

November 02, 2009

Pakistan Market**IMF third quarterly review****MORNING BRIEFING**

KSE100 Index: Closing 9159.18 ↓ (-9.82)

IMF staff and Pakistani authorities are meeting in Dubai from November 2nd-12th, 2009 to assess the countries quantitative and structural performance for the quarter ended September 2009. Our initial assessment of the targets vs actual indicates that Pakistan has met most of its quantitative targets, with the exception of the fiscal deficit target. IMF had set budget deficit at around 1.3% for the quarter, but dismal tax collections and higher security related expenditure will lead to a higher deficit for the period, in our view. On successful completion of the review, Pakistan is expected to receive around US\$1.2bn, out of which US\$466mn is earmarked for the budgetary support.

Relatively better quarterly macro data

In term of security and law & order situation, the last quarter was the worst. However, macro data has depicted a continuous improvement in the period under review. Pakistan's current account deficit shrank to US\$462mn in 1QFY10 compared to US\$4.2bn reported in the corresponding period last year. Inflation improved from 13.1% in June to 10.1% in September, while, underlying (core) inflation has come down to 11.9% from 15.9% in June 2009. This should provide room for SBP to further ease the monetary stance. On the flip side, the revenue collection for the period under review remained depressed and came in at Rs258bn down 1.32%YoY.

Significant progress was made in terms of structural criteria

Compared to the 2nd review, we believe, staff authorities will be pleased by the Pakistani authorities as they have made a substantial progress towards meeting structural criteria. These reforms are as follows:

- Authorities have increased the electricity tariff by 6% despite the serious law & order situation which persist in the country. Since July ~100 suicide attacks witnessed in the country.

- Parliament is expected to approve the Banking Companies Ordinance. Moreover, inline with the IMF directions, SBP has initiated the phasing out of the interest rate subsidies from Export Financing Scheme.
- Lastly, significant progress has been made on the taxation side. FBR has formed the "Inland Revenue Department", where income, sales and excise taxation services will be consolidated.

What can we expect from the IMF review?

Unlike the last review, we believe IMF will release the next tranche of US\$1.2bn and provide a waiver on the fiscal deficit slippage. Encouragingly, this tranche will include US\$466mn budgetary support loan, which will help boost liquidity and development expenditure. On the interest rate front, we expect IMF will give a go ahead to SBP for further rate cuts on the back of 1) external slow down in domestic economy and 2) contained external deficit. We expect SBP to cut 1ppt each in November and January reviews.

muzzammil.aslam@js.com

92 (21) 111-574-111 (ext. 3035)

Also in focus**NBP posts EPS of Rs9.34, down 21% YoY**

National Bank of Pakistan announced its 9M2009 results today. The company reported profits of Rs10.1bn (EPS Rs9.34) as against earnings of Rs12.7bn (EPS Rs11.8), down 21%YoY. The decline was mainly on account of lower non interest income, higher provisioning and rising administrative charges. Net interest income was recorded at Rs28.7bn, up 6%YoY, on the back of higher interest rates and spreads in the current period. However, 31%YoY increase in provisions continued to dent the bottom line. Non interest income was down 11%YoY – on account of lower dividend income from NIT. Further, admin & other charges were recorded at Rs16.2bn, +17%YoY, and continued to dampen profitability. We currently have a 'Hold' stance on the scrip, which trades at a 2009E PE and PBV of 6.5x and 0.8x.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 32799005

Fax: +92 (21) 32800163

js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44

Fax: +92 (21) 32800165

tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513

Fax: +92 (21) 32800166

junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005

Fax: +92 (21) 22800163

azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS