

Deficit containment to be ensured

Despite a fair number of reforms carried out under the Stand-By Arrangement (SBA) in FY10, IMF is still not pleased with the current pace of the programme's implementation by the Government of Pakistan (GoP). Fiscal deficit is the top most concern, along with delay in the energy price pass-through and tax related reforms. This has also raised a question mark on the completion of the US\$10.6bn Stand-By facility of IMF, expiring in December 2010, which has seen almost all tranches coming in, late by at least a month or two (see table). Despite the delays, we believe the government is committed to complying with IMF's conditionality so as to ensure the reduction of Pakistan's macroeconomic risk premia. We believe the upcoming budget will be formulated with an objective of containing the deficit through elimination of subsidies and broadening of the tax base with implementation of the Value Added Tax (VAT).

What is in store?

- Electricity price pass-through of another 6%.
- Imposition of capital gains tax on stock market transactions and VAT nationwide.
- Enhancement of excise tax net to include a number of services (e.g. banking and insurance); increase in WHT charged on imports.
- Removal of exemptions to textile and agriculture.

Upcoming budget: Immunization of the economic system

Unlike the previous budgets, the government will refrain from announcing ambitious development and budgetary targets and the focus will be on relieving the poor through targeted subsidies, giving higher pay increments to government employees and an increase in the minimum wage level. While the focus is clearly on raising taxes by broadening the base, imposition of CGT on stock trading and the likely introduction of the Wealth Tax Ordinance may spark some confusion amongst retail investors. However, we continue to expect quality long-term institutional inflows from local and foreign sources in the stock market.

Market outlook: Positive

We continue to remain upbeat on the stock market on grounds of the macro economic recovery. The GDP growth is expected to be around 4.0% FY10, up from 1.2% in FY09. Interestingly, the balance of macro risk points towards policy easing than tightening in the year to come. Pakistan was amongst the few countries in the world, which have undergone massive re-structuring and did not implement any stimulus package in order to revive the economy. Relatively speaking, the Pakistani market is the cheapest in comparison to its regional and frontier peers. The KSE-100 index is trading at a 2011F PE of 7.1x, and is offering a steep discount of 43% to the regional peers. It is interesting to note that, Pakistan is also trading at a deep discount to its frontier market peers. The Sri lankan and Bangladeshi markets are trading at PE of 16.6x and 30x, respectively. The Budget FY11 is expected to be a nonevent for the Oil, Telecom, Banks & Fertilizer sectors, while it could carry good news for the cement sector. In contrast, Chemicals, Autos and Textiles may be negatively impacted.

Pakistan: Access under the Proposed Stand-By Arrangement, 2008-10

Availability Date	Approval Date	Purchase (US\$)
24-Nov-08		3.20
30-Mar-09		0.84
30-Jun-09	7-Aug-09	1.13
15-Sep-09	30-Nov-09	1.13
15-Dec-09	28-Feb-10	1.13
15-Mar-10	* 31-May-10	1.13
15-Jun-10	31-Aug-10	1.13
15-Sep-10	30-Nov-10	1.13

Source: IMF

* Expected to be delayed

Macro economic indicators

	FY08A	FY09A	FY10E
GDP growth (%)	4.1	2.0	3.5-4.0
C/A deficit (% of GDP)	8.4%	5.6%	3.8%
CPI (%)	12.0	20.8	11.0
M2 growth (%)	14.0	7.2	13.0
FX Reserves (US\$bn)	11.3	11.8	16.5
Ext. Debt (US\$bn)	44.5	51.1	55.5
Fiscal deficit (% of GDP)	7.4%	4.2%	5.3%

Source: JS Research, SBP, FBS, IMF

Pakistan Market - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	18%	21%	11%
PE (x)	8.6	7.1	6.4
Div. yield (%)	6.5%	8.2%	9.1%
PBV (x)	1.6	1.4	1.3
ROE (%)	18%	20%	21%

Source: JS Research

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Budget FY11: IMF related instructions are the key

Despite significant efforts made by the GoP, IMF is not impressed. In the 25-month stand-by facility, IMF had demanded a bulk of the structural reforms to be carried out within the space of the first 12 months. While this may be possible in theory, it has been a difficult task to manage for a democratically elected government. Amongst the key reforms; the government has tabled the controversial VAT law in the parliament, empowered SBP, and restructured the FBR (for details see table below). Looking ahead, we believe the government is not likely to risk discontinuation of the ongoing SBA programme and will make every effort to meet the remaining IMF structural targets.

Pakistan: Structural Conditionality, December 2008- July 2010

Structural benchmark	Initial Target Date	Revised Target Date	Status
Contingency bailout plan for private banks	31-Dec-08		Met
GST and Income tax reforms	31-Dec-08		Met
Electricity tariff adjustment & differential subsidy elimination	31-Dec-08	Aug-10	last phase of 6% remaining
Eliminating SBP's provision of foreign exchange for FO	1-Feb-09		Met
Measures to strengthen the social safety net	31-Mar-09		Met
Eliminate the inter-corporate circular debt	31-Mar-09		Delayed
The transition to a single treasury account	30-Jun-09	Jun-10	Underway
Enhance SBP banking supervision powers	31-Aug-09		Met with delay
Form new group with FBR: Inland Revenue	15-Sep-09		Met
Revise existing RTO and LTU structures	15-Sep-09		Met with delay
Harmonise the GST and Income tax laws	30-Sep-09		Delayed
Submission of the VAT law to parliament	30-Sep-09	Apr-10	
An expedited sales tax refund system	31-Mar-10		Delayed
Independent review and audit of PIFRA	30-Jun-10		
Implementation of VAT	1-Jul-10		

Source: IMF

FY11 budget rationale

We believe the government has learnt its lesson and will refrain from announcing a populist budget. In the preceding fiscal year, the government had caused dismay when it was unable to deliver the promised development budget, owing to the failure in receiving FoDP and Kerry-Lugar funds. This time around, we opine the theme of the ongoing budget is to improve the government's treasury position by ensuring higher tax receipts and curtailing unnecessary expenditures, even though another US\$4.0bn is anticipated from the FoDP soon. Other major reforms, we expect the government to announce are:

- Electricity price pass-through of another 6%.
- Imposition of capital gains tax on stock market transactions and VAT nationwide.
- Enhancement of excise tax net to include a number of services (e.g. banking and insurance); increase in WHT charged on imports.
- Removal of exemptions to textile and agriculture.

Additionally, the government may announce particulars of its blue print about the retirement of inter-corporate debt, the transition to a single treasury account and elimination of subsidies from non-energy sectors.

The new budget projections

The Federal budget for FY11 is estimated to be around Rs3.27trn, up 13% from the original budget of last year. Current expenditure for the coming fiscal year is estimated to be around Rs2.53trn, compared to the projection of Rs2.6trn for FY10. The FBR revenue target is likely to be approximately a whopping Rs1.71trn compared to Rs1.38trn in FY10. The introduction of VAT, CGT and taxes on agriculture are the key reforms to be implemented. The deficit target is expected to be set inline with IMF's benchmark of 4.3% or Rs703bn, and that the bulk will be financed from domestic sources.

Fiscal deficit projections

(Rs bn)	FY09A	FY10E		FY11F
		Program *	Projected	Projected
Revenue	1,851	2,146	2,146	2,445
Tax revenue	1,331	1,583	1,583	1,950
Federal	1,285	1,513	1,513	
FBR revenue	1,157	1,380	1,340	1,711
Nontax revenue	520	563	500	495
Expenditure	2,497	2,867	3,050	3,279
Current expenditure	2,093	2,327	2,610	2,532
Federal	1,547	1,737	1,920	
Interest	638	649	649	695
Domestic	559	577	577	
Foreign	79	72	72	
Dev. expenditure & net lending	404	540	440	747
Overall deficit (incl. grants)	(655)	(617)	(803)	(703)
<i>as % of GDP</i>	<i>-5.0%</i>	<i>-4.2%</i>	<i>-5.3%</i>	<i>-4.3%</i>
Financing	655	617	803	703
External	72	267	207	176
Domestic	583	350	596	527
Bank	356	194	418	395
Non-bank	227	156	178	132

Source: IMF & JS Research Estimates

* Program numbers are IMF projections

Is the revenue target ambitious? Our answer is no, if FBR has successfully completed the groundwork related to the implementation of VAT on services as well as commodity producing sectors. As per estimates of FBR, VAT may help procure an extra Rs75bn over and above the sales tax collection. This plus CGT tax on stock market transactions, coupled with stricter compliance of CVT on real estate may help FBR to earn extra revenue. Moreover, riding on an expected recovery in the GDP statistics, the FBR should be able to collect higher direct tax revenue in FY11. Notably, the direct tax collection during 9MFY10 significantly dropped to 37.6% of total taxes, compared to 38.5% of the previous year.

Expenditures: Given the higher domestic debt servicing, law & order situation, a possible rise in the payscale of government employees and higher salaries of the military personnel, the current expenditure should remain high. But this should be

compensated however, through further reduction in subsidies and grants under the Coalition Support Fund and Kerry-Lugar reimbursement of US\$1.5bn.

PSDP: With the approval of the 7th NFC award, the share of the Federal government in the divisible pool is to be significantly reduced to 43.5% in FY11, increasing its reliance on provinces for PSDP. We expect the PSDP for Federal government to be substantially reduced to Rs300bn. We estimate the consolidated figure for development to be Rs747bn in FY11, up from Rs540bn last year.

FY10 fiscal balance snap shot

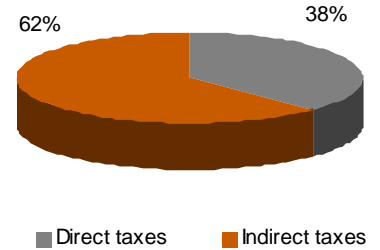
Deficit for FY10 is expected to surpass 5.1% on account of higher expenditures incurred on defense and interest payments and non-receipts from the coalition support fund. Additionally, financing of the deficit will remain a core issue through out the year, owing to a possibility of not receiving FoDP projected funding of US\$2.5bn and a delay in the Kerry- Lugar annual payment of US\$1.5bn. This and the power crisis have affected the overall direct tax collection for the period under review. IMF has remained critical during FY10 because of Pakistan's inability to meet the deficit target and in response delayed the tranches by 30-45days. In the outgoing year, the government failed to divest any of its key public holdings and was not able to issue planned Eurobonds. The tax collection for the full year is expected to fall short by Rs40-50bn, while the current expenditures are expected to over run by at least Rs300bn. The total subsidies for FY10 will surpass the projected figure, due to delayed implementation of the power tariff hike.

Tax Revenue snapshot

(Rs bn)	FY10	July - March		%Δ
	Target	FY09	FY10	
Direct taxes	541	306	342	12
Indirect taxes	839	508	567	12
Sales tax	540	322	371	15
Import related	-	149	-	
Domestic	-	172	-	
Federal Excise	134	81	84	4
Customs	165	105	112	7
Total net collection	1,380	814	909	12

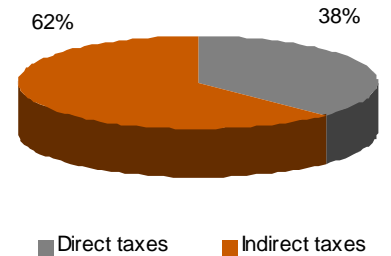
Source: Ministry of Finance

Tax revenue breakup (9MFY10)



Source: MoF

Tax revenue breakup (9MFY09)



Source: MoF

Strategy & Stock market

A key note of interest in the Budget FY11 would be imposition of the Capital Gains Tax (CGT). Though regarded negatively by investors, an advance agreement on the modalities between the KSE and the GoP in Feb 2010 has helped alleviate pre budget anxieties to a large extent. Imposition of VAT at 15% is however, expected to have a muted impact on equity markets as most of the key sectors - banks, fertilizers & telecom etc - are already exposed to GST and FED. On a positive note though, VAT may procure an extra Rs75bn for the tax kitty, thus providing the GoP with enhanced fiscal space for a higher development utilization. Moreover, greater liquidity would help relieve pressure on market interest rates, which would in turn be positive for high leveraged blue chips such as ENGRO, LUCK, DGKC and NML. Further, with Dr. Hafeez Sheikh in charge of the Finance Ministry, a return to the Privatization theme seems to be on the cards, which would serve as a much needed boost for equity markets

Balanced budget; CGT, a key event for KSE

Unlike the Budget FY10, which promised a lot but delivered precious little, we expect Budget FY11 to be more balanced. Targeted subsidies - albeit lower in quantum - and focus on raising tax revenue through the implementation of CGT on share trading, VAT and extension of excise duty to create fiscal space, would drive the broader budgetary theme. Moreover, restoration of wealth tax, while adversely impacting retail investors will generate some much needed funds for the government.

Some likely features of the CGT regime are:

- Short term capital gains on all purchases made after July 1, 2010 would be taxed in the range of 7.5-10% (see table).
- Tax rates would remain unchanged until FY12, with an annual increase of 2.5% for the less than 6 months category (capped at 17.5%) and yearly increment of 0.5% for 1 year or less category, capped at 10%, then on.
- Capital losses would be adjustable against capital gains and unabsorbed losses can be carried forward up to a maximum 6 years.
- No change in the tax structure for banks, while insurance companies would be liable to pay CGT from July 1, 2010.
- Mutual funds would be exempted from paying CGT; however, fund holders would pay a tax on redemption.
- Indexation to inflation for foreign investors is likely

Capital Gain Tax rates

	FY10-12	FY13	FY14
upto 6 months	10.0%	12.5%	14.5%
6-12 months	7.5%	8.0%	8.5%
> 12 months	NIL	NIL	NIL

Source: KSE

International comparison

Vietnam

Both domestic & foreign investors are subject to 25% CGT upon sale of interest in the Vietnamese Limited Liability Company. In case of foreigners, CGT is withheld by the purchaser & filed to the tax authorities

India

Short Term 10% Securities transaction tax (STT) of 0.125% on the total transaction value.
Long Term Nil However, for squaring off daily positions, a STT of 0.025% applies.

United Kingdom

The balance of overall gains (gains-costs-tax reliefs-losses) and Annual Exempt amount (£10,100 for 2009-10) is taxed at 18%.

Source: JS Research

Impact of CGT; taking clues from Vietnam and India

A key concern for equity market participants with regard to CGT is the anticipated fall in volumes, once the mechanism takes effect (July 1, 2010). The brokerage industry, already reeling from the impact of low volumes and in turn revenues remains uneasy. In order to obtain a better understanding of the potential pitfalls, we conducted a study on the pre and post CGT volumes for Vietnam and India. The two countries have already undergone the CGT experience and broadly have similar structural issues as Pakistan. Interestingly, our analysis reveals that contrary to general concerns, volumes in the two countries did not reflect any notable aberration. For instance, average daily volumes in Vietnam actually rose marginally in 2010 after CGT was imposed at 25% effective Jan 1, 2010. Similarly, when India announced a 10% short term CGT alongwith a 0.125% turnover tax (STT) in 2004, volumes after an initial slide in the period up to the effective date, subsequently returned to the pre CGT & STT levels.

Supported by the above analysis we feel that concerns over shrinkage in volumes have been largely overplayed. Moreover, issues with regard to anonymous accounts are exaggerated as the bourse transactions are currently recorded and can be identified through the UIN – a number assigned to each investor to keep check on speculative activity. Hence, even without the CGT around, investors are not off the FBR's ambit.

Market Outlook: Positive

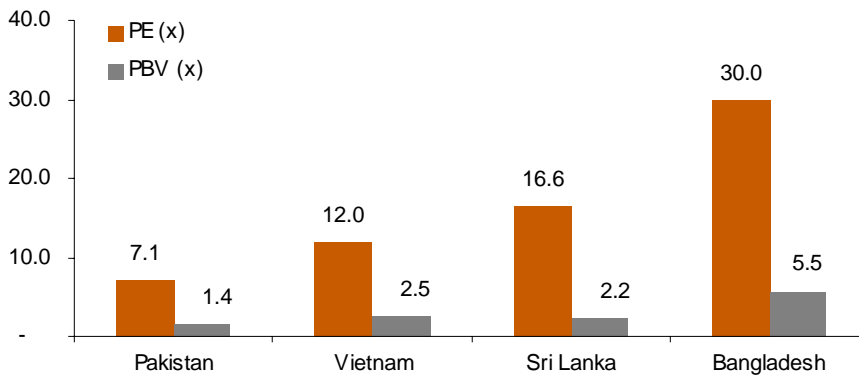
Though the Budget FY11 is likely to be neutral for equity markets, we continue to remain bullish on the KSE mainly on the back of improved macros, a less mercurial political temperature and attractive valuations. The expected launch of the 7 day cash settled futures also serves as a positive development and can help generate increased activity levels at the local bourse. In addition, appointment of Dr Hafeez Sheikh as the Finance Advisor suggests a return of the privatization theme, with OGDC and PPL already in talks to issue convertible bonds worth US\$750mn and US\$500mn respectively. From a valuation perspective, KSE 100 index is trading at an FY11F PE of 7.1x, a deep discount of 43% to regional markets. The discount is even higher (57%) when compared with MSCI Frontier Asian markets - particularly Bangladesh & Sri Lanka – two countries having broadly similar macros and structural issues.

Vietnam:

Average daily volumes pre & post CGT	
	mn shares
Pre CGT	
2007	9.64
2008	13.90
2009	44.19
Post CGT	
2010 todate	50.05

Source: Reuters

MSCI Frontier Asian Markets one year forward multiples



Source: JS Research, Reuters

The above analysis entails that Pakistan is a strong case for re-rating, thus we maintain our Dec 2010 index target of 11,800 points. The key risks to our thesis are (1) increased terrorist activities & deterioration of the security situation, 2) confrontation between the Executive and the Judiciary and (3) delays in foreign funds transfer, which could hurt liquidity and hold up interest rate cut.

The upcoming Budget is expected to be a non-event for the Oil, Telecom, Banks & Fertilizer sectors, while it could carry good news for the cement sector in the form of increased PSDP utilization. In contrast, Chemicals, Autos and Textiles may be negatively impacted through a diminished duty protection, a raise in the age limit for imported cars and implementation of VAT respectively.

In the light of macro economic recovery, a full year 200-250bps policy rate cut expectation, resolution of the circular debt and higher PSDP utilization, we forecast a 21% earnings growth for FY11. Remaining upbeat on the Oil, Telecom, Fertilizer, Power and Textile sectors, we flag PPL, POL, PSO, PTC, ENGRO, HUBCO and NML as potential outperformers.

Stock market key statistics

	2006A	2007A	2008A	2009A	2010E	2011F	2012F
Profit growth (%)	18%	-1%	1%	-3%	18%	21%	11%
PER	11.4	13.2	12.0	10.5	8.6	7.1	6.4
Dividend yield (%)	5.4%	4.2%	5.0%	6.3%	6.5%	8.2%	9.1%
Price/Book value	3.2	3.1	2.6	1.9	1.6	1.4	1.3
Return on equity	28%	23%	22%	18%	18%	20%	21%

* Based on JS universe companies

* Avg prices for 2006 to 2009 taken, for 2010-2012 prices are as of May 19, 2010

JS Universe key scrips

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 21% return (excluding dividends) to investors by Dec 2010. Moreover, an attractive dividend yield of 7.7% and 11.3% expected for FY10E and FY11F 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. At current levels, the stock is trading at FY11F PE of 5.8x.

Pakistan Oilfields Limited (POL PA)

Trading at an FY11F PE and dividend yield of 5.7x and 10.5% respectively, the stock is expected to post 3 year earnings CAGR of 28%. With a 21% post discovery stake, POL is the main beneficiary of discoveries and production enhancements in the TAL block. With additional 4,000bpd of oil and 200mmcf/d gas production from Manzalai, POL's gas production has doubled to around 80mmcf/d. Further, stability in oil production from Pindori has also reduced earnings volatility. Moving ahead, production flows from the Maramzai and Mamikhel fields, would further augment the company's bottom line.

Pakistan State Oil (PSO PA)

Pakistan State Oil (PSO) is expected to be the major beneficiary of the rise in furnace oil demand from the power generation sector, given its vast handling and distribution capacity. As a result, PSO furnace oil sales are likely to grow by a 3-year (FY10-13) CAGR of 6%. Moreover, likely clearance of the back log of inter-corporate debt by June end will help reduce its financial charges burden. The stock currently is trading at an attractive FY11F PE of 4.9x and offers a decent dividend yield of 8%. We therefore reiterate our 'Buy' stance on PSO with a target price of Rs390.

Pakistan Telecommunication Company (PTC PA)

Pakistan Telecom, our top pick in the telecom sector, has a strong footing in the fixed, cellular and broadband segment. With recovery signs apparent in the fixed line segment, as the trend of subscriber departure appears to have bottomed out at ~3mn, demand for broadband & value added services continue to gather pace. The management continues to work aggressively on the broadband front, and subscribers are expected to reach 1.3mn by FY12, from the current ~450k, while revenue share is poised to grow from the current ~7% to ~12%. Further, management focus is intact on tapping corporate clientele for its broadening service portfolio, evident from signing of two high profile contracts with nationwide banks. Moreover, it's wholly owned cellular subsidiary, Ufone, continues to post impressive performance in a highly competitive environment. An additional trigger in the form of a possible increase by Etisalat in its holding, from the current 26%, highlights the long term potential of the company. The scrip offers an 44% upside to a fair value of Rs31, and trades at an attractive FY11F EV/EBITDA and PE of 3.1x and 10.1x, respectively. It also offers an attractive dividend yield of 9%.

PPL - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	24.8	33.8	35.7
PE (x)	7.9	5.8	5.5
Div. yield (%)	7.7%	11.3%	12.8%
PBV (x)	2.2	2.0	1.8
ROE (%)	28%	34%	32%
Market Capitalization (US\$m)	2,299		
Free Float (%)	21%		
Target Price	236		

Source: JS Research

POL - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	32.3	40.9	48.6
PE (x)	7.3	5.7	4.8
Div. yield (%)	8.1%	10.5%	12.4%
PBV (x)	1.9	1.7	1.5
ROE (%)	26%	29%	31%
Market Capitalization (US\$m)	657		
Free Float (%)	46%		
Target Price	285		

Source: JS Research

PSO - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	52.2	60.8	62.8
PE (x)	5.7	4.9	4.8
Div. yield (%)	7.0%	8.0%	8.3%
PBV (x)	2.0	1.6	1.3
ROE (%)	34%	32%	28%
Market Capitalization (US\$m)	609		
Free Float (%)	43%		
Target Price	390		

Source: JS Research

PTC - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	2.0	2.1	2.4
PE (x)	10.8	10.1	8.9
Div. yield (%)	8.1%	8.8%	9.3%
PBV (x)	1.1	1.1	1.0
ROE (%)	10%	11%	12%
Market Capitalization (US\$m)	965		
Free Float (%)	15%		
Target Price	31		

Source: JS Research

Engro Corporation (ENGRO PA)

Trading at a post expansion 2011F PE and dividend yield of 8.7x and 5.1% respectively, the scrip offers great opportunity to take indirect exposure in the growth oriented and government focused agriculture sector. Engro's long term investments in the food and energy sectors continue to remain major growth triggers for the company, going forward. We expect the food business to turn to profitability in 2011 while its Qadirpur power plant has already commissioned online (contributing 2.4% to its consolidated profitability in 1Q2010). Hence, we advice investors to 'Buy' Engro, on positive long term plays with one caveat however, that a close watch be kept on any new developments on the gas curtailment issue.

Hub Power Company (HUBC PA)

Offering FY10E and FY11F dividend yields of 14.1% and 15.5%, 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 the company's commitment towards capacity enhancements in the form of Narowal and Larib power projects. Besides this, government's efforts and recent announcement to inject Rs116bn into energy sector would significantly improve the liquidity situation in the power sector. At current levels, the stock provides US\$ and Rupee IRRs of 21% and 25%, respectively.

Nishat Mills Limited (NML PA)

With a gradual recovery in the western economies, we believe NML's core business looks steady as ever. Nevertheless, strong competition from the regional countries remains a major risk for the company. However, addition of Nishat Power Limited (NPL) to its already strong portfolio and new investment in the AES power project will also add value beyond FY11. The stock currently trades at an FY10E and FY11F PE of 7.1x and 5.9x respectively, and we reiterate our 'Buy' call on the scrip.

ENGRO - Key Statistics

	2010E	2011F	2012F
EPS (Rs)	16.8	22.7	26.5
PE (x)	11.8	8.7	7.4
Div. yield (%)	3.0%	5.1%	6.0%
PBV (x)	2.2	1.9	1.7
ROE (%)	19%	22%	23%
Market Capitalization (US\$m)	765		
Free Float (%)	32%		
Target Price	235		

Source: JS Research

HUBC - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	4.7	5.5	6.1
PE (x)	7.2	6.1	5.5
Div. yield (%)	14.1%	15.5%	17.2%
PBV (x)	1.3	1.3	1.3
ROE (%)	19%	21%	23%
Market Capitalization (US\$m)	463		
Free Float (%)	65%		
Target Price	45		

Source: JS Research

NML - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	7.4	8.8	12.0
PE (x)	7.1	5.9	4.4
Div. yield (%)	7.4%	7.3%	9.9%
PBV (x)	0.8	0.8	0.8
ROE (%)	12%	13%	17%
Market Capitalization (US\$m)	219		
Free Float (%)	50%		
Target Price	71		

Source: JS Research

Valuation Snapshot

Sector Wise Performance

Company Name	Rating	Index Weightage	Price 19-May	Mkt. Cap Rs bn	Paid-up Cap Rs mn	Price performance %			Diluted EPS (Rs)			PER (x)		
						1 mth	2 mth	3 mth	FY10E	FY11F	FY12F	FY10E	FY11F	FY12F
Banks														
Allied Bank Limited	Buy	1.8%	59.05	46.18	7,821.01	-7.0%	3.3%	-11.0%	10.51	11.62	13.00	5.62	5.08	4.54
Askari Bank	Hold	0.4%	15.41	9.90	6,427.44	-23.1%	-42.1%	-46.5%	1.88	2.10	2.31	8.20	7.32	6.66
Bank Al-Falah	Hold	0.5%	10.03	13.53	13,491.56	-14.3%	-16.4%	-24.0%	0.70	1.58	1.84	14.29	6.34	5.46
Faysal Bank	Hold	0.4%	15.35	9.35	6,090.91	-18.3%	-12.1%	-17.6%	3.45	1.44	1.81	4.45	10.65	8.48
Habib Bank Limited	Hold	3.9%	100.99	101.18	10,018.80	-10.2%	-8.6%	-20.4%	15.16	16.95	19.02	6.66	5.96	5.31
MCB Bank	Hold	6.0%	203.51	154.71	7,602.15	-6.5%	-0.2%	-8.6%	23.15	25.75	28.20	8.79	7.90	7.22
National Bank of Pakistan	Buy	3.5%	67.37	90.64	13,454.63	-13.4%	-28.6%	-19.6%	12.37	14.41	16.80	5.45	4.67	4.01
NIB Bank	Hold	0.6%	3.64	14.72	40,437.27	-21.7%	-13.1%	-27.2%	0.08	0.10	0.18	45.02	37.41	19.85
United Bank Limited	Buy	2.6%	55.41	67.83	12,241.80	-8.3%	-6.8%	-14.9%	8.60	10.51	11.83	6.44	5.27	4.68
JS Banking Sector	MW	19.8%		508.06	117,585.57							6.98	6.15	5.27
Cement														
Lafarge Pakistan Cement	Hold	0.2%	3.21	4.21	13,126.44	-30.2%	-33.0%	-24.6%	(0.72)	(0.31)	0.05	NM	NM	NM
DG Khan Cement	Buy	0.3%	24.60	8.98	3,650.99	-21.5%	-16.9%	-16.2%	2.19	3.51	4.36	11.25	7.01	5.65
Fauji Cement	Buy	0.2%	5.72	3.97	6,932.90	-18.5%	-6.2%	-16.5%	0.43	0.84	0.97	13.18	6.83	5.87
Lucky Cement	Buy	0.9%	69.74	22.55	3,233.75	-14.1%	-11.6%	-2.8%	11.71	14.05	15.41	5.96	4.96	4.53
Maple Leaf Cement	Hold	0.0%	3.77	1.40	3,722.63	-19.3%	-6.2%	-8.7%	(6.15)	(3.18)	(0.33)	NM	NM	NM
JS Cement Sector	OW	1.6%		41.12	30,666.72							7.27	5.54	4.90
Refinery														
Attock Refinery	Buy	0.3%	97.96	8.36	852.93	-18.9%	-12.7%	-12.9%	7.52	10.76	17.41	13.03	9.11	5.63
Pakistan Refinery	Sell	0.1%	99.45	3.48	350.00	-8.7%	1.6%	-3.3%	(48.12)	(23.31)	(26.55)	NM	NM	NM
National Refinery	Buy	0.6%	180.03	14.40	799.67	-7.3%	6.5%	4.9%	34.46	40.68	44.89	5.22	4.43	4.01
JS Refinery Sector	MW	1.0%		26.23	2,002.60							15.32	7.82	6.33
Power Generation														
Hub Power Co.	Buy	1.5%	33.80	39.11	11,571.54	-3.4%	2.5%	5.5%	4.72	5.53	6.13	7.16	6.11	5.52
KAPCO	Buy	1.4%	41.92	36.90	8,802.53	-8.4%	-6.2%	-7.5%	5.50	6.00	6.40	7.62	6.99	6.55
JS Power Sector	OW	3.0%		76.01	20,374.08							7.37	6.51	5.97
Oil & Gas Marketing														
Attock Petroleum	Buy	0.8%	338.09	19.47	576.00	-7.3%	-4.5%	-3.8%	54.31	61.34	64.66	6.23	5.51	5.23
Pakistan State Oil	Buy	2.0%	299.54	51.38	1,715.20	-5.4%	-2.6%	-1.4%	52.15	60.84	62.80	5.74	4.92	4.77
Shell Pakistan	Hold	0.7%	251.09	17.20	684.88	-10.8%	-13.3%	-10.9%	24.30	27.56	28.43	10.33	9.11	8.83
Sui Northern Gas	UR	0.6%	29.62	16.26	5,491.05	-10.6%	-11.3%	5.8%	UR	UR	UR	UR	UR	UR
Sui Southern Gas	Sell	0.5%	17.64	11.84	6,711.74	-19.2%	-10.3%	4.1%	(0.12)	0.60	0.86	NM	29.40	20.58
JS OGM Sector	MW	4.5%		116.15	15,178.87							7.19	5.96	5.44
Oil & Gas Exploration														
Oil & Gas Devp. Co.	Hold	22.6%	135.13	581.18	43,009.28	0.3%	7.4%	13.2%	13.10	15.22	15.78	10.31	8.88	8.56
Pakistan Oilfields	Buy	2.2%	234.55	55.48	2,365.46	-5.4%	1.1%	-1.6%	32.29	40.87	48.58	7.26	5.74	4.83
Pakistan Petroleum	Buy	7.6%	194.92	194.10	9,958.15	-3.4%	1.1%	-0.6%	24.77	33.75	35.69	7.87	5.77	5.46
JS E&P Sector	OW	32.4%		830.77	55,332.89							9.37	7.64	7.23
Auto Assembler														
Indus Motors	Buy	0.8%	256.19	20.14	786.00	7.2%	21.2%	17.3%	37.25	39.30	40.05	6.88	6.52	6.40
Pak Suzuki Motors	Hold	0.3%	84.02	6.91	823.00	-8.3%	5.4%	-11.0%	9.42	13.69	16.88	8.92	6.14	4.98
JS Auto Assembler Sect	MW	1.1%		27.05	1,609.00							7.30	6.42	5.96
Technology & Comm.														
P.T.C.L.	Buy	3.2%	21.59	81.48	37,740.00	-2.0%	3.1%	9.8%	1.99	2.13	2.42	10.85	10.14	8.94
JS Telecom Sector	OW	3.2%		81.48	37,740.00							10.85	10.14	8.94
Fertilizer														
Engro Corporation	Buy	2.5%	197.09	64.59	3,277.37	-5.1%	5.8%	4.2%	16.76	22.71	26.49	11.76	8.68	7.44
Fauji Fertilizer Co.	Hold	3.0%	115.02	78.04	6,785.27	-1.8%	6.6%	9.5%	13.78	14.14	14.53	8.35	8.13	7.92
Fauji Fertilizer Bin Qasim	Hold	1.0%	28.52	26.64	9,341.10	-11.4%	-9.0%	-10.9%	3.46	3.95	4.20	8.24	7.21	6.79
Fatima Fertilizer	Buy	0.0%	11.24	22.48	20,000.00	-10.4%	-11.5%	NL	0.05	1.06	1.34	NM	10.65	8.41
JS Fertilizer Sector	OW	7.5%		191.76	39,403.74							10.55	8.40	7.63
Textile														
Nishat Chunian Limited	Buy	0.0%	17.98	2.23	1,240.81	-18.5%	-4.5%	-20.1%	5.69	4.18	6.09	3.16	4.30	2.95
Nishat Mills	Buy	0.7%	52.53	18.47	3,516.00	-7.4%	-7.3%	-11.2%	7.39	8.84	12.02	7.11	5.94	4.37
JS Textile Sector	OW	0.8%		20.70	4,756.81							6.27	5.71	4.16
Miscellaneous														
Adamjee Insurance	Buy	0.5%	95.08	11.76	1,237.05	-16.2%	-23.9%	-24.2%	11.86	15.49	19.07	8.02	6.14	4.99
Engro Polymer	Hold	0.3%	12.88	8.55	6,634.69	-13.0%	-10.2%	-27.1%	0.14	2.41	3.47	NM	5.35	3.71
ICI Pakistan	Buy	0.8%	140.70	19.53	1,388.02	-11.0%	-9.3%	-15.4%	16.60	17.69	20.56	8.48	7.95	6.84
Lotte Pakistan PTA Ltd.	Hold	0.6%	9.96	15.08	15,142.07	-19.7%	-6.4%	-6.1%	1.96	1.76	1.69	5.07	5.65	5.88
Packages Ltd.	Buy	0.4%	124.90	10.54	843.80	-9.6%	-2.5%	-11.0%	7.10	10.72	12.46	17.60	11.66	10.02
JS Miscellaneous Sector	MW	2.6%		65.46	25,245.62							8.67	6.77	5.82
JS UNIVERSE		76.3%		1,958.67	345,139.08							8.57	7.11	6.38

Notes: Price performance is of May 19, 2010 and based on actual prices not adjusted for corporate actions

Outliers adjusted wherever required

OW = Over Weight UR = Under Review NL = Not Listed
 MW = Market Weight NA = Not Applicable ACC = Accumulate
 UW = Under Weight NM = Not Meaningful

Valuation Snapshot

													Sector Wise Performance		
Earnings Growth (%)			Price/BV (x)			Dividend Yield			ROE			Price	Rating	Company Name	
FY10E	FY11F	FY12F	FY10E	FY11F	FY12F	FY10E	FY11F	FY12F	FY10E	FY11F	FY12F	19-May			
Banks															
15%	11%	12%	1.30	1.13	0.98	7.6%	8.5%	9.3%	23.1%	22.2%	21.6%	59.05	Buy	Allied Bank Limited	
9%	12%	10%	0.63	0.59	0.56	3.2%	4.9%	4.9%	7.6%	8.1%	8.4%	15.41	Hold	Askari Bank	
6%	125%	16%	0.64	0.59	0.56	5.0%	5.0%	7.5%	4.4%	9.4%	10.2%	10.03	Hold	Bank Al-Falah	
75%	-58%	26%	0.64	0.62	0.59	3.3%	3.3%	3.3%	14.4%	5.8%	6.9%	15.35	Hold	Faysal Bank	
24%	12%	12%	1.15	1.03	0.92	6.4%	6.9%	7.4%	17.3%	17.3%	17.3%	100.99	Hold	Habib Bank Limited	
14%	11%	10%	1.95	1.71	1.51	5.4%	5.7%	5.9%	22.2%	21.7%	20.9%	203.51	Hold	MCB Bank	
-9%	17%	17%	0.71	0.66	0.61	10.4%	11.1%	11.9%	13.1%	14.2%	15.1%	67.37	Buy	National Bank of Pakistan	
-53%	20%	89%	0.36	0.36	0.36	0.0%	0.0%	0.0%	0.8%	1.0%	1.8%	3.64	Hold	NIB Bank	
15%	22%	13%	0.98	0.86	0.76	5.4%	6.3%	6.8%	15.2%	16.4%	16.3%	55.41	Buy	United Bank Limited	
10%	14%	13%	1.03	0.94	0.83	6.5%	7.0%	7.7%	15.6%	16.0%	16.4%		MW	JS Banking Sector	
Cement															
NM	NM	NM	0.55	0.59	0.58	0.0%	0.0%	0.0%	-12.5%	-5.7%	0.9%	3.21	Hold	Lafarge Pakistan Cement	
52%	60%	24%	0.31	0.29	0.29	1.0%	4.1%	6.1%	2.8%	4.1%	5.1%	24.60	Buy	DG Khan Cement	
-70%	93%	16%	0.38	0.38	0.38	0.0%	0.0%	3.5%	2.8%	5.5%	6.4%	5.72	Buy	Fauji Cement	
-18%	20%	10%	0.90	0.80	0.71	3.0%	5.8%	6.4%	15.1%	16.1%	15.6%	69.74	Buy	Lucky Cement	
NM	NM	NM	0.28	0.40	0.50	0.0%	0.0%	0.0%	-45.2%	-33.7%	-4.3%	3.77	Hold	Maple Leaf Cement	
-58%	182%	49%	0.53	0.51	0.49	1.9%	4.1%	5.2%	2.1%	6.0%	8.6%		OW	JS Cement Sector	
Refinery															
-37%	43%	62%	0.67	0.64	0.60	2.0%	5.1%	7.1%	5.1%	7.0%	10.7%	97.96	Buy	Attock Refinery	
NM	NM	NM	0.90	1.14	1.64	0.0%	0.0%	0.0%	-43.6%	-26.8%	-43.9%	99.45	Sell	Pakistan Refinery	
80%	18%	10%	0.76	0.71	0.65	8.3%	12.2%	13.9%	14.6%	15.9%	16.3%	180.03	Buy	National Refinery	
-185%	96%	24%	0.74	0.72	0.69	5.2%	8.3%	9.9%	4.8%	9.2%	10.9%		MW	JS Refinery Sector	
Power Generation															
45%	17%	11%	1.33	1.31	1.29	14.1%	15.5%	17.2%	18.5%	21.4%	23.5%	33.80	Buy	Hub Power Co.	
-15%	9%	7%	1.55	1.54	1.54	11.3%	13.8%	15.0%	20.4%	22.1%	23.5%	41.92	Buy	KAPCO	
9%	13%	9%	1.43	1.41	1.40	12.7%	14.7%	16.1%	19.4%	21.7%	23.5%		OW	JS Power Sector	
Oil & Gas Marketing															
1%	13%	5%	2.24	1.86	1.58	7.6%	9.1%	9.6%	36.0%	33.8%	30.2%	338.09	Buy	Attock Petroleum	
NM	17%	3%	1.96	1.58	1.32	7.0%	8.0%	8.3%	34.1%	32.1%	27.6%	299.54	Buy	Pakistan State Oil	
-35%	13%	3%	2.51	2.45	1.21	8.0%	10.0%	10.0%	24.3%	26.9%	13.7%	251.09	Hold	Shell Pakistan	
UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	29.62	UR	Sui Northern Gas	
NM	NM	43%	1.23	1.22	1.20	0.0%	2.2%	3.9%	-0.9%	4.1%	5.8%	17.64	Sell	Sui Southern Gas	
NM	21%	10%	1.58	1.40	1.54	6.8%	8.4%	8.9%	22.0%	23.4%	28.3%		MW	JS OGM Sector	
Oil & Gas Exploration															
1%	16%	4%	4.01	3.53	3.14	5.2%	7.8%	8.3%	38.8%	39.7%	36.7%	135.13	Hold	Oil & Gas Devp. Co.	
36%	27%	19%	1.91	1.68	1.49	8.1%	10.5%	12.4%	26.3%	29.3%	30.9%	234.55	Buy	Pakistan Oilfields	
-11%	36%	6%	2.22	1.96	1.77	7.7%	11.3%	12.8%	28.2%	33.9%	32.4%	194.92	Buy	Pakistan Petroleum	
0%	23%	6%	3.18	2.80	2.50	6.0%	8.8%	9.6%	33.9%	36.6%	34.6%		OW	JS E&P Sector	
Auto Assembler															
111%	5%	2%	1.67	1.45	1.29	5.9%	6.2%	7.0%	24.3%	22.3%	20.2%	256.19	Buy	Indus Motors	
204%	45%	23%	0.46	0.44	0.42	4.8%	6.5%	8.3%	5.1%	7.1%	8.3%	84.02	Hold	Pak Suzuki Motors	
126%	14%	8%	0.99	0.91	0.84	5.6%	6.3%	7.4%	13.6%	14.2%	14.1%		MW	JS Auto Assembler Sector	
Technology & Comm.															
11%	7%	13%	1.09	1.07	1.04	8.1%	8.8%	9.3%	10.1%	10.6%	11.6%	21.59	Buy	P.T.C.L.	
11%	7%	13%	1.09	1.07	1.04	8.1%	8.8%	9.3%	10.1%	10.6%	11.6%		OW	JS Telecom Sector	
Fertilizer															
48%	35%	17%	2.18	1.95	1.74	3.0%	5.1%	6.0%	18.5%	22.4%	23.4%	197.09	Buy	Engro Corporation	
6%	3%	3%	5.53	5.15	4.81	11.7%	12.1%	12.4%	66.3%	63.3%	60.7%	115.02	Hold	Fauji Fertilizer Co.	
-15%	14%	6%	2.40	2.25	2.16	11.2%	12.6%	13.7%	29.1%	31.3%	31.8%	28.52	Hold	Fauji Fertilizer Bin Qasim	
NM	NM	27%	0.96	0.90	0.83	0.0%	0.0%	0.0%	0.4%	8.4%	9.8%	11.24	Buy	Fatima Fertilizer	
12%	28%	10%	2.45	2.25	2.07	7.4%	8.4%	9.0%	23.2%	26.8%	27.1%		OW	JS Fertilizer Sector	
Textile															
583%	-26%	46%	0.55	0.49	0.46	5.6%	5.6%	7.0%	17.5%	11.4%	15.5%	17.98	Buy	Nishat Chunian Limited	
105%	20%	36%	0.84	0.79	0.75	7.4%	7.3%	9.9%	11.8%	13.3%	17.3%	52.53	Buy	Nishat Mills	
141%	10%	37%	0.79	0.74	0.70	7.2%	7.1%	9.6%	12.6%	13.0%	17.0%		OW	JS Textile Sector	
Miscellaneous															
-40%	31%	23%	0.98	0.86	0.75	2.1%	2.1%	2.1%	12.2%	14.1%	15.1%	95.08	Buy	Adamjee Insurance	
NM	NM	44%	1.33	1.27	1.10	0.0%	1.9%	7.8%	1.4%	23.7%	29.8%	12.88	Hold	Engro Polymer	
13%	7%	16%	1.19	1.07	0.90	6.7%	7.4%	10.3%	14.1%	13.5%	13.2%	140.70	Buy	ICI Pakistan	
NM	-10%	-4%	1.56	1.30	1.13	5.0%	5.0%	5.0%	30.8%	23.0%	19.2%	9.96	Hold	Lotte Pakistan PTA Ltd.	
-85%	51%	16%	0.44	0.42	0.40	3.2%	4.0%	4.8%	2.5%	3.6%	4.0%	124.90	Buy	Packages Ltd.	
NM	28%	16%	0.95	0.87	0.77	4.0%	4.6%	6.4%	11.0%	12.8%	13.3%		MW	JS Miscellaneous Sector	
18%	21%	11%	1.57	1.43	1.31	6.5%	8.2%	9.1%	18.3%	20.1%	20.6%			JS UNIVERSE	

Expected Budgetary Measures

Banks

A possible development could come in the budget regarding the **Single Treasury Account (STA)**. Though the implementation process has witnessed delays, STA remains part of the broader IMF policy. Moreover, with talks on another IMF programme are expected to go on the floor soon, we believe IMF could get stricter on this condition. As of Dec 2009, government deposits constitute 19% of the total deposits of the big 5 banks and any withdrawal could thus inflict strain on the liquidity situation. We believe any future transfer would appear in a phased manner.

Other measures could come in the form of a possible upward revision in WHT on cash withdrawals from the current 0.3% or a reduction in the limit, from Rs25,000. Revision in NSS rates in line with the prevalent PIB yields is also expected to form part of the measures. Moreover, excise duty on banking services could rise, but is unlikely to have any major impact on the volume of transactions.

Oil & Gas Exploration

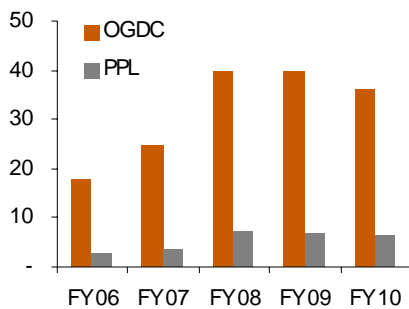
Dividend estimates for OGDC and PPL: The upcoming budget will reveal dividend estimates, of the government for the two largest state-run E&P companies – OGDC and PPL. For FY10, the government had forecasted dividend income of Rs36bn (Rs9.8 per share) and Rs6.5bn (Rs8.3 per share) from OGDC and PPL respectively. However, we expect OGDC to contribute Rs26bn (Rs7 per share) and PPL to contribute Rs11.7bn (Rs15 per share) as dividend income during the period.

Power

Power Subsidy: The last fiscal budget had an allocation of Rs67bn as power subsidy. However, from the coming fiscal year the government could cease to allocate the subsidy as one of the conditions of the current IMF programme.

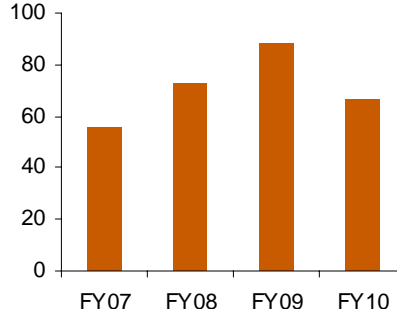
Circular Debt: The government has already announced an injection of Rs116bn in the energy chain to resolve the circular debt situation in the oil and power sector. We believe the government would reiterate its statement in the budget and could provide a blueprint for the payment.

Govt. dividend estimates (Rs bn)



Source: Budget documents

Power subsidy (Rs bn)



Source: Budget documents

Banks - Key Statistics

	2010E	2011F	2012F
Growth (%)	10%	14%	13%
PE (x)	7.0	6.1	5.3
Div. yield (%)	6.5%	7.0%	7.7%
PBV (x)	1.0	0.9	0.8
ROE (%)	16%	16%	16%

Source: JS Research

Deposit break up (Dec 2009)

	Private	Public
Allied Bank	90%	10%
MCB Bank	97%	3%
National Bank	63%	37%
Habib Bank	82%	18%
United Bank	90%	10%

Source: Annual accounts

Oil & Gas Exploration - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	0%	23%	6%
PE (x)	9.4	7.6	7.2
Div. yield (%)	6.0%	8.8%	9.6%
PBV (x)	3.2	2.8	2.5
ROE (%)	34%	37%	35%

Source: JS Research

Power - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	9%	13%	9%
PE (x)	7.4	6.5	6.0
Div. yield (%)	12.7%	14.7%	16.1%
PBV (x)	1.4	1.4	1.4
ROE (%)	19%	22%	23%

Source: JS Research

Refineries

We expect the upcoming budget to be a non event for refineries.

Fertilizer

Fertilizer subsidy: In contrast to last year we expect the quantum of subsidy on urea to be on the lower side as we rule out any urea imports by GoP in the latter half of FY11 (due to commissioning of Engro's new plant in August 2010). Hence, we believe the government would announce a subsidy of Rs6bn (based on further urea imports of 350-450k tons for 1HFY11). Our assumption is premised on the fact that the gas curtailment for the fertilizer sector will end on July 31, 2010. However, any prolonged gas curtailment could see GoP announcing a much higher subsidy. Moreover, to encourage use of potash fertilizer, we anticipate GoP to allocate a Rs500mn subsidy taking the cumulative subsidy to Rs6.5bn for the sector.

As we expect DAP prices to hover in the range of Rs2600-2700 per bag, we do not foresee any subsidy announcement for phosphate fertilizers.

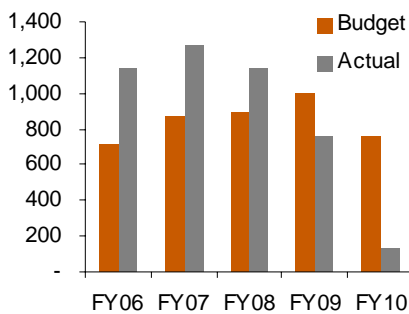
Oil & Gas Marketing

PDL collection target: To meet revenue collection targets, the government is likely to continue charging the Petroleum Development Levy (PDL) on oil products in FY11. Assuming no change in PDL per liter (Rs3-14 on various products), we expect the government to set a target of Rs105bn for the same.

GDS: The Budget is generally a nonevent for the gas marketing companies; with announcement of the Gas Development Surcharge (GDS) figure, being the key takeaway. Last year, the GDS target stood at Rs29.9bn.

Dividend Expectations: The GoP had estimated a dividend of Rs765mn, Rs692mn and Rs200mn for PSO, SNGPL and SSGC respectively, in the previous federal budget. We however anticipate a lower payout of Rs131mn by PSO (assuming final dividend for FY10 to be announced after June 30) and no dividend from either gas marketing companies, given the inter-corporate debt issue. We expect the government to set a dividend target of Rs1.1bn from PSO for FY11.

PSO dividend estimates (Rs mn)



Source: Budget documents

Telecom

The abnormal GST charge of 19.5% on the telecom industry compared to 16% on all other sectors, continues to be a key setback for the industry, and has once again been proposed to be brought in line with other areas of business. If this duty is replaced with VAT, the final charge on services will go down, but will be at the cost of many other input items coming into the tax net.

Refinery - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	-185%	96%	24%
PE (x)	15.3	7.8	6.3
Div. yield (%)	5.2%	8.3%	9.9%
PBV (x)	0.7	0.7	0.7
ROE (%)	5%	9%	11%

Source: JS Research

Fertilizer - Key Statistics

	2010E	2011F	2012F
Growth (%)	12%	26%	10%
PE (x)	10.5	8.4	7.6
Div. yield (%)	7.4%	8.4%	9.0%
PBV (x)	2.4	2.3	2.1
ROE (%)	23%	27%	27%

Source: JS Research

Oil & Gas Marketing - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	NM	21%	10%
PE (x)	7.2	6.0	5.4
Div. yield (%)	6.8%	8.4%	8.9%
PBV (x)	1.6	1.4	1.5
ROE (%)	22%	23%	28%

Source: JS Research

PDL collection target (Rs bn)

High Speed Diesel (HSD)	78
Motor Gasoline (Mogas)	25
Kerosene Oil (SKO)	1.4
Light Diesel Oil (LDO)	0.2
Total	105

Source: JS Research

Telecom - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	11%	7%	13%
PE (x)	10.8	10.1	8.9
Div. yield (%)	8.1%	8.8%	9.3%
PBV (x)	1.1	1.1	1.0
ROE (%)	10%	11%	12%

Source: JS Research

No concrete measure is expected on the SIM activation charge, which was reduced by 50% to Rs250 in the previous budget. As there has been a slowdown in the sale of new connections, this charge has now become less significant for the operators. The government collected Rs3.8bn from this head in 1HFY10, compared to Rs14.2bn in the whole of last year.

Finally, dividend target from PTCL is expected to be set at Rs6.2bn (Rs1.95/share) for FY11. Dividend from PTCL for FY10 of Rs5.6bn (Rs1.75/share) announced along with the third quarter results is to be credited to the government in mid June.

Cement

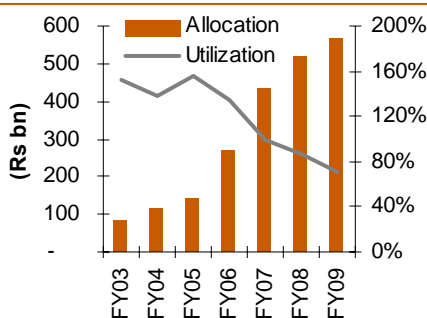
Development expenditure: Total development expenditure which is expected to be 38% higher than last year's Rs540bn, is widely considered a measure to gauge cement demand for the upcoming fiscal year. However, only an average 78% of the announced PSDP allocation has been disbursed during the last 3 years mainly due to the government facing a lack of funds. Hence, we believe all eyes will be on the foreign inflows which can act as a key catalyst in improving PSDP utilization, as was the case during FY03 – FY06 (average utilization 145%). Moreover, improved fiscal space on the back of higher tax receipts will enhance utilization. We expect local demand to rise by 13% to 24.3mn tons during the upcoming fiscal year.

Inland freight subsidy: The government is likely to extend the 35% subsidy on inland transportation of goods for exports to 2010-11. However, announcement of this measure is expected to be made in the Trade Policy; subsequent to the federal budget.

Cement plants situated in the North and South of the country incur an average Rs900 and Rs350 per ton cost for transporting goods to the seaport. Hence, these are likely to benefit by Rs315 and Rs123 per ton, respectively, resulting in an accretion in their margins.

However, with a limited export potential for the industry, this measure can trigger a manufacturers' price war similar to the one witnessed in the local market, to capture a larger share of the export arena. We view, export sales for the industry to remain flat at 10mn tons during FY11.

PSDP allocation & utilization



Source: MoF

Autos

Deferment of AIDP: The government had approved a 5-year auto policy (Auto Industry Development Programme) in Nov 2007, in order to provide a long-term duty structure to the local industry. As per the plan, auto manufacturers would be

Cement - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	-58%	192%	49%
PE (x)	7.3	5.5	4.9
Div. yield (%)	1.9%	4.1%	5.2%
PBV (x)	0.5	0.5	0.5
ROE (%)	2%	6%	9%

Source: JS Research

Possible impact of 35% inland freight subsidy (EPS)

(Rs)	FY11F
Lucky Cement	0.95
Maple Leaf Cement	0.70
DG Khan Cement	0.56
Lafarge Cement	0.06
Fauji Cement	-

Source: JS Research

Auto Assemblers - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	126%	14%	8%
PE (x)	7.3	6.4	6.0
Div. yield (%)	5.6%	6.3%	7.4%
PBV (x)	1.0	0.9	0.8
ROE (%)	14%	14%	14%

Source: JS Research

required to localize certain parts, and attract 50% custom duty (35% earlier) in case of imports. However, with actual production volumes not reaching the AIDP projected level (503k units), deferment of the AIDP has been proposed. Under management guidelines, if the AIDP is not deferred, cost is likely to rise by an approximate 6-7%, which in turn would either reduce margins or hurt volumes if passed through.

Increase in the age limit: Age limit on import of old CBUs was slashed from 5 years to 3 in the Budget FY08. Local auto assemblers are proposing to maintain the current age limit, contrary to the demand of car importers. If raised, it is likely to have a negative impact on the volumes of the local industry, in a similar manner as Budget FY07 when the age limit was increased from 3 years to 5, as imported cars' market share rose to 22% from 9% a year earlier.

Reduction in withholding tax: A fixed amount of withholding tax was imposed on sale of cars and LCVs at the registration stage in Budget FY09 (refer to table on the side for details). It has been proposed to decrease the tax, to reduce purchasing cost for the customers.

Textile

Implementation of broad based VAT: It has been proposed that a broad based VAT system be introduced and the export based textile sector should no longer fall under the zero-rated regime. The VAT that will be imposed across the supply chain will push costs upward for the local manufacturers and thus hamper the earnings especially for the non-export segments of the industry. As for the export based segment, this would impact the liquidity of the mills as recovery of VAT from the Federal Board of Revenue (FBR) would be a tedious and a long awaiting task. As per our discussions with different textile companies, it takes around 8-12 months on an average and sometimes more to get these receipts back from the government. As a result of this delay, a certain portion of the working capital gets blocked which creates cash flow dilemmas for the textile companies.

Minimum wage requirement increased to Rs7000 per month: Minimum wage requirement is to be increased to Rs7,000 per month from Rs6,000 per month. As the textile sector is a labour intensive industry, it will push costs up and dent profitability. However, large textile units like NML and NCL already have their labour employed at the required wage level. Hence, this will have no major impact on their costs.

Export Finance Scheme rate to be revised upwards: The rate of refinance under the Export Finance Scheme is expected to be revised upwards which will elevate the financial cost burden of businesses and negatively affect the earnings. This increase in rate will continue until the subsidy is eventually phased out. This is as per the requirement of the IMF, which requires Pakistan to eliminate all subsidies on loans in order to relieve the pressure off the fiscal deficit.

Considering the cotton supply dilemma prevalent in the world, we expect the government to provide more incentives to the farmers in order to encourage them to switch to cotton sowing and produce a bumper cotton crop in FY11. Therefore, if the international cotton supply deficit continues to exist and the Cotlook remains up going forward, there would be a lucrative upside for the local farmers to cash on. As for the textile companies, they will procure cotton at a significantly higher rate than they did in the outgoing fiscal year which will result in their effective margins taking a hit.

Parts to attract 50% custom duty as per AIDP

Alternator	Air cleaner assembly
Starter motor	Seat recliner
Water pump	Power steering
Fuel pump	Engine
Fuel Filter	Transmission

Source: AIDP

Withholding tax slabs

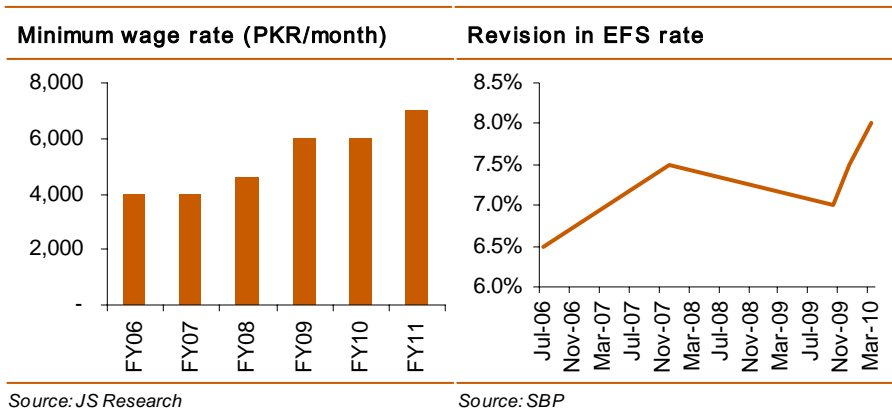
(Rs)	Current	Proposed
Upto 850 CC	7,500	6,000
851 to 1000 CC	10,500	6,000
1001 to 1300 CC	16,875	7,500
1301 to 1500 CC	16,875	7,500
1501 to 1600 CC	16,875	7,500
1601 to 1800 CC	22,500	10,000
1801 to 2000 CC	16,875	12,500
Above 2000 CC	50,000	12,500

Source: Income tax ordinance 2001 & PAMA

Textile - Key Statistics

	FY10E	FY11F	FY12F
Growth (%)	141%	10%	37%
PE (x)	6.3	5.7	4.2
Div. yield (%)	7.2%	7.1%	9.6%
PBV (x)	0.8	0.7	0.7
ROE (%)	13%	13%	17%

Source: JS Research



Chemicals

Reduction in PTA import duty expected: We believe, the duty protection rate of 7.5% on the import of PTA would be reviewed in the upcoming budget with a downward revision likely. In our view, a 1% reduction in tariff rate would erode the LOTPTA's 2010 and 2011 EPS by Rs0.16 and Rs0.17, respectively.

Impact of duty reduction on EPS and Gross profit margins

Duty	2010E		2011F	
	Gross Profit Margin	EPS (Rs)	Gross Profit Margin	EPS (Rs)
7.50%	12.1%	1.96	11.2%	1.76
6.5%	11.2%	1.80	10.4%	1.59
5.5%	10.4%	1.65	9.5%	1.43
4.5%	9.5%	1.49	8.7%	1.26
3.5%	8.7%	1.33	7.8%	1.10

Source: JS Research

Chemical - Key Statistics

	2010E	2011F	2012F
Growth (%)	3%	25%	15%
PE (x)	8.0	6.4	5.6
Div. yield (%)	4.8%	5.5%	8.0%
PBV (x)	1.3	1.2	1.0
ROE (%)	17%	18%	18%

Source: JS Research

Historical duty protection rate

Time Period	Duty Protection
FY98-FY08	15.0%
FY09-FY10	7.5%
FY11	Further reduction likely

Source: JS Research

Notes

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