KASB SECURITIES

26 June, 2009
KASB Research
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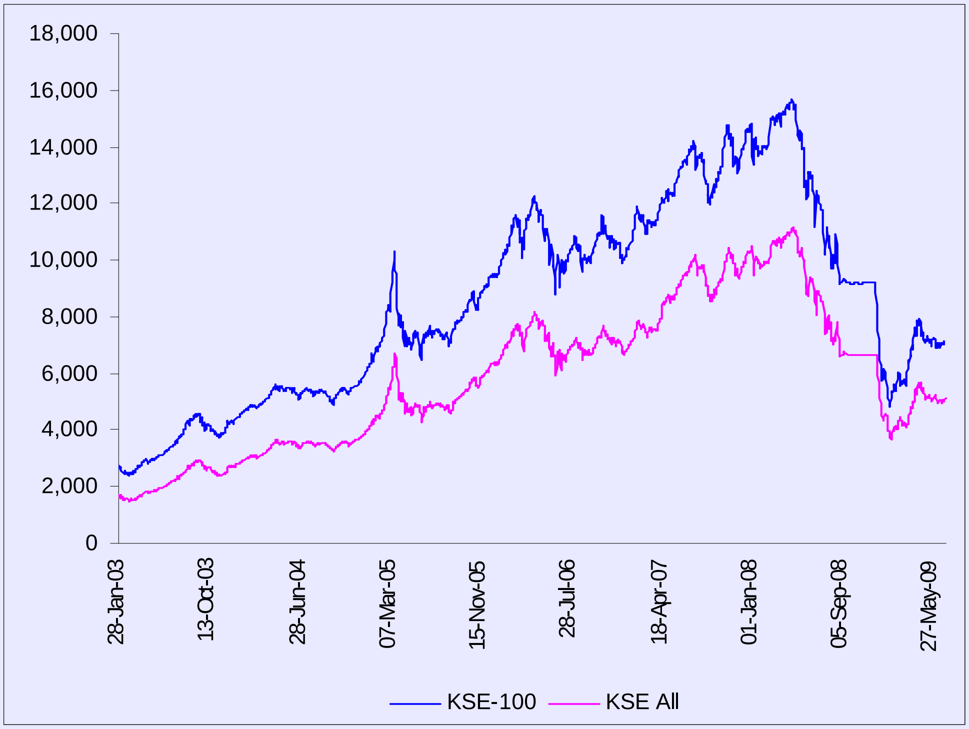
Market Monitor

Weekly

Indices Movement



News This Week

- VHMEL to acquire 24.59% shares of Pioneer Cement

Corporate Highlights

- Askari Bank intends to merge with Mybank and Askari Leasing
- FFC seeking 50MW wind power project approval

Stock Market Overview

- The KSE-100 Index witnessed a WoW rise 1.75% to close at 7163.04 on Friday. Average daily volumes also increased by 7.26% to average at 109.01mn shares.
- Askari Leasing, Arif Habib Bank, KASB Bank, Pakistan Refinery and Nestle Pakistan were major gainers while Samba Bank, First Capital Securities, Fazal Textile, New Jubilee Insurance and Lakson Tobacco were major losers at the KSE this week.

Inside: IMF & Monetary Policy to dictate sentiments

Market Review: IMF & Monetary Policy to dictate sentiments

Date	Open	High	Low	Close	% Change	Volume
22-Jun-09	7,080.65	7,133.53	7,043.05	7,057.26	0.25	98,404,080
23-Jun-09	7,079.82	7,085.20	6,996.77	7,023.48	-0.48	86,428,220
24-Jun-09	7,025.05	7,049.89	6,988.65	7,025.89	0.03	103,181,620
25-Jun-09	7,027.15	7,141.46	7,020.07	7,128.83	1.47	104,371,840
26-Jun-09	7,153.33	7,217.97	7,128.83	7,163.04	0.48	152,664,860

Source: KSE

Market This Week

The market depicted some semblance of a recovery towards the end in an otherwise insipid week. As the fiscal year draws to a close, institutions looked to re-align their portfolios. Not only did the market inch up in the last two days, volumes also staged a recovery where volumes on Friday were 56% higher than average volumes on the preceding four days. Active and healthy FII participation also helped market activity during the week. On the flip side, factors which restrained the market from embarking on an all out frenzy included the uncertainty over Federal Budget and economic direction. A potential 17% increase in local POL prices in July 2009 due to the newly enforced “Carbon tax” raised fears of inflation seeping back into economy and hurting POL product demand. In addition, circular debt also remained a concern but different proposals for resolution of the issue indicated that near term respite was in the offing. On a WoW basis market posted a gain of 1.75% to close at 7,163 points.

Outlook for the Future

Apart from the last leg of any fiscal year-end rally, focus of the market is likely to shift to 1) Monetary Policy Statement in early July, 2) meeting of Pakistan’s economic managers with the IMF and 3) any developments on re-introduction of leverage financing at the KSE. The up-coming IMF meeting next week will largely dictate the market sentiments, where we believe market participants will keep a lookout for how much leeway the government is able to garner with respect to some of the tougher conditionalities it is required to meet - such as proposed hike in power tariffs etc. This could in turn also influence the outcome of the monetary policy with regards to the quantum of discount rate cut. We foresee 100bp as the likely outcome. In terms of investment strategy, we remain biased in favor of defensive stocks offering dividend cushion where oil (PPL & PSO), IPPs (Hubco, KAPCO) and Fertilizers (FFC) fit the bill. However as we move ahead on the easing curve, we would also recommend the consumption themes such as Lucky, DG Khan Cement, PTCL, Packages and Indus Motors. MCB remains our preferred pick in banks.

Fundamental Changes

The major developments this week were:

- **Askari Bank intends to merge with Mybank and Askari Leasing.** As per the notice issued by Askari Bank to the exchange, the bank intends to merge with Askari Leasing and has also signed a memorandum of understanding with Mybank for merger and amalgamation. Mybank currently has a paid up capital of PRs5bn with a branch network of 80 branches while Askari Bank also has a paid up of PRs5bn with a branch network of 200 branches. Mybank has NPL/gross advances ratio of 30% with 44% coverage while Askari Bank has NPL/gross advances ratio of 9.4% with 86% coverage as per Mar-09 quarterly accounts. Meanwhile the share of textile sector in Mybank’s loan portfolio is 29% while this ratio is 20% for Askari Bank as of Dec-08. MyBank is currently trading at 0.34x 1Q09 P/BV (1Q09 BV: PRs11.57) while Askari Bank is trading at a P/BV of 0.58x (1Q09 BV: PRs15.67).
- **VHMEL to acquire 24.59% shares of Pioneer Cement.** In a notice to the KSE, Pioneer Cement (PIOC) has announced that Vision Holding Middle East Ltd (VHMEL), a company incorporated in the British Virgin Islands, has acquired 49mn shares (24.59% stake) in PIOC. VHMEL has also entered a Call and Put Option Agreement for a further 28.95% shareholding of PIOC which allows VHMEL to acquire these shares at any time over the next 18- mths at the final purchase price (to be decided). As per the details given, VHMEL has acquired the shares at a price of PRs22/sh (close to PIOC Mar-09 book value of PRs22.52/sh) subject to downward revision after a 4-mth long due diligence process is completed. The quoted price implies a transaction EV/ton of US$48 as against PIOC current EV/ton of US$38. Pioneer Cement is a 2.03mn ton plant (4.6% share in industry capacity) situated in the North of Pakistan. The Noon family is the majority shareholders where the family and associated companies hold ~45% stake in the company.
- **FFC seeking 50MW wind power project approval.** Fauji Fertilizer Co will be holding an EOGM today to get its shareholders’ approval to invest in 50MW Wind Power project by setting up a

separate power company. As per FFC, the project is expected to cost US$130mn with expected financial close in 3Q09 and project construction time of 12-15 months after the financial close.

Gul-e-Zehra Jafri (021-111-222-000)

This Week's Top Stories

Monday, June 22, 2009

Policy response and Economic recovery

- The magnitude of economic recovery for FY10E hinges largely on 1) policy response, 2) external account situation and 3) IMF, in our view.
- On the monetary policy front, easing of rates looks likely for now (we foresee 300bp cut in policy rate by Dec-09) whereas the government has budgeted an expansionary fiscal policy for FY10E. Both should support recovery.
- However, we believe the external account situation and IMF hold equal importance, in particular, for execution of desired policy actions and economic recovery.
- In this regards, we foresee results of the meeting with the IMF (June 28th) and conformity on external support by donors to be the key signposts that would shape up policy response and improve economic growth visibility.
- External vulnerability (commodity shock), continued energy outages and prolonged war-on-terror are the risks to FY10E economic recovery in our view.

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Tuesday, June 23, 2009

FFBL: OCP reduces phosacid prices

- OCP has agreed to cut phosphoric acid prices by 22% to US$490/t, applicable for the month of July only while it expect prices to go up in August.
- With a 25% decline in rock and 22% decline in phosacid prices, global non-integrated producers' have entered positive primary margins territory, leading to possible restart of shuttered capacity. This will limit upside for DAP prices.
- As per our sensitivity analysis, if phosacid prices are cut by US$50/t with base-case DAP prices intact, FFBL's 2009E EPS would beat our expectations by 10%. However, more realistically, marking to market both new phosacid and DAP prices suggests 19% downside risk to 2009E EPS. We maintain Under-perform on FFBL.

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Wednesday, June 24, 2009

Amendments to FY10 Budget- implications

- Amendments in FY10 budget look to address concerns where ~PRs40bn worth of concessions look to restore incentives on exports and provide relief to masses.
- In absence of new revenue sources, PSDP could be at risk to accommodate relief measures. In addition, added complexity emanates from IMF, where Pakistan has to present its budget case on Jun 28th for disbursement of US$840mn tranche.
- We do not rule out more demands for relief from stakeholders. However we would closely track GoP's response to the hue and cry as a lead indicator.
- Firm and possibly unpopular decisions have to be taken over the next 12 months to resurrect the economy and political will is a must. An overly accommodating government stance will be hindrance to structural reforms in the country.

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Thursday, June 25, 2009

Fixed carbon surcharge - a negative

- The recent media reports coupled with statements by relevant authorities has raised the possibility of a fixed carbon surcharge on petroleum products starting July 09.
- We believe this will prove to be negative for both the government's inflation target and corporate earnings. The surcharge would raise the volatility of end-product prices and PSO's earnings, while requiring the government to hike end-product prices by 19-22% (crude oil at US$70/bbl).
- Expected increase in petroleum prices may in turn dampen the expected demand recovery of petroleum products.
- We estimate a 5% drop in HSD & MS consumption from our base case assumption in FY10 results in potential earnings downside of 3% and 1% for PSO and APL, respectively. We maintain our earnings estimates and reiterate Buy on PSO & APL.

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Friday, June 26, 2009

Question mark on FY10E tariff hike

- While we eye significant easing of IPPs balance sheet strain on the back of expected intercorporate debt resolution, we believe that for the improvement in sector liquidity to sustain consumer power tariffs need to be raised.
- While a 17% tariff hike has been proposed for FY10E, we see the risk that the government may go down the populist path and either defer the hike or phase it out. In this case external financial support to Pakistan (to meet higher subsidy spend) is crucial and Wapda cashflow timing risk is the key to look out for.
- Our base case suggests a minimum required hike of 14% in FY10 tariff. Barring this PRs10bn allocated tariff subsidy could increase by PRs60-64bn.
- We believe higher subsidy would have to be managed by cutting the development expenditure. In tandem we estimate the government would have to issue an additional TFC tranche to maintain smooth cash flow for the power sector.

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Stock Market Last Week in Pictorials

Chart 1: KSE-100 Index

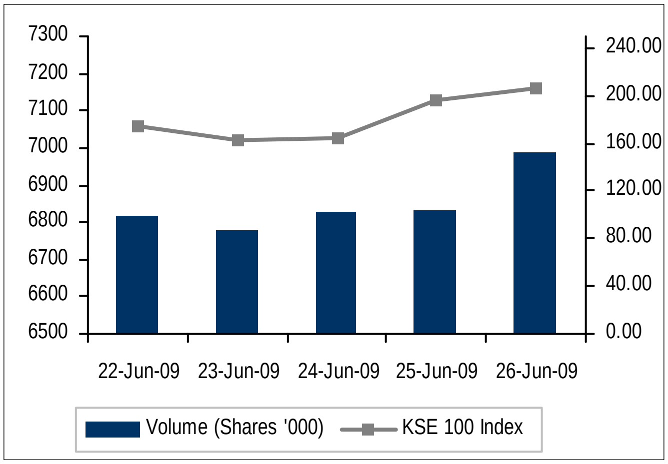


Chart 2: Advance Decline Ratio

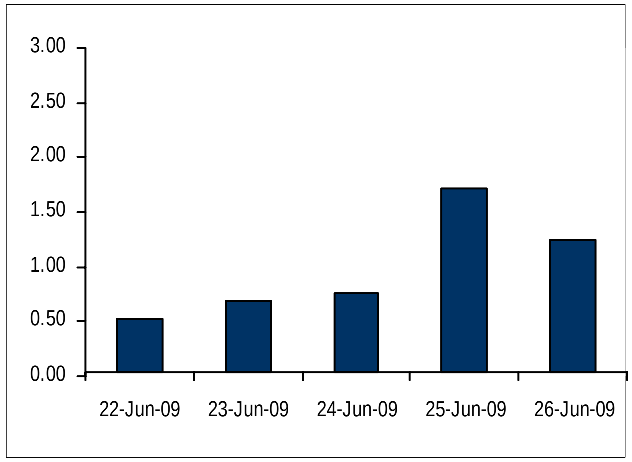


Chart 3: Badla Situation

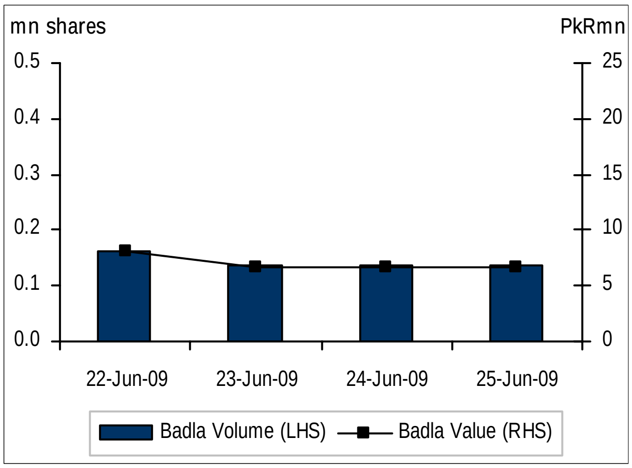


Chart 4: Average Badla Rates

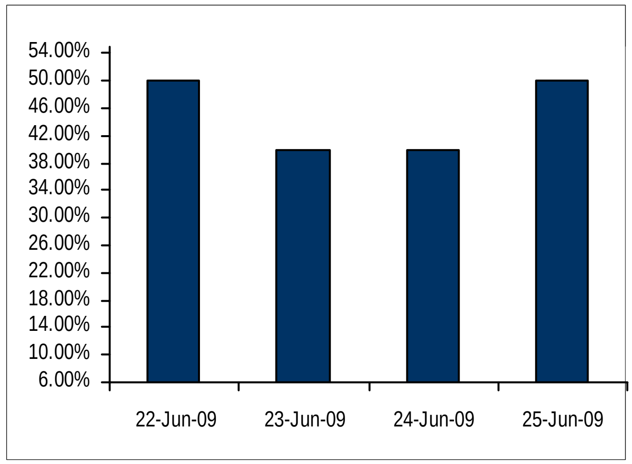
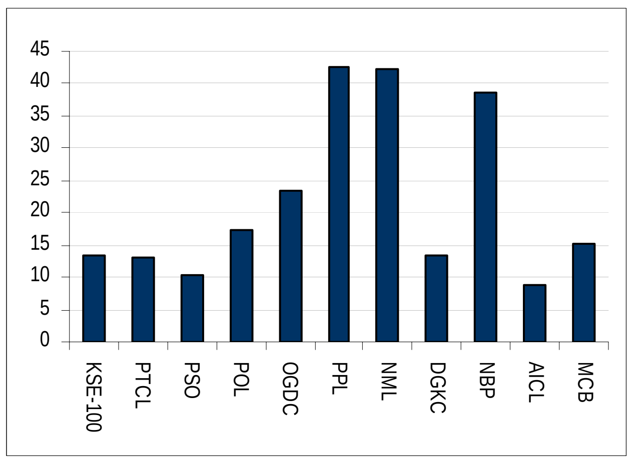


Chart 5: Price to Money

Chart 6: RSI of Key Index



Economy Watch

Chart 13: Revenue Collection (PRsbn)

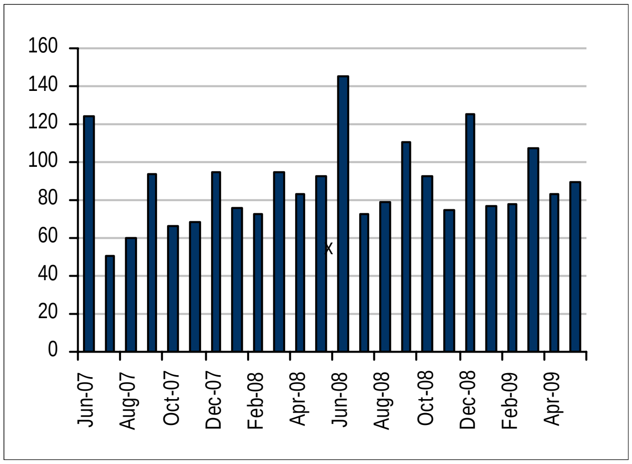


Chart 14: Forex Reserves (US$mn)

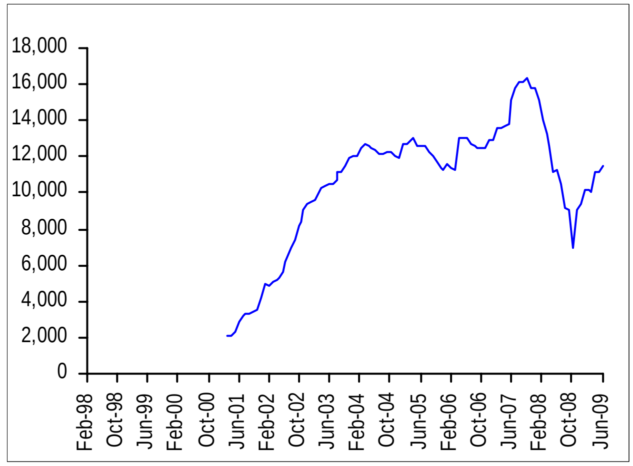


Chart 15: Import & Export (US$mn)

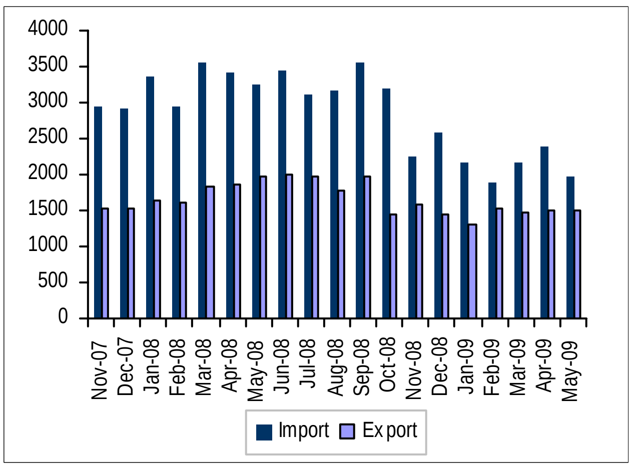


Chart 16: Foreign Exchange Rate (PRs/US$)

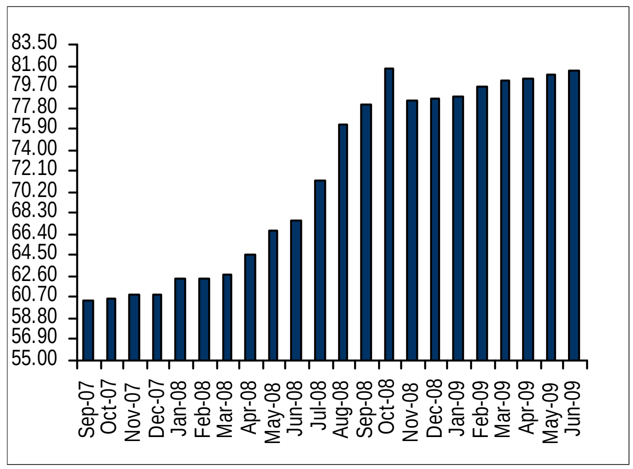


Chart 17: 6-mth T-Bill Yield (%)

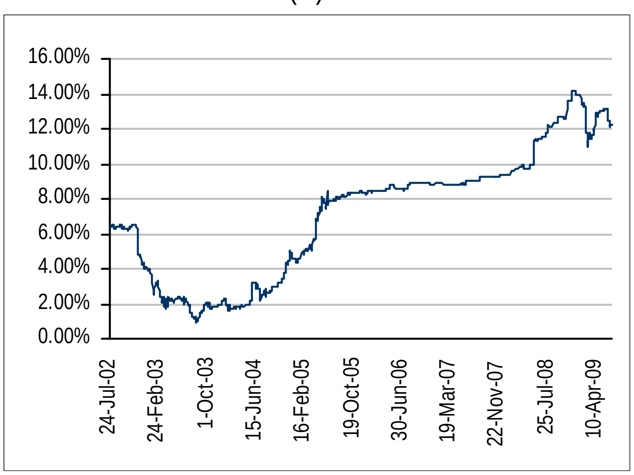
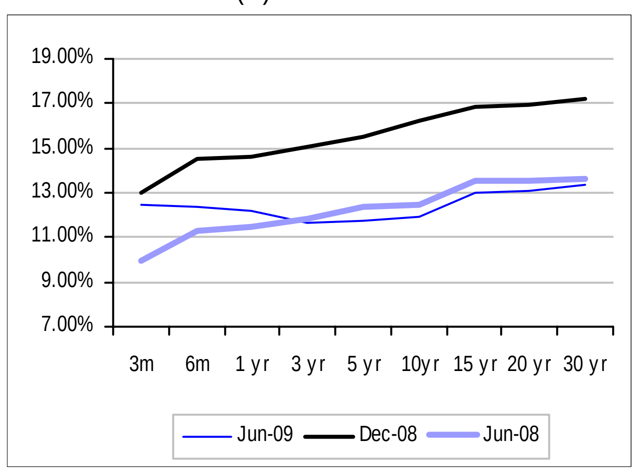


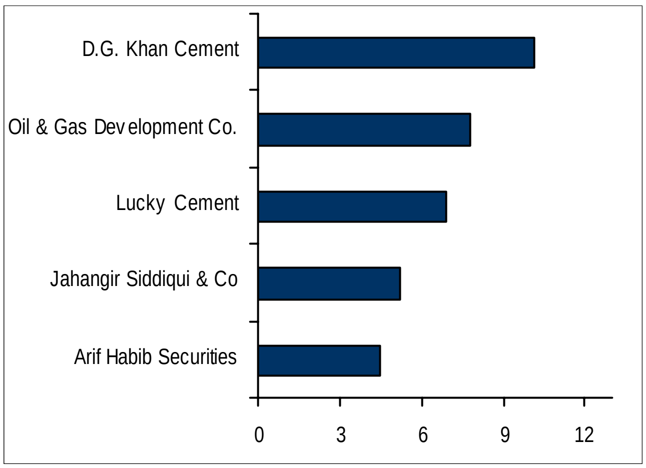
Chart 18: Yield Curve (%)



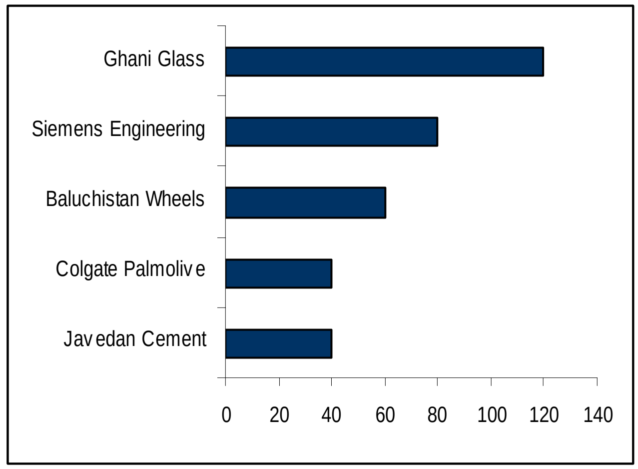
Stock Market Synopsis

	Last week	This week	% Change	1M	3M	12M
Mkt. Cap (US$bn)	25.86	26.15	1.12%	26.53	35.44	56.06
Avg. Dly T/O (mn. shares)	101.63	109.01	7.26%	118.53	185.43	108.75
Avg. Dly T/O (US$ mn.)	59.16	57.42	-2.94%	67.72	96.84	57.22
No. of Trading Sessions	5	5		23	65	244
KSE 100 Index	7039.73	7217.97	2.53%	7188.84	6803.46	12353.19
KSE ALL Share Index	5047.64	5126.15	1.56%	5154.36	4889.83	8874.95

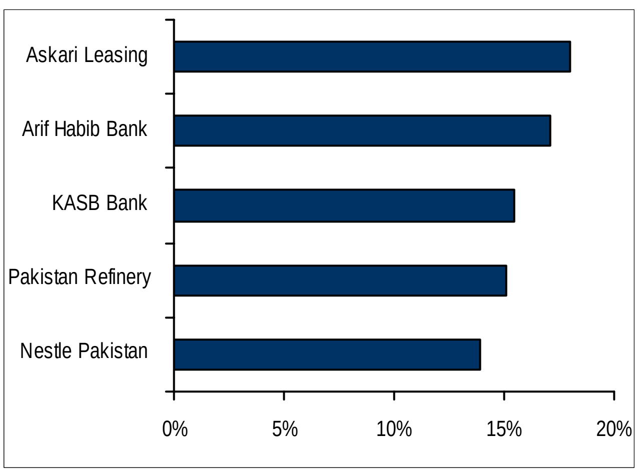
KSE-100 Active Issues (ADTO-million shares)



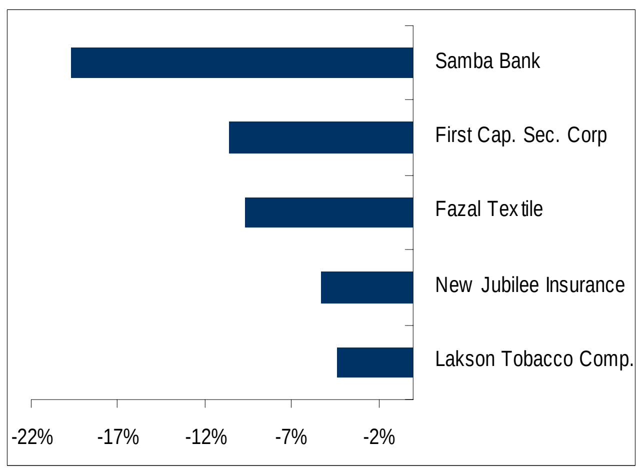
KSE-100 Least Traded Issues (ADTO- shares)



KSE-100 Leaders (% change)



KSE-100 Laggards (% change)



Macro Economic Indicators

	FY06A	FY07A	FY08A	FY09A/F	FY10F
Real GDP growth %	5.8	6.8	5.8	1.9	3.9
Agriculture growth %	6.3	3.7	1.5	4.5	3.3
LSM growth %	8.3	8.6	4.8	-5.5	3.5
Services growth %	6.5	7.6	8.2	3.5	4.2
Exports USD billion	16.5	17.1	19.2	17.6	18.1
Imports USD billion	28.6	30.4	39.9	33.5	31.5
Trade account balance USD billion	-12.1	-13.3	-20.7	-15.9	-13.4
Remittances USD billion	4.6	5.4	6.5	7.5	7.0
Current account balance USD billion	-5.0	-7.0	-14.0	-9.4	-7.1
CPI	8.0	7.8	12.0	21.0	8.0
Money Supply (M2) growth %	15.2	19.3	14.0	7.0	12.0
Exchange rate PRs/USD	60.2	60.4	63.5	77.0	79.3
6m T-bill WAY%	8.5	8.9	11.5	11.5	10.5
Population (million)	155.4	158.2	161.0	163.9	166.9
Per Capita income (USD)	833.0	925.0	956.0	991.0	1,048.0
Development Expenditure (PRs billion)	306.0	435.0	450.0	549.0	540.0
Foreign Exchange reserves (USD million)	13,128	15,600	11,300	10,400	11,500
Tax Revenues in (PRs million)	700,000	835,000	1,000,000	1,250,000	1,450,000
Foreign Direct Investment (USD million)	3,500	5,140	3,800	4,000	4,500
Pakistan External Debt (USD million)	35,974	39,008	44,467	50,500	55,500
Domestic Debt (PRs million)	2,296,869	2,596,981	3,096,000	3,466,000	3,780,000
Debt Servicing as % of GDP	2.2%	2.1%	1.8%	2.0%	2.0%
Pakistan External Debt as % of GDP	27.4%	26.5%	29.7%	31.0%	31.7%
Pakistan Domestic debt as % of GDP	29.1%	29.4%	27.0%	28.8%	26.0%
Pakistan total debt as % of GDP	56.5%	55.9%	56.7%	59.8%	57.7%
Budget deficit as % of GDP	4.2%	4.5%	7.0%	4.2%	4.6%
Investment as % of GDP	21.8%	23.0%	21.6%	20.2%	20.0%
Saving as a % of GDP	16.4%	18.0%	13.9%	14.5%	15.0%

Source: SBP, FBS and KASB estimates

KASB Securities and Economics Research

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