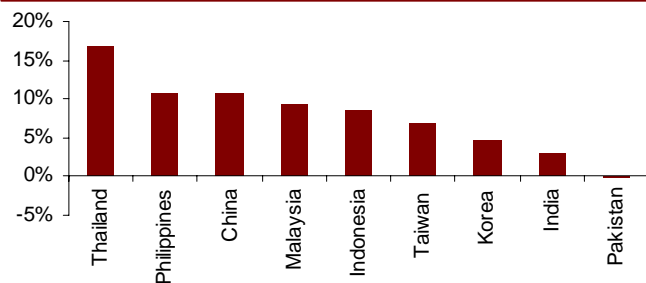


KSE post Eid (feast): History's post-mortem & outlook KSE100 Index: Closing 9,703.06 ↓ (-59.83)

The KSE-100 Index since the beginning of Ramadan has shed 2% and witnessed average daily volumes of 49mn shares, down 35%MoM. The reasons are largely known to everyone; devastating floods, an unreached consensus on the proposed Margin Trading System (MTS) and lack of clarity on CGT. However the question arises, will conditions improve or persist after Eid? Data analysis of the past 10 years has revealed that the market has gained an average 1% and 3% after the first week and month of Eid respectively, with volumes improving by 74% and 54%. We believe, continuous efforts by the KSE members to reach a resolution on the MTS issue, the outcome of the IMF's fifth review and the policy response by the government against the havoc caused by the floods may ease investor concerns, post Eid. We highlight the importance of defensive plays (HUBC, FFC and FFBL) during this volatile period, and also recommend fundamentally strong stocks (PPL, ENGRO, LUCK and UBL) which are available at attractive valuations.

Regional performance comparison since July 1, 2010



Source: KSE & Bloomberg

Local bourse subdued as region recovers

Post the Greece crisis, regional markets have rebounded as they gained 9% on an average since July 1st, whereas the local bourse failed to gain any sort of momentum, being plagued by the internal issues mentioned above. However, foreigners have continued their buying spree at the KSE

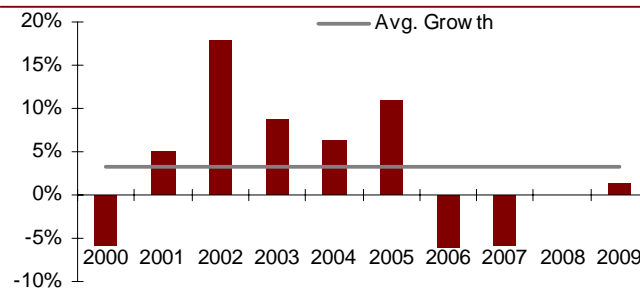
during this period with net investments of US\$90mn, taking YTD investment to US\$367mn.

Volumes too have dried up, as only an average 62mn shares have been traded daily since July 1, 2010 compared to an average 150mn shares in 1H2010 with the imposition of CGT being the most principal factor.

Post Eid historical market facts

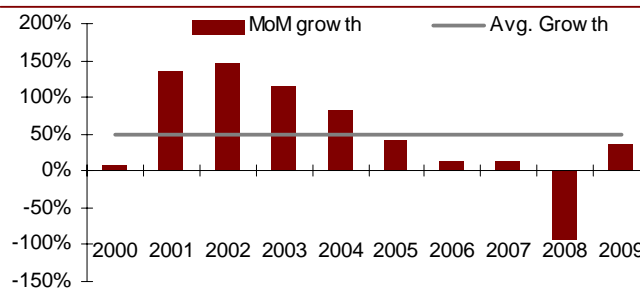
A 10-year data analysis of the market's performance post the Eid Holidays has revealed that the market has gained an average 1% during the first week and 3% in the first month after these. Further, average daily volumes too have picked up by an average 54% during this first month, as trading hours normalize after the shorter trading sessions during Ramadan.

KSE: Historical performance in the 1 month after Eid



Source: KSE * 2008 - price floor period

KSE: Historical volumes in the 1 month after Eid



Source: KSE * 2008 - price floor period

Outlook: Defensive may be the best strategy

We believe the outcomes of a number of pivotal events such as the decision on MTS and the IMF fifth review would dictate investor actions going forward. Moreover, clarity on actual flood losses and the flow of foreign disbursement for rehabilitation and reconstruction should ease investor concerns. So far, none of the official estimates and surveys unveil the exact value of flood losses and a policy action to correct macro economic imbalances is still awaited thereby keeping investors at bay.

Presently, the KSE is trading at a discount of 46% to the region compared to its historical discount of 33%. However, due to the prevailing uncertainty over numerous issues, we recommend going for defensive plays, such as HUBC, FFC, and FFBL, which offers dividend yields higher than that of the one year T-bill rates. Moreover, we remain bullish on fundamentally sound stocks such as PPL, ENGRO, LUCK and UBL.

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