

June 11, 2010

Pakistan Market**Low volumes a phenomenon at the Pak bourse solely? KSE100 Index: Closing 9379.78 ↓ (-298.60)****MORNING BRIEFING**

atif.zafar@js.com

92 (21) 111-574-111 (ext. 3118)

Also in focus**Remittances cross US\$8bn mark**

Remittances in the month of May climbed 5%YoY and were recorded at US\$758mn, taking the cumulative figure for 11MFY10 to US\$8.1bn. The same figure stood at US\$7.1bn in the corresponding period last year. Remittances have crossed the US\$8bn mark, a historical first in any fiscal year, and this impressive growth continues to be the key factor behind containment of the current account deficit.

With all eyes on the steepest fall of the year (299 pts) yesterday, we would also like to highlight the abysmally poor volume turnover at the local bourse off late. After scouring the region, we concluded this is something not only confined to the domestic market only. The Greece debt crisis and China's monetary tightening have been key reasons behind the dulling of investor activity both locally and regionally. In addition, confusions surrounding the modalities of the capital gain tax (CGT), lack of concrete developments on providing a leveraged product and discontent in some quarters over the recently announced budget have played their part domestically too.

Nevertheless, from a valuation perspective the market appears highly attractive. It trades at an FY11F PE of 6.6x, a discount of 45% to the region compared to its historical average of 32%. Moreover, with KSE offering an FY11F dividend yield (DY) of 8.8% and a few stocks available at a DY higher than the average one year t-bill rate, investors should look to accumulate these attractive defensive plays as well, given the volatility in the local bourse.

KSE volumes at 9 year low (ex price floor)

Pakistan: Average daily volumes so far in 2010, have averaged 158mn shares (US\$67mn) – down 8% from last year - plummeting to a 9 year low (ex price floor period).

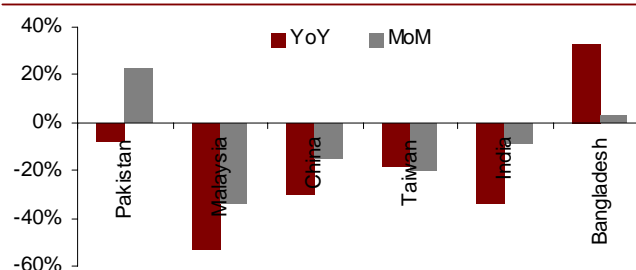
Malaysia: Volumes have fallen by 53% so far in 2010, compared to its last year's average. Moreover, on a MoM basis volumes are down 34%.

China: In 2010 so far, volumes have gone down by 30%, while for the month of June they have averaged 15% lower than the preceding month.

Taiwan: Volumes have suffered by 18%YoY in 2010 and 20%MoM in June 2010.

India: Volumes for the year are down 34%YoY and 9%MoM in June.

Sri Lanka and Bangladesh: These two markets on the other hand have seen volumes rise by 155%YoY and 33%YoY, respectively. The key triggers behind the above par performance appear to be the return to a democratic set up and entry into frontier markets for Bangladesh, and an improved security situation post defeat of the Tamil Tigers for Sri Lanka.

Regional volumes comparison

Source: Reuters

Reasons other than Greece concerns:

CGT modalities: Though the mechanism for CGT was broadly inline agreed upon with the KSE, imposition of advance tax on capital gains on a quarterly basis has been a major surprise and an irritant for investors along with lack of clarity on a few issues.

Leverage product missing: Despite approval of the margin financing draft by the law ministry last week, availability of any leverage product in the market appears distant at most.

Discontent over budget: Investors remain confused on the potential imposition of VAT.

KSE at 45% discount to the region

With the market trading at an attractive FY11F PE of 6.6x, a deep discount of 45% to regional markets, we reiterate our liking for the KSE. Remaining upbeat on the Oil, Power, Telecom & Fertilizer sectors, we flag PPL, POL PSO, HUBCO, PTC, ENGRO and NML as potential out-performers.

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) 32800163

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