



Friday, January 20, 2012

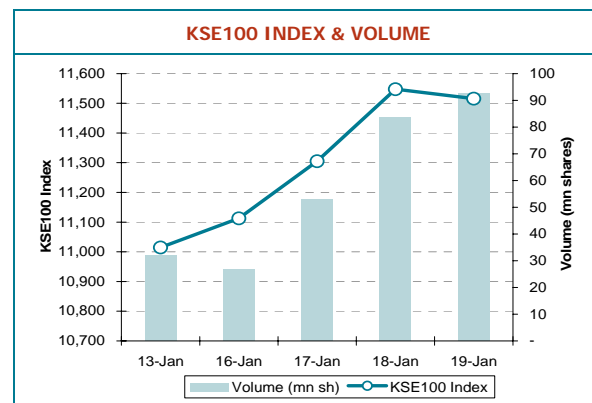
Finance Minister to visit KSE tomorrow:

The Chairman of SECP and Finance Minister would visit the Karachi Stock Exchange (KSE) tomorrow i.e. January 21, 2012 at 3.30 pm in order to discuss tax proposals with the members of KSE. The visit of the Finance Minister at KSE indicates the likelihood of a consensus which has been developed on tax issues specially related to the Capital Gain Tax (CGT) collection mechanism. If the proposals submitted by the SECP to FBR and Finance Ministry are approved, then it would be a big positive news for the market and the overall market activity would inch up. However, the most important thing to watch out for by the entire market would be the implementation date of the new tax regime. If all these proposals submitted by the SECP are to be approved in the budget FY12, then the participants would still have some more time to wait for its implementation. , however, the market is likely to take it positive in any case. We continue to recommend a cherry picking strategy in fundamentally strong scrips.

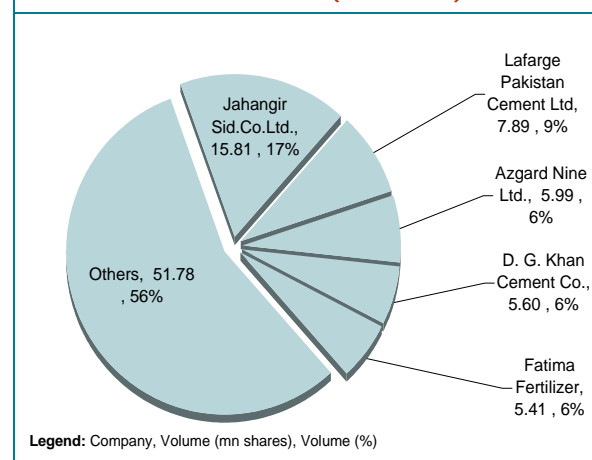
SSGC and SNGP to receive lending from World Bank to overcome UFG losses:

World Bank (WB) has agreed to lend USD 200 mn to SSGC and a similar USD 200 mn loan is also being sought for SNGP by the government. This amount will be spent on the Gas Efficiency Project (NGEP) aiming at controlling Un-accounted for Gas (UFG) losses by replacing or repairing the aging transmission lines. The loan would be provided to the government for a period of 20 years with 5 years grace period at Libor plus 0.38% mark up. The government would re-lend this amount to SNGP and SSGC at a re-lending interest rate of 5%, with exchange risk cover fee of 6.8%. The two utility companies are having reservations on a fixed effective rate of 11.8% as it may exceed the market rate during the tenor and are seeking floating rate of Kibor plus 1% with a ceiling of 9% per annum.

SSGC and SNGP have pipelines network of about 129,044 kms of which a portion have aged and susceptible to leakages, thus, aggravating UFG losses. The NGEP is targeted to save about 108bcf (~300 mmcf/d) gas repairing leakage, installing new devices, improving surveillance systems and protection. This project is estimated to cost PkR 60 bn (~ USD 660 mn) over its 5-years period, including a foreign exchange component of PkR 14 bn. The gas distribution companies would raise the balance amount through their internal resources and bank borrowings. SSGC and SNGP earn a guaranteed return of 17% and 17.5% on average net operating assets respectively therefore, with higher expenditure on network along with lower penalty on UFG losses would lead to higher profitability for these companies however, SNGP is yet to get an approval for the WB loan. Therefore we recommend a BUY on SSGC with a target price of PkR 28.45 (upside potential 53%) and it is trading at a FY12 P/E of 3.0x.

**KSE STATISTICS**

	19-JAN-12	18-JAN-12	CHANGE %
KSE 100 Index	11,516	11,548	-0.28%
Trading Volume (mn sh)	92.47	83.73	10.4%
Trading Value (PkR bn)	3.54	4.06	-12.9%
Market Cap. (PkR bn)	2,992	2,999	-0.24%

VOLUME LEADERS (ALL SHARES)**MARKET PERFORMERS (KSE30)**

	19-JAN-12	18-JAN-12	CHANGE %
Nestle Pakistan Ltd.	3,226.19	3,072.65	5.0%
ICI Pakistan Ltd.	142.08	138.14	2.9%
D.G. Khan Cement Ltd.	20.62	20.20	2.1%
Dawood Hercules	39.67	38.97	1.8%
Attock Refinery Ltd.	111.65	109.72	1.8%
Nishat (Chunian) Ltd.	18.62	18.30	1.7%
Unilever Pakistan	5,516.60	5,443.48	1.3%
Pak. Petroleum Ltd.	172.25	171.03	0.7%
MCB Bank Ltd.	152.39	151.34	0.7%
National Refinery Ltd.	231.62	230.11	0.7%

Source: KSE Website, Alfalah Securities Research

SBP extends monetary policy announcement:

The Monetary policy statement (MPS) announcement has been delayed till February 11, 2012 which was due to be announced on January 30, 2012. Currently, the Federal Bureau of Statistics (FBS) releases inflation data of the outgoing month by the 2nd day of the subsequent month whereas; in the past it used to release the data by the 2nd week of every month. Therefore, we believe announcing a policy on the 30th of a month based on the last month's inflation data seems illogical while keeping in view that the new inflation data is to be released in the next two days. Hence, the State Bank has decided to defer the monetary policy announcement for a few more days in order to assess if the CPI inflation in December 2011 which stood at 9.75% YoY is short lived and also to see if the CPI figures in January 2012 maintain a declining trend.

Govt. likely to bow over IMF for a fresh bailout package:

The government is likely to approach International Monetary Fund (IMF) for a fresh bailout package in the next two months on account of deteriorating balance of payment position. Pakistan's balance of payment situation has worsened over time and is further expected to deteriorate due to rising oil prices and insufficient inflows posing severe concerns on the external front. Oil prices which hovered at USD 112 per barrel recently, is projected to reach a level of USD 130 per barrel owing to the prevailing tensions between Iran and US over the Nato supplies issue.

A new bailout package from the IMF would enable the government to curb its massive borrowing from the domestic sector while it would also help them to repay its obligations to the IMF under the Stand by Arrangement (SBA) in the short run. However, seeking a new bailout package from the IMF would have severe repercussions to the economy as the expenditures of debt servicing would rise which would ultimately be passed on to the people in terms of new or higher taxes.

Market Outlook:

We had a view that the market was expected to exhibit a lackluster behavior on the last trading day of the week. However, now the recent announcement of the Finance Minister visiting KSE has rejuvenated the market activity. Moreover, the news of Mr. Mansoor Ijaz, who is likely to appear before the Court on the Memogate issue may keep the market excited next week also as the court hearing is due on January 24, 2012. Any development which may lead to an expectation that the current government may lose power will be taken positive by investors at KSE. We continue to recommend investors for a cherry picking strategy on fundamentally strong scrips including POL, FFC, HUBC, LUCK and MCB.

Board Meeting:

COMPANY	SCHEDULED ON	DAY	TIME	PLACE	TO CONSIDER
Wateen Telecom Ltd.	20-Jan-2012	Friday	05:00 PM	Abu Dhabi, UAE	1 st Qtr account FY11, Half yearly account FY11, 3 rd Qtr accounts FY 2011, Annual Accounts – FY11.
Engro Foods Ltd.	24-Jan-2012	Tuesday	09:30 AM	Karachi	Annual Accounts – FY11.
Honda Atlas Car Ltd.	24-Jan-2012	Tuesday	10:00 AM	Lahore	3 rd Qtr accounts for the period ended Dec. 2011.
Byco Petroleum Ltd.	24-Jan-2012	Tuesday	03:30 PM	Karachi	Annual Accounts – FY11.
Hinopak Motors Ltd.	25-Jan-2012	Wednesday	10:00 AM	Karachi	3 rd Qtr accounts for the period ended Dec. 2011.
Pakistan Petroleum Ltd.	25-Jan-2012	Wednesday	11:00 AM	Karachi	Half yearly account FY12.
Fauji Fertilizer Bin Q. Ltd.	26-Jan-2012	Thursday	10:30 AM	Rawalpindi	Annual Accounts – FY11.
Lotte Pakistan PTA Ltd.	26-Jan-2012	Thursday	01:30 PM	Karachi	Annual Accounts – FY11.
Colgate Palmolive Pakistan	27-Jan-2012	Friday	90:30 AM	Karachi	Half yearly account FY12.
National Refinery Ltd.	28-Jan-2012	Saturday	10:30 AM	Karachi	Half yearly account FY12.
Netsol Technologies Ltd.	30-Jan-2012	Monday	03:00 PM	Lahore	Half yearly account FY12.
Clariant Pakistan Ltd.	30-Jan-2012	Monday	11:00 AM	Karachi	Annual Accounts – FY11.
International Industries Ltd.	31-Jan-2012	Tuesday	10:30 AM	Karachi	Half yearly account FY12.
International Steels Ltd.	31-Jan-2012	Tuesday	10:30 AM	Karachi	Half yearly account FY12.
Attock Refinery Ltd.	01-Feb-2012	Wednesday	10:30 AM	Damascus, Syria	Half yearly account FY12.
Attock Petroleum Ltd.	02-Feb-2012	Thursday	02:30 PM	Damascus, Syria	Half yearly account FY12.
Pakistan Oilfields Ltd.	02-Feb-2012	Thursday	1:30 PM	Damascus, Syria	Half yearly account FY12.
Unilever Pakistan Foods Ltd.	03-Feb-2012	Friday	2:30 PM	Karachi	Annual Accounts – FY11.
Unilever Pakistan Ltd.	09-Feb-2012	Thursday	2:30 PM	Karachi	Annual Accounts – FY11.
Kot Addu Power Co. Ltd.	15-Feb-2012	Wednesday	12:30 PM	Lahore	Half yearly account FY12.