

# Market Monitor

# Weekly

## Indices Movement



## News This Week

- Government calls 2nd Energy Summit on 28th Jul
- KSE BoD approves concept paper on margin financing

## Corporate Highlights

- FFBL – Robust 2Q10 results led by margins
- HBL earning up 26% YoY in 1H10
- FFC 1H10 earnings up 12% YoY

## Stock Market Overview

- The KSE-100 Index witnessed a WoW increase of 2.17% to close at 10,519 on Friday. Volumes slightly increased by 1.06% to average 80mn shares.
- Gharibwal Cement, International Industries, Siemens Engineering, Colgate Palmolive and Engro Polymer were major gainers while Soneri Bank, Jahangir Siddiqui & Co., Unilever Pakistan Foods, KASB Bank and Meezan Bank were major losers at KSE this week.

## Inside: Corporate result season begins

## Market Review: Corporate result season begins

Date	Open	High	Low	Close	% Change	Volume
26-Jul-10	10,318.82	10,350.17	10,283.60	10,297.68	0.02	40,209,551
27-Jul-10	10,313.39	10,411.48	10,303.88	10,386.82	0.87	71,973,031
28-Jul-10	10,402.28	10,467.06	10,397.69	10,436.29	0.48	102,554,252
29-Jul-10	10,449.53	10,481.48	10,416.54	10,427.28	-0.09	70,326,595
30-Jul-10	10,492.15	10,539.25	10,432.45	10,519.02	0.88	113,975,477

Source: KSE

### Market This Week

Riding on the back of corporate results, KSE-100 finally managed to close above 10,500 index mark, up 2% WoW amid weaker volumes. Foreign investors' interest continued as they remained net buyers of US\$12.68mn (down 10% WoW); however local retail investors and institutions opted for profit taking. Fertilizers, E&P & Banks shared the limelight this week. Fertilizer largely led the rally on robust earnings announcement and strong payouts by FFBL (2Q10 EPS: PRs1.01; DPS: PRs1.30), followed by FFC (2Q10 EPS: PRs3.50; DPS: PRs3.50) and ENGRO (2Q10 EPS: PRs4.60, DPS: PRs2.00). A mix set of results were announced by the two banking sector heavy weights. HBL gained grounds post strong earnings announcement (1H10 EPS: PRs7.77, better than expected due to PRs3bn FSV benefit and gains on investment); while UBL received a battering after posting lower than expected results (1H10 EPS: PRs4.22, shy of expectation solely due to higher effective tax rate of 40%). This week, we have downgraded index heavyweight, OGDCL, to Under-perform from Neutral. We have also raised our Price Objective for Hubco and Indus, both rated Buy. Within the E&P space, PPL and POL held investors' interest on grounds of being cheaper alternates to OGDCL. Meanwhile post-market hours SBP announced a 50bps increase in the discount rate after market hours, closing the week with a bad taste in the mouth.

### Outlook for the Future

Going forward, we believe the 50bps increase in the discount rate should surprise the market negatively and could weigh heavily on the market performance at week open. Key to look out for in this regard is whether the current 50bp rate hike signals a continued spell of SBP tightening as was the case in 2008. Beyond expected negative reaction to DR hike, market focus will also remain on any news flow regarding the potential re-introduction of leverage product at the bourses. Recall, earlier the Board of Directors of KSE had approved the concept paper for introduction of margin financing. The paper now waits approval by SECP. Pockets of activity can also be witnessed on earnings and payout expectations in the ongoing results season (MCB, PSO, PPL announce results next week). In addition, news flow on negotiations with IMF will also keep the market interested in terms of macro situation. With uncertainty prevailing at the bourses, we stick to our top picks which include FFC, Hubco, PTCL, Engro Corporation, Lucky Cement (recent increase in cement prices should help) and United Bank (compelling risk reward profile). In the energy theme, we recommend PSO, PPL and POL.

### Fundamental Changes

The major developments this week were:

- **Government calls 2nd Energy Summit on 28th Jul** Media reports suggest that merely 3-months after holding the first Energy Summit; the government has called officials and sector experts on July 28th for round 2 of the same. The agenda is focused on finding a way to overcome the current power and fuel crises and potentially shed some light on the current action plan to tackle inter-corporate debt. Recall that earlier this year the government committed PRs116bn cash injection for the energy sector to overcome inter-corporate debt but little materialized. The Apr-10 Energy Summit also focused on (1) allocation of scarce gas to the power plants and domestic consumers instead of fertilizer units; (2) weekly holiday for compressed natural gas (CNG) stations, but measures have been criticized for being too short-term in nature and insufficient to tackle the scale of energy sector concerns. While recent news reports that ADB may release US\$500mn to Pakistan to settle inter-corporate debt arrears may shore up sentiments, we believe execution will remain the key risk where inter-corporate debt has plagued energy sector cash-flows for over 2-yrs now
- **KSE BoD approves concept paper on margin financing** The Board of Directors of Karachi Stock Exchange has approved the concept paper for introduction of margin

financing at the bourses. The product envisages to re-introduce leverage at the bourses with improved risk management measures whereby clients will now need to provide 25% margin on to obtain leverage. The recommendations will now be forwarded to SECP for final approval by the regulator.

- **FFBL – Robust 2Q10 results led by margins** FFBL reported a robust set of 2Q10 results, with earnings up 17% QoQ to PRs1.01/sh on the back of (1) absence of PMP loss (PRs122mn reported as share of associate profit vs broad expectation of a negative number on this score) & (2) lower effective tax rate at 28% in the quarter vs typical 35% rate (due to deferred tax). 1H10 earnings now stand at PRs1.88/sh, significantly higher YoY (PRs0.53/sh in 1H09). While details of volume are unavailable for Jun-10, we estimate a YoY decline in both urea and DAP sales on account of (1) lower year-open inventory vis-à-vis 2009; (2) softer DAP demand in 1H10; (3) increased gas load-shedding in 1H10. Negative fall through of the same was meanwhile offset by higher urea primary margin and very robust DAP primary margin. Overall gross margin for FFBL increased to 32% from 20% YoY in 1H10. Alongside earnings, key excitement factor was the announcement of PRs1.30/sh cash dividend in 2Q which takes 1H payout to PRs1.80/sh. From FFC's perspective, 51% share of FFBL PRs1.30/sh dividend would amount to PRs557mn (after tax) or PRs0.82/sh.
- **HBL earning up 26% YoY in 1H10** HBL posted solid bottom-line of PRs7.77/sh, up 26% YoY, in 1H10 primarily on the back of (1) FSV benefit to the tune of PRs3bn against provisions (PRs2/sh after tax) and (2) higher income/gains from investments due to capital gains of PRs0.2/sh as compared to a loss of PRs0.3/sh in 1H09. Had the FSV been not taken, earnings would have been lower by PRs2.0/sh in 1H10; YoY decline. The overall trend is however inline with our sector thesis where credit income (net interest income – provisions) growth is being driven by lower provisions. NPLs, on the other hand have remained stagnant QoQ at PRs51bn.
- **FFC 1H10 earnings up 12% YoY** Solid set of results from FFC (2Q EPS rose 35% YoY taking earnings for 1H10 up 12% YoY) beat our expectation but slightly shy of market rumors. No word on possible acquisition plans and payout remained robust at 100% (there was speculation that we may see a bonus this quarter in-place of 100% cash payout if the company is leaning towards Agritech acquisition). Overall, earnings growth was led by higher urea prices and resultant expansion in production margins where 2Q10 gross margin expanded by ~44bp YoY (note 1H margins are nominally lower YoY because of a depressed 1Q). Above expected earnings were led by lower-than-expected efficiency loss on urea due to lower gas curtailment. In terms of urea volumes the same were flat YoY in 1H10, though 2Q urea sales were down 3% YoY. FFC also made its 1st foray into DAP this year via ~31k tons DAP import in Jun-10. Of the same 2k tons were sold while the company carries the rest as inventory. QoQ earnings dip was largely expected given seasonal decline in urea volumes and also QoQ lower FFBL dividend.

KASB Research (021-111-222-000)

**This Week's Top Stories****Monday, July 26, 2010****OGDC: Lower to U/P on expensive valuation**

- We do not share market excitement on OGDC's exploration program and Tight Gas Reserve (TGR) potential and downgrade the stock to Underperform. OGDC trades at 16% premium to our SOTP based PO of PRs130.2. We recommend switch into PPL.
- We revise down our FY10-FY12 earnings estimates by 3-7% as we expect project delays ahead. Weak production in 4Q will lower FY10 volume by 4-5%, much below management guideline of 8% growth.
- OGDC's capacity to maintain strong payout has deteriorated due to spike in receivables from power sector subsidy. Total receivables have jumped to PRs88bn in March10, up 58% YoY lowering its payout to 40% from historic average of 85%
- Key risks to our rating include (1) a game-changing find (2) faster-than- expected development on TGR and (3) higher than expected oil prices.

**Muhammad Fawad khan****(Fawad.khan@kasb.com)****Tuesday, July 27, 2010****EPCL: Weaker than expected 2Q10 results**

- EPCL's loss/sh of PRs0.41 in 2Q10 is higher than our expectations of PRs0.20/sh. While the delay in VCM unit remains a drag, lower other income and higher financial and other expenses came as key deviants.
- Following the weaker results, we revise down our earnings forecast and raise our 2010E loss estimates from PRs0.07/sh to PR0.45/sh, though retain EPS estimates for 2011E onwards and our PO at PRs11/sh.
- In the notice to KSE, EPCL has mentioned that VCM unit is operating at 80% on make-shift arrangements and the company may declare commercial operations in 3Q10. Our base-case estimates assume unit COD in late 3Q by Sep-10.
- The stock has underperformed KSE-100 index by 21% since our downgrade to Underperform and is now trading below our PO. Eyeing this, and the fact that announcement of VCM unit should act as a trigger, we raise our rating to Neutral.

**Muhammad Saqib Sajjad****(Saqib.sajjad@kasb.com)****Wednesday, July 28, 2010****Hubco - Estimates tweaked; maintain Buy**

- With no clear end in sight to the intercorporate debt issue, we adjust FY10-13E earnings estimates (by +4% to -3%) for Hubco to reflect likely higher Wapda receivables, ST borrowing and interest income.
- Ongoing power shortage suggests that IPPs will remain a key cog in any strategy to tackle energy shortfall. This should (1) keep generation at Hubco's plant high; and (2) reduce risk of the worst case scenario for Pak IPPs (i.e. plant suspension due to non-payment for fuel and/or restrictions on dividend payment).
- With (1) forward D/Y of 14-15% and real DPS growth; (2) well above peers earnings growth; and (3) relatively lower-than-peers earnings sensitivity to intercorporate debt, Hubco remains our preferred pick in Pak IPPs with a revised PO of PRs40/sh.
- We eye Oct-10 expected commercial operation of 6-mths delayed Narowal expansion as a potential upside trigger for the stock, though note that possible liquidated damages associated with the same are the key risk.

**Farrah Marwat****(Farrah.marwat@kasb.com)****Thursday, July 29, 2010****Indus: Raising PO and estimates**

- We upgrade our PO for Indus Motors to PRs316/sh from PRs240/sh, FY10-12E EPS estimates by 19-22% and reiterate our Buy call on the stock.
- Our bullishness on the stock is premised on company's resilient volumetric performance (market share up by 11ppt in 2 yrs), strong pricing power, net cash of PRs85/sh and attractive multiples (FY11E P/E of 5.6x and D/Y of 8.8%).
- We expect 4Q10E earnings of PRs11.6/sh (+11% YoY) amid seasonal up-tick in volumes, stable EBITDA margins and strong other income on surplus cash holdings.
- We believe Indus will outperform the industry with 14% YoY growth in its unit sales. Though normalized advances could soften other income, strong volumes should lift FY11E EPS by 13% YoY to PRs44.6.
- We flag (1) higher FX volatility, (2) adverse regulatory decisions and (3) reliance on Corolla as key risks.

**Muhammad Saqib Sajjad****(Saqib.sajjad@kasb.com)**

Friday, July 30, 2010

**Engro: Strong 1H10 earnings growth, Buy**

- Engro Corp announced solid 2Q10 earnings of PRs4.60/sh, 307% higher YoY, driving up 1H10 earnings to PRs10.37/sh (+222% YoY).
- Exceptional 1H10 earnings growth was broad-based, led by a combination of volume growth, margin expansion & start-up of new businesses.
- With new projects already starting to pay-off, we maintain our positive bias on Engro where we eye 28% EBITDA & 25% EPS CAGR over 2009-14E. We believe continued earnings accretion from new ventures over the next 12-mths will provide the trigger for stock price appreciation. Maintain Buy with PRs255/sh PO.
- 1H10 earnings growth was led by Fertilizer (+171% YoY) on volume & margin gains. Eximp also put up a strong show via 1Q10 timing gains while Power was a game-changer with 1st quarter of profits. Foods profits continued to lag revenue growth due to advertizing expenses while Polymer was the key disappointment.

**Farrah Marwat**

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## Stock Market Last Week in Pictorials

Chart 1: KSE-100 Index

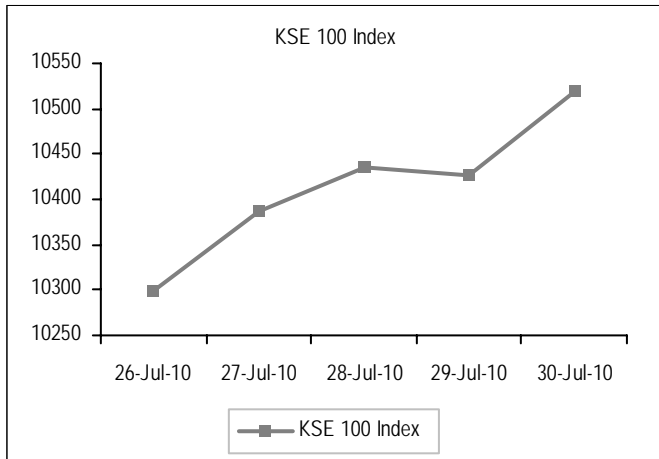


Chart 2: Advance Decline Ratio

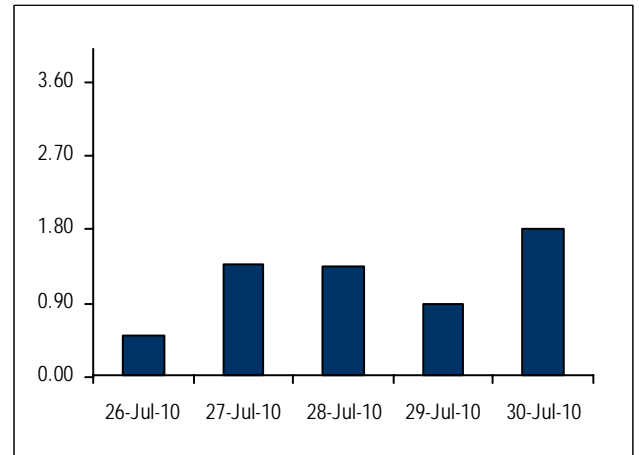


Chart 3: Pak Foreign Portfolio Flows (US\$m; US\$=PRs84)

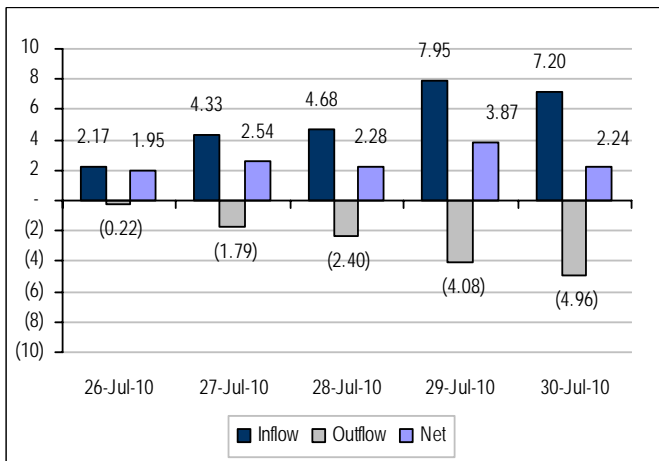


Chart 4: KSE - Volume & Value

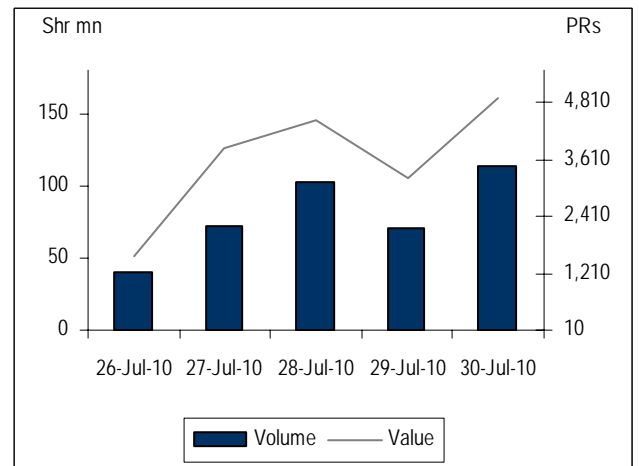
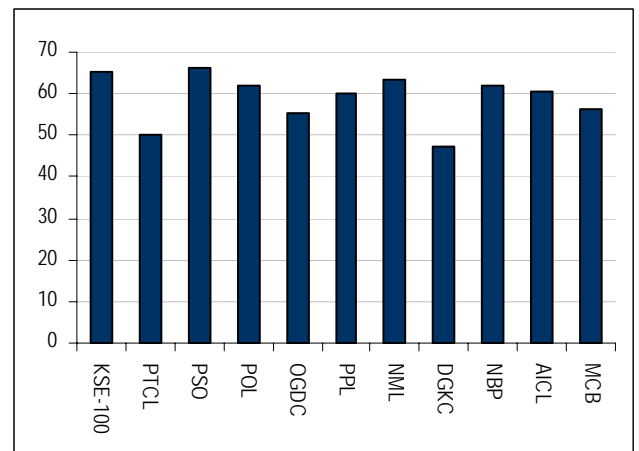


Chart 5: Price to Money



Chart 6: RSI of Key Index



## Economy Watch

Chart 13: Revenue Collection (PRsbn)

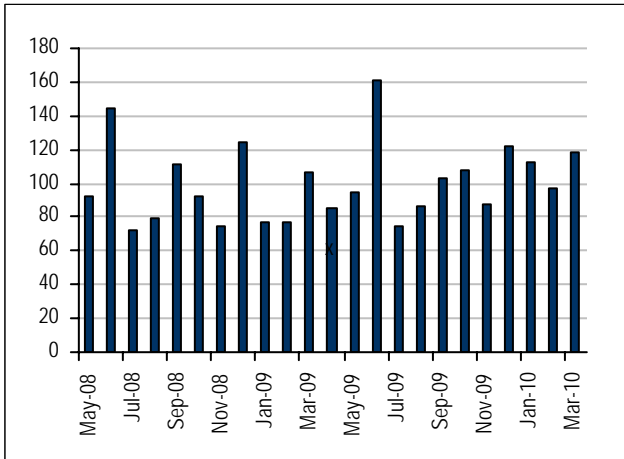


Chart 14: Forex Reserves (US\$mn)

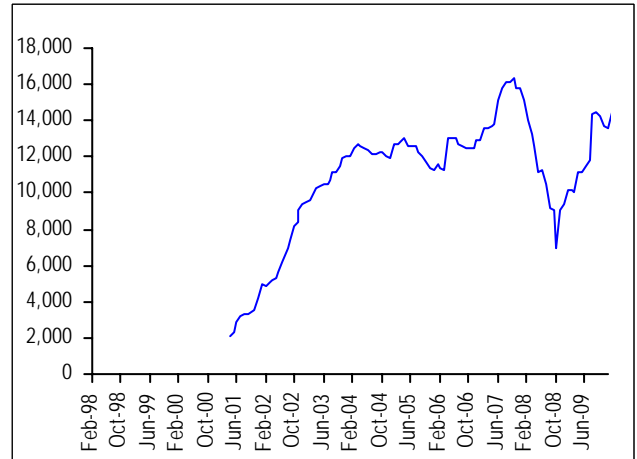


Chart 15: Import & Export (US\$mn)

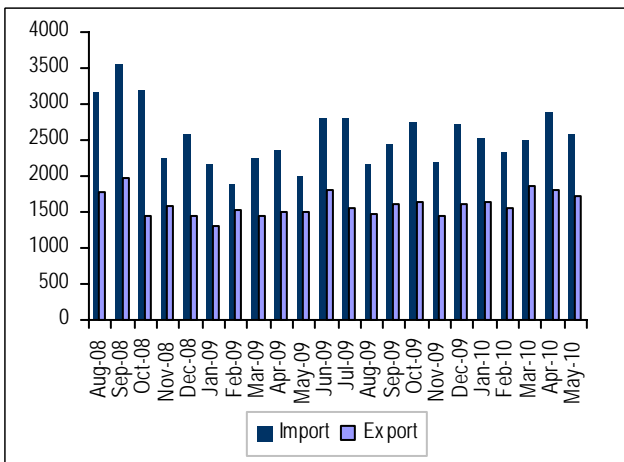


Chart 16: Foreign Exchange Rate (PRs/US\$)

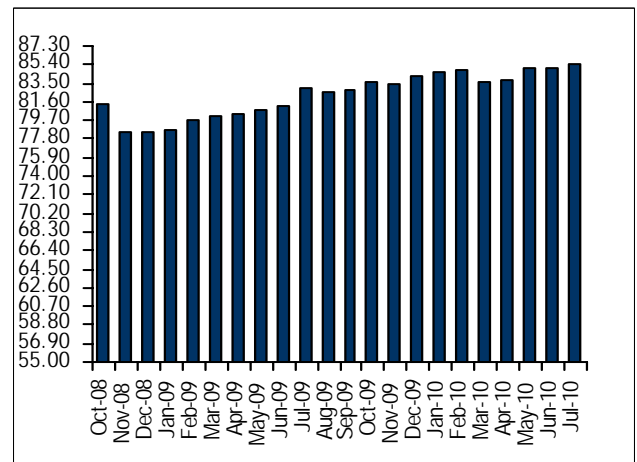


Chart 17: 6-mth T-Bill Yield (%)

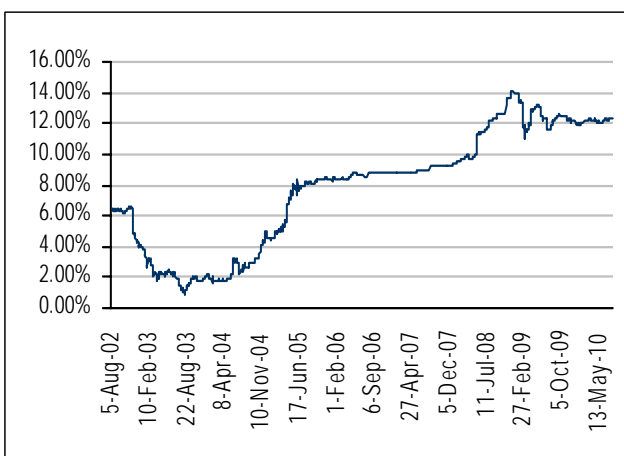
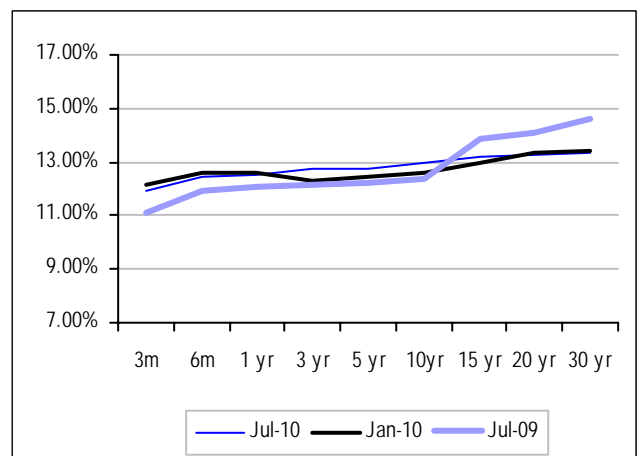


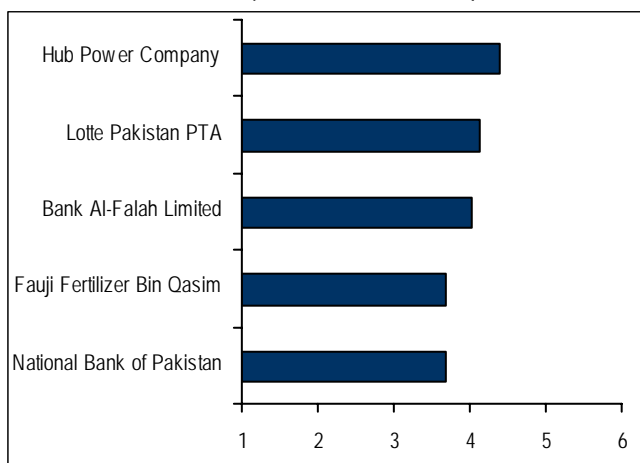
Chart 18: Yield Curve (%)



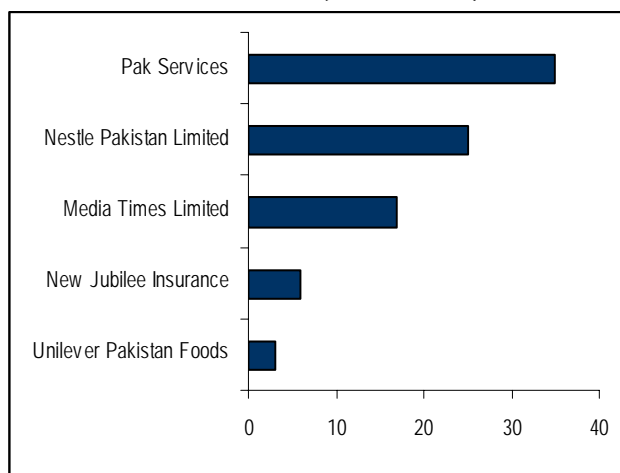
## Stock Market Synopsis

	Last week	This week	% Change	1M	3M	12M
Mkt. Cap (US\$bn)	33.84	34.43	1.74%	31.99	35.13	27.45
Avg. Dly T/O (mn. shares)	78.97	79.81	1.06%	68.94	89.60	152.15
Avg. Dly T/O (US\$ mn.)	37.22	42.07	13.03%	32.18	37.22	78.82
No. of Trading Sessions	5	5		23	66	249
KSE 100 Index	10296.04	10519.02	2.17%	9721.91	10428.12	7720.93
KSE ALL Share Index	7201.52	7348.91	2.05%	6809.60	7331.68	5515.95

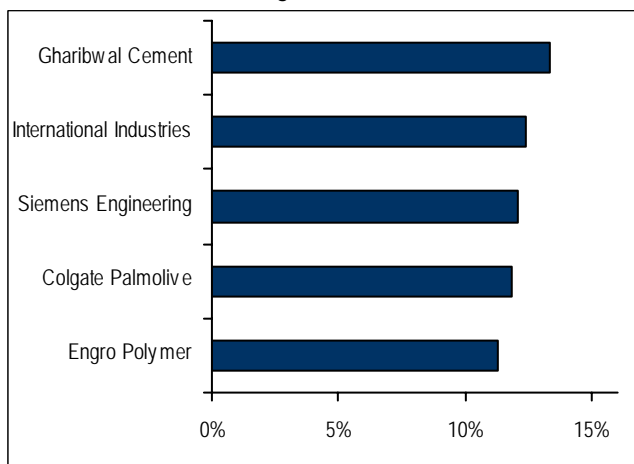
**KSE-100 Active Issues (ADTO-million shares)**



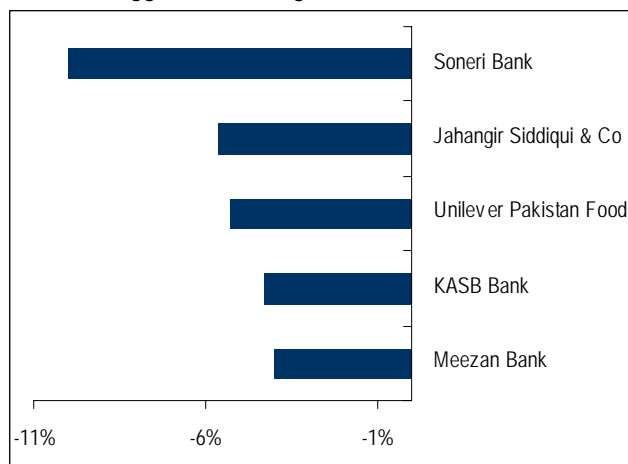
**KSE-100 Least Traded Issues (ADTO- shares)**



**KSE-100 Leaders (% change)**



**KSE-100 Laggards (% change)**



## Macro Economic Indicators

	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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