

July 01, 2009

Pakistan Market

FY09: A year of trauma



KSE100 Index: Closing 7162.18 ↓ (-43.99)

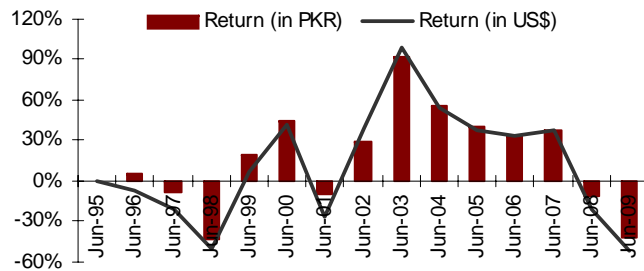
The fiscal year 2009 turned out to be the most difficult year in the last decade, market capitalization reduced by 53% to US\$26bn from US\$55.2bn. KSE-100 index remained the worst performing markets among its peer and recorded a decline of 42% vs regional markets, which on average fell by 6% last year.

The fundamental reasons for fragile performance was weak economic growth, lack of liquidity and deteriorating political and security situation in the country. Investor's confidence was shook by surprise imposition of price floor for three and half months by apex regulator and hence resulted into mass exodus of foreign portfolio investments from equity market. Offshore funds withdrew US\$445mn during FY09. The underperformance remained broad based as banks and auto sector underperformed massively relative to Power and E&P sector.

Politics and economy drives market down 53%

As against a historical 5 year (FY04-08) CAGR of 33%, market capitalization in FY09 succumbed to highest annual decline of 53%, with KSE-100 Index down 42%. Moreover, amid domestic turmoil, regional markets also outperformed KSE by a considerable distance.

Graph: Historical KSE returns

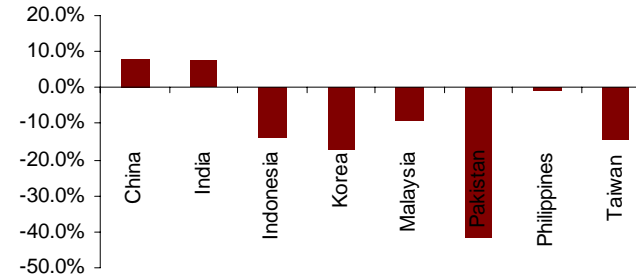


Source: KSE

Deteriorating economic situation, political and security concerns and longevity of the price floor weakened market's

fundamentals. Resultantly, Pakistan was removed from MSCI Emerging Market Index in Dec 2008, though subsequently added to the MSCI Frontier Index in May 2009.

Graph: KSE versus regional markets in FY09



Source: Bloomberg, KSE

Net foreign selling at a record US\$445mn

Global financial crisis, imposition of price floor and Pakistan's exclusion from the MSCI Emerging Market Index saw record foreign selling during FY09. Offshore investors bought shares worth US\$678mn and offloaded share worth US\$1.1bn, resulting in net selling of US\$445mn. Foreigners, who held shares worth US\$3.6bn at the start of FY09, are now estimated to have holdings of US\$1.2bn on account of eroding share values and divestment of shares.

Power and E&Ps fared better; banks underperform

While local market turmoil swept all and sundry, Power generation and E&P sector fared marginally better on the back of currency devaluation and higher realized gas prices. Market capitalization fell by 30% and 44%, respectively versus 53% for overall KSE. In contrast, high correlation with local economy, saw banks slightly underperformed (down 57%) amid investors concern on banking asset quality. concerns of higher NPLs and slowing offtake.

Amongst the key JS Universe scrips, HUBCO and FFC were the top performers with an annual return of 3% and 2%, respectively while WorldCall Telecom, Bank Alfalah and Faysal Bank were the worst performers during the year.

Stock Market Outlook: Positive

We remain bullish on the market and expect Cements, OMCs and Autos to stage a strong recovery in FY10 resulting in an overall corporate earnings growth of 19%. We believe re-entry into MSCI radar, improved global liquidity, a 300bps cut in policy rate and better law and order situation would be major drivers for equity markets. We are 'Over-Weight' on E&Ps, Power, Fertilizers and Telecom.

Table: Top performers amongst key JS Universe scrips

Company Name	Return	Performance Relative to Index
Hub Power Co.	2.9%	44.7%
Fauji Fertilizer Co.	2.4%	44.1%
Kot Addu Power	-0.6%	41.1%
Attock Petroleum	-4.6%	37.1%
Engro Polymer	-8.6%	33.1%

Table: Worst performers amongst key JS Universe scrips

Company Name	Return	Performance Relative to Index
WorldCall Telecom	-82.8%	-41.1%
Bank Al-Falah	-70.4%	-28.7%
Faysal Bank	-68.2%	-26.5%
Adamjee Insurance	-64.9%	-23.2%
Bank of Punjab	-64.7%	-23.0%

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