

Equity Research Pakistan

In Focus

Strategy

BMA Research Team

Capital Market Indicators: KSE100 Index

KSE100 Index	30-Dec-11	11,347.66
52 Weeks High / Low		12,682 / 10,842
52 Weeks Avg. Vol	mn	61
52 Weeks Avg. Val.	USD mn	39

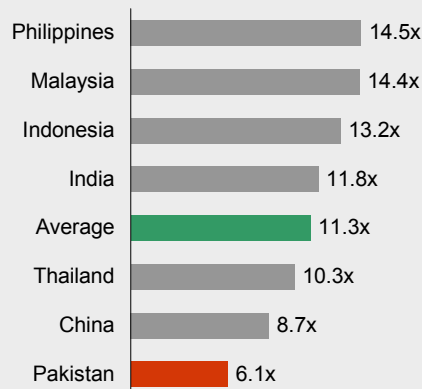
BMA High Conviction Ideas

Scripts	Date of Inclusion	Performance	
		Absolute	Relative
APL	3-Sep-10	89%	72%

BMA Universe Valuation Snapshot

	FY10A	FY11A/E	FY12E
PER	8.2x	6.5x	6.0x
PBV	1.7x	1.4x	1.3x
Div. Yield	6%	7%	8%
EPS Growth	20%	25%	8%
ROA	4%	5%	5%
ROE	21%	22%	22%

Regional Markets PER 2012E



THE RIGHT MOVES

- A year of challenges has passed and yet another awaits. 2012 will be a year of consolidation with respect to corporate profitability. With BMA Univese earnings to grow by a mere 9% as against an average of 21% in FY03-11, we target a conservative KSE100 level of 13,300 for 2012
- While the overall universe reflects meager increase in profitability, we flag Exploration and Production (E&P) – due to higher oil & gas prices, Oil Marketing Companies (OMCs) – on back of growing offtakes and improved margins and Fertilizer – because of higher retention margins to outperform the broader index
- On the political front - despite recent hiccups and saber rattling, both political and military circles have made a commitment to uphold democracy – this will go a long way in maintaining investor confidence
- IMF Stand-by Agreement repayments commencing 2HFY12 is a key concern with regard to deterioration of foreign exchange reserves. Hence, a clean report from IMF remains imperative to seek aid from international bilateral donors this year
- With flood waters now receded, crop yields have improved and resultantly, GDP growth is expected to rise to 3.4% in FY12
- E&P, OMCs, fertilizer and electricity are the sectors that are expected to remain insulated from economic challenges and likely to outperform the broader market. Coming to specific stocks, our top picks are; ENGRO, FFC, HUBC, PSO, APL, POL and OGDC.
- For complete 2012 Strategy Outlook, kindly refer to our detailed report to be released shortly

A year of challenges has passed and yet another awaits. 2012 will be a year of consolidation with respect to corporate profitability, as we expect earnings to grow by a mere 9% as against an average of 21% in FY03-11. However, sectors like Exploration and Production (E&P) – due to higher oil & gas prices, Oil Marketing Companies (OMCs) – on back of growing offtakes and improved margins and Fertilizer – because of higher retention margins, are expected to outperform the broader index.

POLITICS: AT A CRUCIAL JUNCTURE

Despite recent hiccups and saber rattling, both political and military circles have made a commitment to uphold democracy – this will go a long way in maintaining investor confidence.

Several incidents in 2011 strained Pak-US ties. However, the fact remains that US requires Pakistan's assistance in Afghanistan, both in terms of key supply routes as well as vital intelligence; US economic and military aid lends support to the external account and helps further development spending. Consequently, we expect this relationship to remain stable in the long term.

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ECONOMY: TOUGH TIMES DON'T LAST

GDP growth clocked in at 2.4% in FY11 due to destruction of major crops caused by floods. However, with flood waters now receded, crop yields have improved and resultantly, GDP growth is expected to rise to 3.4% in FY12.

Despite rising remittances, deterioration in the external account amidst a rise in international oil prices led to PKR depreciation of 4.6% during 2011. Moving forward, IMF Stand-by Agreement repayments commencing 2HFY12 is a key concern with regard to deterioration of foreign exchange reserves. Though the World Bank's debt sustainability analysis reiterates a stable outlook for Pakistan, a clean report from IMF remains imperative to seek aid from other bilateral donors this year.

VALUATIONS: BE SELECTIVE

Our KSE100 index target for CY12 is 13,290; which reflects a 17% upside from current levels. Furthermore, we also highlight 8% dividend yield for the index (using BMA universe stocks as our basis).

E&P, OMCs, fertilizer and electricity are the sectors that are expected to remain insulated from economic challenges and likely to outperform the broader market. Coming to specific stocks, our top picks are; ENGRO, FFC, HUBC, PSO, APL, POL and OGDC.

BMA Sector Stance	Theme	Stance	Top Picks
OMCs	Growing offtake and improved margins	Overweight	PSO, APL
Electricity	Guaranteed and USD indexed returns	Overweight	HUBC
E & P	Higher oil & gas prices	Market weight	POL, OGDC
Fertilizer	Unabated demand and stable margins	Market weight	ENGRO, FFC
Cement	Underutilization and regulatory risk	Underweight	-
Commercial Banks	Shrinking net interest margins	Underweight	-
Autos	Appreciating Yen and regulatory risk	Underweight	-
Refinery	Regulatory risk on deemed duty	Underweight	-

Source: BMA Research