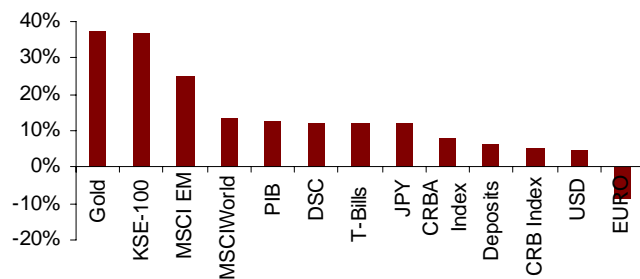


Pak equities outperform most asset classes in FY10 KSE100 Index: Closing 9791.89 ↑ (+76.50)

Interestingly, the KSE 100 Index, which has posted a return of 37% (31% in US\$ terms) in FY10 so far (3 trading days left), has been a notable out performer by a gross 12-45% across various asset classes ranging from equity, commodity, foreign exchange to debt markets with the exception of Gold (return of 38%) – see graph below. However, the question remains whether the rebound was because of cheap valuations, low base or reversal of the risk premia. We go with the latter option and believe that during the past 12 months there has been substantial improvement in the risk premia as evident from the political consensus on the NFC award and the 18th Amendment along with smooth implementation of the IMF structural program. This is also evident from the macro statistics such as the C/A deficit, which has declined by 66% to US\$3bn and GDP growth improved to 4.1% from 1.2% last year.

Despite the recovery, we believe the bourse still offers attractive valuations as it trades at 6.9x 2010 earnings multiple, which translates into a discount of 44% and 56% to the region and frontier markets, respectively.

Assets return profile in FY10



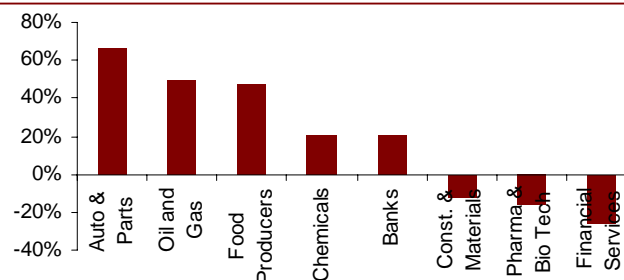
Source: JS Research, SBP, Bloomberg & MSCI

KSE surges by 37% to date in FY10

After a difficult two years, the KSE 100 Index rebounded sharply in FY10, posting a return of 37% (31% in US\$ terms), marking its finest performance since FY07. The market

recovery was broad based and Automobile & Parts and Oil & Gas were the key outperformers during the year by 29% and 12%, respectively. Automobile & Parts rallied on the back of a pick-up in auto sales while upward revision in wellhead gas prices and higher production flows were primary drivers for the Oil & Gas sector. On the contrary, Construction & Materials and Financial services were major laggards of the year under review, underperforming the Index by 49% and 63%, respectively. Depressed financial markets and substantially low cement prices were main reasons behind their underperformance, respectively.

Key sector performance in FY10



Source: KSE & JS Research

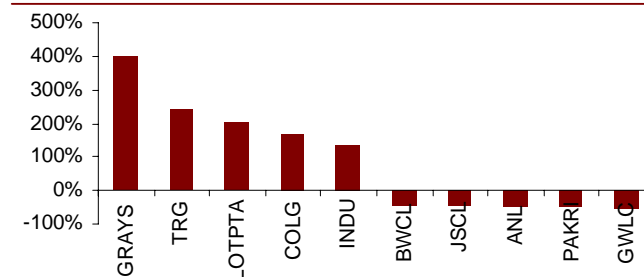
It is interesting to note that the Oil & Gas sector, which had a weight of 29.6% at the start of the year, now constitutes 34.8% of market capitalization, and Banks, which underperformed the Index by 17%, saw its weight decline to 22.6% from 23.8% at the beginning of the year.

Outlook: Dec 2010 Index target of 11,800 intact

We remain positive on KSE, as it trades at an attractive 2010E PE of 6.9x and offers a deep discount of 44% and 56% to the regional and frontier markets, respectively. Net foreign inflows come to US\$26.5mn in the current month to date, despite a major exodus in the regional market, which highlights the strong confidence of foreign investors in the local bourse. With a Dec 2010 index target of 11,800 points, we remain upbeat on the Oil, Power, Telecom & Fertilizer

sectors and flag PPL, POL PSO, HUBCO, PTC, ENGRO and NML as potential outperformers.

Top & worst performer of KSE-100 Index in FY10



Source: KSE & JS Research

* based on Market Capitalization

atif.zafar@js.com
92 (21) 111-574-111 (ext. 3118)

Also in focus

Broadband subscribers rise to 817k in Apr

Total broadband subscribers as of April have risen to 817k, growing by a significant 98% in the current fiscal year. In April alone, operators saw an addition of another 44k to the total. We currently estimate PTCL's subscribers to stand at ~480K. Moreover, cellular subscribers rose by 0.72% or 697k in May to cumulatively reach 98mn. Warid and Ufone gained most ground in May, as they added 265K and 224K subscribers, respectively; while Zong turned was the losing side, as it lost 211K subscribers. Mobilink maintains its leading position with a market share of 32.6%, followed by Telenor with 24.13% and Ufone with 19.6%.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:
Tel: +92 (21) 32799005

Equity Sales:
Tel: +92 (21) 32799513

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS

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