KASB SECURITIES

23 July, 2010
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# Market Monitor

Weekly

## Indices Movement


## News This Week

- LSM maintains growth trend in 11MFY10
- IMF talks for the next tranche delayed
- Army chief given three years extension

## Corporate Highlights

- PSO to complete due diligence by Dec 10

## Stock Market Overview

- The KSE-100 Index witnessed a WoW increase of 1.40% to close at 10,296 on Friday. Volumes decreased by 1.63% to average 78.97mn shares.
- Bestway Cement, Colgate Palmolive, Jahangir Siddiqui & Co., Pak Suzuki and Rafhan Maize were major gainers while Pak Telephone, Ghaibwal Cement, Grays of Cambridge, TRG Pakistan and Habib Metropolitan Bank were major losers at KSE this week.

**Inside: Range bound activity prevails**

## Market Review: Range bound activity prevails

| Date | Open | High | Low | Close | % Change | Volume |
|---|---|---|---|---|---|---|
| 19-Jul-10 | 10,184.79 | 10,252.34 | 10,180.13 | 10,201.85 | 0.47 | 67,790,468 |
| 20-Jul-10 | 10,207.89 | 10,276.60 | 10,205.47 | 10,251.53 | 0.49 | 80,775,234 |
| 21-Jul-10 | 10,252.92 | 10,301.21 | 10,174.01 | 10,234.03 | -0.17 | 118,681,891 |
| 22-Jul-10 | 10,236.08 | 10,289.79 | 10,210.69 | 10,228.86 | -0.05 | 60,222,657 |
| 23-Jul-10 | 10,248.09 | 10,327.37 | 10,228.86 | 10,296.04 | 0.66 | 67,388,145 |

Source: KSE

## Market This Week

With 10,300 proving to be a strong resistance level for the index, the market remained range bound this week, closing +1% WoW. Activity fell back, with volumes declining 2% WoW, as investors now await corporate results and news on introduction of leverage product. FII flows this week came in at US$14.06mn, +144% WoW, providing some support to an otherwise trigger-less market. E&P and textiles were in the limelight with Nishat Mills attracting interest following rumors of higher than expected earnings, while POL and PPL gained traction due to them being viewed as cheap alternates to OGDC. However, OGDC posted handsome gains on the last trading day of the week, helped by foreign flows. Fauji Group stocks (FFC & FFBL) also remained in the limelight on account of the M&A theme via potential acquisition of Agritech Ltd. Second/third tier stocks also saw a jump in volumes after having been in the background of late. News flow on the macro front was however a mixed bag. Moreover, US Secretary of State Hillary Clinton in Islamabad, announced US$500mn aid program for Pakistan (partly to be spent on water programs like dam irrigation fuelling some excitement in the cement space).

## Outlook for the Future

Going forward, we believe market sentiment will remain focused on the upcoming monetary policy (30st Jul) and any news flow regarding the potential re-introduction of leverage product at the bourses. Furthermore, with the corporate season unfolding, pockets of activity can also be witnessed on the back of expectation and materialization of earnings/dividend surprises. In addition, news flow on negotiations with IMF will also keep the market interested in terms of the macro situation. We continue to like defensive plays, which include FFC, Hubco & PTCL. For investors with more risk appetite, we recommend Engro Corporation, Lucky Cement (recent increase in cement prices should help) and United Bank (compelling risk reward profile) offering growth and play on domestic demand theme. 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:

- **LSM maintains growth trend in 11MFY10** As per data released by Federal Board of Statistics (FBS), Large Scale Manufacturing (LSM) showed 4.71% YoY growth in 11MFY10; on the back of continuing strong growth in consumer goods. The turnaround in industrial growth has been led by the ‘consumer discretionary’ sector, with production growth of high double digits in autos and allied products, and in electronic goods. Pharmaceuticals, leather goods, and fertilizer also contributed to overall industrial growth. On the other hand, according to Oil Companies Advisory Committee (OCAC), petroleum products production fell substantially (by 7.40%). Ministry of Industries index, however, recorded a 3.14% increase whereas the provincial Bureau of Statistics (BoS) index posted highest growth of 9.23% during 11MFY10.

- **PSO to complete due diligence by Dec 10** Pakistan State Oil plans to complete the due diligence process of Pakistan Refinery Limited by Dec end as part of its integration plans to ensure supply source and cut down on imports. PSO currently owns 18% stake in PRL and plans to buy out Shell Group’s 30% stake in PRL. The transaction would allow PSO to take management control of the refinery. PSO Board of Management has recently given a go ahead to PSO management for conducting due diligence.

- **IMF talks for the next tranche delayed** The scheduled talks between Government officials and IMF for US$1.3bn tranche have been reportedly delayed from 5th-12th August to 23rd August – 2nd September. Finance Minister Dr Abdul Hafeez Sheikh will head the Pakistan delegation for the talks that will include 6 members from MoF, 1 from Planning Commission 2 from FBR and 8 from SBP.

- Army chief given three years extension In a somewhat expected move, Prime Minister Syed Yusuf Raza Gilani on Thursday announced an extension of three years in the service of Army Chief General Ashfaq Parvez Kayani, to ensure continuity in the military operations against extremists and terrorists. General Kayani was to retire in November 2009 and the current extension would extend his retirement date to November 2013.

KASB Research (021-111-222-000)

## This Week's Top Stories

Monday, July 19, 2010

### Fx flows to lead macros and asset prices

- FY10 (Jun-Jun) ended with moderation in current account deficit (CAD) to US$3.9bn (5 yr low), down 58% YoY, with services balance and current transfers being the key improvement drivers.
- In FY11E, CAD should expand vis-à-vis higher external resources. Notably, in FY10, CAD declined re shortfall in these recourses and a corresponding decline in Investment-to-GDP to ~16.1% (10 yr low).
- Balance of payments posted a surplus of US$1.3bn. However, adjusted with IMF's SDR, it was in a net even position – lower than targeted expansion in banking system's net foreign asset (NFA) – due to weak financial account (4 yr low).
- In FY11E; Demand recovery, domestic liquidity & Fx reserves will be led by external flows for twin deficit financing - a view which we shared in FY10 & stick to ahead. Asset prices in turn follow reserve money growth via Fx reserves accumulation.

Hamza A. Marath
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Tuesday, July 20, 2010

### Pak urea M&A; implications for FFC

- Corporate results season for 2Q10 (Mar-Jun 10) is about to kick in where we expect FFC to post healthy 15% YoY 2Q10 earnings growth to PRs3.17/sh. Alongside 2Q10 results, we also eye PRs3.00/sh base-case cash dividend.
- We eye two potential events in 2H10 that could change both Pak urea sector dynamics and the investment case for FFC: (1) Potential delay in restoration of gas to fertilizer units from current 31st Jul commitment; (2) Sector M&A with Agritech up for grabs and Fauji Group spearheaded by FFC amongst the interested bidders.
- Should FFC proceed with AGL acquisition, ~22% capacity growth is the key positive for the company in our view. AGL's high debt and weak FCF are the key risks meanwhile to FFC's current high payouts.

Farrah Marwat
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Wednesday, July 21, 2010

### LOTPTA: Risks priced-in, Reiterate Buy

- Following the roller-coaster ride in last couple of months, we are lowering our PO for LOTPTA from PRs18/sh to PRs13/sh and EPS estimates by 23-29% by adjusting for duty cut from 7.5% to 3%, lower PTA prices and restrictions on PX from Iran.
- We believe strong 2Q10E EPS of PRs0.61, still strong primary margins of US$250-270/ton, potential EU investigation benefit to PET industry and buoyant PSF demand remain the positives amid plethora of bad news over the last one month.
- Post 34% drop in stock price from its peak, LOTPTA has more than priced-in the duty cut risk and now trades at attractive 2010E P/E of 4.0x, EV/EBITDA of 1.6x, offering 11% D/Y and 48% upside to our PO.

Muhammad Saqib Sajjad
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Thursday, July 22, 2010

### PSMC: Strong 2Q10E EPS but remain Neutral

- We expect PSMC to declare earnings of PRs2.07/sh for 2Q10E, up 107% YoY owing to 126% YoY higher volumes, strong other income and favorable FX.
- Although, adjusting for seasonality and base effect, we expect 2H10E volumes to grow by 16% YoY, lower other income in absence of advances and Rupee depreciation will remain a drag on further earnings improvement during 2H10E.
- We believe lack of broad-based recovery due to continuing macro challenges and dearer financing, and lack of pricing power could restrict EBITDA margins from recovering to their highs of 9-10% going forward.
- Although low base-effect could inflate EPS growth in 2010-11E, rich 2010E P/E and P/B multiples of 13.9x and 0.5x with single-digit ROE does not seem attractive enough to us. We reiterate Neutral with PO of PRs90/sh.
- While stronger-than expected volumes improving bottom-line remain upside trigger, we highlight FX volatility as the key downside risk to our estimates.

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Friday, July 23, 2010

## Discount rate: ST consensus; diverse YE views

- Our recent round of meetings with international investors indicates that 1) reintroduction of leverage and 2) potential of easing monetary policy remain the key to re-rating of the KSE from the current level of 8x CY10E earnings.
- With next bi-monthly monetary policy on July 30th, we found it pertinent to gauge interest rate expectations of fund managers via a brief survey of 35 participants.
- Expectations for upcoming monetary policy remain lopsided in favor of status quo (DR to remain at 12.5%) with ~93% of the respondents expecting the same. However there is a divergence of views on expected level of discount rate by Dec 2010 with 34% expecting an increase; 52% expecting status quo and 14% expecting a decline.
- Results of the survey, recent T-Bill and PIB auction trends make us cognizant of the risk of an increase in policy rate but we remain optimistic on medium term inflation outlook plus sovereign flows. We do not expect the SBP to raise discount rate unless the situation spirals out of hand (fiscal pressures + capacity constraints).

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# Stock Market Last Week in Pictorials

Chart 1: KSE-100 Index

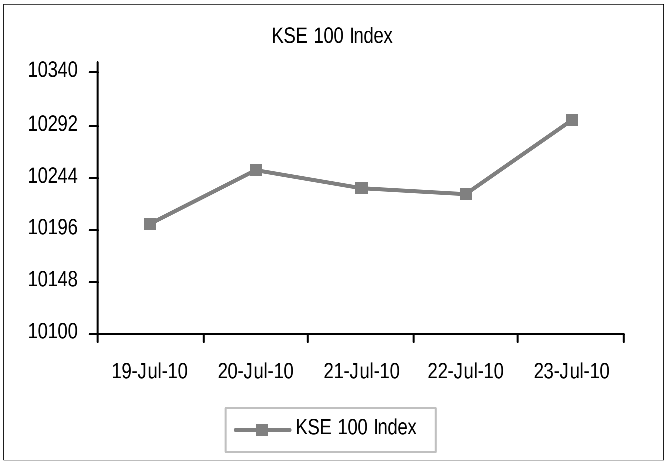



Chart 2: Advance Decline Ratio

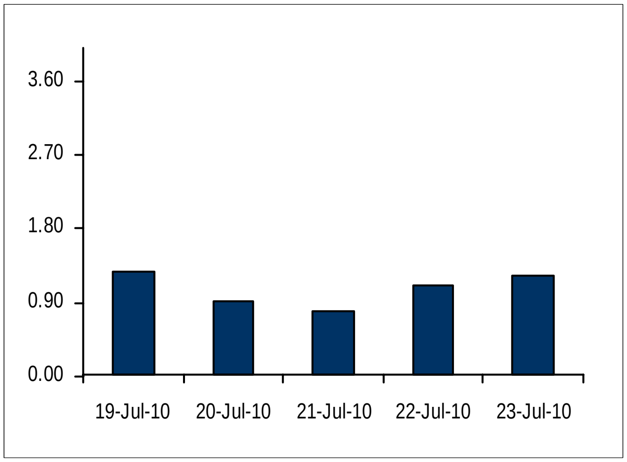



Chart 3: Pak Foreign Portfolio Flows (US$mn; US$=PRs84)

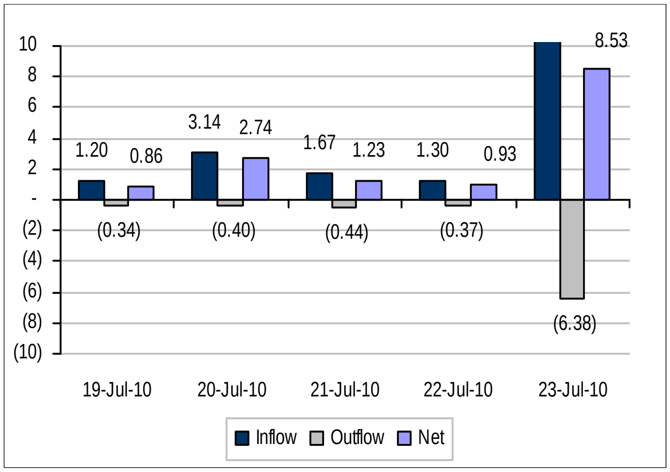



Chart 4: KSE - Volume & Value

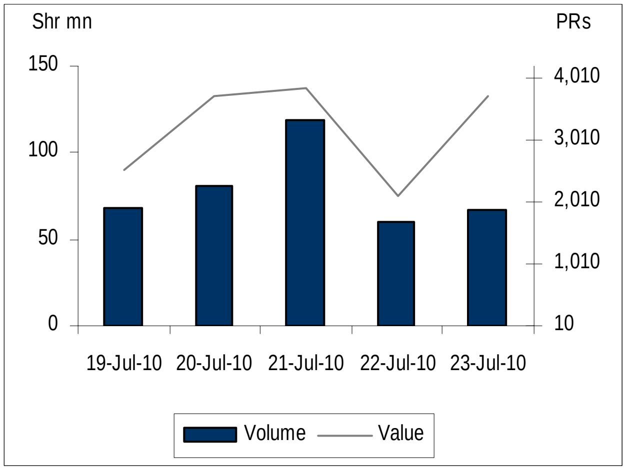
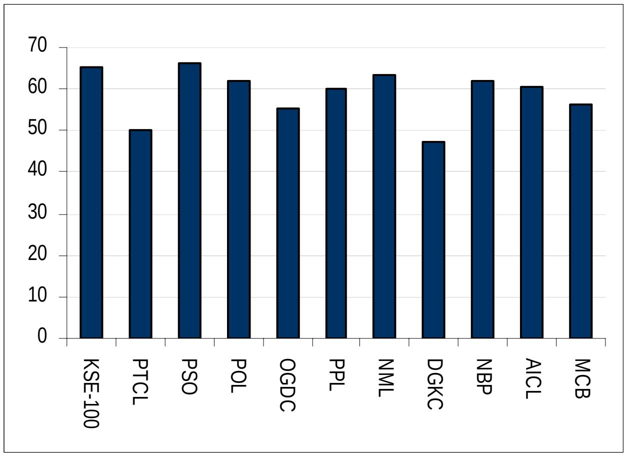



Chart 5: Price to Money


Chart 6: RSI of Key Index



# Economy Watch

Chart 13: Revenue Collection (PRsbn)

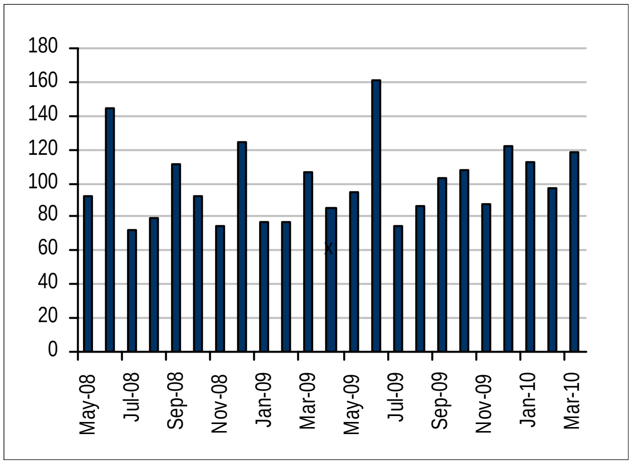



Chart 14: Forex Reserves (US$mn)

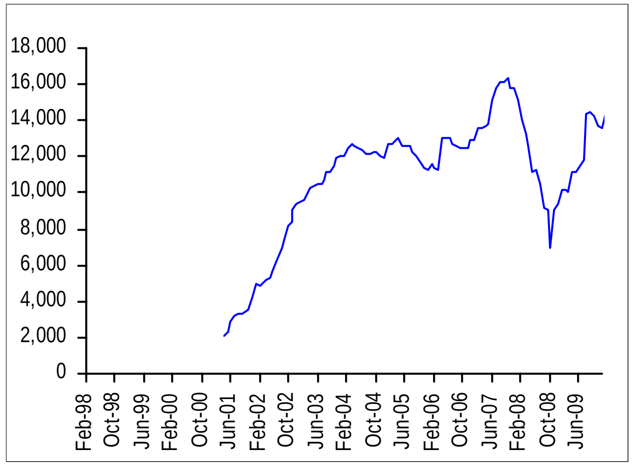



Chart 15: Import & Export (US$mn)

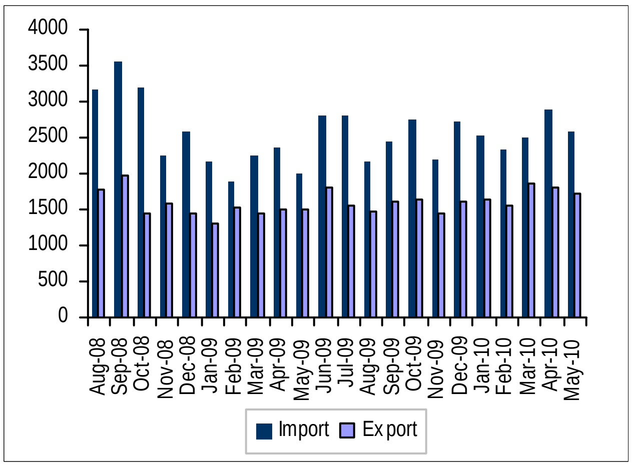



Chart 16: Foreign Exchange Rate (PRs/US$)

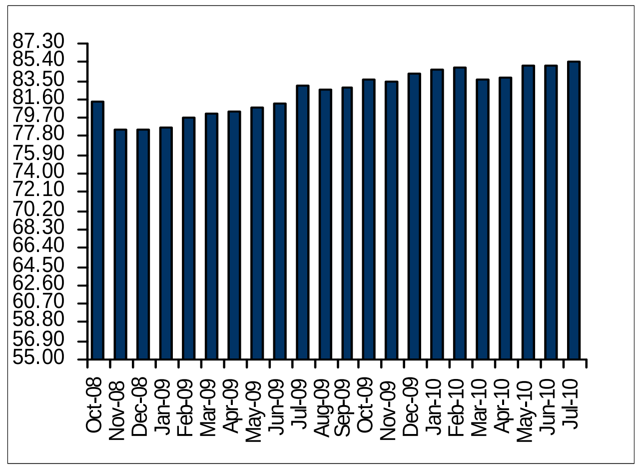



Chart 17: 6-mth T-Bill Yield (%)

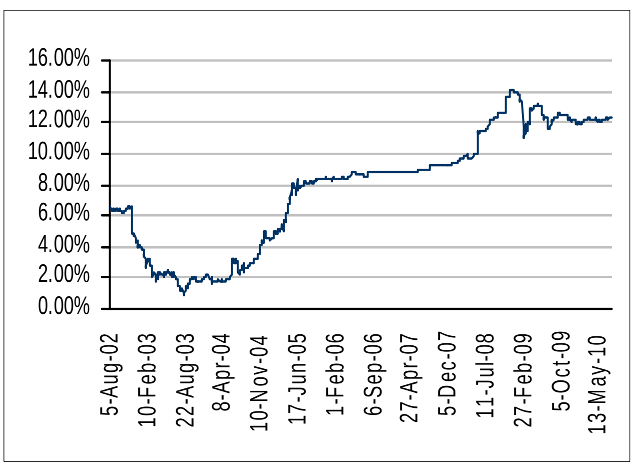
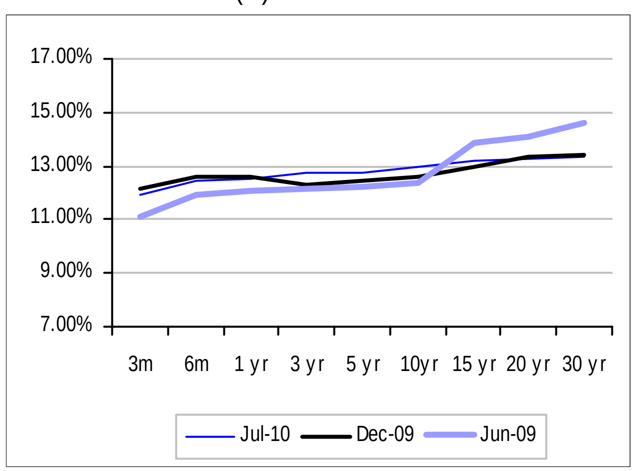


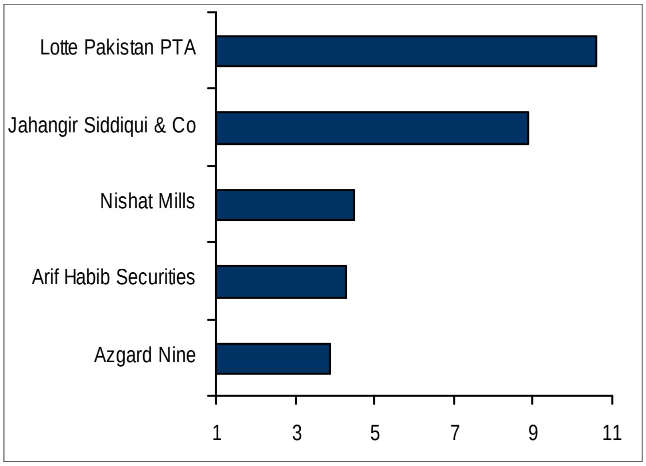

Chart 18: Yield Curve (%)



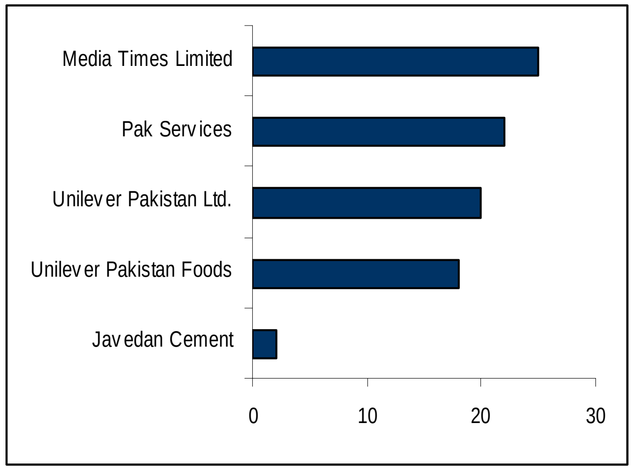
## Stock Market Synopsis

| | Last week | This week | % Change | 1M | 3M | 12M |
|---|---|---|---|---|---|---|
| Mkt. Cap (US$bn) | 33.37 | 33.84 | 1.41% | 32.04 | 35.89 | 27.95 |
| Avg. Dly T/O (mn. shares) | 80.28 | 78.97 | -1.63% | 68.05 | 92.99 | 153.16 |
| Avg. Dly T/O (US$ mn.) | 37.13 | 37.22 | 0.24% | 29.01 | 37.46 | 79.41 |
| No. of Trading Sessions | 5 | 5 | | 23 | 66 | 249 |
| KSE 100 Index | 10153.85 | 10296.04 | 1.40% | 9715.39 | 10607.03 | 7783.40 |
| KSE ALL Share Index | 7110.11 | 7201.52 | 1.29% | 6806.73 | 7478.81 | 5555.54 |

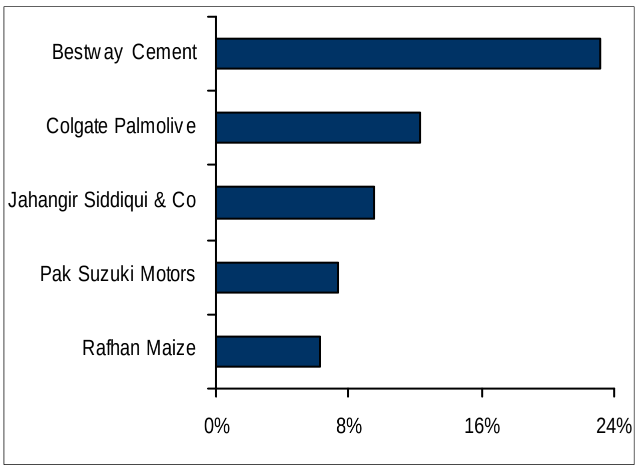
KSE-100 Active Issues (ADTO-million shares)



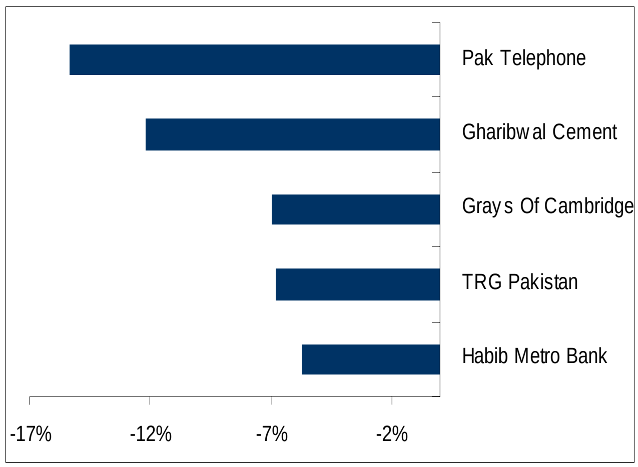

KSE-100 Least Traded Issues (ADTO- shares)




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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