2009: Flashback

KSE up 60%, best since 2003!

JS Global

JS Global Capital Limited

After a traumatic 2008 where the KSE plunged 58% (US$ 67%), the market rebounded with a vengeance to close at 9,387 level, up 60% (US$ 50%). This was market's finest performance since 2003, propelling the market capitalization to Rs2,706bn (US$32bn). Effective IMF led structural reforms and the resolution of number of political issues were the key drivers behind the market recovery. Improving economic numbers were also acknowledged by international rating agencies as S&P upgraded Pakistan by one notch to 'B-' and Moody's enhanced its outlook to 'Stable'. Market rallied in two major bursts as reinstatement of the Chief Justice in March geared up local investor confidence during mid Mar-Apr (up 33%) and re-entry into the MSCI Frontier Market Index ignited foreigners interest during Jul-Sep (31% return). On the flip side, Pakistan underperformed its regional peers which posted an average return of 77%, hence market trades at an average PE discount of 39% to regional peers at year end. Moreover, average daily volumes remained low throughout, primarily due to the non-availability of leverage products. Though the market's recovery was broad based, E&P and Fertilizer in particular, performed commendably while Cement and Insurance were major losers amongst others.

KSE-100 Index:
9,386.92

Market Cap:
Rs2,706bn
US$32.2bn

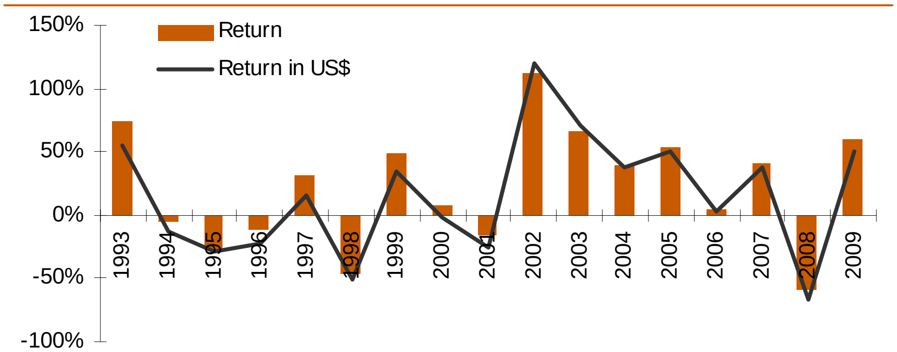
Market PE:
8.0x (2010E)

Market Dividend Yield:
7.6% (2010E)

1-yr High/Low:
9,845.74/4,815.34

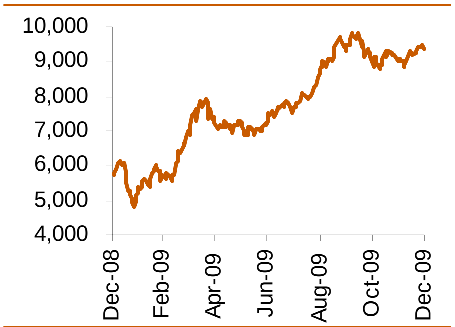
Market estimated free float:
25%

Graph: Historical yearly performance of KSE-100 Index



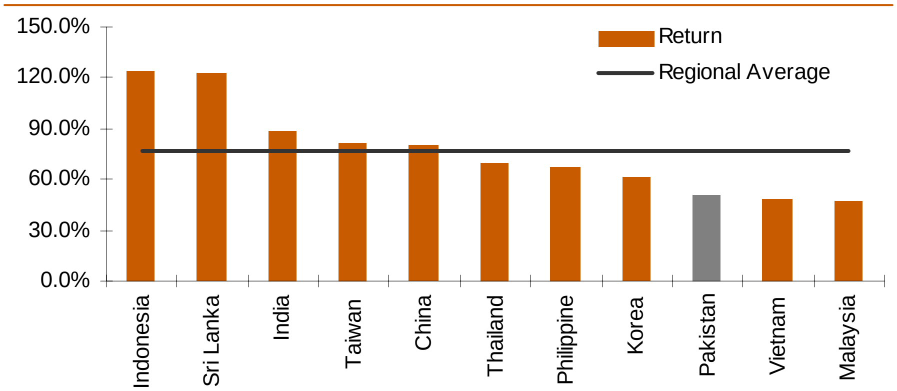
Source: KSE, JS Research

Graph: KSE-100 index performance



Source: KSE

Graph: Pakistan & Regional markets YTD performance



Source: Bloomberg

Syed Atif Zafar
atif.zafar@js.com
Analyst
92 (21) 111-574-111
(ext. 3118)

A year of macro economic stabilization

Reversal in macroeconomic imbalances during 2009 provided much required confidence to the market. Structural reforms, commodity meltdown and tightened monetary policy helped amass reserves (up US$3.9bn), curtail government borrowing and contain the fiscal deficit. The success of these reforms also led the international rating agencies to upgrade Pakistan's sovereign ratings. S&P upgraded Pakistan by one notch to 'B-' while Moody's enhanced its sovereign outlook to 'Stable'.

Table: Pakistan's Sovereign Ratings

Date	Foreign Currency (LT/Outlook/ST)
24-Aug-09	B-/Stable/C
18-Dec-08	CCC+/Developing/C
14-Nov-08	CCC/Negative/C
06-Oct-08	CCC+/Negative/C
15-May-08	B/Negative/B
06-Nov-07	B+/Negative/B

Source: S&P

Table: The Worst and YTD recovery

	08/09 Trough	Current
6-mth KIBOR	15.90%	12.44%
Inflation CPI	25.00%	10.51%
Inflation SPI	34.80%	13.00%
C/A deficit (% of GDP)	14.0%	5.0%
Fiscal deficit (% of GDP)	7.40%	6.00%
FX Reserves (US$ bn)	5.50	13.57
Pak CDS	50%	8.1%

Source: SBP, JS Research

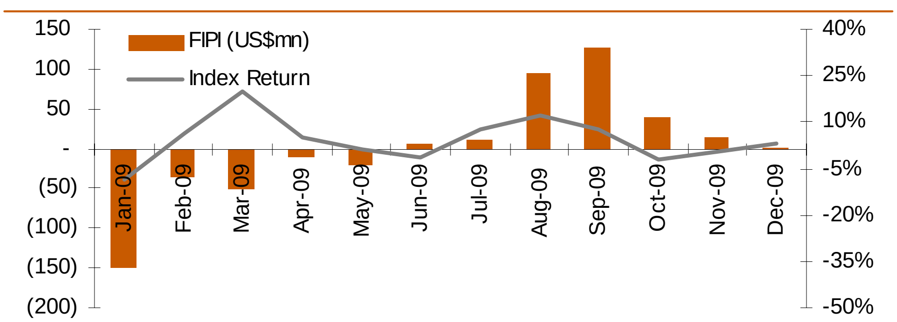
Political dust finally settling down

The year 2009 proved itself to be a historic year in terms of political developments. Reinstatement of the Chief Justice, approval of the Balochistan package and the National Finance Commission (NFC) award were some of these achievements. Additionally, the military carried out a successful operation in the Northern Areas to tackle the wave of terrorism that has hit the country. This provided a certain degree of stability to the political atmosphere and helped regain lost investor confidence.

Foreigners return as net buyers of US$22mn

Imposition of the price floor and exclusion from the MSCI Emerging Markets Index along with the global financial crisis had caused a mass exodus (US$446mn) of foreign portfolio investments from the equity market in 2008. However, eventual macro recovery and inclusion in the MSCI Frontier Market Index encouraged offshore investments to return to Pakistan. During the year, foreigners bought and sold shares worth US$1,066mn and US$1,044mn respectively, thus resulting in net buying of US$22mn. Foreigners, who had held shares worth US$1.3bn at the beginning of the year, are currently estimated to have investments worth US$2bn.

Graph: Foreign Portfolio investment vs index performance



Source: JS Research, NCCPL

Date	Key Political Events
Feb-09	Sharif brothers disqualified from holding any office. Governor rule imposed in Punjab.
Mar-09	Long march ends with reinstatement of judges
Mar-09	Shahbaz Sharif reinstated as CM of Punjab
Apr-09	Peace deal wit militants scrapped
Apr-09	Tokyo Donor Conference
May-09	Military operation in Swat
Jul-09	NAM Summit
Jul-09	Acquittal of Nawaz Sharif
Aug-09	Baitullah Mehsud reported dead
Sep-09	Safe exit deal revealed
Oct-09	Kerry-Lugar Bill
Nov-09	Operation in South Waziristan
Nov-09	NRO lapses, list of beneficiaries released
Nov-09	Balochistan package tabled in parliament
Dec-09	NFC Award approved
Dec-09	NRO declared viod ab initio by SC

Corporate events: positives outwit negatives

Though economic and political events were major market drivers for the year, there were a few major corporate events which too left an imprint on the market;

Table: Major corporate events during the year

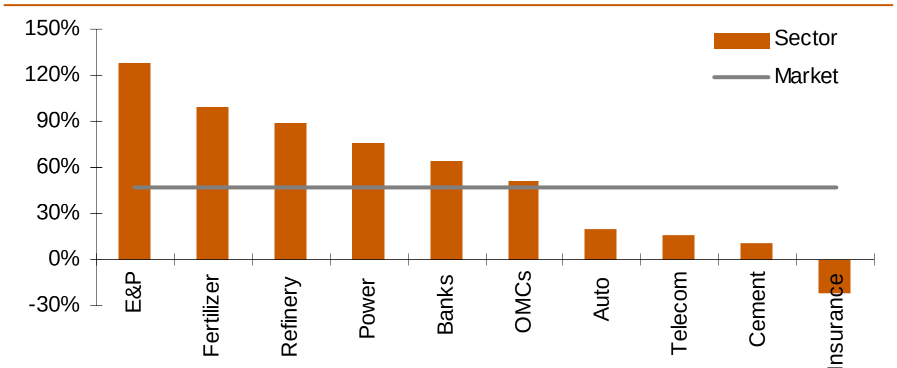
Jan-09	FSV circular	Allowance of 30% benefit of FSV for pledged stock and mortgage properties
Mar-09	Government issues TFC	TFCs worth Rs80bn were issued to clear the circular debt issue
Mar-09	Petroleum Policy	14-20% higher price benefit to E&P
Jun-09	Budget FY10	Neutral impact on the market with auto assemblers and cement companies emerging as the major beneficiaries
Aug-09	Textile Policy	Several incentives in terms of cheaper rates and duty drawbacks were made available to the textile industry
Aug-09	Breakdown of price consensus between cement companies	50kg cement bag fell to a low of Rs220
Aug-09	CCP imposes fines against cartelisation	Rs 6.3bn fine imposed on 20 cement companies for alleged price cartelisation by CCP
Sep-09	Government issues TFC	2nd round of TFCs worth Rs85bn were issued to clear the circular debt issue
Oct-09	FSV circular	FSV benefit increased to 40% - with inclusion of commercial and industrial properties, in addtion to restructuring of portfolio
Oct-09	Gas welhead prices revised downwards	Gas well head prices declined by 32% translating into lower profitability for the E&P companies
Oct-09	Kerry-Lugar Bill	Bill appoved by the cabinet
Nov-09	Commercial production from Manzalai	Commercial production from the field has started which touched a peak of 3900bpd and 208mmcfd of oil and gas respectively
Dec-09	Engro Chemical demerger	Resolution passed by the board of directors to demerge Engro Chemical

Source: JS Research

E&P and Fertilizer in the limelight

Though the local market recovery was broad based, the E&P (+127%) and Fertilizer (+99%) stocks fared better than others. E&P scrips rallied on the back of higher dividend yields and a rebound in international oil prices, whereas the fertilizer sector perked up owing to higher DAP and urea offtake following improved agricultural growth. However, the Insurance (-22%) and Cement (+11%) sectors underperformed due to recognition of impairment losses and a sharp decline in cement prices, respectively.

Graph: Key sector performance in 2009



Source: KSE, JS Research

Outlook: Recovery to continue in 2010

We expect the market to carry forth its positive momentum into the New Year, with an improved risk profile on the back of economic recovery and improvement in the law and order situation. Pakistan's discount to its regional peers is expected to revert to its historical average of 33% from the current 39%, which would propel the market to cross the 10,500 mark. We remain bullish on the Oil, Fertilizer, Power and Telecom sectors with PPL, PSO, ENGRO, POL, HUBCO, PTC and DGKC, our preferred plays for 2010.

Research Team

Muzzammil Aslam	Economy & Politics	(92-21) 111574111 (ext. 3035)	muzzammil.aslam@js.com
Farhan Rizvi, CFA	Banks, Strategy & Insurance	(92-21) 111574111 (ext. 3096)	farhan.rizvi@js.com
Umer Bin Ayaz	E&P, Refinery & Power	(92-21) 111574111 (ext. 3103)	umer.ayaz@js.com
Syed Atif Zafar	OMCs, Cement, Autos & Chemicals	(92-21) 111574111 (ext. 3118)	atif.zafar@js.com
Mustufa Bilwani	Banks, Telecom & Paper&Board	(92-21) 111574111 (ext. 3100)	mustufa.bilwani@js.com
Bilal Qamar	Fertilizer & Textile	(92-21) 111574111 (ext. 3099)	bilal.qamar@js.com
Raheel Ashraf	Technical Analyst	(92-21) 111574111 (ext. 3098)	raheel.ashraf@js.com
Adeel Jafri	Database Manager	(92-21) 111574111 (ext. 3098)	adeel.jafri@js.com
Rabia Mansoor	Research Trainee	(92-21) 111574111 (ext. 3119)	rabia.tariq@js.com
Angela Yousuf	Research Trainee	(92-21) 111574111 (ext. 3097)	angela.memon@js.com
Sana Hanif	Research Trainee	(92-21) 111574111 (ext. 3102)	sana.hanif@js.com
Muhammad Furqan	Librarian	(92-21) 111574111 (ext. 3105)	muhammad.furqan@js.com

Equity Sales

Junaid Iqbal	(92-21) 32799511	junaid.iqbal@js.com
Atif Malik	(92-21) 32799513	atif.malik@js.com
Raza Abbas	(92-21) 32799563	raza.abbas@js.com
Faiza Naz	(92-21) 32799505	faiza.naz@js.com
Muzammil Mussani	(92-21) 32799508	muzammil.mussani@js.com
Sameer Danawala	(92-21) 32799569	sameer.danawala@js.com
Asim Ali	(92-21) 32799509	asim.ali@js.com
Samar Iqbal	(92-21) 32800152	samar.iqbal@js.com
Irfan Iqbal	(92-21) 32799502	irfan.iqbal@js.com
Ahmed Abdul Rauf	(92-21) 32799518	ahmed.rauf@js.com
Abdul Aziz	(92-21) 32799507	abdul.aziz@js.com
Irfan Ali	(92-21) 32462567	irfan.ali@js.com

Main Office

6th Floor, Faysal House,
Main Shahrah-e-Faisal
Karachi. Pakistan
Tele: 92-21-111-574-111
Fax: 92-21-32800163-66
Website: www.js.com

KSE Office

2nd Floor, Room No. 75,
Karachi Stock Exchange Building,
Stock Exchange Road, Karachi.
Tele: 92-21-32425692 (2427458)
Fax: 92-21-32418106

Lahore Office

307 – Upper Mall,
Lahore – 54000
Pakistan
Tele: 92-42-111-574-111
Fax: 92-42- 5789109

Islamabad Office

Chaudhary Plaza, 65 West,
Fazal-e-Haq Road, Blue Area
Islamabad, Pakistan.
Tele: 92-51-111-574-111
Fax: 92-51-2806328

JS Global Capital Limited

JS Global

ANALYST CERTIFICATION

I, Syed Atif Zafar, the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.