

2009: Macro, politics & the market

Pakistan

Strategy Report

December 2009



JS Global Capital Limited

Macro: A year of stabilization

Post the commodity shock, Pakistan has undergone massive structural adjustments mainly led by IMF's guidelines. Though the fruits of reforms are evident from the recent macro data as well as the 'Stable' outlook given by the sovereign rating agencies, the deteriorating law & order situation and ongoing global recessionary woes have prolonged the prospects of recovery, in our view. The expected liquidity stimulus was delayed due to the non-fulfillment of Friends of Pakistan's commitments, US's late approval of the Kerry-Lugar bill and a lag in the release of the Coalition Support Fund. This in turn affected domestic liquidity and kept short-term rates at higher levels, despite SBP reducing the policy rate by 250bps in 2009. Nevertheless, we term year 2009, as a year of achievement, as Pakistan's establishment has taken bold macro economic initiatives to eliminate long-standing structural flaws by doing away with fuel & electricity tariff subsidies, introducing banking and tax sector reforms and more. Interestingly, the reforms carried out in 2009, have strengthened Pakistan's economic governance when compared to global economic power houses like China and India, as both continue to subsidize power & fuel in their respective countries. The International Finance Cooperation assigned Pakistan the 85th rank vis a vis China's 89th and India's 133rd among countries in terms of 'ease of doing business' in 2010.

Politics: Volatile but on the right path

Year 2009 brought a number of political issues in the lime light and can be termed as one of the most eventful years in the recent past. The year's accomplishments include; the Chief Justice being reinstated in March, Balochistan package being announced in order to rid off regional disparity, the long-standing National Finance Commission (NFC) awards issue being resolved with political consensus, the Gilgit Baltistan district receiving more autonomy, and the controversial NRO being declared invalid by the Supreme Court. Additionally, the armed forces conducted successful operations against militants to uproot terrorism from the country. The Parliament also played a very active role as all heated issues, ranging from the Balochistan package, the NRO and the Kerry-Lugar Bill, were debated upon there. The most revolutionary aspect of this year was that the Rule of law and Freedom of Speech have and will continue to strengthen in the country, thereby helping build efficient institutions, contain corruption and achieve national long-term development goals.

Markets: A mixed reaction

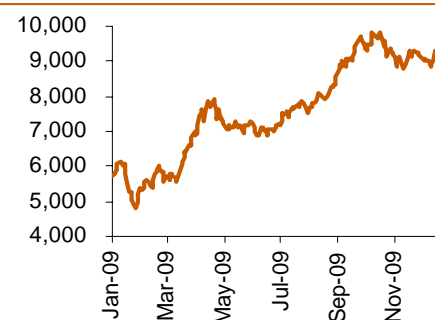
After a dismal performance last year, the market rebounded sharply in 2009, the debt market provided a 20.1% return on the back of monetary easing of 250bps by the SBP, while the equity market surged 59%. After a free fall in the beginning of the year and hitting a trough of 4,815 points, Pakistan's market recovered significantly to post a 59% return (49% in US\$ terms) to date, touching a peak level of 9,846 points in Oct 09. The average regional performance (incl. Pakistan) during the period was however, higher at 70%, particularly led by handsome gains in Indonesia (117%), Sri Lanka (116%), India (80%) and China (68%).

Table: Pakistan's Macro Economic ratios

	FY09A	FY10E	FY11F
Real GDP (%)	2.0	3.5	4.0
Inflation	13.1	10.0	8.0
C/A bal. (US\$bn)	(9.5)	(8.3)	(5.6)
C/A bal. /GDP (%)	(5.6)	(4.6)	(3.0)
External debt (US\$bn)	52.9	56.3	61.3
External debt/GDP (%)	31.5	31.7	32.3
Govt. Direct debt/GDP	58.9	56.7	55.8
Govt. Direct debt (US\$bn)	94.8	98.0	104.0
Exchange rate	81.3	84.5	87.0

Source: Moody's and JS Research

Graph: KSE-100 index performance



Source: KSE

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Is macro stabilizing?

Clearly, Pakistan's balance of risk has tilted in favor of stability, but is it due to the commodity meltdown (exogenous factor) or has it been led by reforms? A few experts believe that it is only this meltdown that saved Pakistan from falling into an abyss. However, our view differs and we believe in addition to the 'commodity meltdown', structural reforms and policy tightening have played a vital role in reversing macroeconomic imbalances which is highlighted by the accumulation of reserves, sustainment of revenue targets, curtailment of government borrowing, partial retirement of inter corporate debt, higher agriculture growth and containment of the fiscal deficit .

IMF – Pakistan marriage

Since November 2008, Pakistan has entered two different agreements with the IMF. The country had at first agreed to a 23-month US\$7.6bn IMF program to fulfill its balance of payment and debt commitments, fully aware that its problems are not short-term but driven by the twin deficits. An aggressive policy action was required to restore macro-economic confidence. The IMF has linked the disbursement of the loan with quarterly quantitative targets, as well as implementation of key structural reforms. Due to a lag in the pay out of foreign commitments, Pakistan requested IMF for additional US\$3.2bn assistance for budgetary support in August 2009. The executive board of IMF has approved Pakistan's request for this additional loan and sanctioned US\$1.4bn for budgetary support. This allayed investor concerns regarding Pakistan's budgetary financing and balance of payment risks.

Table: Financial Arrangement with the IMF

Regime	Period	Program	(SDR million)	
			Amounts agreed	Amounts drawn
Bhutto/ Nawaz	Dec 88 - Dec 91	SAF	382	382
Bhutto	Dec 88 - Mar 90	SBA	273	194
Qureshi/ Bhutto	Sep 93 - Sep 94	SBA	265	88
Bhutto	Feb 94 - Feb 97	ESAF	606	172
Bhutto	Feb 94 - Feb 97	EFF	380	123
Bhutto/Meraj Khalid /Nawaz Sharif	Dec 95 - Mar 97	SBA	562	295
Nawaz Sharif	Oct 97 - Oct00	ESAF	682	265
Nawaz Sharif	Oct 97 - Oct00	EFF	455	113
Musharaf	Nov 00 - Sep 01	SBA	465	465
Musharaf	Dec 01 - Dec 04	PRGF	1,034	861
Gillani	Nov 08 - Oct 10	SBA	5,169	3,204
Gillani	Aug 09 - Dec 10	SBA	2,067	198

Source: SBP Governor's Speech, IMF

SAF = Structural Adjustment Facility, SBA = Stand-by agreement

ESAF = Extended Structural Adjustment Facility, EFF = Extended Fund Facility

SDR = Special Drawing Rights, PRGF = Poverty Reduction and Growth Facility

IMF's conditionalities

Quantitative targets:

- The Government should announce quarterly T-bill targets well in advance.
- NFA and Reserves targets to discipline the external sector.
- NDA and limiting SBP's borrowing to zero to discipline fiscal deficit.

- Ceilings to be placed on the budget deficit, short-term external debt and foreign currency swaps.

Performance targets:

Before formally entering the IMF program, Pakistan had taken a number of initiatives to avoid the risk of default. The SBP allowed the exchange to free fall by 30% in the first leg and overall 35.7% since July 2008. To reduce the investment-savings gap and contain inflation, the central bank had raised the policy rate by 500bps in 2008, and duties on luxury goods to discourage imports.

The IMF has proposed the following reforms:

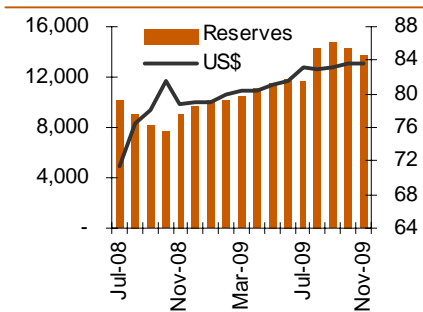
- 1. Exchange rate reforms:** Through formal notification, IMF termed Pakistan's exchange rate system 'a de facto conventional peg to the US\$' or managed float through SBP's direct provisioning of the oil payments. Staff authorities have decided to phase out this provisioning in three phases, starting from February 2009 and going up to February 2010. Increased reserves accumulation and a contained current account deficit have helped SBP completely transfer the oil payments' provisioning to the commercial banks on December 14, 2009 instead of February 2010 as scheduled earlier.
- 2. Fuel & Electricity subsidy elimination:** Amongst the major reforms, IMF had initially suggested complete eradication of fuel & electricity subsidies by June 2009. The government has met the fuel subsidy deadline, but failed to eliminate the subsidy on electricity. Under the revised agreement, the government is committed to phasing out all electricity subsidies by April 2010 in three phases. A 6% increase in tariff has already occurred in October and the government has announced a 13.6% raise in electricity tariff from January 2010. We believe the elimination of electricity and fuel subsidies would be a major breakthrough, as both combined contributed 4.8% to the deficit in FY08 alone.
- 3. Tax reforms:** A major structural reform has been proposed to increase the tax-to-GDP ratio of Pakistan. We believe, Pakistan's macroeconomic fundamentals, future of the capital market and the policy outlook is increasingly tied to the fate of overall tax collection. In addition to broadening the tax base, the IMF has linked the next tranches to the government fulfilling the commitment of increasing tax-to-GDP, through the introduction of the VAT law in the Parliament and formation of an Inland Tax Revenue Department, where all the tax departments will be working under one roof.
- 4.** In addition, the IMF has set a number of deadlines for bringing in the banking sector reforms, resolution of inter corporate debt etc.

Moody's assessment of Pakistan's economy

Pakistan improved macro economic fundamentals are also reflected in Moody's outlook upgrade to 'Stable' from 'Negative' in August 2009, while S&P upgraded Pakistan's rating to 'B-/Stable' from 'CCC+/Developing' on the 24th of the same month. Moody's released its detailed assessment for Pakistan in December, and some excerpts from the report are as follows:

"Pakistan's B3 rating reflects a gradual stabilization of its economic and financial strength at low levels. The country's growth downturn is bottoming out, and its near term external liquidity has improved. Authorities have implemented

Graph: Reserves(US\$m) vs USD



Source: SBP

Table: Local petrol price movement

Date	Rs/Litre	Date	Rs/Litre
1-Jun-08	50.13	1-Feb-09	57.66
16-Jun-08	55.14	1-Mar-09	57.66
1-Jul-08	55.14	1-Apr-09	57.66
16-Jul-08	64.64	1-May-09	57.66
1-Aug-08	86.66	22-May-09	56.21
16-Aug-08	86.66	1-Jun-09	56.21
1-Sep-08	86.66	1-Jul-09	62.13
16-Sep-08	81.66	8-Jul-09	50.53
1-Oct-08	81.66	9-Jul-09	62.13
16-Oct-08	81.66	1-Aug-09	60.46
1-Nov-08	76.66	1-Sep-09	65.26
16-Nov-08	66.66	1-Oct-09	61.63
1-Dec-08	57.66	1-Nov-09	61.63
16-Dec-08	57.66	1-Dec-09	66.00
1-Jan-09	57.66		

Source: OGRA, JS Research

Recent hike in power tariff

Date	Avg tariff revision
Sep-08	31%
Feb-08	1-2%
Oct-09	6%
Jan-10	14%
Apr-10	6%

Source: NEPRA

*Revision to take affect in 2010

measures to reduce imbalances in the economy, and a strong trend in remittances from overseas Pakistanis is also supporting the country's external position.

The rating also reflects the entrenched nature of supply-side constraints and low savings, narrow tax revenues, and relatively weak external competitiveness. These drawbacks are reinforced by poor governance, slow policy and administrative reforms, as well as delays in much needed external assistance".

Pakistan macro economic trough and recovery to date

As a result of the commodity super spike and poor macro economic governance; Pakistan hit the macroeconomic trough in FY09. GDP reduced to 2.0%, compared to the last five years average of 6.4%, C/A deficit peaked to US\$13.87bn in FY08, compared to US\$9.39 in FY09, a decline of 32.6%YoY. The deficit has been brought down further to US\$1.35bn (down 81.4%YoY) in the first 5 months of FY10. Similarly, the fiscal deficit was recorded as 7.4% of the GDP in FY08, compared to 5.2% in FY09 and is expected to be contained to 5.0% in FY10. The huge deficits have led to depletion of the reserves and excessive borrowing from the Central Bank, resulting in hyperinflation. Inflation topped at 25.3% in August 2008 and has reduced to 10.51% in November 2009, while the reserves have risen to US\$13.5bn from US\$6.6bn as it were at the trough level. The reversal of the deficit combined with a strong external position has led the inter-bank rate to reduce from 15.68% to 12.46%.

Pakistan's key macro economic variable update

Economic growth:

Pakistan's GDP growth trajectory de-railed from its above trend average of 6.4% during FY04-FY08 to arrive at 2.0% in FY09. Though the recovery witnessed during FY10 so far has remained relatively modest, we expect GDP to be around 3.0-3.5% in FY10, led by agriculture growth. The industrial sector growth is likely to improve on the back of increased cotton and sugar cane availability to the textile sector and to the sugar mills for processing purposes. The Power sector woes and electricity supply disruption are key risks hindering the country's industrial sector revival. We expect cotton production to be 13% higher in the current year. Above all, an increment in the Industrial sector's growth of 5% in October, has lent more confidence to our full-year call of 3.5% for the same. Looking forward, we expect the GDP growth to surge to 4-5.0% in FY11, on the back of higher developmental expenditure and exports.

Fiscal deficit: Pakistan's fiscal deficit shrunk to 5.2% of the GDP in FY09 and is reported at 1.5% of the GDP in 1QFY10. The deficit in the 1QFY10 is on the higher side, primarily due to below target tax receipts. Owing to holidays, FBR moved the last date of tax collection from September 30, 2009 to October 15, 2009. Interestingly, the bulk of the deficit was financed through domestic non-bank sources, which resulted in lower inter-bank borrowing. Overall tax collection for the first 5 months came in at Rs453bn, up 5.5%YoY. We expect the full-year deficit to come in around 5.0%, as a consequence of higher tax collection in 2HFY10 and contained expenditure due to phasing out of the electricity subsidy.

C/A deficit: At the peak of the commodity super spike, Pakistan reported a huge C/A deficit of US\$13.87bn (or 8.4% of GDP). However, we expect the deficit to

Table: Pakistan's Sovereign Ratings

Date	Foreign Currency (LT/Outlook/ST)
24-Aug-09	B-/Stable/C
18-Dec-08	CCC+/Developing/C
14-Nov-08	CCC/Negative/C
06-Oct-08	CCC+/Negative/C
15-May-08	B/Negative/B
06-Nov-07	B+/Negative/B
10-Jul-07	B+/Stable/B
19-Dec-06	B+/Positive/B

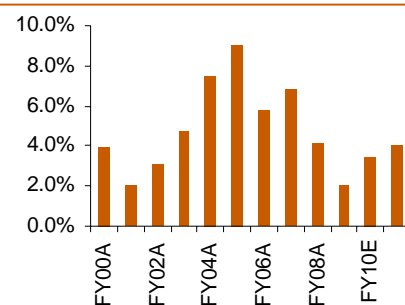
Source: S&P

The Worst and YTD recovery

	08/09 Trough	Current
6-mth KIBOR	15.90%	12.45%
Inflation CPI	25.00%	10.51%
Inflation SPI	34.80%	10.75%
C/A deficit (% of GDP)	14.0%	5.0%
Fiscal deficit (% of GDP)	7.40%	6.00%
FX Reserves (US\$ bn)	\$5.50	\$13.57
Pak CDS	50%	7.9%

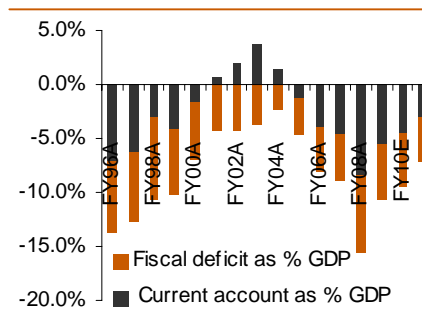
Source: SBP, JS Research

Graph: GDP Growth



Source: SBP

Graph: C/A & Fiscal deficit(% GDP)



Source: SBP

reduce to 3.5-4.5% of GDP in FY10 on the back of monetary tightening, tax reforms and the commodity meltdown.

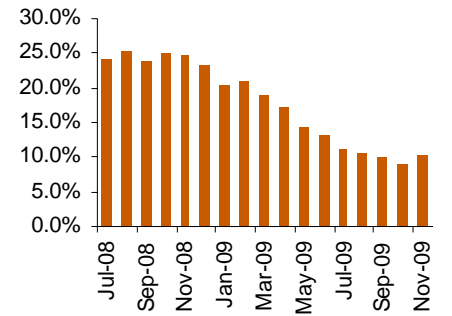
Inflation: Inflation for FY10 is expected to be around 10% because of stable international oil prices; we expect oil prices to average US\$67/bbl in FY10. As far as food price inflation is concerned, we do not expect any major upside, as most of the local grain prices are trading inline with the international prices. On a positive note, core inflation is continuing to display a downward trend and came in at 10.6%, from a peak of 18.9% reported in February 2009.

In sum, we believe, Pakistan's economic downturn is bottoming out, growth is expected to revive and deficits are likely to be contained which will keep the inflation and the exchange rate stable. On the liquidity front, Pakistan is likely to get flows from the IMF, the US under the Kerry-Lugar Law, and the Coalition Support Fund. These and flows from the Friends of Pakistan, China and Saudi are likely to add on to the liquidity, and hence will provide room to the government to expend on infrastructure development projects. We continue to expect Pakistan's government to consult the IMF on the country's macro management, while micro management will be scrutinized under the Kerry-Lugar Law.

Kerry –Lugar bill key highlights include:

- Help establish an independent and transparent judicial system, and work to extend the rule of law in all areas in Pakistan.
- Promote sustainable long-term development and infrastructure projects, pertaining to healthcare, education, water management, and energy programs, in all areas of Pakistan.
- Investment in energy, including energy generation, management of natural resources through investments in the water resource management system.
- Expansion of agriculture and rural development, such as farm-to-market roads, and developing a system to prevent spoilage, waste and other small-scale infrastructure improvements.
- Finally, support efforts to strengthen Pakistan's institutions, including the capacity of the National Parliament of Pakistan and the committees to oversee government activities.

Graph: Inflation trend



Source: SBP

Table: Pakistan's Macro and Vulnerability ratios

	FY03A	FY04A	FY05A	FY06A	FY07A	FY08A	FY09A	FY10E	FY11F
Economic structure and performance									
Nominal GDP (US\$bn)	83.3	98.0	109.6	127.3	143.1	164.3	167.9	177.8	189.5
GDP per capita (US\$)	599.0	649.0	712.0	812.0	897.0	1,011.0	1,014.0	1,055.0	1,104.0
Real GDP (% change, Rs)	4.7	7.5	9.0	5.8	6.8	4.1	2.0	3.5	4.0
Inflation rate (CPI, % change, eop)	1.9	8.5	8.7	7.6	7.0	21.5	13.1	10.0	8.0
Gross investment/GDP (%)	16.8	16.6	19.1	22.1	22.5	22.0	19.7	19.3	19.7
Gross domestic savings/GDP	17.4	17.6	15.2	14.2	15.4	11.0	10.3	11.6	12.1
Government Finance (%)									
Government revenue/GDP	17.2	14.8	14.1	14.7	15.4	15.0	14.3	14.6	15.2
Government expenditures/GDP	18.5	16.7	17.2	18.4	19.2	22.1	19.1	19.8	19.3
Government primary balance/GDP	3.6	2.2	0.3	(0.3)	0.4	(2.4)	0.1	0.2	(0.3)
Government primary balance/GDP (excl. grants)	1.1	1.6	-	(0.9)	-	(2.7)	(0.2)	(0.5)	(0.6)
Government Direct debt/GDP	75.2	67.7	62.9	57.3	55.7	59.3	58.9	56.7	55.8
Government Direct debt (US\$bn)	63.4	65.7	68.4	72.5	79.6	89.6	94.8	98.0	104.0
External payments and debt									
Current account balance (US\$bn)	4.1	1.8	(1.5)	(5.0)	(6.7)	(13.9)	(9.5)	(8.3)	(5.6)
Current account balance/GDP (%)	4.9	1.8	(1.4)	(3.9)	(4.7)	(8.4)	(5.6)	(4.6)	(3.0)
External debt (US\$bn)	33.4	33.3	34.0	35.9	39.0	44.5	52.9	56.3	61.3
External debt/GDP (%)	40.0	34.0	31.1	28.2	27.3	27.1	31.5	31.7	32.3
Net foreign direct investment/GDP (%)	0.9	0.9	1.3	2.7	3.5	3.3	2.2	1.9	2.1
Official forex reserves (US\$bn)	9.8	11.0	10.4	11.3	14.5	8.6	9.1	13.0	14.0
Nominal exchange rate	57.8	58.1	59.7	60.3	60.8	68.0	81.3	84.5	87.0
Short term external debt/total external debt (%)	4.2	3.1	3.2	3.1	5.3	1.8	1.7	1.4	1.1
Monetary, Vulnerability and Liquidity indicators (%)									
Domestic credit	10.7	11.2	25.2	19.6	16.8	28.0	10.7	-	-
Domestic credit/GDP	37.1	35.6	38.7	39.5	40.6	43.8	38.1	-	-
M2/official forex reserves (x)	4.0	3.9	4.8	5.0	4.6	8.0	6.9	-	-
Total external debt/forex reserves	340.4	304.1	328.1	316.4	270.0	518.4	579.7	432.9	437.5
Debt service ratio	19.3	16.6	10.9	10.1	10.2	7.5	11.6	10.6	8.5
External vulnerability indicator	41.7	32.9	28.6	27.2	28.1	24.5	33.7	21.1	15.7
Liquidity ratio	6.9	7.4	7.8	11.6	11.1	15.3	13.0	-	-
Dollarisation ratio	8.0	7.6	7.8	7.3	6.4	6.6	6.6	-	-
Dollarisation vulnerability indicator	18.8	19.7	23.0	23.4	18.7	32.8	37.8	-	-
M2 (% change)	17.5	9.2	19.8	14.9	19.0	15.2	10.0	-	-

Source: Moody's and JS Research

Politics: Volatile but on the right path

Year 2009 brought a number of political issues in the lime light and can be termed as one of the most eventful years in the recent past. The year's accomplishments include; the Chief Justice being reinstated in March, Balochistan package being announced in order to rid off regional disparity, the long-standing National Finance Commission (NFC) awards issue being resolved with political consensus, the Gilgit Baltistan district receiving more autonomy, and the controversial NRO being declared invalid by the Supreme Court. Additionally, the armed forces conducted successful operations against militants to uproot terrorism from the country. The Parliament also played a very active role as all heated issues, ranging from the Balochistan package, the NRO and the Kerry-Lugar Bill, were debated upon. The most revolutionary aspect of this year, was that the Rule of law and Freedom of Speech have and will continue to strengthen in the country, thereby helping build efficient institutions, contain corruption and achieve national long-term development goals.

Despite eminent achievements in 2009, Pakistan's politics remain fractious and polarized. We too are of the opinion that Pakistan's politics have not fully stabilized despite the end of dictatorship and restoration of the judicial system. The two major political parties PPP and PML-N continue to have differences on core issues like the repealing of the 17th amendment, effectiveness of the Kerry-Lugar Law and the validity of the NRO. All this is expected to amplify the political noise in the country. Relations between the civilian government and the military are currently cordial and broadly accommodative, with a few exceptions where differences on Pakistan's foreign policy for Afghanistan and India and conditionalities proposed in the Kerry-Lugar Law arose.

Near term political risks

- Wide spread insurgency in the North-West Frontier Province (NWFP) is resulting in an increased frequency in terror attacks in several urban areas. This has elevated violence in the country, and shaken investor confidence off late.
- The worsening conflict between the armed forces and the insurgents has resulted in a major displacement of the population in the FATA and Waziristan regions. This has led the GoP to bear additional costs (in the form of rehabilitation of the IDP's and for military operations) while running a massive macro economic stabilization program.

Date	Political Event
Feb-09	Sharif brothers disqualified from holding any office. Governor rule imposed in Punjab.
Mar-09	Long march ends with reinstatement of judges
Mar-09	Shahbaz Sharif reinstated as CM of Punjab
Apr-09	Peace deal wit militants scrapped
Apr-09	Tokyo Donor Conference
May-09	Military operation in Swat
Jul-09	NAM Summit
Jul-09	Acquittal of Nawaz Sharif
Aug-09	Baitullah Mehsud reported dead
Sep-09	Safe exit deal revealed
Oct-09	Kerry-Lugar Bill
Nov-09	Operation in South Waziristan
Nov-09	NRO lapses, list of beneficiaries released
Nov-09	Balochistan package tabled in parliament
Dec-09	NFC Award approved
Dec-09	NRO declared void ab initio by SC

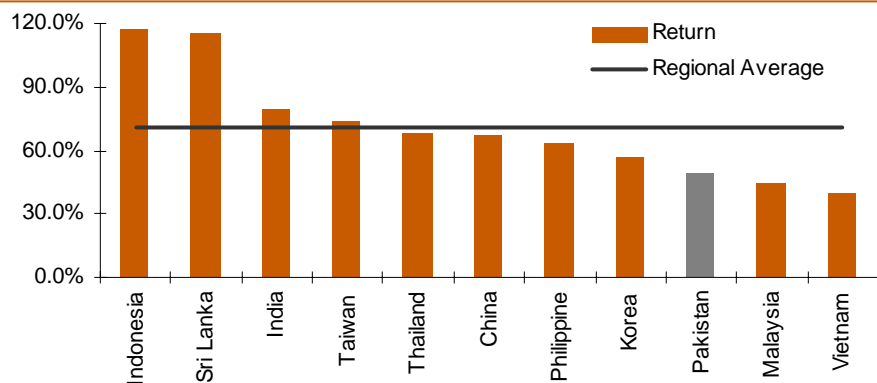
Market: Riding on the political & economic wave

Macro economic stability and resolution of major political risks have helped Pakistan's equity market post a healthy return of 59% (49% in US\$ terms), its best performance since 2005. Massive structural adjustments led by the IMF guidelines have started to bear fruit as evident from the recent macro economic numbers acknowledged by sovereign rating agencies. Reinstatement of the Chief Justice in Mar 2009 provided the initial thrust to the market which rallied 33% between mid March-April. After consolidation during May-June 2009, another flurry of activity (31% return) was witnessed during Jul-Sep driven by reversing macro trends, a 100bps SBP rate cut and US\$236mn foreign portfolio inflows. International rating agencies acknowledged the improved macro situation as S&P upgraded sovereign ratings by one notch to B- in Aug 09, while Moody's enhanced its outlook on the B3 rating to 'Stable'.

Pakistan lags behind regional markets

Despite performing admirably in 2009 (49% return in US\$ terms), Pakistan's market lagged behind regional peers, which posted an average return of 70%. The impressive regional perform was led by handsome gains in Indonesia (117%), Sri Lanka (116%), India (80%) and China (68%). While the Sri Lankan market rallied on successful completion of the security operation against the Tamil Tigers, performance in China, India and Indonesia was driven by economic resilience and better growth outlook. According to IMF estimates, China's economy is expected to grow by 9% in 2010, while GDP growth outlook for India and Indonesia is 6.4% and 4.8% respectively.

Graph: Pakistan & Regional markets YTD performance



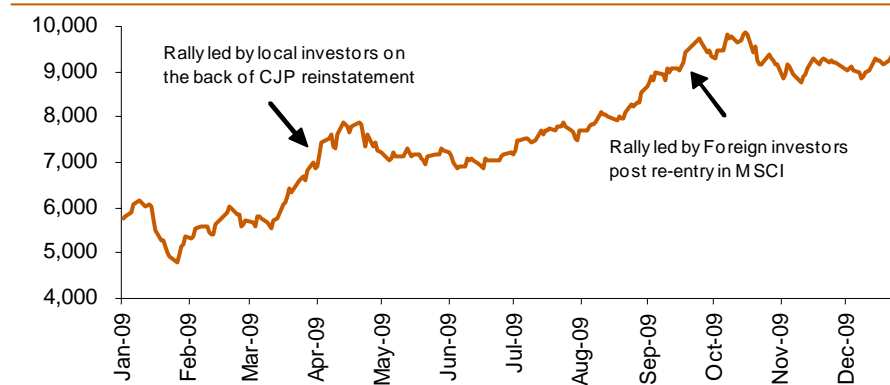
Source: Bloomberg *As of Dec 22, 2009

Politics & macro stability dominate 2009

The political climate which had become heated in the run up to the Mar 15th Long March, cooled off considerably after the Prime Minister reinstated the Nov 3, 2007 judiciary in the early hours of Mar 16, 2009. Following the judiciary reinstatement, the restoration of the Punjab government (dismissed in Jan 09) further reduced political risk in the country. The market reacted strongly to clarity on the political front, rallying a massive 33% between mid Mar-Apr 2009. Importantly, volumes average doubled to 294mn shares from 140mn traded previously. Local interest was the torch bearer, as foreigners were still busy offloading shares worth US\$58mn. Macro-economic recovery was also starting to find a hold, with headline inflation in particular dropping to 19% in Mar 09 (from the peak of 25% in Aug 08), leading the SBP to cut the policy rate by 100bps in Apr 09.

The market consolidated in the run up to the Budget FY10, which turned out to be largely neutral for capital markets with deferment of the capital gain tax and imposition of no major new taxes. The neutral FY10 Budget, return of foreign portfolio flows, post the re-entry into the MSCI, approval of additional IMF assistance and further unity on the macroeconomic front re-invigorated market activity between July-Sep 2009. The KSE 100 index posted a return of 31% during the period, backed by US\$236mn foreign inflows which came in as a consequence of re-entry in the MSCI FM Index in May 2009, a single notch upgrade in sovereign ratings to B- by S&P in Aug 09 and the approval of US\$3.2bn by the IMF for budgetary support.

Graph: KSE-100 index performance 2009 YTD



Source: KSE, JS Research

Major attractions: E&Ps, Fertilizers and IPPs

While the market's recovery was largely broad based, E&Ps, Fertilizers and IPPs in particular, remained in the limelight during 2009 due to their high dividend payouts and relatively defensive nature. Rebound in international oil prices, production commencement from Manzanai & other fields, and attractive dividend yields earned a massive 119% return on E&P stocks in 2009. A Surge in urea prices, high dividend yields and a positive outlook with regard to expansion plans particularly in the case of Engro Chemicals kept investor confidence intact in the Fertilizer Sector. In addition to the dividend play theme, indexation with the US dollar and partial resolution of the circular debt issue were the key reasons behind investor liking for IPPs, which posted a return of 75% in 2009.

Amongst the other sectors, banks rallied because of the relaxation in the FSV regime by the SBP, first at the end of Jan 2009 and subsequently in Oct 2009. While a 38% rally in Feb-Mar was post the Jan FSV circular, anticipation of the second FSV relaxation triggered another round of bullish activity (rise of 25%) between Aug-Oct 2009. The Textile sector, on the other hand, benefited from the release of the first ever Textile Policy in August 2009, posting a return of 31% between Jun-Oct 2009.

Market dull on KLB, NRO & IMF tranche delay

After touching a peak of 9,845 points in mid Oct, the market has remained volatile falling 5% to date with volumes shrinking to 144mn shares (179mn previously). A hold up in the ratification of the KLB, a deteriorating security situation post commencement of the military operation in South Waziristan, speculation on the

fate of the NRO and a delay in approval of the 4th tranche by the IMF could be attributed, as drivers for such erratic investor behaviour. The phrasing of the KLB in particular, had created a degree of friction between domestic stakeholders and the US, while increasing frequency of bomb blasts (44 since mid Oct) did little to reignite investor interest. Speculation on the NRO and a delay in the disbursement of the US\$1.2bn tranche due from the IMF, dealt further blows to market activity.

Outlook: Recovery to continue in 2010

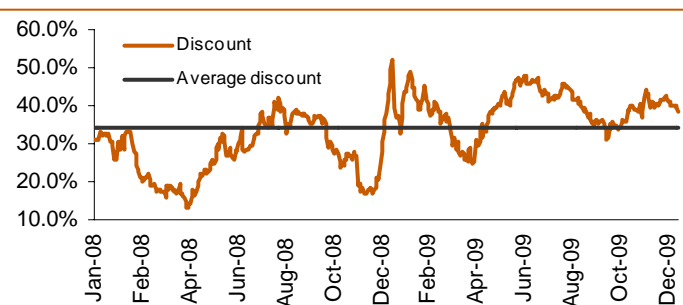
We expect the local equity market to continue its positive momentum in 2010 as the economic recovery gathers pace and key risks start to subside; 1) Kerry Lugar Bill has been approved by the GoP with the first tranche of US\$800mn expected shortly 2) speculation on the NRO is over 3) the military is making progress in its fight against extremists in the Northern Areas and 4) IMF's fourth tranche is expected to be approved at the Dec 23rd board meeting. Going forward, external flows are expected to improve with the FoDP, KLB and other bilateral and multilateral assistance, which should provide SBP room for quantitative easing alongside the policy rate cut. This should boost private sector credit offtake and help bring the KIBOR down.

These anticipated foreign inflows along with recent news flow, regarding US\$700mn assistance pledged by China for dam construction and the reduction in power subsidies (a 13.6% tariff hike announced to be effective Jan 2010) will provide the GoP the necessary fiscal space, to achieve higher PSDP utilization in 2010.

Index to rise above 10,500 on historical discount

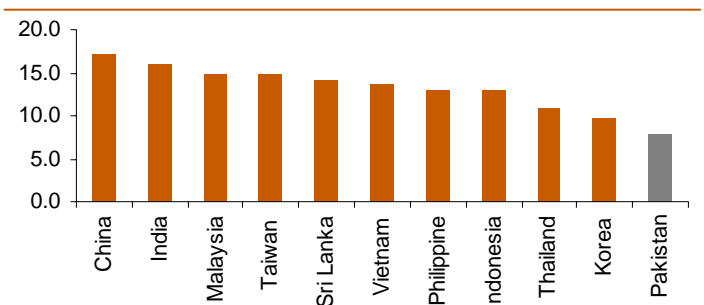
Pakistan currently trades at an attractive one year forward PE of 7.8x and at a discount of 40% to the average PE of 13.2x of regional Asian emerging and frontier markets defined by the MSCI. The prevailing discount is higher than the 5 year historical average of 34% and is likely to revert to historical levels amid improved risk profile, which would propel the market to cross the 10,500 mark. We remain bullish on the Oil, Fertilizer, Power and Telecom sectors with PPL, PSO, ENGRO, POL, HUBCO, PTC and DGKC our preferred plays for 2010.

Graph: Pakistan's PE discount relative to the Region



Source: JS Research, Thomson Reuters

Graph: Pakistan and Regional markets PE(x)



Source: JS Research, Thomson Reuters

Pakistan Petroleum Limited (PPL PA)

Being least affected by oil price volatility among listed E&Ps, we believe, PPL is well set to offer a potential 27% return (excluding dividends) to investors in the next 12 months. Moreover, an attractive dividend yield of 11% and 15% expected for FY10 and FY11 further strengthen our liking for the stock. PPL's well balanced exploration plan with particular focus on JVs with local and foreign operators, has yielded success in the form of discoveries and reserves addition notably in Nashpa, Tal, Hala and Latif. Moreover, we expect the company to be the prime beneficiary of the upcoming wellhead price revision, effective from Jan 2010. At current levels, the stock is trading at a FY10E and FY11F PE of 7.1x and 6.1x respectively.

Pakistan State Oil (PSO PA)

Higher furnace oil demand and resolution of the circular debt by June end are key near term triggers for PSO. Furnace oil demand is expected to grow at a 3 year (FY09-12) CAGR of 13%, of which PSO would be the major beneficiary due to its comparatively vast handling, storage and distribution network. Moreover, with the resolution of inter-corporate debt, the cash flows are expected to improve post 2QFY10, which in turn will help reduce its financial charges burden. Resultantly, we expect PSO to post impressive earnings of Rs48 per share in FY10, compared to a loss of Rs39 per share in FY09. The stock currently is trading at an attractive FY10E PE of 6.1x, which is at a discount of 53% and 23% to the region and the market. Additionally, the scrip offers an impressive dividend yield of 10% and 15% for FY10E and FY11F, respectively. We therefore reiterate our 'Buy' stance on PSO with a target price of Rs380.

Engro Chemicals Pakistan Limited (ENGRO PA)

Engro is currently trading at a 2010F PE of 12.4x with a dividend yield of 3.2%. With urea expansion plans (1.3mn tons of urea) expected to materialize by June 2010, a 220MW power plant (to go online early 2010), and positive cashflows expected from Engro Foods beyond 2010, are the key valuation triggers for the company. As far as the core (fertilizer) business is concerned, we believe increasing urea demand (growing at 3-3.5% annually) along with pro agriculture policies in the form of support prices and subsidies, will bode well for the company in the future. Moreover, the demerger of Engro Chemical and its consequent transfer of the fertilizer business to a newly formed entity, Engro Fertilizer, will allow the management to clearly define the roles for each of its affiliates, concentrate on strategizing to generate stronger results and raise more capital at the entity level when required.

Pakistan Oilfields Limited (POL PA)

Trading at a FY11F PE and dividend yield of 5.6x and 11.6% respectively, the stock is expected to post 3 year earnings CAGR of 21%. With a 21% post discovery stake, POL is the biggest beneficiary of discoveries and production enhancements in the TAL block. With additional 4,000bpd and 200mmcf oil and gas production from Manzalai, POL's gas production has doubled to around 80mmcf. The result of this production rise is yet to be reflected in the POL's earnings. In addition, stability in oil production from Pindori has also reduced the earnings volatility. Moving ahead, production flows from the recently discovered Maramzai and Mamikhel fields, would further augment the company's bottom line.

PPL - Key Statistics

	FY09A	FY10E	FY11F
EPS (Rs)	27.8	25.8	30.1
PE (x)	6.6	7.1	6.1
Div. yield (%)	7.1%	10.9%	14.7%
PBV (x)	2.9	2.5	2.3
ROE (%)	44%	35%	37%
Market Capitalization (US\$m)		2,176	
Free Float (%)			21%
Target Price			235

Source: JS Research

PSO - Key Statistics

	FY09A	FY10E	FY11F
EPS (Rs)	(39.1)	48.5	85.3
PE (x)	NM	6.1	3.5
Div. yield (%)	1.7%	9.9%	14.5%
PBV (x)	2.2	1.9	1.5
ROE (%)	NM	31%	43%
Market Capitalization (US\$m)		599	
Free Float (%)			43%
Target Price			380

Source: JS Research

ENGRO - Key Statistics

	2009E	2010F	2011F
EPS (Rs)	12.3	14.7	17.1
PE (x)	14.9	12.4	10.7
Div. yield (%)	2.0%	3.2%	4.2%
PBV (x)	2.0	1.8	1.6
ROE (%)	13%	14%	15%
Market Capitalization (US\$m)		647	
Free Float (%)			40%
Target Price			215

Source: JS Research

POL - Key Statistics

	FY09A	FY10E	FY11F
EPS (Rs)	23.8	27.6	40.3
PE (x)	9.5	8.2	5.6
Div. yield (%)	8.0%	7.3%	11.6%
PBV (x)	1.9	1.7	1.5
ROE (%)	20%	20%	26%
Market Capitalization (US\$m)		633	
Free Float (%)			46%
Target Price			265

Source: JS Research

Hub Power Company (HUBC PA)

Offering FY10E and FY11F dividend yields of 14.5% and 18.8%, Hub Power is our top defensive pick in the Pakistan Market. Our liking of the stock is based on its predictable dividend stream governed by the Power Purchase Agreement and company's commitment towards capacity enhancements in the form of Narowal and Larib power projects. Besides this, IMF's interest and government's efforts to resolve the circular debt is also expected to improve the liquidity situation in the power sector. At current levels, the stock provides US\$ and Rupee IRRs of 21.9% and 25.4%, respectively.

Pakistan Telecommunication Company Limited (PTC PA)

We continue to like PTCL as a defensive investment opportunity at current levels, offering a decent dividend yield of 10.3%. With the management's emphasis on curbing the decline in fixed line subscribers and adopting an aggressive stance in the broadband segment, we expect the company's bottom line to grow by 13% in FY10. Although the fixed line revenue stream will be under pressure, growth in broadband, WLL, International and value added segment will help earnings recover in the current fiscal year. Currently, trading at FY10E EV/EBITDA and PE of 2.2x and 8.4x respectively, we reiterate our 'Buy' stance on the scrip with a fair value of Rs24.

DG Khan Cement (DGKC PA)

We reiterate our liking for DGKC on the back of its portfolio investments, efforts to check cost inefficiencies and a gradual rise in cement demand. The company's strong portfolio not only enhances shareholders' value, but also provides a hedge against any downturn in core performance if it is to occur, in the shape of a steady dividend stream. The company has undertaken various cost efficient projects; using rice husk and pet coke in place of coal, a non-conventional grinding facility and implementation of waste heat recovery processes, to help counter declining cement prices. Cement's demand which remained depressed during the 1HFY10 is expected to gradually pick up owing to increased public sector spending. Foreign inflows from the IMF, the Kerry Lugar Law and other donors are likely to provide enough fiscal space to the government to accommodate its planned public spending. However, fined for cartelization by the Competition Commission, a contingency of Rs933mn (Rs3.1 per share) remains a major risk to our valuation of DGKC. The matter remains under review in the High Court. At a FY10E PBV of 0.3x, the stock is currently trading at a 86% and a 82% discount to the market and the region, respectively.

HUBC - Key Statistics

	FY09A	FY10E	FY11F
EPS (Rs)	3.3	4.3	5.5
PE (x)	9.5	7.2	5.6
Div. yield (%)	10.8%	14.5%	18.8%
PBV (x)	1.2	1.2	1.2
ROE (%)	13%	17%	22%
Market Capitalization (US\$m)			424
Free Float (%)			65%
Target Price			42

Source: JS Research

PTC - Key Statistics

	FY09A	FY10E	FY11F
EPS (Rs)	1.8	2.0	2.1
PE (x)	9.5	8.4	8.1
Div. yield (%)	8.8%	10.3%	10.3%
PBV (x)	0.8	0.8	0.8
ROE (%)	9%	9%	10%
Market Capitalization (US\$m)			761
Free Float (%)			15%
Target Price			24

Source: JS Research

DGKC - Key Statistics

	FY09A	FY10E	FY11F
EPS (Rs)	1.7	2.9	4.9
PE (x)	16.7	10.0	6.0
Div. yield (%)	0.0%	3.5%	3.5%
PBV (x)	0.4	0.3	0.3
ROE (%)	3%	3%	4%
Market Capitalization (US\$m)			104
Free Float (%)			50%
Target Price			38

Source: JS Research

Table: Major corporate events during the year

Jan-09	FSV circular	Allowance of 30% benefit of FSV for pledged stock and mortgage properties
Mar-09	Government issues TFC	TFCs worth Rs80bn were issued to clear the circular debt issue
Mar-09	Petroleum Policy	14-20% higher price benefit to E&P
Apr-09	2nd tranche from IMF	US\$848mn received from IMF
Jun-09	Budget FY10	Neutral impact on the market with auto assemblers and cement companies emerging as the major beneficiaries
Aug-09	Textile Policy	Several incentives in terms of cheaper rates and duty drawbacks were made available to the textile industry
Aug-09	Breakdown of price consensus between cement companies	50kg cement bag fell to a low of Rs220
Aug-09	CCP imposes fines against cartelisation	Rs 6.3bn fine imposed on 20 cement companies for alleged price cartelisation by CCP
Sep-09	Government issues TFC	2nd round of TFCs worth Rs85bn were issued to clear the circular debt issue
Oct-09	FSV circular	FSV benefit increased to 40% - with inclusion of commercial and industrial properties, in addition to restructuring of portfolio
Oct-09	Gas wellhead prices revised downwards	Gas well head prices declined by 32% translating into lower profitability for the E&P companies
Oct-09	Kerry-Lugar Bill	Bill approved by the cabinet
Nov-09	Commercial production from Manzanai	Commercial production from the field has started which touched a peak of 3900bpd and 208mmcf of oil and gas respectively
Nov-09	3rd tranche from IMF	US\$1.2bn received from IMF

Source: JS Research

Valuation Snapshot

Sector Wise Performance

Company Name	Rating	Index Weightage	Price 22-Dec	Mkt. Cap Rs bn	Paid-up Cap Rs mn	Price performance %			Diluted EPS (Rs)			PER (x)		
						1 mth	2 mth	3 mth	FY09A/E	FY10F	FY11F	FY09A/E	FY10F	FY11F
Banks														
Allied Bank Limited	Hold	1.8%	60.50	43.02	7,110.01	0.1%	16.7%	25.8%	9.05	9.77	10.43	6.69	6.19	5.80
Askari Bank	Hold	0.6%	26.63	13.51	5,073.47	-1.3%	7.9%	20.4%	3.44	3.87	4.31	7.74	6.88	6.18
Bank Al-Falah	Buy	0.8%	14.28	19.27	13,491.56	0.1%	4.5%	9.9%	1.85	2.03	2.22	7.70	7.04	6.43
Bank of Punjab	UR	0.4%	20.80	11.00	5,287.97	39.4%	50.7%	43.7%	UR	UR	UR	UR	UR	UR
Faysal Bank	Hold	0.5%	18.30	11.15	6,090.91	12.4%	9.1%	40.1%	2.16	2.49	2.77	8.48	7.34	6.62
Habib Bank Limited	Hold	4.6%	123.75	112.71	9,108.00	-1.7%	-3.8%	-1.4%	14.31	15.21	17.25	8.65	8.14	7.18
MCB Bank	Hold	6.3%	222.38	153.69	6,911.05	1.9%	9.6%	-2.3%	24.95	27.28	29.38	8.91	8.15	7.57
National Bank of Pakistan	Buy	3.3%	76.00	81.80	10,763.70	2.5%	-6.8%	-9.8%	11.76	13.04	15.23	6.46	5.83	4.99
NIB Bank	Hold	0.8%	4.94	19.98	40,437.27	-0.6%	-7.7%	-11.6%	0.13	0.21	0.31	37.50	23.33	16.15
Standard Chartered Bank	Hold	1.4%	9.10	35.23	38,715.85	0.0%	-5.5%	-0.3%	0.07	0.33	0.41	NM	NM	22.13
United Bank Limited	Hold	2.8%	60.76	67.62	11,128.91	1.0%	0.3%	4.6%	7.51	8.45	9.70	8.09	7.19	6.26
JS Banking Sector	MW	23.2%		568.97	154,118.70							8.46	7.62	6.99
Cement														
Lafarge Pakistan Cement	Hold	0.1%	2.14	2.81	13,126.44	1.9%	-13.0%	-21.9%	0.06	0.28	0.55	NM	7.70	3.89
DG Khan Cement	Buy	0.4%	28.90	8.79	3,042.49	1.8%	0.6%	-15.5%	1.73	2.90	4.85	16.73	9.96	5.96
Fauji Cement	Hold	0.2%	5.87	4.07	6,932.90	-5.9%	-18.2%	-24.5%	1.45	1.01	1.35	4.04	5.82	4.35
Lucky Cement	Buy	0.9%	65.02	21.03	3,233.75	1.9%	-0.8%	-11.4%	14.21	11.21	13.03	4.57	5.80	4.99
Maple Leaf Cement	Hold	0.0%	3.47	1.29	3,722.63	-9.2%	-15.0%	-26.3%	(2.64)	(0.28)	0.66	NM	NM	5.23
Pioneer Cement	Hold	0.0%	9.04	1.80	1,995.32	0.7%	-9.6%	-26.1%	0.18	0.56	2.41	NM	16.20	3.74
JS Cement Sector	MW	1.6%		39.79	32,053.54							7.57	7.13	4.93
Refinery														
Attock Refinery	Sell	0.5%	135.26	11.54	852.93	-13.5%	9.5%	-13.4%	11.92	15.28	19.41	11.35	8.85	6.97
Pakistan Refinery	Hold	0.2%	123.42	4.32	350.00	18.5%	12.0%	3.7%	(130.62)	12.63	15.43	NM	9.77	8.00
National Refinery	Hold	0.6%	181.34	14.50	799.67	-2.3%	-6.5%	-20.5%	19.17	31.61	39.73	9.46	5.74	4.56
JS Refinery Sector	MW	1.2%		30.36	2,002.60							NM	7.10	5.65
Power Generation														
Hub Power Co.	Buy	1.5%	30.93	35.79	11,571.54	-1.8%	-1.6%	-2.1%	3.27	4.30	5.50	9.47	7.19	5.62
KAPCO	Hold	1.6%	45.52	40.07	8,802.53	-2.1%	-5.2%	-13.4%	6.44	5.95	6.32	7.06	7.65	7.20
JS Power Sector	OW	3.1%		75.86	20,374.08							8.02	7.43	6.36
Oil & Gas Marketing														
Attock Petroleum	Buy	0.8%	347.36	20.01	576.00	1.9%	-0.9%	-4.4%	53.51	55.26	58.59	6.49	6.29	5.93
Pakistan State Oil	Buy	2.1%	294.54	50.52	1,715.20	-0.9%	-8.1%	-10.9%	(39.05)	48.48	85.33	NM	6.08	3.45
Shell Pakistan	Buy	0.7%	250.39	17.15	684.88	0.6%	-4.2%	-7.1%	41.00	45.99	53.50	6.11	5.44	4.68
Sui Northern Gas	Buy	0.5%	24.18	13.28	5,491.05	-7.1%	-11.4%	-21.2%	1.69	4.53	5.86	14.27	5.33	4.13
Sui Southern Gas	Buy	0.4%	13.11	8.80	6,711.74	-4.8%	-1.9%	-4.9%	0.38	1.77	2.04	34.17	7.42	6.43
JS OGM Sector	MW	4.5%		109.75	15,178.87							NM	5.99	4.18
Oil & Gas Exploration														
Oil & Gas Devp. Co.	Hold	19.1%	109.04	468.97	43,009.28	-1.7%	3.8%	-4.8%	12.91	12.64	14.72	8.44	8.63	7.41
Pakistan Oilfields	Buy	2.2%	225.60	53.36	2,365.46	0.8%	11.3%	3.9%	23.75	27.60	40.31	9.50	8.17	5.60
Pakistan Petroleum	Buy	7.5%	184.32	183.55	9,958.15	1.8%	2.7%	-5.0%	27.82	25.85	30.12	6.63	7.13	6.12
JS E&P Sector	OW	28.8%		705.89	55,332.89							7.94	8.15	6.86
Auto Assembler														
Indus Motors	Hold	0.6%	200.56	15.76	786.00	-0.5%	8.6%	9.4%	17.62	27.68	32.53	11.38	7.25	6.16
Pak Suzuki Motors	Sell	0.3%	89.45	7.36	823.00	-1.6%	-0.4%	-2.6%	5.60	9.42	13.69	15.97	9.49	6.53
JS Auto Assembler Sector	UW	0.9%		23.13	1,609.00							12.53	7.84	6.28
Technology & Comm.														
P.T.C.L.	Buy	2.6%	17.00	64.16	37,740.00	-6.7%	-12.3%	-19.8%	1.79	2.02	2.09	9.47	8.42	8.15
WorldCall Telecom	Hold	0.1%	3.60	3.10	8,605.72	7.8%	7.5%	2.9%	(0.48)	0.02	0.12	NM	NM	29.70
JS Telecom Sector	OW	2.7%		67.26	46,345.72							10.58	8.81	8.43
Fertilizer														
Engro Chemical	Buy	2.2%	183.00	54.52	2,979.43	0.9%	12.1%	7.2%	12.29	14.73	17.09	14.89	12.43	10.71
Fauji Fertilizer Co.	Hold	2.9%	105.44	71.54	6,785.27	-0.8%	1.9%	4.5%	13.15	13.84	14.14	8.02	7.62	7.46
Fauji Fertilizer Bin Qasim	Hold	0.9%	24.74	23.11	9,341.10	-4.0%	-5.5%	7.3%	2.82	3.33	3.37	8.78	7.42	7.34
JS Fertilizer Sector	OW	6.1%		149.18	19,105.80							9.80	8.83	8.36
Miscellaneous														
Adamjee Insurance	Hold	0.6%	126.55	14.23	1,124.59	4.0%	19.6%	13.6%	24.95	13.75	16.10	5.07	9.20	7.86
Engro Polymer	Hold	0.4%	18.01	9.37	5,203.68	-7.2%	-9.4%	-14.6%	0.66	2.65	3.05	27.18	6.79	5.90
ICI Pakistan	Hold	0.9%	163.21	22.65	1,388.02	-2.8%	-1.7%	-0.5%	16.07	17.20	17.69	10.15	9.49	9.22
Nishat Mills	Hold	0.7%	71.04	17.23	2,424.83	6.8%	23.5%	1.3%	5.23	7.84	8.78	13.59	9.07	8.09
Packages Ltd.	Buy	0.5%	146.46	12.36	843.80	-0.5%	-5.5%	-11.7%	51.60	10.08	19.18	NM	14.54	7.64
JS Miscellaneous Sector	MW	3.1%		75.84	10,984.91							NM	9.40	7.90
JS UNIVERSE		75.4%		1,846.02	357,106.09							9.50	7.85	6.71

Notes: Price performance is of December 22, 2009 and based on actual prices not adjusted for corporate actions

Outliers adjusted wherever required

OW = Over Weight UR = Under Review
 MW = Market Weight NA = Not Applicable
 UW = Under Weight NM = Not Meaningful

Valuation Snapshot

													Sector Wise Performance		
Earnings Growth (%)			Price/BV (x)			Dividend Yield (%)			ROE (%)			Price 22-Dec	Rating	Company Name	
FY09A/E	FY10F	FY11F	FY09A/E	FY10F	FY11F	FY09A/E	FY10F	FY11F	FY09A/E	FY10F	FY11F				
Banks															
55%	8%	7%	1.68	1.42	1.21	4.1%	5.0%	5.0%	25.1%	22.9%	20.8%	60.50	Hold	Allied Bank Limited	
NM	NM	11%	0.96	0.86	0.78	3.8%	3.8%	4.7%	12.4%	12.5%	12.6%	26.63	Hold	Askari Bank	
92%	9%	10%	0.89	0.81	0.74	3.5%	3.5%	5.3%	11.5%	11.4%	11.5%	14.28	Buy	Bank Al-Falah	
UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	20.80	UR	Bank of Punjab	
18%	16%	11%	0.78	0.69	0.61	0.0%	5.5%	5.5%	9.2%	9.4%	9.3%	18.30	Hold	Faysal Bank	
30%	6%	13%	1.57	1.36	1.18	3.6%	3.2%	3.4%	18.2%	16.8%	16.5%	123.75	Hold	Habib Bank Limited	
12%	9%	8%	2.15	1.83	1.59	4.5%	4.7%	4.9%	24.2%	22.5%	20.9%	222.38	Hold	MCB Bank	
-18%	11%	17%	0.72	0.65	0.58	7.2%	6.6%	6.6%	11.1%	11.2%	11.6%	76.00	Buy	National Bank of Pakistan	
(1.07)	NM	0.45	0.49	0.48	0.47	-	-	-	0.01	0.02	0.03	4.94	Hold	NIB Bank	
-59%	358%	26%	0.82	0.79	0.76	0.0%	0.0%	0.0%	0.6%	2.8%	3.4%	9.10	Hold	Standard Chartered Bank	
0%	12%	15%	1.30	1.14	1.00	3.7%	3.3%	3.3%	16.1%	15.9%	15.9%	60.76	Hold	United Bank Limited	
12%	11%	14%	1.26	1.12	0.95	4.2%	4.2%	4.1%	14.9%	14.7%	13.6%		MW	JS Banking Sector	
Cement															
NM	374%	98%	0.29	0.28	0.26	0.0%	0.0%	0.0%	0.8%	3.7%	6.8%	2.14	Hold	Lafarge Pakistan Cement	
NM	68%	67%	0.42	0.27	0.26	0.0%	3.5%	3.5%	2.5%	2.8%	4.4%	28.90	Buy	DG Khan Cement	
144%	-31%	34%	0.38	0.37	0.36	0.0%	8.5%	8.5%	9.5%	6.4%	8.3%	5.87	Hold	Fauji Cement	
72%	-21%	16%	0.90	0.84	0.75	6.2%	3.1%	5.8%	19.8%	14.5%	15.1%	65.02	Buy	Lucky Cement	
NM	NM	NM	0.17	0.18	0.18	0.0%	0.0%	28.8%	-12.6%	-1.5%	3.5%	3.47	Hold	Maple Leaf Cement	
NM	208%	333%	0.76	0.76	0.65	0.0%	5.5%	11.1%	1.5%	4.7%	17.5%	9.04	Hold	Pioneer Cement	
NM	6%	45%	0.53	0.46	0.43	3.3%	3.5%	6.1%	7.1%	6.4%	8.7%		MW	JS Cement Sector	
Refinery															
-63%	28%	27%	0.96	0.89	0.82	0.0%	3.7%	4.4%	8.4%	10.1%	11.7%	135.26	Sell	Attock Refinery	
NM	NM	22%	1.98	1.72	1.48	0.0%	2.4%	3.2%	NM	17.6%	18.5%	123.42	Hold	Pakistan Refinery	
-74%	65%	26%	0.84	0.78	0.72	6.9%	8.3%	11.6%	8.8%	13.5%	15.7%	181.34	Hold	National Refinery	
NM	NM	26%	0.96	0.89	0.82	3.3%	5.7%	7.7%	NM	12.5%	14.4%		MW	JS Refinery Sector	
Power Generation															
45%	32%	28%	1.21	1.22	1.24	10.8%	14.5%	18.8%	12.8%	17.0%	22.0%	30.93	Buy	Hub Power Co.	
8%	-8%	6%	1.77	1.76	1.76	14.2%	13.0%	13.8%	25.0%	23.1%	24.5%	45.52	Hold	KAPCO	
20%	8%	17%	1.45	1.46	1.47	12.6%	13.7%	16.2%	18.1%	19.6%	23.1%		OW	JS Power Sector	
Oil & Gas Marketing															
17%	3%	6%	2.83	2.16	1.77	7.2%	8.1%	9.2%	43.5%	34.3%	29.9%	347.36	Buy	Attock Petroleum	
NM	NM	76%	2.16	1.89	1.48	1.7%	9.9%	14.5%	NM	31.1%	43.0%	294.54	Buy	Pakistan State Oil	
NM	12%	16%	2.33	2.00	1.69	10.0%	11.2%	12.4%	38.2%	36.7%	36.2%	250.39	Buy	Shell Pakistan	
-63%	168%	29%	0.86	0.60	0.57	0.0%	11.3%	14.5%	6.0%	11.3%	13.8%	24.18	Buy	Sui Northern Gas	
-75%	360%	15%	0.87	0.87	0.88	0.0%	12.8%	14.8%	2.6%	11.7%	13.7%	13.11	Buy	Sui Southern Gas	
NM	NM	43%	1.73	1.43	1.23	3.7%	10.2%	13.2%	0.6%	23.8%	29.5%		MW	JS OGM Sector	
Oil & Gas Exploration															
12%	-2%	16%	3.72	3.51	3.20	7.6%	9.5%	10.8%	44.0%	40.6%	43.2%	109.04	Hold	Oil & Gas Devp. Co.	
-22%	16%	46%	1.87	1.68	1.46	8.0%	7.3%	11.6%	19.6%	20.5%	26.0%	225.60	Buy	Pakistan Oilfields	
41%	-7%	17%	2.91	2.48	2.25	7.1%	10.9%	14.7%	43.9%	34.8%	36.8%	184.32	Buy	Pakistan Petroleum	
16%	-3%	19%	3.24	2.95	2.67	7.5%	9.7%	11.9%	40.8%	36.1%	38.9%		OW	JS E&P Sector	
Auto Assembler															
-40%	57%	18%	1.53	1.40	1.20	5.0%	6.5%	7.5%	13.5%	19.3%	19.4%	200.56	Hold	Indus Motors	
-26%	68%	45%	0.50	0.49	0.46	2.2%	4.5%	6.1%	3.2%	5.1%	7.1%	89.45	Sell	Pak Suzuki Motors	
-37%	60%	25%	0.93	0.87	0.80	4.1%	5.8%	7.1%	7.4%	11.2%	12.7%		UW	JS Auto Assembler Sector	
Technology & Comm.															
NM	13%	3%	0.81	0.79	0.77	8.8%	10.3%	10.3%	8.6%	9.3%	9.5%	17.00	Buy	P.T.C.L.	
NM	NM	NM	0.24	0.24	0.24	0.0%	0.0%	0.0%	NM	0.1%	0.8%	3.60	Hold	WorldCall Telecom	
NM	20%	5%	0.73	0.71	0.70	8.4%	9.8%	9.8%	6.9%	8.1%	8.3%		OW	JS Telecom Sector	
Fertilizer															
-14%	20%	16%	1.99	1.79	1.61	2.0%	3.2%	4.2%	13.4%	14.4%	15.0%	183.00	Buy	Engro Chemical	
37%	5%	2%	5.46	5.13	4.83	12.5%	13.1%	13.4%	68.1%	67.3%	64.7%	105.44	Hold	Fauji Fertilizer Co.	
-9%	18%	1%	2.24	2.11	2.08	10.8%	12.8%	12.9%	25.5%	28.5%	28.3%	24.74	Hold	Fauji Fertilizer Bin Qasim	
11%	11%	6%	2.94	2.69	2.49	8.4%	9.5%	10.0%	30.0%	30.5%	29.8%		OW	JS Fertilizer Sector	
Miscellaneous															
155%	-45%	17%	1.27	1.13	1.01	1.6%	1.6%	1.6%	24.9%	12.3%	12.8%	126.55	Hold	Adamjee Insurance	
-2%	301%	15%	1.37	1.30	1.25	0.9%	11.1%	13.6%	5.0%	19.2%	21.1%	18.01	Hold	Engro Polymer	
9%	7%	3%	1.56	1.38	1.24	5.5%	5.7%	6.4%	15.4%	14.6%	13.5%	163.21	Hold	ICI Pakistan	
-79%	50%	12%	0.89	0.59	0.57	2.8%	3.5%	3.9%	6.6%	6.5%	7.0%	71.04	Hold	Nishat Mills	
NM	NM	90%	0.76	0.73	0.68	1.4%	3.4%	6.8%	26.6%	5.0%	8.8%	146.46	Buy	Packages Ltd.	
-52%	283%	19%	1.11	0.92	0.86	2.9%	4.7%	5.9%	3.1%	9.8%	10.9%		MW	JS Miscellaneous Sector	
-4%	21%	18%	1.71	1.48	1.31	6.1%	7.8%	9.0%	18.0%	18.8%	19.6%			JS UNIVERSE	

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