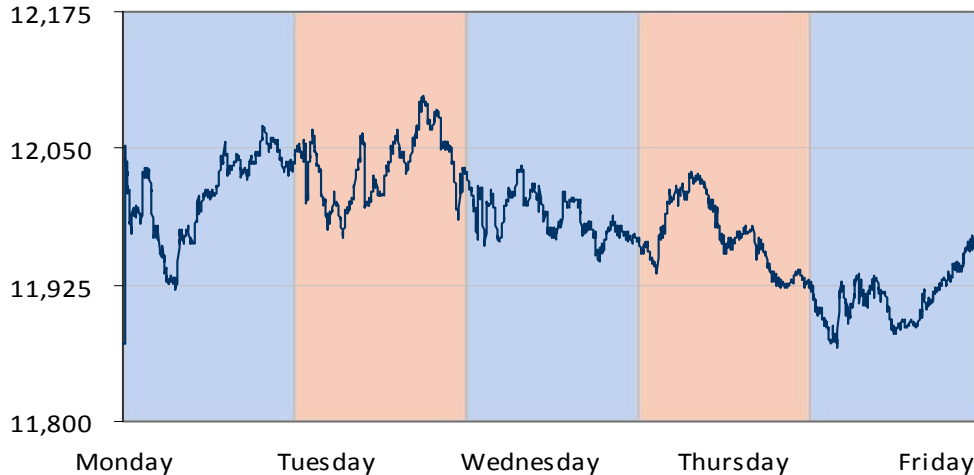


KSE: CGT relief and result season revitalize KSE



Source: KSE

Stock Market Overview

- KSE commenced the week from where it left off last week as the much awaited relief on Capital Gains Tax materialized but the absence of finer modalities of the relief package stunted the rally later in the week.
- KSE-100 closed +1.6% WoW. A positive aspect of the development however was that excitement on CGT combined with result season resulted in volumes depicting a 67% WoW jump to 145mn shares/day.
- Silkbank Limited, Agritech Limited, Engro Corporation, D.G. Khan Cement and Pak. Int. Cont. Ter. Ltd. were the major gainers while Pak Telephone, Lotte Pakistan PTA, Siemens Engineering, Philip Morris Pak Ltd and Dawood Hercules were major losers in the benchmark KSE-100 this week.

News This Week

- US\$1000 per NATO container fee on the cards
- Rise in POL prices likely
- Investment in National Saving Scheme rise to PRs92bn in 1HFY12
- LSM growth slows to 1.5% in July-Nov

27 January 2012

KASB Research
research@kasb.com
KASB Securities Limited
Ph. No. (9221) 111-222-000

Market Review: CGT relief and result season revitalize KSE

Date	Open	High	Low	Close	Change	Vol (mn)
23-Jan-12	11,790	12,071	11,790	12,038	2.2%	230
24-Jan-12	12,065	12,100	11,961	11,991	-0.4%	200
25-Jan-12	11,986	12,035	11,932	11,950	-0.3%	125
26-Jan-12	11,952	12,029	11,867	11,884	-0.6%	96
27-Jan-12	11,888	11,981	11,879	11,960	0.6%	76

Source: KATS

Market This Week

KSE commenced the week from where it had left off last week as the much awaited relief on Capital Gains Tax materialized last Saturday. In his visit to the exchange, the Finance Minister stated that the govt. has accepted all SECP proposals on capital gains tax. These include 1) no questions on source of funds till June 2014, 2) freezing of CGT rates at current levels, 3) abolishing WHT and 4) centralized collection and calculation of CGT. In addition, SECP also notified relaxation in MTS rules but the absence of finer modalities of the relief package stunted the rally later in the week, resulting in a +1.6% WoW closing. A positive aspect of the development however was that excitement on CGT relief combined with result season resulted in volumes depicting a 67% WoW jump to 145mn shares/day. On the foreign investment front the market witnessed a decent inflow of US\$7.4mn, which supported sentiments. On the macro front, the T-Bill auction was watched with keen interest where participation patterns suggested that market participants were looking for a potential rate cut in the next Monetary Policy Statement due 11th Feb.

Outlook for the Future

While the market awaits some of the finer details of the CGT relief package, the limelight is likely to be taken over by the results season. However the market will have an eye out for the CPI number for January as it will help shape market expectations on path of discount rate. Political noise which took a relative breather this week will make a comeback as the Supreme Court resumes hearing on the contempt of court proceedings against the Prime Minister. For our investment strategy, our bias for energy names remains intact with our preferred list extending to 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

US\$1000 per NATO container fee on the cards As per news report, the government is contemplating US\$1,000 fee on each container passing through Pakistan for Isaf/Nato forces stationed in Afghanistan. The National Logistics Cell (NLC) will collect the fee on extending No Objection Certificate and transportation charges, if the govt. agrees to reopen the supply routes it blocked in November last year.

Rise in POL prices likely As per news reports, the govt. is likely to raise domestic petroleum prices by 3-6.5/litre due to dual impact of exchange rate depreciation and movement of oil prices in the regional markets. Prices of gasoline and diesel are likely to be increased by PRs5.75/litre and PRs3.13/litre. If the price increase materializes, it will be the first time that diesel prices would be in triple digit territory.

Investment in National Saving Scheme rise to PRs92bn in 1HFY12 As per data released by SBP, investment in NSS increased by 13% YoY to PRs92bn in 1HFY12 (Dec-11: PRs15bn). This indicates that NSS investments in FY12 should comfortably exceed the government's full-year target of PRs149bn. However given that profit rate on NSS were reduced by 150bps-200bps in 2011, investment flow into NSS could slow down in the coming months and could fall short of FY11 investment flow of PRs235bn.

LSM growth slows to 1.5% in July-Nov As per latest data released by Pakistan Bureau of Statistics (PBS), Large Scale Manufacturing (LSM) sector grew by 1.5% in 5MFY12 primarily attributed to positive YoY growth in textile, petroleum products and cements supported by a high base. However in Nov-11, production contracted by 4.7% MoM where output in fertilizer, autos, wood products, chemicals, and iron and steel products fell by 0.95%, 4.85%, 8.12%, 6.16% and 39.8% respectively.

This report has been prepared by KASB Securities Ltd. and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time KASB Securities Ltd. and any of its officers or directors may, to the extent permitted by law, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report and the company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no accounts of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment. This report may not be reproduced, distributed or published by any recipient for any purpose. The views expressed in this document are those of the KASB Securities & Economic Research Department and do not necessarily reflect those of KASB or its directors. KASB, as a full-service firm, has or may have business relationships, including investment-banking relationships, with the companies in this report.

This Week's Top Stories

Monday, January 23, 2012 - KSE: Anticipated CGT relief materializes

- In an eagerly awaited development, the Finance Minister stated over the weekend that the govt. has accepted all SECP proposals on capital gains tax.
- These include 1) no questions on source of funds till June 2014, 2) freezing of CGT rates at current levels, 3) abolishing WHT and 4) centralized collection and calculation of CGT. In addition, SECP also notified relaxation in MTS rules.
- Blanket approval of proposals with a firm date (1st Apr) should be seen positively. However, with the KSE-100 up 7% in one week and finer modalities yet to emerge, the initial positive reaction could be tested, in our view.

Imtiaz Gadar, CFA

(Imtiaz.gadar@kasb.com)

Tuesday, January 24, 2012 - POL: Supportive valuation; delayed triggers

- While our conviction on POL remains intact given its exposure to Tal block and future volume growth, small project delays and unexpected results on Domial II mean the stock may lack operational triggers in near-term.
- Above-expected cash payout in 1H may potentially fill the void (results due on 1st Feb). Furthermore, valuation remains supportive given double digit D/Y and the stock offers 12% upside to DCF-based PO. Reiterate Buy.
- We expect 1H EPS of PRs29.3 (2Q PRs14.69) up 33% YoY. Cash dividend will be a key highlight of 1H results. We see low chances of POL changing its dividend policy and expect 1H DPS of PRs13-15.
- We contend POL's earnings outlook is still positive despite few production disappointments. Sensitivity analysis of below-expected flows on Domial I suggests 3-4% impact on earnings.

Mohammad Fawad Khan, CFA

(Fawad.khan@kasb.com)

Wednesday, January 25, 2012 - Indus: Triggers abound for stock to rally

- We see strong 1HFY12 earnings of PRs23.6/sh - 2x YoY, expected PRs10/sh interim payout and seasonal uptick in sales as key triggers set to unfold strong stock performance for Indus Motors.
- Indus Motors is trading at FY12E P/E of 5.1x, P/B of 1.0x and offers 9.1% D/Y, we reiterate Buy with PO of PRs250/sh.
- In the past six years, excluding market crash and subsequent run-up in 2009, Indus stock has delivered average total return of 15.1% in 2HFY.
- Inline with historical seasonal trend where income from agriculture driven areas drives demand, we expect Indus sales to improve 12% HoH in 2HFY12E. Having said that, we see higher than expected impact of ban on CNG kits on sales and heightened FX volatility as key risks.

Muhammad Saqib Sajjad

(Saqib.sajjad@kasb.com)

Thursday, January 26, 2012 - PPL: Robust 1H; stronger 2H ahead

- While PPL posted a strong set of numbers with 1H FY12 EPS of PRs15.3/sh and DPS of PRs5, the results carried a nominal negative surprise.
- 21% bottom line growth is mainly driven by higher sales and other income. We maintain our full year estimates (1H EPS constitutes 46% of our FY12 estimate).
- Backed by higher oil & gas prices and 43% growth in oil production, sales grew by 21% YoY in 1H. QoQ sales are flat, a key surprise considering volume growth of 2%. We are not overly concerned on 22% higher opex YoY.
- We flag higher 2H earnings on combination of (1) production addition and (4) improved realized prices (Rupee devaluation + gas price hike).
- Market concern on potential supply overhang from government divestment appears to be partially addressed due to recent efforts by different stakeholders to sort out the liquidity issues at KSE.

Mohammad Fawad Khan, CFA

(Fawad.khan@kasb.com)

Friday, January 27, 2012 - FFBL: Record earnings in 2011; margins erosion ahead

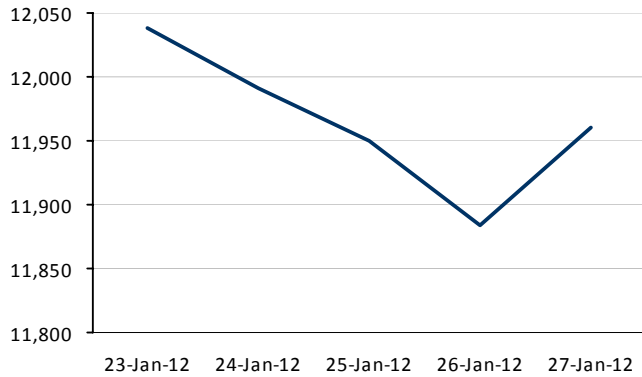
- FFBL posted record earnings of PRs11.53/sh for 2011, reflecting 67% YoY growth. FFBL also announced a final dividend of PRs3.50/sh (2011: PRs10/sh).
- Going forward, we foresee a comparatively sedate period ahead with earnings declining 46% YoY in 2012E on the back of decline in DAP prices and margins.
- We are lowering our PO to PRs48/sh (-9%) and 12E/13E EPS by 1%/7% on account of higher than expected increase in gas prices in Jan-12.
- At current prices FFBL is trading close to our PO and its historical mid-cycle P/E of ~7.5x where a 12% 12E D/Y keeps us Neutral on the stock.

Shagufta Irshad Khurram

(Shagufta.khurram@kasb.com)

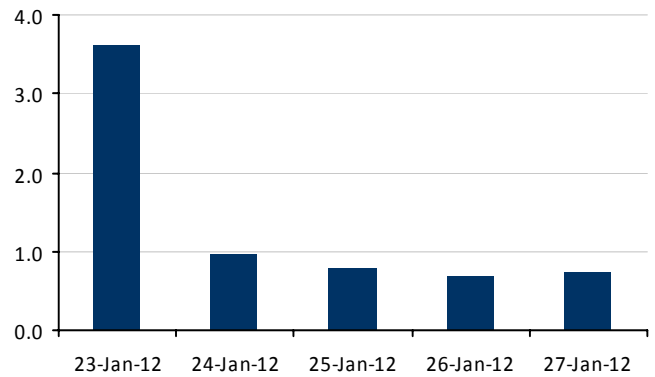
Stock Market – Last week in pictorals

Chart 1: KSE-100 Index



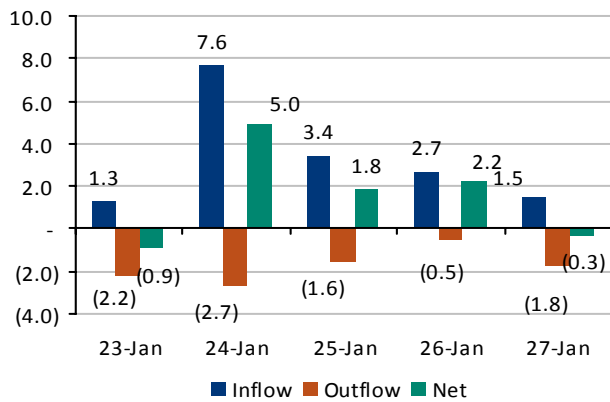
Source: KSE

Chart 2: KSE Advance/ Decline Ratio



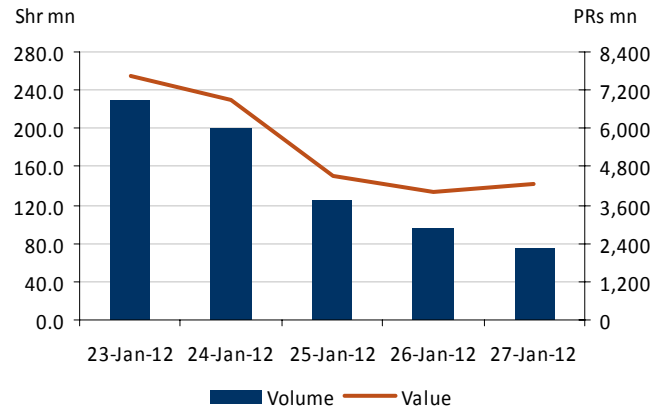
Source: KSE

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



Source: NCCPL

Chart 4: KSE- Volumes & Values



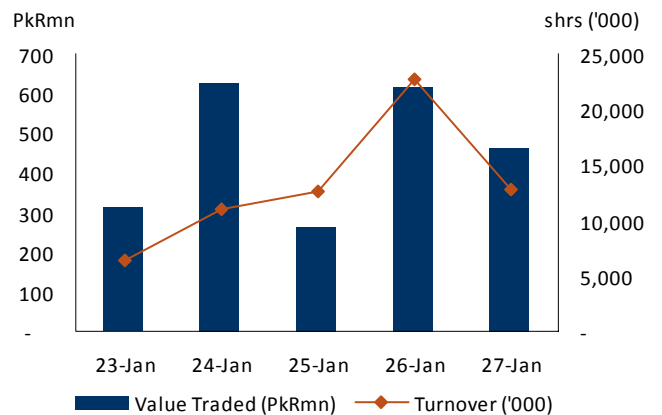
Source: KSE

Chart 5: Price to Money Ratio



Source: KSE

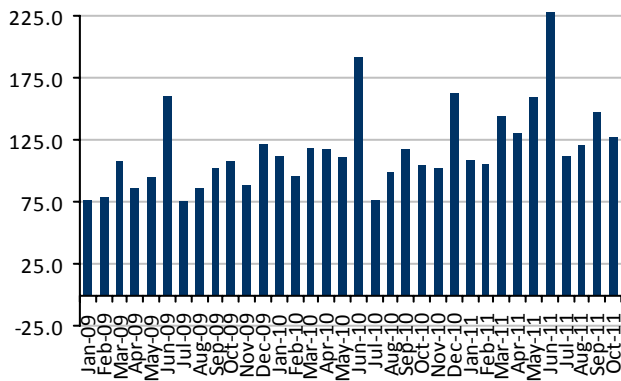
Chart 6: Off market activity



Source: KSE

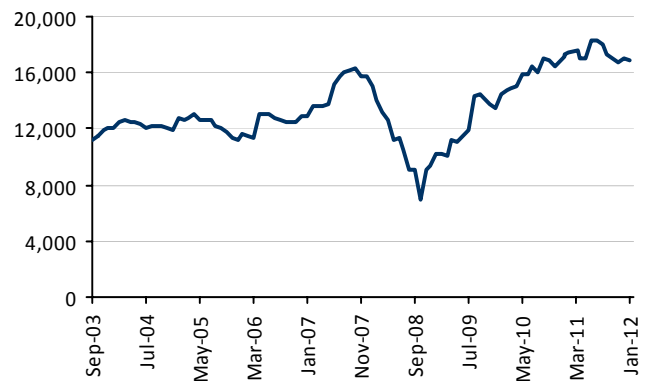
Economy Watch

Chart 7: Revenue Collection (PRsbn)



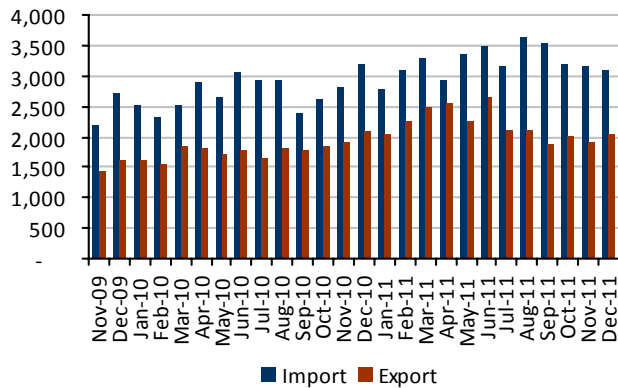
Source: SBP

Chart 8: Forex Reserves (US\$mn)



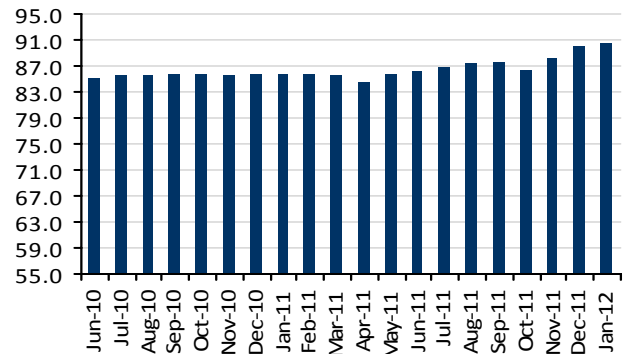
Source: SBP

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



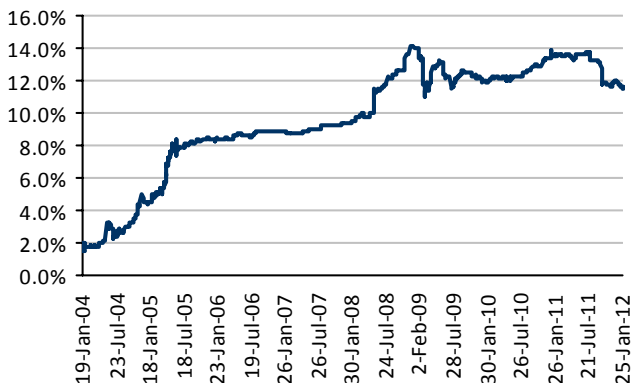
Source: SBP

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



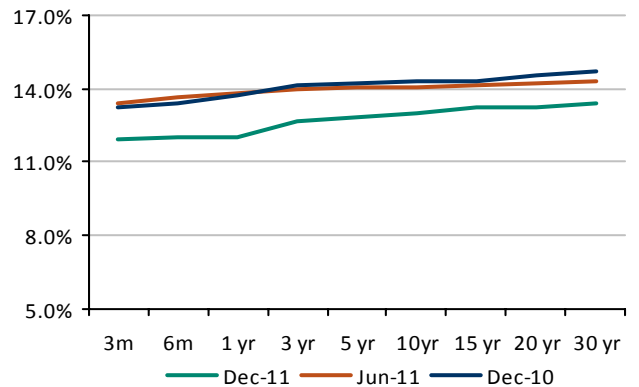
Source: SBP

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



Source: SBP

Chart 12: Yield Curve (%)

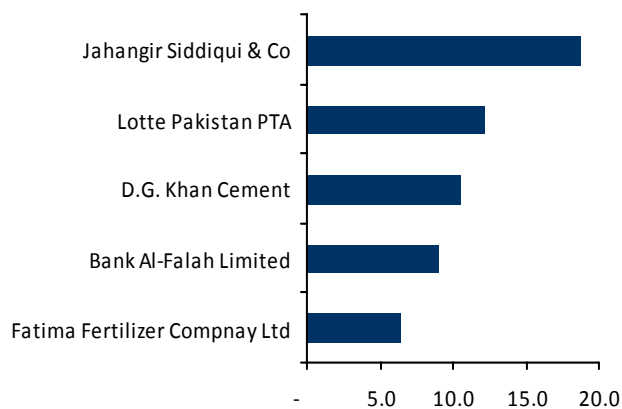


Source: SBP

Stock Market Synopsis

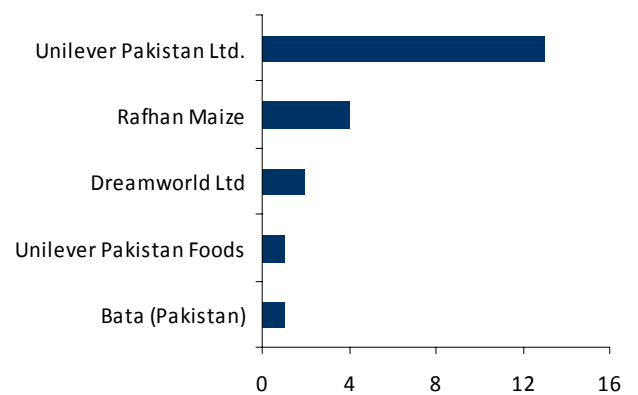
	Last week	This week	% Change	1M	3M	12M
Mkt. Cap (US\$bn)	33.90	34.42	1.55%	32.67	34.03	39.29
Avg. Dly T/O (mn. shares)	86.88	145.24	67.17%	70.21	55.43	71.49
Avg. Dly T/O (US\$ mn.)	41.04	60.57	47.58%	30.80	27.87	36.12
No. of Trading Sessions	5.0	5.0	-	24	61	250
KSE 100 Index	11774.68	11960.22	1.58%	11311.38	11283.49	12477.00
KSE ALL Share Index	8152.32	8285.82	1.64%	7826.66	7830.19	8646.87

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



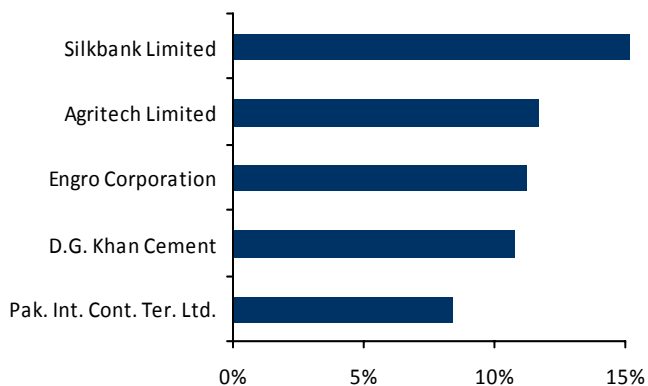
Source: KSE

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



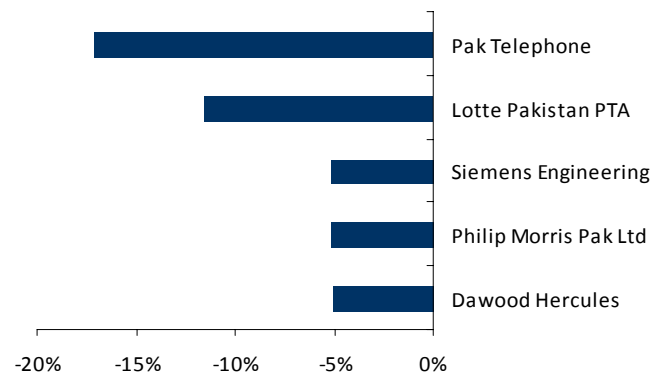
Source: KSE

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

KASB Securities and Economics Research

Imtiaz Gadar, CFA	Pakistan Strategy	+92 21 111 222 000 ext 337	Imtiaz.gadar@kasb.com
M. Fawad Khan, CFA	E&P, Oil Refineries, OMCs & Electric utilities	+92 21 111 222 000 ext 330	Fawad.khan@kasb.com
Shagufta I. Khurram	Cement, Fertilizer	+92 21 111 222 000 ext 336	Shagufta.khurram@kasb.com
Saqib Sajjad	Banks, Autos, Telco, Petrochem, Gas Utilities	+92 21 111 222 000 ext 331	Saqib.sajjad@kasb.com
Sarah Mazher	Pakistan Macro	+92 21 111 222 000 ext 332	Sarah.kamran@kasb.com
Fahd Niaz	Power & Commodities	+92 21 111 222 000 ext 448	Fahd.niaz@kasb.com
Abdul Wadood	Manager Database	+92 21 111 222 000 ext 334	Abdul.wadood@kasb.com
M. Noman Mughal	Library	+92 21 111 222 000 ext 339	Noman.mughal@kasb.com