

March 26, 2010

Pakistan Market**MORNING BRIEFING**
NCL: 'Buy' on a higher dividend income from NCPL KSE100 Index: Closing 10127.03 ↓ (-19.24)

Nishat Chunian Power Limited (NCPL) conducted a conference call yesterday to discuss the progress of its power plant and the future outlook. NCPL's 200MW power plant was expected to come online by the end of March, but due to some technical issues on the part of EPC's contractor Wartsila, the Commercial Operations Date (COD) has been postponed to mid-end May, 2010. However, Wartsila would be liable to pay a daily penalty of €66k post Mar 31, 2010 until the commissioning date capped at €13mn. This would provide NCPL with the necessary cushion against its debt financing expense as 80% of the project is funded via debt.

Dividend payout of Rs450-500mn in FY11

The management of NCPL informed that the company expects to start paying dividends from FY11, with a payout of Rs450-500mn (80-90%), on projected earnings of Rs500-600mn. In light of the new information disclosed by NCPL's management, we have revised our dividend income projections and valuation for Nishat Chunian Limited (NCL).

NCL valuation target upgraded 9% to Rs24

We had initially estimated NCPL to start paying dividends from 2HFY12, with a payout of 75-80% for the entire project life. However, after the conference call, we have raised the payout ratio to 85% with a full year dividend payout for FY12. This would translate into a dividend income of Rs254mn for NCL, as it has a 57.8% stake in NCPL. Resultantly, our valuation for NCL has risen by 9% (Rs2 per share) with our new SOTP target price of Rs24. We have valued the textile business at Rs14 per share, while the power segment would contribute Rs10 per share (Rs8/share earlier).

Investment case: Buy NCL & divest from NCPL

Based on the preliminary estimates, the price of NCPL which is currently trading at Rs9.85, has been duly incorporated in our valuation at Rs6. Hence, we advise investors to divest their holdings in NCPL and instead take exposure in NCPL via NCL. The investment case offers the perfect arbitrage as

apart from providing exposure to NCPL at a deep discount, investors also get to enjoy the upside potential of NCL.

NCL: Upgraded to 'Buy'

Based on the information revealed by NCPL's management, we have upgraded our earnings and valuation estimates for NCL, with a revised target price of Rs24. In addition, the recently announced mark up facility, declining cotton prices and the government's renewed efforts for wider market access in EU and US strengthens our confidence in the textile business of NCL. Trading at FY11F PBV of 0.7x, we have upgraded our stance on NCL from 'Accumulate' to 'Buy'.

rabia.tariq@js.com
92 (21) 111-574-111 (ext. 3119)

Also in focus**IMF may extend Mar 31 circular debt deadline**

According to news reports, IMF may extend the Mar 31 deadline to resolve the circular debt issue prevalent in the power sector. The government had earlier agreed with the IMF to resolve the issue by this deadline, but is now likely to ask for an extension to resolve the problem. The government has already issued two TFC's totaling Rs167.5bn, established a holding company and consistent power tariff hikes, however the issue still remains the core concern in the power sector as it still stands above Rs100bn on net basis. Any delay in resolution of the matter would bode negative for the energy companies, as it would continue to hamper the cash flows, increasing reliance on external borrowings.

JS Global Capital Limited

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

Research:

Tel: +92 (21) 32799005

Fax: +92 (21) 32800163

js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44

Fax: +92 (21) 32800165

tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513

Fax: +92 (21) 32800166

junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005

Fax: +92 (21) 22800163

azhar.iqbal@js.com

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