

January 19, 2010
Pakistan Market

MORNING BRIEFING



Textile: Positive outlook amid encouraging arrivals

KSE100 Index: Closing 9895.46 ↓ (-27.68)

With local cotton arrivals posting a decent growth of 19%YoY to 12.2mn bales (as of 15 January, 2010), textile sector is well set to benefit from the improved cotton outlook. Moreover, shortage in world cotton production (expected to fall by 5% during the year) has helped boost the demand for domestic cotton and yarn in the international market. In the wake of this shortage, in the international market both local and international prices have witnessed a significant increase of 35% and 27% since the start of the current fiscal year. This hike in the cotton price is unlikely to have any negative impact on Nishat Mills Limited (NML) as it buys most of the cotton at the start of the year. Currently, NML is trading at a FY10E and FY11F PE of 7.4x and 5.9x respectively; we give a 'Buy' call on the scrip.

19%YoY growth in cotton arrivals

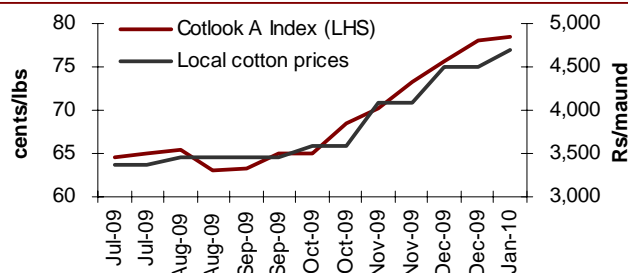
As per the latest data released by the PCGA (Pakistan Cotton and Ginner's Association), cotton arrivals have registered a decent growth of 19%YoY to 12.2mn bales. The increased usage of BT cotton seeds, especially in Sindh, has allowed cotton production to be high during the season. Taking account of these numbers and even more flows expected in the months to follow, we keep maintain our target for the arrivals in the range of 12.7-13.0mn bales against the government's revised target of 12.5mn bales for the current fiscal year.

Cotton prices on a surge

The increased demand from local and international buyers has driven local cotton prices to Rs4,675 per maund, an increase of 37%YoY. Given the high international cotton prices (currently hovering around 77 cents per lbs) and the recently imposed quota on yarn exports, we have revisited our cotton price assumption. The export quota on yarn is likely to somewhat relieve pressure on the soaring cotton prices which hit a high of Rs4,750 per maund during the first week of the new year. As per the latest export data by FBS (Federal Bureau of Statistics), 92mn tons of raw cotton has

been exported during 5MFY10 as compared to 45mn tons in the same period last year. We expect local cotton prices to stay at their current levels and stay close to Rs4500 per maund during the current fiscal year.

Graph: International versus local cotton prices



Source: Reuters & PCGA

Nishat Mills Limited: 'Buy' at current levels

With most of its cotton buying coming in the early parts of the cotton season, NML stands immune to the recent hike in the cotton prices. NML's strong equity portfolio and addition of Nishat Power (due to start its commercial production by the next month) remain upside triggers for the company. Moreover, the recent interest in the acquisition of AES Lalpir & Pak Gen is likely to provide NML with a more stable dividend stream. Currently, NML is trading at a FY10E and FY11F PE of 7.4x and 5.9x respectively and we maintain our 'Buy' call on the scrip.

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Also in focus

BankIslami signs MOU with Emirates Global

BankIslami issued a notification yesterday informing the signing of a Memorandum of Understanding (MOU) with Emirates Global Islamic Bank (EGIBL) for a possible acquisition. According to the notice, post the conduct of due diligence, BankIslami would be the remaining entity. As of Sep 09, BankIslami has a total asset base of Rs29bn and a network of 102 branches, which post merger, is expected to rise to Rs49bn and 144 branches, respectively. The latest available financials reflect BankIslami has a book value of Rs9.1 per share, while EGIBL has a book value of Rs8.1 per share. Subsequent to the merger, the combined equity would reach Rs8.4bn, helping the bank meet the minimum capital requirement.

We believe, the M&A theme to persist in the current calendar year, especially in the first half – helping small banks to overcome the challenges of a tough operating environment, alongside meeting the minimum capital requirement set by the State Bank.

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