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Pakistan Market

KSE: 8 IPOs witnessed during FY10

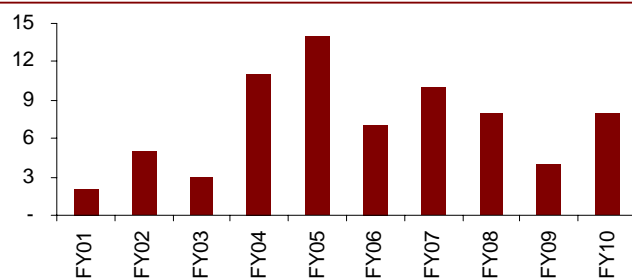
MORNING BRIEFING



KSE100 Index: Closing 9645.71 ↓ (-31.00)

With the fiscal year 2010 left with 8 trading sessions only, it is worthwhile to note that the benchmark KSE-100 index has posted a return of 35%, outperforming the region by 12% so far. The bourse's average daily volumes too have improved by 13% (excluding price floor period) to date in this period. Though initial public offerings (IPOs) - another key indicator for a capital market's depth - made at the KSE stood at 8 in FY10 as compared to 4 offerings in the previous fiscal year, most received a lukewarm response from investors. This being evident from the fact that put together they were subscribed by a mere average of 0.9 times, although slightly higher than last year's average of 0.6 times but lower than historical average (FY04-07) of 4 times. (Note: We have excluded offerings by mutual funds from our analysis).

Annual Public Offerings



Source: KSE

8 equity offerings in FY10, worth Rs4.3bn

As opposed to last year when only 4 fresh offerings were floated, the local bourse has witnessed 8 offerings, worth Rs4.3bn (including Wateen's green shoe option of Rs900mn) in the current fiscal year. Historically, FY04 and FY05 were the best years for IPOs when 11 (Rs60bn) and 14 (Rs58bn) new issues respectively, were floated in the market. Amongst the 8 IPOs in FY10, two each, belonged to the power generation and fertilizer sectors, whereas the others were from the chemical, construction, textile and telecom sectors.

Value-wise subscription of 0.9x, app.-wise 0.1x

The total 8 IPOs in FY10 were worth Rs4.3bn compared to last year's 4 IPOs of Rs1.4bn. Though, 6 of the issues were oversubscribed, under subscription of Nishat Chunian Power and Agritech dragged the average subscription down to 0.9 times. Hence, if the two are excluded from our analysis, average subscription rises in FY10 to 1.1 times.

Initial Public Offerings (IPO) in FY10 (Rs mn)

S No	Company	Amount offered	Amount received	Times subscribed (x)
1	Nishat Power	225	274	1.2
2	Nishat Chunian Power	950	707	0.7
3	Ghani Gases	56	75	1.3
4	Fatima Fertilizer	675	754	1.1
5	Safe Mix Concrete	125	127	1.0
6	Agritech Limited	500	115	0.2
7	Amtex Limited	238	239	1.0
8	Wateen Telecom *	2,000	2,007	1.0
Total		4,769	4,299	0.90

Source: KSE, * Green Shoe option included

Historically, average subscriptions have ranged between 3.1 - 6.4 times during FY04-07, with issues like APL & BoK being subscribed 18.5 and 5 times, respectively. Moreover, in terms of application, the 8 issues were only subs. by 0.05 times.

Initial Public Offerings (IPO) in FY10 (Applications)

S No	Company	Required	Filed	Times subscribed (x)
1	Nishat Power	45,000	12,925	0.29
2	Nishat Chunian Power	190,000	2,568	0.01
3	Ghani Gases	8,000	5,122	0.64
4	Fatima Fertilizer	100,000	5,441	0.05
5	Safe Mix Concrete	20,000	4,816	0.24
6	Agritech Limited	33,333	1,396	0.04
7	Amtex Limited	36,600	1,467	0.04
8	Wateen Telecom	400,000	10,591	0.03
Total		832,933	44,326	0.05

Source: KSE

Book building - a new trend

It is interesting to note that 3 of the 8 IPOs (Ghani Gases, Fatima Fertilizer and Amtex) were offered through the book building process, raising an additional Rs2.7bn. To elaborate, the said process is one through which an underwriter attempts to determine the offer price of an IPO, based on demand from institutional investors.

Book-building exercise

S No	Company	Shares offered (mn)	Strike price	Amount subscribed (mn)
1	Ghani Gases	6	14	84
2	Fatima Fertilizer	150	13.5	2,025
3	Amtex Limited	43	13.0	555
Total		199	41	2,664

Source: KSE

Outlook

Strong market performance of +35% in FY10 to date, gradual reversals in macro economic imbalances and tax incentives provided in the budget FY11 should provide a suitable setting for fresh issues in the coming year.

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