 Pakistan Army personnel. It is expected that tariffs will be imposed under the new conditions for raising funds to fight homegrown extremism.

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This Week's Top Stories

Monday, January 16, 2012 - Liquidity woes to continue in 3Q

- State Bank of Pakistan continued to conduct Open Market operation to manage liquidity, while amount of injections (PRs175-218bn) have slightly contracted.
- We highlight that above-target accumulation in auctions is key to govt.'s ability to limit its borrowings from central bank, however SBP's view on continued liquidity injections will be important to track future DR path, in our view.
- As per Dec 30 data, govt. borrowing from SBP is up PRs150bn since Jun-11 and PRs254bn since Sep-11, which implies that it has breached its own commitment of net zero borrowing on quarterly basis.
- However few key trends from the recent T-bill auction should ease off concerns regarding a potential rate hike in Jan-12 MPS: (1) rebound in participation levels (2) major participation back in 6M instrument (3) govt. borrowed PRs96.2bn vs target of PRs75bn and (4) cut-off rates have come off.
- This provides comfort to our monetary policy stance of status quo in DR in Jan-2012, in our view.

Sarah Mazher

(Sarah.kamran@kasb.com)

Tuesday, January 17, 2012 - KSE: Hopes of regulatory relief vs noisy politics

- With the drastic drought of trading volumes at the KSE continuing unabated, the SECP has initiated fresh discussions with FBR to seek relief on capital gains tax.
- The proposals of the SECP primarily aim to address concerns of retail investors ie 1) potential questions over source of income and 2) cumbersome paperwork.
- These negotiations follow close on the heels of SECP's recent indications that all regulatory approvals were in place to implement MTS related proposals.
- KSE's reaction to these indicatively positive developments is likely to be marred in the immediate term. While exact modalities and timeline of the proposed changes is unclear, the increasing political noise is likely to add to the drag.

Imtiaz Gadar, CFA

(Imtiaz.gadar@kasb.com)

Wednesday, January 18, 2012 - APL: Strong volume growth in FY12; Buy

- With 30% volume growth and a benign margin environment, FY12 heralds a shift in bottom-line drivers for APL to core business, as lower interest income slows non-core contribution.
- We fine-tune our estimates (+1%/-4.6% /-4% over FY12/13/14E) and lift our PO to PRs463.91/sh. We reiterate Buy on APL and highlight two visible triggers: (1) strong results in 1HFY12 and cash payout, and (2) removal of the oil export ban.
- We believe that APL should deliver a three-year volume CAGR of 12%, outperforming the expected industry growth of 4%.
- We estimate 2Q12 EPS at PRs16.7 (1H PRs32.6, up 30% YoY). Cash dividend will be key excitement factor. We expect APL's first interim DPS of PRs13-15.

Mohammad Fawad Khan, CFA

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Thursday, January 19, 2012 - Current account takes a breather in Dec

- As per data released by SBP, current account (C/A) balance posted a surplus of US\$160mn in Dec-11 for the first time in FY12 primarily due to (1) improvement in remittances flow by 17% MoM and (2) 17% MoM decline in trade deficit.
- On QoQ basis, C/A deficit declined by 40% in 2Q where 1H FY12 CAD came in at US\$2.15bn, or 74% of our full year forecast.
- The contraction in C/A deficit should provide some respite to the exchange rate in our view, given that financial account (F/A) surplus has contracted by 90% YoY to nominal US\$97mn in 2HFY12.
- We believe (1) receipts from 3G license auctions and (2) recent approval of US\$513mn loan from ADB, should provide respite to external balance in 2H. However risks from uncertain global macro situation and higher commodity prices will remain a concern.

Sarah Mazher

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Friday, January 20, 2012 - Energy- Massive de-leveraging via fund injection

- We believe government's plan to inject liquidity of PRs144bn in energy sector bodes well in the near term as it provides much needed balance sheet relief ahead of 2Q results.
- It should be earnings accretive for OMCs and will raise certainty on cash payout by IPPs (especially small IPPs). We think that E&Ps and private sector refining companies will remain aloof.
- The TFC issue should further increase banks' exposure to energy chain, while improving their risk profile.
- We highlight that TFC issue does not offer a sustainable solution to energy sector issues. Looking at the slow pace of tariff hike, we do not rule out another fund injection in the next 2-3 months.
- Our key concern is reported structure of the issue (forming of SPV) under the umbrella of PEPCO which, if confirmed, can potentially unwind government's earlier reform efforts.

Mohammad Fawad Khan, CFA

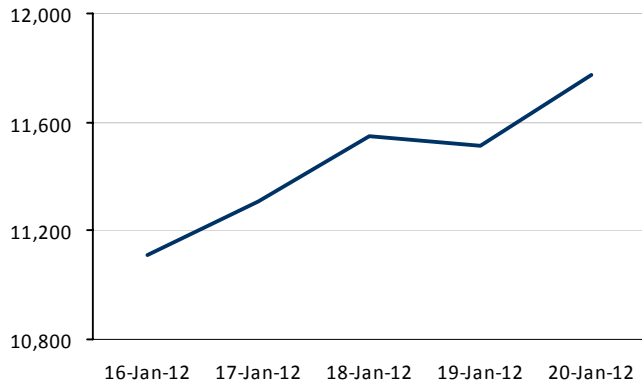
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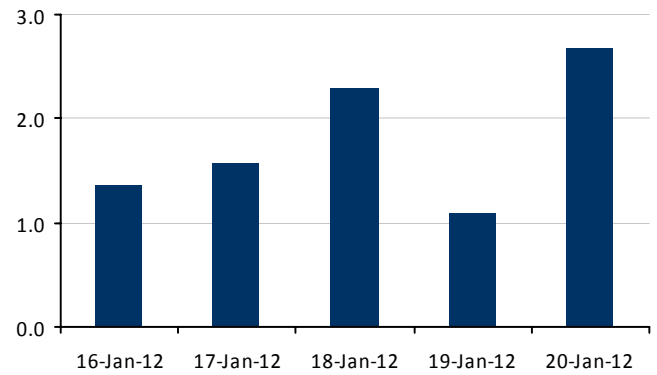
Stock Market – Last week in pictorals

Chart 1: KSE-100 Index



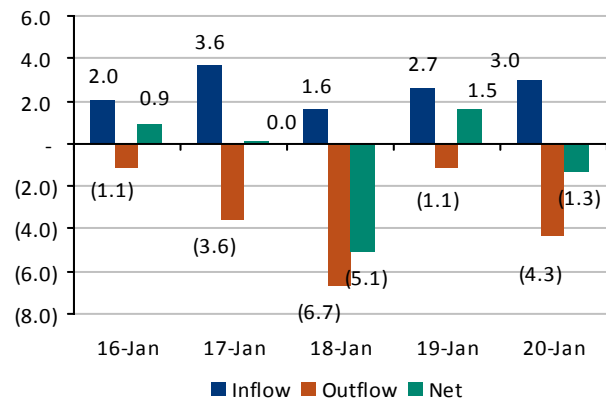
Source: KSE

Chart 2: KSE Advance/ Decline Ratio



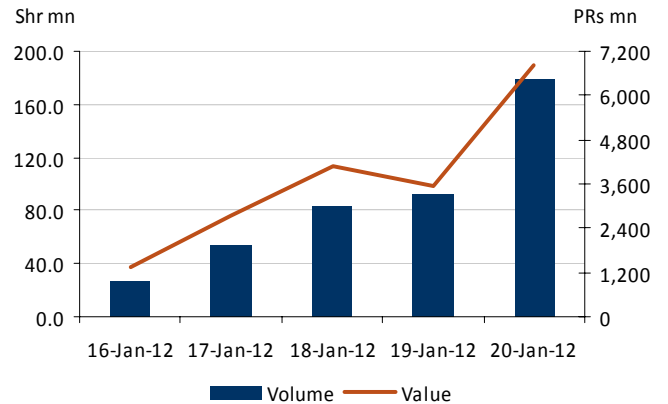
Source: KSE

Chart 3: Pak Foreign Portfolio Flows (US\$m; US\$=PRs90)



Source: NCCPL

Chart 4: KSE- Volumes & Values



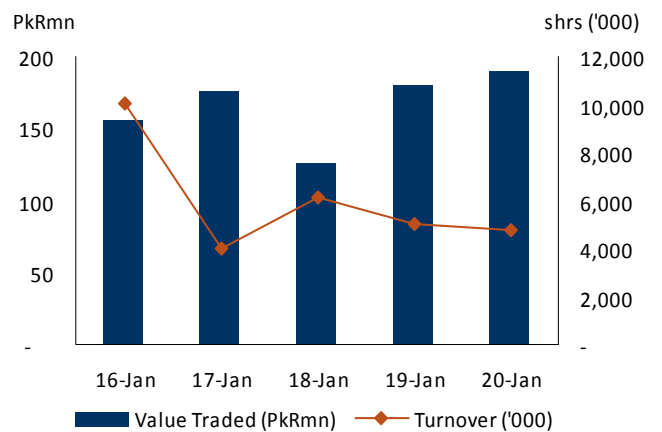
Source: KSE

Chart 5: Price to Money Ratio



Source: KSE

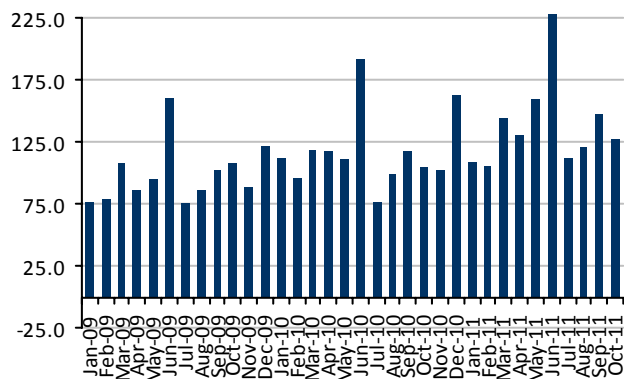
Chart 6: Off market activity



Source: KSE

Economy Watch

Chart 7: Revenue Collection (PRsbn)



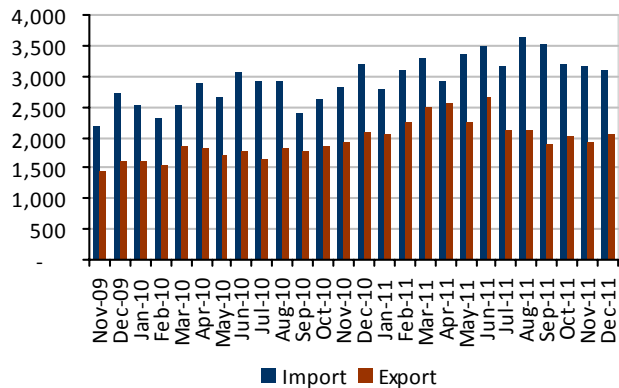
Source: SBP

Chart 8: Forex Reserves (US\$mn)



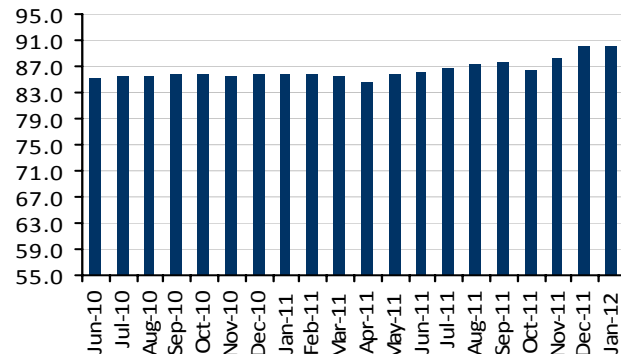
Source: SBP

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



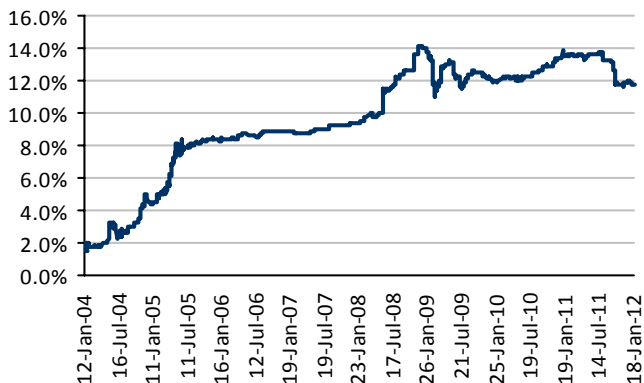
Source: SBP

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



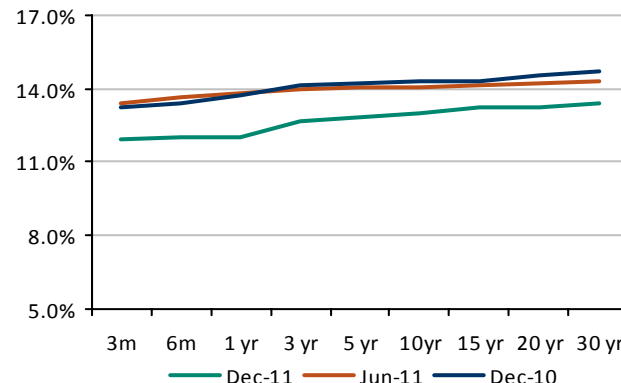
Source: SBP

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



Source: SBP

Chart 12: Yield Curve (%)

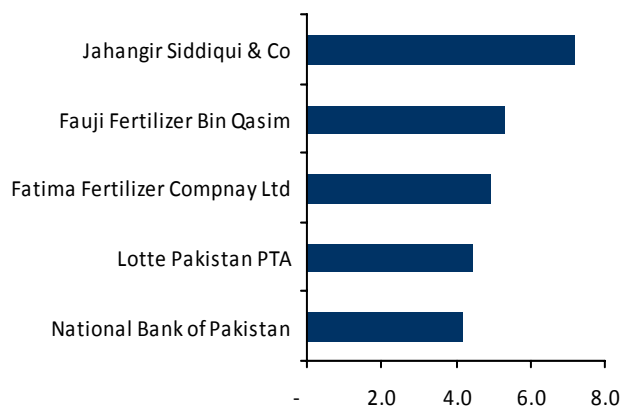


Source: SBP

Stock Market Synopsis

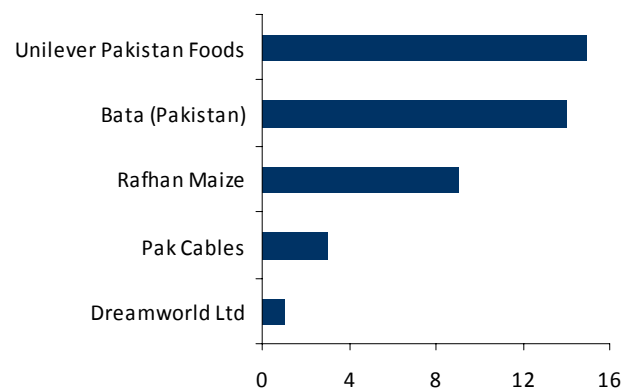
	Last week	This week	% Change	1M	3M	12M
Mkt. Cap (US\$bn)	31.75	33.90	6.78%	32.69	35.34	39.13
Avg. Dly T/O (mn. shares)	28.13	86.88	208.87%	48.53	49.72	71.68
Avg. Dly T/O (US\$ mn.)	14.43	41.04	184.43%	22.21	26.23	36.34
No. of Trading Sessions	5.0	5.0	-	24	61	250
KSE 100 Index	11014.46	11774.68	6.90%	11338.04	11685.15	12411.87
KSE ALL Share Index	7645.11	8152.32	6.63%	7841.33	8107.59	8609.45

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



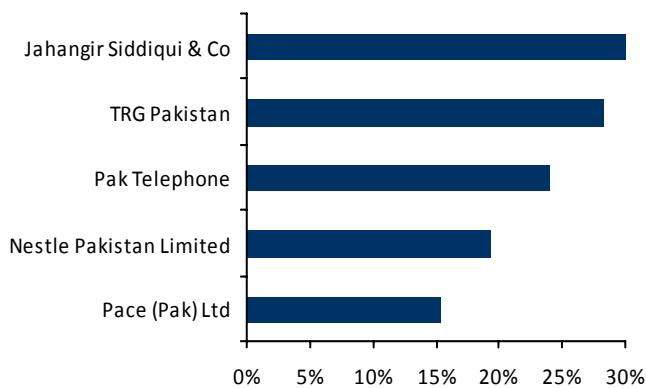
Source: KSE

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



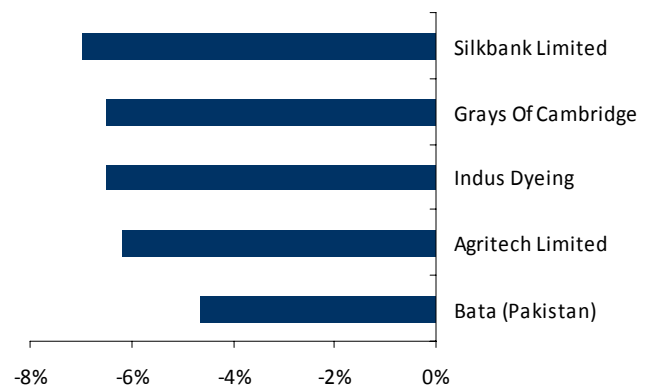
Source: KSE

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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