

June 01, 2010

Pakistan Market

Market fall not fully reflective

MORNING BRIEFING



KSE100 Index: Closing 9326.42 ↓ (-194.73)

Pakistan Market has fallen by 13% from its recent peak of 10,677 points on April 15, 2010. However, this decline doesn't fully reflect the true picture as OGDC, Unilever (ULEVER), and NESTLE have remained resilient due to heightened degree of foreign interest. Excluding these from the Index and adjusting the weight of the remaining 97 companies, we estimate the current Index level to be at 8,884, 17% down since the April peak. Though valuations at current levels are extremely attractive (FY11 PE of 6.6x & PBV of 1.3x), excluding the heavy weight out performer, OGDC from our sample, these would further strengthen as FY11 PE would go down to 6.0x.

Market at 45% –58% discount to regional peers

Post the latest downturn, KSE is trading at one year forward PE of 6.6x, a 45% discount to the regional peers, which is significantly higher than the historical avg. of 33%. The discount widens to 58% if we compare it with the MSCI Frontier Asia, which trades at FY11F PE of 15.7x. Moreover, if we remove OGDC from our sample, regional & Frontier Asia discounts would climb to 50% and 62%, respectively.

Pakistan market valuation

	2010E	2011F
JS Universe		
Price to Earnings (x)	8.0	6.6
Price to Book (x)	1.5	1.3
Dividend Yield (%)	7.0%	8.8%
JS Universe excl. OGDC		
Price to Earnings (x)	7.3	6.0
Price to Book (x)	1.1	1.0
Dividend Yield (%)	7.7%	9.2%

Source: JS Research

Cements and Banks remain key underperformers

In the ongoing market descent, cement and banking stocks have remained the key underperformers. The fall in cement stocks was triggered by a combination of lower

Performance of KSE-100 Index Companies (Apr 15 - May 31, 2010)

Sr. No	Company Name	Return	Sr. No	Company Name	Return
1	Jahangir Siddiqui	-50%	51	Engro Corporation	-17%
2	Lafarge Pakistan	-44%	52	Habib Bank Ltd	-17%
3	Pak Reinsurance	-44%	53	Shell Pakistan Limited	-17%
4	Pace (Pak) Ltd.	-41%	54	Kohinoor Energy	-17%
5	EFU General Ins.	-40%	55	Dreamworld Limited	-17%
6	Bank Of Punjab	-36%	56	Abbot Laboratories	-17%
7	Fauji Cement	-36%	57	Netsol Technologie	-16%
8	WorldCall Telecom	-35%	58	Pak Telephone Cables	-15%
9	NIB Bank Limited	-35%	59	National Refinery Ltd.	-15%
10	KASB Bank Ltd.	-33%	60	Sui Southern Gas Co	-15%
11	EFU Life Assurance	-32%	61	Attock Cem.Pak.Ltd	-15%
12	Askari Bank Ltd.	-31%	62	Atlas Honda Limited	-15%
13	Gharibwal Cement	-31%	63	New Jubilee Insurance	-14%
14	D. G. Khan Cement	-31%	64	Packages Limited	-13%
15	Bata Pakistan Ltd.	-31%	65	Kot Addu Power	-13%
16	PICIC Growth Fund	-30%	66	AL-Ghazi Tractors Ltd.	-13%
17	Lotte Pakistan PTA	-30%	67	Allied Bank Limited	-12%
18	Arif Habib Sec Ltd	-29%	68	Fauji Fertilizer Co. Ltd.	-12%
19	Pakistan Refinery Ltd.	-29%	69	Pak Elektron Ltd.	-12%
20	Attock Refinery Ltd.	-29%	70	IGI Insurance Limited	-12%
21	Dawood Hercules	-28%	71	Pakistan Oilfields Ltd.	-12%
22	PNSC	-26%	72	PTCL	-11%
23	Bank Al-Falah Limited	-26%	73	Pak Petroleum Ltd.	-11%
24	Adamjee Insurance	-26%	74	Pakistan Tobacco Co.	-10%
25	Faysal Bank Limited	-26%	75	Siemens Pakistan	-9%
26	Lucky Cement Limited	-26%	76	Pak Suzuki Motor Co	-9%
27	PIA	-26%	77	Grays Of Combridge	-8%
28	Sonari Bank Limited	-25%	78	Hub Power Company	-8%
29	Azgard Nine Ltd.	-25%	79	Clariant Pakistan	-8%
30	Unilever Pak. Foods	-24%	80	Sui Northern Gas Ltd.	-8%
31	Engro Polymer	-24%	81	Pak.Int.Con.Ter.Lt	-8%
32	Nishat Mills Ltd.	-23%	82	International Industries	-6%
33	KESC	-23%	83	Nestle Pakistan Ltd.	-6%
34	Fauji Fert, Bin Qasim	-22%	84	Lakson Tobacco Co	-6%
35	Royal Bank of Scotland	-22%	85	Pakistan Cables Ltd.	-6%
36	I.C.I Pakistan Ltd.	-21%	86	Murree Brewery	-6%
37	Security Paper Ltd.	-21%	87	Ghani Glass Mills	-4%
38	TRG Pakistan	-20%	88	Javedan Cement Ltd.	-3%
39	Glaxosmithkline (Pak)	-20%	89	Pakistan Services Ltd.	-3%
40	Pakistan State Oil	-20%	90	Oil & Gas Dev.Co	-2%
41	National Bank	-19%	91	Ibrahim Fibre Limited	-2%
42	MCB Bank Limited	-19%	92	Millat Tractors Ltd.	0%
43	Meezan Bank Ltd.	-18%	93	Media Times Ltd	0%
44	Colgate Palmolive	-18%	94	East West Insurance	0%
45	Attock Petroleum Ltd	-18%	95	Rafhan Maize Products	1%
46	United Bank Ltd.	-18%	96	Bank AL-Habib Limited	3%
47	Bestway Cement Ltd	-18%	97	Indus Motor Company	10%
48	Stand.Chart.Bank	-17%	98	Unilever Pakistan	11%
49	Habib Metropolitan	-17%	99	Shifa International	12%
50	Marl Gas Company	-17%	100	Thal Limited.	20%

Source: KSE, * based on market capitalization

retention prices and soaring coal prices, whereas banking stocks were under pressure due to news flow regarding increase in corporate tax for the sector. In contrast, E&P and Auto stocks remained resolute on the back of foreign interest.

Blue chips at compelling valuation

The recent free fall has seen blue chips such as PSO, ENGRO, NML, MCB and UBL take a battering (average decline of 19%), hence driving their valuations to compelling levels. Given their sound business model & strong growth potential, we feel investors should take a keen look at these stocks. In addition, we also recommend investors to accumulate defensive picks including HUBC, PPL, FFBL, and FFC on the back of attractive dividend yields and lower degree of volatility in the earnings profile.

FY11 key valuations

	PE (x)	Div. Yield
PSO	4.2	9.4%
ENGRO	7.6	5.8%
NML	4.9	8.8%
MCB	6.9	6.5%
UBL	4.8	7.0%
HUBC	5.8	16.2%
PPL	5.4	12.0%
FFBL	6.4	14.1%
FFC	7.3	13.5%

Source: JS Research

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