

April 29, 2010

Pakistan Market**IMF 5th tranche status****MORNING BRIEFING**

KSE100 Index: Closing 10519.02 ↓ (-37.37)

Delayed by a month, investors are keenly awaiting the May 15th IMF Executive Board Review's outcome. However, release of the 5th tranche is pertinent to IMF being satisfied over the steps taken to resolve the energy sector crisis as well as the circular debt. We believe, the Finance Advisor will be able to persuade the IMF officials to overlook the missed structural performance criteria. This will however, be the last chance to seek a waiver. Any slippage in the future may post a threat to the continuity of the IMF programme.

IMF 4th Review Snapshot:

The bulk of the quantitative target were met with the exceptions of Government borrowing and budget deficit. On the flipside, there have been delays in dealing with key structural issues e.g. implementation of VAT from July 1 2010, elimination of energy subsidies and formation of a Single Treasury Account.

We opine, there will be serious resistance coming from the IMF officials on all missed targets.

Our view on structural issues:**1. Value-Added Tax (VAT):**

The lenders are taking a rigid stance on the implementation of VAT. The government had earlier ensured the completion of the VAT Bill by the concerned committees by end April, 2010 and realization of the Act by May 15, 2010.

As per our view, the targets seem over ambitious especially in the face of opposition from key stakeholders and structural inefficiencies of the relevant institutions.

2. Single Treasury Account (STA):

Given the June 2010 deadline to complete this transition, not enough work has been done to enforce this commitment on the concerned institutions. Therefore, we do not foresee the execution of this undertaking within due time.

3. Power tariff hikes:

Having already missed the deadline for the 6% tariff increase

scheduled for April 1 2010, the Ministry of Finance is likely to approach the Executive Board for a waiver.

The advisor on Finance has disclosed that this last raise will be deferred but passed through in phases later on.

Pakistan: Criteria under IMF SBA Programme, Sep 2009 - Mar 2010

	Sep-09	Dec-09	Mar-10
Net Foreign Assets (US\$m)	3,200	5,100	5,700
Adjusted Target	4,382		
Actual	5,706	5371 *	4786 *
Net Domestic Assets (Rs bn)	1,300	1,270	1,220
Adjusted Target	1,233		
Actual	1,141	1213 *	1220 *
Govt. Borrowing from SBP (Rs bn)	1,130	1,130	1,130
Adjusted Target	1,130		
Actual	1,047	1122 *	1227 *
Overall Budget Deficit (Rs bn)	194	400	604
Adjusted Target	173		
Actual	224	403 *	
Short-term External debt (US\$m)	1,500	1,500	1,500
Actual	589	322 *	
Medium & long-term Ext. debt (US\$m)	9,500	9,500	9,500
Actual	1,724		
Foreign Exchange reserve (US\$m)	779	800	805

Source: IMF, * SBP

Impact:

We expect a neutral impact on markets, if IMF endorses release of the next tranche. However, we believe any lag in approval or discontinuation of the programme should instigate investor uneasiness.

Our view on a stable macro economy is intact even if this tranche is delayed. Our comfort is driven by stable foreign exchange reserves and a controlled external deficit. The fiscal deficit slippage and power outages are key risks to macros.

Muzzammil Aslam & Selina Qureshi
muzzammil.aslam@js.com
92 (21) 111-574-111 (ext. 3035)

Also in focus**FABL: 1Q2010 EPS stood at Rs2.77**

FABL today reported its unconsolidated earnings of Rs1.69bn (EPS Rs2.77) for 1Q2010 vs Rs25mn (EPS Rs0.42) in the corresponding period last year, up 560%YoY. The growth is entirely driven by a Rs1.77bn gain from redemption of NIT units to the bank, an EPS impact of Rs2.9. Core operations remained in pressure, posting a recurring loss (~loss of Rs0.13/share), primarily due to higher administration expenses, up 36%YoY to Rs1.2bn. Moreover, provisions for NPLs remained low at Rs298mn, down 8%YoY. Currently, we maintain our 'Hold' stance on the scrip.

USF awards contracts to PTCL and Wateen

Universal Service Fund (USF) has awarded two contracts, cumulatively worth Rs1.04bn, for providing broadband internet services to the un-served urban areas of Central Telecom Region (CTR) to PTCL and Wateen Telecom. The project will provide services to 37 towns and cities and cover 215 higher secondary schools and 57 community broadband centers. A total of ~102K new subscribers are expected to be added -54K for Wateen and 48K for PTCL- while the subsidy amount for Wateen and PTCL will be Rs525mn and Rs513mn, respectively.

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

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS