

July 01, 2010

Pakistan Market

Performance of key JS Universe stocks in 2Q2010

MORNING BRIEFING

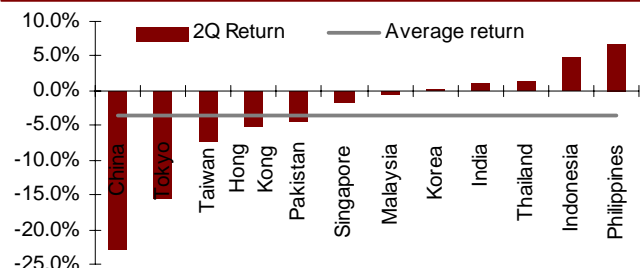


KSE100 Index: Closing 9721.91 ↑ (+19.88)

The KSE-100 Index endured a loss of 4.5%QoQ during the 2Q2010, after witnessing gains in each of the preceding 5 quarters (average return of 12.1%). However, the lackluster market performance was nearly at par with regional equity markets, as they were down by an average 4%QoQ as well. Investor activity at the local bourse remained sluggish during the period, and the average daily volumes declined by 22%QoQ to an 8 year low (excluding price floor). Despite the general downcast sentiments, Indus Motor (INDU) and Oil and Gas Development Company (OGDC) made significant gains during the period under review following substantial foreign interest in the scrips. On the contrary, cement stocks lagged behind given concerns over the companies' short term profitability outlook amid shrinking margins.

We present the stock-wise performance of JS universe companies in 2Q2010 (see table) and highlight aberrations during the period under review. Stock returns have been adjusted for cash dividends, bonus and rights issue.

Regional markets return in 2Q2010



Source: KSE & Bloomberg

Leaders: Autos and a selected few

Auto scrips stood apart during 2Q2010 as INDU and Pak Suzuki (PSMC) outperformed the market by 31% and 5% respectively, on the back of a sharp recovery in volumetric sales (39%YoY in 11MFY10). OGDC, which outdid the Index by 16%, rallied on substantial foreign interest witnessed

Performance of JS Universe stocks in 2Q2010			
S. No.	Name of Company	Return	Performance Relative to Index
1	Indus Motors	26%	31%
2	Oil & Gas Devp. Co.	11%	16%
3	National Refinery	1%	6%
4	Pak Suzuki Motors	0%	5%
5	Fauji Fertilizer Co.	-2%	2%
6	Fatima Fertilizer Co.	-4%	1%
7	Allied Bank	-5%	-1%
8	National Bank of Pakistan	-5%	-1%
9	Pakistan Petroleum	-6%	-1%
10	MCB Bank	-6%	-1%
11	Packages	-6%	-2%
12	Hub Power Co.	-7%	-2%
13	P.T.C.L.	-7%	-2%
14	KAPCO	-7%	-3%
15	Pakistan Oilfields	-8%	-3%
16	United Bank Ltd	-9%	-5%
17	Habib Bank	-12%	-8%
18	Engro Corporation	-13%	-9%
19	Shell Pakistan	-15%	-11%
20	Pakistan State Oil	-16%	-12%
21	Fauji Fertilizer Bin Qasim	-17%	-12%
22	Faysal Bank	-17%	-12%
23	Attock Petroleum	-18%	-14%
24	Sui Northern Gas	-20%	-15%
25	Nishat Chunian	-21%	-17%
26	Bank Al-Falah	-23%	-19%
27	Nishat Mills	-23%	-19%
28	Lucky Cement	-24%	-19%
29	Sui Southern Gas	-25%	-20%
30	D.G. Khan Cement	-25%	-20%
31	Lotte Pakistan	-26%	-22%
32	Adamjee Insurance	-27%	-22%
33	Pakistan Refinery	-27%	-22%
34	I.C.I. Pakistan	-27%	-22%
35	NIB Bank	-27%	-23%
36	Askari Bank	-28%	-24%
37	Fauji Cement	-30%	-26%
38	Attock Refinery	-30%	-26%
39	Maple Leaf Cement	-31%	-26%
40	Engro Polymer	-33%	-29%
41	Lafarge Pakistan	-40%	-36%

Source: KSE & JS Research

during the said period. It is worthwhile to note, that as a result, OGDC's weight in the KSE-100 has now increased to 24.6% from 21.3% on Mar 31, 2010.

Cements were major laggards

The cement scrips after being amongst the key outperformers in the preceding quarter were a major disappointment during 2Q2010. Despite improved local off-take, inability to pass through a significant increase in energy costs due to a supply overhang, raised investor concerns on their profitability outlook.

Outlook

We remain upbeat on the Oil, Power, Telecom & Fertilizer sectors, and flag PPL, POL, PSO, HUBCO, PTC, ENGRO and NML as potential outperformers.

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Also in focus

Export financing rates raised by 0.5%

In a circular issued yesterday, the SBP has raised the export financing rate by 0.5% to 8.5% (effective July 1, 2010). Moreover, the banks have been informed that their maximum margin should not exceed 1%, thereby taking the rate for the end user to 9.5%.

We believe this to be a negative for companies availing such a facility, in particular, the textile companies. Based on our initial estimates, we expect Nishat Mills Limited (NML) and Nishat Chunian Limited (NCL) to incur additional finance costs of Rs13mn and Rs12.2mn, eroding companies' FY11 earnings by Rs0.03 and Rs0.08 per share, respectively. At current levels, we maintain 'Buy' on NML and NCL.

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