

LOTPTA: Clouds getting thicker

- We further reduce mid-term PTA/PX prices and primary margins from US\$192/143/139 to US\$145/129/142 for 2012/13/14 as the cycle takes a sharper downturn.
- Adjusting for this, we cut LOTPTA's 2012/13/14 EPS estimates by 47%/26%/2% to PRs0.9/1.0/1.26. Our estimates are 36-43% below consensus where we expect the street to converge in the near-term.
- We also lower our PO by 27% to PRs6.6 and reiterate Underperform. We believe (1) continuing margin weakness, (2) risk of another loss in 1Q12 and (3) lack of triggers could keep the stock performance under pressure.
- On the upside, we believe LOTPTA's cash holdings of ~PRs5bn and leverage capacity can prove to be a source of respite in future.

Estimates downgraded as margins take a sharper downturn...

Following our non-consensus revision in margin in Oct-11, we further reduce mid-term PTA/PX prices and primary margins from US\$192/143/139 to US\$145/129/142 for 2012/13/14 as the cycle takes a sharper downturn. Our downgrade is triggered by capacity utilization for PTA and PX taking opposing routes; where we expect capacity additions to result in drop in PTA capacity utilization levels to 80% by 2013E while delay in PX capacity additions should keep its supply tight in the regional markets in the medium term. Adjusting for this, we cut LOTPTA's 2012/13/14 EPS estimates by 47%/26%/2% to PRs0.9/1.0/1.26 while we keep DPS estimates unchanged at PRs0.5 for the period. Our estimates are 36-43% below consensus where we expect the street to converge in the near-term.

... expect higher near term earnings volatility

As the margins cycle is nearing its bottom, we expect earnings volatility to increase where each US\$10/ton change in PTA-PX margins affects LOTPTA EPS by ~20%. Our estimates suggest US\$110/ton as the break-even level for PTA operations of the company. Having said that, markup income on cash holdings and short-term investments (estimated at PRs0.2/sh for 2012) could offer buffer to bottom-line.

Cut PO to PRs6.6, reiterate U/P

We also lower our PO by 27% to PRs6.6 and reiterate Underperform. Our PO includes (1) average of target P/E on core earnings and P/B multiples for 2012E and (2) net cash of PRs2.7/sh as a separate asset. Our PO implies 2012 P/B of 0.9x and P/E of 7.0x. LOTPTA stock price has dropped by 20% in 3M (23% relative underperformance) on weak margins that triggered losses in 4Q11, the first in past three years. In the near-term, we believe (1) continuing margin weakness, (2) risk of another quarterly loss in 1Q12 and (3) lack of triggers could keep the stock performance under pressure.

Cash holds the key for potential excitement

We believe LOTPTA's cash holdings of ~PRs5bn can prove to be a source of respite in future. As core earnings take a breather, we expect markup income from cash and short-term investments to contribute 20-25% of bottom-line in 2012/13E. The company going for value additive integration or M/A play also remains on the cards. Besides US\$500mn PTA expansion (we remain skeptical as materialization of the project hinges on changes in existing PTA import duty structure and other concessions by the Government), the sponsors have earlier talked about M&A in chemicals space and foray into hydel power projects to exploit cash holdings and debt-free balance sheet.

20 February 2012

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Current Price PRs8.57
Price Objective PRs6.60

KATS LOTPTA
Reuters LOTT.KA
Bloomberg LOTPTA PA

Shares Outstanding

1514.21mn

Market Cap

PRs12,977mn (USD142.9mn)

12-month High/Low

17.01/8.34

Stock Performance

	1M	3M	12M
Absolute%	-14.5	-18.7	-46.8
Rel Index%	-25.0	-23.6	-50.4
Abs. (PRs)	-1.5	-2.0	-7.5

Table: Summary of estimate changes

PRs/sh	2012E	2013E	2014E
New PM	145	129	142
Old PM	192	143	139
% change	-24.2%	-10.1%	2.2%
New EPS	0.95	1.01	1.26
Old EPS	1.82	1.37	1.29
% change	-47.8%	-26.2%	-2.0%

Source: BofAML, KASB Estimates.

Table: LOTPTA snapshot

YE Dec	10E	11A	12E	13E
EPS	3.0	2.8	1.0	1.0
DPS	0.5	0.5	0.5	0.5
P/E	2.9	3.1	9.0	8.5
P/B	1.3	1.0	0.9	0.9
D/Y	5.8%	5.8%	5.8%	5.8%

Source: LOTPTA, KASB Estimates.

Morning News

► **Current Account Deficit rises to US\$305mn in Jan-12 (SBP)**

As per recently released data by the State Bank, current account deficit increased to US\$305mn in Jan-12 from a deficit of US\$14mn in Dec-11 (revised down from a surplus of US\$160mn earlier posted). The higher deficit came in on the back of trade deficit expanding 10% MoM to US\$1.3bn while remittances remain relatively flat at US\$1.1bn. Cumulatively in 7MFY12, current account deficit has increased to US\$2.6bn vs. only US\$96mn deficit in corresponding period of last year.

Technical View

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KSE-100: Breakout above critical resistance trendline is bullish

The index has given a breakout above its critical resistance trendline. However gains were clipped as a result of its upper Bollinger Band. Although a retest of the said trendline cannot be ruled out, the overall trend remains bullish.

The Stochastic Oscillator maintains its uptrend as well as buy signal while the RSI continues to rise as well. Additionally the 30-DMA maintains its strong uptrend and has now cut the 200-DMA from below. This is a medium-term bullish signal by itself.

KSE-100 Intra-day Movement



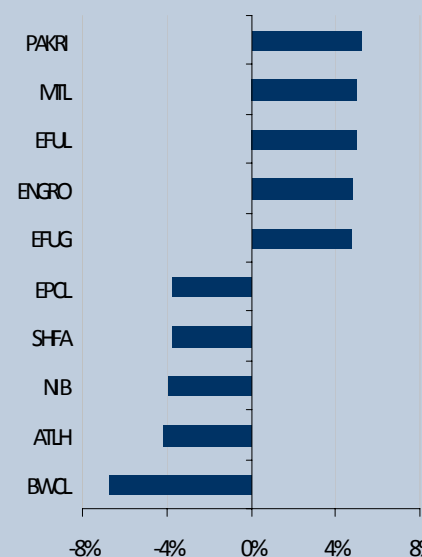
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	11,671.63	0.9%	63.88
KSE100	12,495.68	0.7%	72.05
KSE All Share	8,696.45	0.7%	77.58
ENGRO	133.99	5.0%	8.07
POL	371.11	1.2%	8.04
DGKC	25.16	-2.7%	7.54
NBP	49.08	4.1%	6.19
FFC	185.61	-0.1%	4.34

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE

World Markets and Commodity Prices

International Equity Markets

Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,273.30	16.10	0.38
Shanghai Composite	2,357.18	0.32	0.01
Hang Seng	21,491.62	214.34	1.01
BSE 30	18,289.35	135.36	0.75
Jakarta Composite	3,976.54	48.93	1.25
KLSE Composite	1,557.15	6.66	0.43
Nikkei 225	9,384.17	146.07	1.58
NZSE 50	3,289.00	2.55	0.08
Straits Times	3,000.59	23.39	0.79
Seoul Composite	2,023.47	26.02	1.30
Taiwan Weighted	7,894.36	24.66	0.31
KSE-100 Index	12,495.68	91.44	0.74

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,206.00	34.56	1.59
BEL-20	2,280.80	22.56	1.00
CAC 40	3,439.62	46.37	1.37
DAX	6,848.03	96.07	1.42
AEX General	327.93	2.75	0.85
Swiss Market	6,237.69	20.41	0.33
FTSE 100	5,905.07	19.69	0.33
American Markets			
Dow Jones Ind. Average	12,949.87	45.79	0.35
NASDAQ Composite	2,951.78	-8.07	-0.27
NASDAQ -100	2,584.24	-8.05	-0.31
S&P 500 Index, RTH	1,361.23	3.19	0.23

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	2.2	(0.8)	5.0	4.5	-93.8%	17-02
India	444.1	807.8	2,687.4	4,870.7	392.1%	15-02
Indonesia	41.0	(19.5)	(172.3)	96.0	353.6%	17-02
Japan	Na	1,659.6	2,500.3	7,663.9	-39.7%	10-02
Philippines	9.1	25.0	(3.1)	362.5	286.5%	17-02
South Korea	235.1	568.8	2,745.3	8,177.6	624.9%	17-02
Taiwan	266.2	440.5	1,416.1	3,265.6	148.3%	17-02
Thailand	191.9	155.4	837.7	934.2	224.1%	16-02
Vietnam	2.3	7.3	33.7	(68.5)	-213.6%	17-02

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	11.93	11.93	0.00
12-M T-Bill (Average)	11.93	11.93	0.00
10- year PIB (Average)	12.88	12.88	0.00
PkR/ US\$	90.81	90.73	0.08

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	103.24	0.93	0.91
Gold	1723.38	-4.69	-0.27
CRB Index (17 th Feb)	317.39	0.98	0.31

Source: Bloomberg

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