

May 04, 2010

**Pakistan Market****Positive vibes surrounding circular debt issue****MORNING BRIEFING**

KSE100 Index: Closing 10389.46 ↓ (-38.66)

The Government of Pakistan's (GoP) announcement of providing Rs116bn to clear the backlog of the inter-corporate debt at the conclusion of the Energy Summit has started to take some shape. The GoP has already released ~Rs16bn to Pakistan State Oil (PSO), with Rs70-75bn expected to be injected into the system before the fiscal year-end. Moreover, another round of TFC or a Sukuk issue is under consideration to finance the remaining shortfall. Initially apprehensive, we now believe payment of the accumulated inter-corporate debt before June 2010 is a strong possibility. Concerns however remain on the debt build up, owing to a delay in the 6% power tariff hike and commissioning of expensive rental power plants.

**CSF fund to aid in circular debt issue**

With the payment of Rs15.6bn to Pakistan State Oil (PSO) over the weekend, we believe, efforts to resolve the circular debt before the fiscal year-end (as promised) have truly begun. Receipt of US\$457mn from the US under the Coalition Support Fund (CSF) and lower than budgeted utilization of the Public Support Development Program (PSDP) should provide the government the required liquidity to infuse an additional Rs70-75bn to the system. The remaining Rs20-25bn shortfall is expected to be bridged through another TFC or Sukuk issue. This would add up to Rs116bn declared needed, to resolve the inter-corporate debt at the Energy Summit.

**Delay in Power tariff hike: still a concern?**

We believe, this payment would not be the final settlement as accumulation of circular debt will continue to occur due to the government's failure to raise the power tariff by 6% on April 01, 2010 and commissioning of expensive rental power plants. According to our estimates, the delay in the 6% power tariff hike is likely to add a monthly burden of Rs2.6bn on the government. However, we expect after the clearance of the backlog of the inter-corporate debt, this amount should remain under manageable limits.

**Outlook: Circular debt concerns diminishing**

The resolution of the circular debt issue soon, is likely to come as much needed relief to the energy sector of Pakistan. We view PSO, HUBCO, KAPCO, OGDC and the refineries to be the biggest beneficiaries if this comes about. We again highlight the need for the government to raise the power tariff, especially after the unexpected pressure to curtail gas supplies to the fertilizer sector to deal with the power crisis, which in turn has forced the government to provide a subsidy on imported urea to meet the anticipated shortfall. If raised, should further relieve investor fears felt over the circular debt issue.

**Energy Sector: Top pick's key statistics (FY11F)**

Company Name	PE (x)	PBV (x)	Div. Yield (%)
Pakistan State Oil	5.2	1.7	7.6%
Pakistan Petroleum	5.7	1.9	11.3%
Pakistan Oilfields	5.9	1.7	10.1%
Hub Power	6.2	1.3	15.2%

Source: JS Research

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**Also in focus****10MFY10 tax collection rises to Rs1,028bn**

Provisional tax collection figures released by FBR show collection rising to Rs1,028bn for the first ten months of the fiscal year, as against a target of Rs1060bn. In April alone, tax collection stood at Rs116bn, falling short by Rs5bn of its target of Rs121bn. This now leaves the FBR with an ambitious target of collecting Rs320bn in the next two months, to meet the full year target of Rs1,380bn.

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