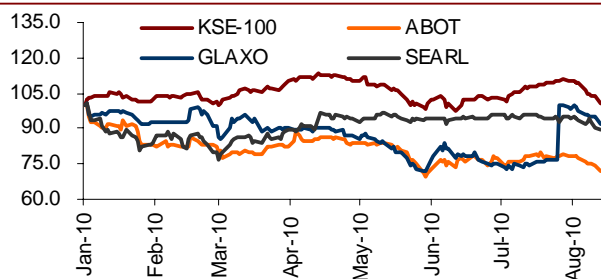


August 17, 2010

Pakistan Market**Pharmas: potential gains on the cards****MORNING BRIEFING**

KSE100 Index: Closing 9537.13 ↓ (-286.24)

Although, the damage done by the recent floods is massive, the market is trying to identify sectors which could potentially benefit from post flood activities. With 20mn people affected so far by the countrywide floods, we opine their rehabilitation and providing medical facilities to them is the top most priority for the government. Our argument of an expected rise in demand for medicines and medical equipment in the distressed areas suggests likely benefits for local pharmaceuticals are on the cards. Though, we do not cover pharmaceuticals and hence have no earning projections for these, we still flag them as potential gainers in the coming months. We have prepared a snapshot of the market performance of some key pharma companies trading at the local bourse:

Relative performance of KSE-100 versus Pharma cos.

Source: KSE & JS Research

ABOT: Mkt. Capitalization Rs8.3bn, free float 16%

ABOT, so far in its first quarter has performed commendably; posting an earning's growth of 72%YoY to Rs185mn. We anticipate this momentum to continue post the floods which call for necessary provision of health care products to the affectees. Currently, ABOT is trading at a 2010 PE of 11.3x (on an annualized basis), a 66% premium to the market compared to the 3 year average premium of 105%. Average traded volumes during the past 6 months were 9.6k shares with a free float of US\$183k (or 16%).

Glaxo: Market cap Rs12.9bn, free float 18%

Leading the industry in terms of value, volume and its prescription medicine market share, Glaxo is one of the stocks that could perform in the coming months. The company saw its revenues jump by 21%YoY to Rs4.7bn in 1Q2010. However, its bottom line registered a decline of 9%YoY to Rs360mn mainly due to higher marketing and administrative expenses. Nevertheless, being one of the market leaders in the anti bacterial segment, we believe its volumes could pick up once the rehabilitation for the flood affected commences. Glaxo currently trades at a 2010 PE of 8.9x (annualized) compared to its historical average of 16.2x. Average traded volumes of the scrip during the past 6 months stood at 16.8k shares.

Searl: Market cap Rs1.7bn, free float 45%

In 9MFY10, the company managed to report profit after tax of Rs248mn, a growth of 15%YoY. Higher sales during the period were the main reason behind growth in the bottom line. With a diversified product portfolio including anti malarial and gastrointestinal medicines, the company is likely to experience a surge in volumes post this calamity.

Searl is currently trading at an annualized FY11 PE of 5.1x (discount of 25% to the market) compared to the historical average PE discount of 22%. The stock has witnessed decent activity in the recent past, recording average volumes of 41.3k shares traded during the last 6 months.

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Also in focus**Foreign investment drops 18.5% to US\$144.8mn**

According to the data released by the State Bank, net foreign investment for the first month of the FY11 (July 2010) dropped by 18.5% to US\$144.8mn compared to US\$177.5mn in the same period last year. Out of the total foreign investment, Foreign Direct Investment (FDI) fell by 45.9% to US\$98.5mn primarily due to security issues and chronic power shortages prevalent in the country. However, Portfolio Investment figures were encouraging, as they registered a net inflow of US\$46.3mn compared to a net outflow of US\$4.4mn in July last year.

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