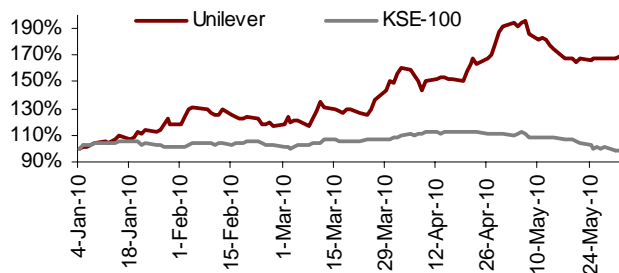


June 03, 2010

Pakistan Market**FMCGs: Are valuations justified?**

Albeit, we do not have coverage on Unilever Pakistan (ULEVER) but post its stellar performance on the bourse since Dec 2009, we are compelled to review the scrip. The stock commendably shot up by 72%YTD to Rs3,951, in between hitting a peak of Rs4,540 on May 6th 2010. On the contrary, the local bourse inched up by a mere 1% during the same period. Keen foreign interest drove a rally in the scrip, leading it to outperform the benchmark index by 71%. Given its substantial price to earnings (PE) and higher price to sales (PS) multiple, the investors are persistently inquiring whether its current price is justified or not?

Unilever & KSE-100 relative performance

Source: KSE

ULEVER at par to its historical regional discount

For our regional comparison, we have taken a sample of six Indian FMCG companies assuming both the countries share similar demographics and are relatively under penetrated. Historically, Unilever has traded at 30% and 60% discount to Indian market's PE and PS multiples. Based on 2009's trailing PE and PS, the scrip still currently trades at 32% and 63% discount, which highlights the fact that the current valuation is at par to the historical level. Therefore, we believe it has exhausted its potential for further over performing the bourse. However, we opine investors who are seeking to take exposure in the FMCGs to consider higher growth potential companies like Engro Foods (a subsidiary of Engro Corp.).

While Engro Foods is an unlisted entity, taking exposure in the company via Engro Corp remains an attractive proposition. In particular, the recent dip in the scrip price has made valuations extremely enticing.

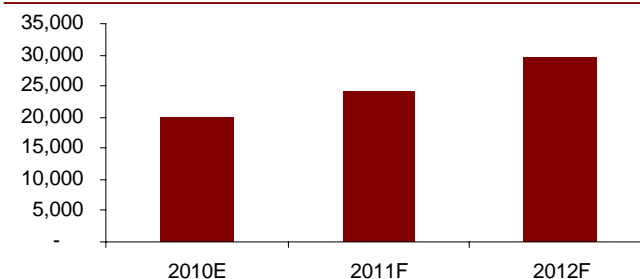
Comparison with Indian peers

	PE (x)	PS (x)
Unilever Pakistan	17.1	1.4
Nestle Pakistan	22.8	1.7
Colgate-Palmolive India Ltd	21.2	4.7
Nestle India Ltd	37.5	4.8
Britannia Industries Ltd India	37.0	1.0
Hindustan Unilever Ltd	24.2	2.9
Procter & Gamble & Health Care Ltd India	16.3	3.8
Dabur India Ltd	27.3	4.1

Source: Bloomberg & JS Research

Engro Foods: Attractive at current PS

Engro Foods was incorporated in 2005 with a dairy business while, diversifying into ice cream business last year, acquiring 39% and 11% of the market share, respectively. At present, it is all set to launch its fruit juices in the market this month with further plans of diversification in the pipeline. We expect the company to post 3 year (2010-12) topline CAGR of 26%. At present, Engro Foods already constitutes 25% of Engro Corp's sales revenue and proceeding on, we estimate the share to rise to 31% by 2014.

Engro Foods revenue (Rs mn)

Source: JS Research

MORNING BRIEFING

KSE100 Index: Closing 9499.06 ↑ (+204.88)

Our valuation for Engro Foods of Rs65 per share in Engro Corp. uses PS methodology with justified PS ratio of 1.1x. This is significantly lower than the average PS ratio of locally listed FMCGs, Unilever & Nestle which are currently trading at 1.4x and 1.7x (discount of 21% and 35%), respectively. Although, Engro Corp currently offers a 35% upside to our valuation of Rs235 per share, a possibility of enhanced valuation for Foods, if it gets listed in the future adds more to Engro Corp's attractiveness. Thus, we recommend investors interested in FMCGs to take exposure in Engro Foods via Engro Corp.

rabia.tariq@js.com

92 (21) 111-574-111 (ext. 3119)

Also in focus**Margin Financing approved by law ministry**

In a positive development, law ministry yesterday cleared the draft for the long awaited Margin Financing product, handing it over to the regulator. The draft is now expected to be put up on the regulator's website for a period of 2-3 weeks to seek stakeholder feedback, before a final version is approved. According to news reports, notification regarding the matter is expected to be issued within the next couple of days. Launch of this product is widely believed to increase liquidity and boost volumes at the stock market.

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