

November 13, 2009

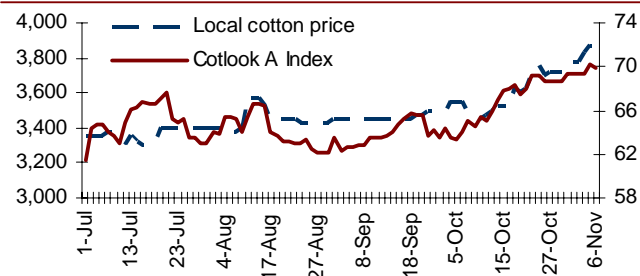
Pakistan Market**Textile: Cotton price outlook****MORNING BRIEFING**

KSE100 Index: Closing 8924.24 ↑ (+8.06)

Amid shortage in world cotton production, demand for local cotton and yarn in the international market is on the rise; hence the recent hike in the domestic cotton prices. As per the International Cotton Advisory Committee, world cotton production is expected to fall by 5% to 103mn bales. China's cotton production is likely to hit the most with cotton production expected to decline by 16%YoY due to lower acreage and unfavorable climate conditions. Domestic cotton prices currently stand at Rs4,000 per maund. Looking at the international cotton market, the Cotlook A index is currently hovering around 70 cents per lbs or Rs4,800 per maund.

Local cotton prices around Rs4,000 per maund

Although on an average basis prices have depicted a decline of 9%YoY to Rs3,467 per maund, cotton prices have picked up pace over the last couple of months and currently stand at around Rs4,000 per maund. With increasing demand from international players, like China and India, we can expect the prices to hover in the range of Rs4,000-4,100 per maund despite an 11% production growth expected in FY10.

Graph: Cotlook A versus local cotton price

Source: JS Research, Thomson Reuters

Currently, international cotton prices are hovering around 70 cents per lbs or Rs4,800 per maund. Relatively lower domestic cotton prices have allowed international cotton buyers to remain active in the local market. As a consequence, local prices have already jumped by 21% since

July 2009. However, ongoing talks regarding the ban on exports of cotton and yarn have somewhat eased pressure on the rising cotton prices.

Cotton arrivals expected at 12.5mn bales in FY10

Increased usage of new BT cotton seed has allowed high levels of cotton production during the current fiscal year. The government has set a target of 12.5mn bales for the current fiscal year as compared to 11.3mn bales last year. As per the latest numbers released by Pakistan Cotton and Ginner Association (PCGA), cotton arrivals have depicted a 40%YoY increase to 7.3mn bales. Though recent numbers have been encouraging, cotton experts still believe cotton production to fall below the government's target of 13.3mn bales

Outlook: Cotton prices to remain high

With increasing demand from international buyers we expect domestic prices to remain high. Domestic cotton prices have already surged by 21% since the start of the current fiscal year. This formidable rise could further hurt margins of the local textile units going forward.

The textile company under our coverage is Nishat Mills Limited (NML). At current levels we maintain our 'Buy' call on NML due to its strong equity portfolio (valuing at Rs67 per share) and materialization of the maiden textile policy for the country. The stock is currently, trading at FY10E and FY11F PE of 7.0x and 6.2x respectively.

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Also in focus**IMF encouraged by signs of recovery**

IMF, which is conducting negotiations with Pakistani officials on the third review, has passed a statement indicating that while risks remain in the economy, there are signs of recovery such as declining inflation and improving external deficit position. The discussions are expected to be completed shortly paving the way for the release of the 4th tranche of US\$1.2bn. The fund has so far disbursed US\$5.3bn over three tranches with the remainder US\$6bn to be received by Pakistan over the next 12 months.

Pakistan considering Eurobond sales

In an interview to Reuters, Shaukat Tarin stated that the government is considering tapping debt markets via an Islamic and/or Eurobond issue in the first half of next year. The issue is expected to be between US\$500mn and US\$1bn. The bond sale is to act as insurance to the funds promised by Friends of Pakistan which have yet to materialize.

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