JS Research

June 16, 2010

Pakistan Market

MORNING BRIEFING

Inter-corporate debt - some relief in the offering

KSE100 Index: Closing 9250.55 ↑ (+20.95)

The Prime Minister has directed that payments of Rs41.4bn be made to Pakistan State Oil (PSO) by the end of this month to clear some of the backlog of the impeding inter-corporate debt. Moreover, the suggested 9% power tariff hike for July, if comes through, will significantly slowdown further accumulation of the debt. We believe PSO, receivables of which have jumped to ~Rs130bn, along with OGDC and refineries to be the biggest beneficiaries of this payment while power generation companies (HUBCO and KAPCO) to significantly benefit from the expected power tariff hike. This should ease off investor concerns over the cash flow situation of the energy companies, as most have been facing difficulties in managing OPEX and maintaining historic payout levels. However, we believe one-time bullet payment of Rs90-100bn will be needed to completely clear the back-log of the debt.

Rs25bn expected by Friday

PSO, out of the Rs41.4bn promised, is expected to receive Rs25bn by Friday, while the remaining amount (Rs16.4bn) is likely to be received by the end of this month. The Ministry of Finance (MoF) will finance a major chunk of the payment (Rs31.4bn) by withholding a Rs8bn payment due to Sindh Government and recently received funds from the Coalition Support Fund (CSF). Moreover, the remaining Rs10bn is expected to be pumped in by PEPCO.

Possible 9% power tariff: another +ve

We believe, a 9% power tariff hike as suggested, if materializes should be another positive for the inter-corporate debt. Though a 9% hike will not be enough to equate the generation cost with the selling price, we see further accumulation to occur within manageable limits. Based on an FY11 oil price assumption of US$77, at least an 11% power tariff hike is needed to stem the accumulation entirely, going forward. This assumes no delays in disbursement of budgeted subsidy payments to PEPCO and WAPDA.

Outlook

The final resolution of the inter-corporate debt will come as much needed relief for the energy sector of Pakistan. PSO, HUBCO, KAPCO, OGDC along with refineries stand to benefit the most from the resolution of the said issue.

Key Statistics (FY11)

	PE (x)	Dividend Yield	PBV (x)
OGDC	8.3	8.3%	3.3
PSO	4.2	9.3%	1.4
HUBC	5.6	17.0%	1.2
KAPCO	6.8	14.1%	1.5
NRL	4.0	13.4%	0.6
ATRL	7.7	6.0%	0.5

Source: JS Research

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Also in focus

Foreign Investment down 15% in 11MFY10

Net flow of foreign investment in the country was down by 14.8%YoY to US$1.9bn in the first eleven months of the fiscal year. Foreign Direct Investment (FDI) dropped 39% to US$2bn in the period, while outflow in Portfolio Investment (PI) came down to US$134mn from US$1.1bn in the corresponding period. The key contributors for the decline in FDI were the 77% and 48% dip in net receipts from financial and telecommunication sectors. In April alone, FDI inflow stood at an impressive US$257mn while PI saw an inflow of US$87mn.

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