

Energy- Massive de-leveraging via fund injection

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- It should be earnings accretive for OMCs and will raise certainty on cash payout by IPPs (especially small IPPs). We think that E&Ps and private sector refining companies will remain aloof.
- The TFC issue should further increase banks’ exposure to energy chain, while improving their risk profile.
- We highlight that TFC issue does not offer a sustainable solution to energy sector issues. Looking at the slow pace of tariff hike, we do not rule out another fund injection in the next 2-3 months.
- Our key concern is reported structure of the issue (forming of SPV) under the umbrella of PEPCO which, if confirmed, can potentially unwind government’s earlier reform efforts.

Liquidity injection; IPPs & OMCs are beneficiaries

We believe government’s plan to inject liquidity of PRs144bn in energy sector bodes well in the near term as it provides much needed balance sheet relief ahead of 2Q results. It should be earnings accretive for oil marketing companies (OMCs) and will raise certainty on cash payout by IPPs. Importantly, it should help the government in better managing the current energy crisis. We think that E&Ps and private sector refining companies will remain aloof, however. Key beneficiaries in our coverage include Pakistan State Oil (FY12E P/E of 4.3x), Kot Addu Power and Hub Power Company. Our key concern is reported structure of the issue (forming of SPV) under the umbrella of PEPCO which, if confirmed, can potentially unwind government’s earlier reform efforts.

Reforms in power sector required

The expected liquidity injection follows conversion of outstanding loans and PPTFCs of public sector power companies into T-bills and PIBs in Nov 11. We highlight that TFC issue does not offer a sustainable solution to energy sector issues and stress the need for power sector reforms (tariff hike, reduction in T&D losses, restructuring, etc) which can open up the possibility of technical and financial assistance from the ADB and WB for resolving energy issues.

Another round of injection ahead

Out of PRs144bn, PRs106bn will be used to repay outstanding short-term loans of the companies in energy chain, PRs10bn for repayment of LT debt while the rest will go as advance payment to IPPs. Banks will subscribe to instrument issued by an SPV (Power Holding Company) and will charge Kibor plus 1.5-2% Unlike past issues, 4th round of injection focuses more on retirement of bank borrowing on energy companies’ B/S and hence should have a modest cumulative impact on overall receivables estimated at PRs175bn versus PRs240bn impact in the previous installment via PRs90bn injection. Looking at the slow pace of tariff hike, we do not rule out another fund injection in the next 2-3 months.

Banks-more exposure to energy chain

The TFC issue should further increase banks’ exposure to energy chain by (1) net cash participation of PRs28bn to the TFC over and above the book adjustments in near-term and (2) companies re-using their working capital lines going forward. The impact on IDR and ADR however will depend on individual bank’s treatment of the PPTFC as part of investment or advances portfolio.

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Refer to important disclosures on page 3

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History of liquidity injection

PRsbn	Fund injected
Mar-09	80
Sep-09	90
May-11	90
Jan-12	144

Source: KASB research

De-leveraging in energy companies

PRsbn	Fund Injection	Retirement	Reduction in debt
PSO	41	27	100%
Kapco	32	19	64%
Hubco	34	18	42%
NCPL	5	3	17%
NPL	3	2	8%
Pakgen	3	3	68%
PRL	1	1	13%
SSGC	0	0	0%

Source: KASB Estimates

Banks-fresh funding of PRs28bn

Banks	Loans swap	Fresh funding	Total PPTFC
Habib	18.2	3.2	21.4
Allied	15.6	5.4	21
United	15.7	2.5	18.3
National	15.2	2.2	17.4
MCB	7.2	1.7	8.9
Others	43.9	13.2	57.1
Total	115.9	28.4	144.2

Source: KASB Estimates

Among big-5 banks, Allied Bank will have to make fresh participation of PRs5.4bn followed by PRs3.2bn by Habib, PRs2.5bn by United, PRs2.2bn by NBP and PRs1.7bn by MCB. This should be earnings positive for banks by improving yields and deploying surplus cash holdings, while at the same time improving their risk profile.

Power Companies—massive de-leveraging

The fund injection should almost wipe out total short-term borrowing on the balance sheets of IPPs. IPPs’s capacity to meet dividend expectation will improve. This is particularly positive for small IPPs who have recently started operations and yet to pay first cash dividend.

Downstream companies—reduction in receivables

We estimate reduction in PSO’s receivable to PRs140bn from PRs182bn and will have earnings impact of PRs2-3/sh. Given the massive outstanding LC payment (PRs110bn), we believe any de-leveraging is likely to be short-lived. We expect Attock Petroleum to receive PRs4-5bn from Attock Gen, however it will be earnings and dividend neutral.

Morning News

▶ **Pakistan to re-open Nato supply route** (BR)

As per news reports, Islamabad is expected to re-open supply routes for NATO forces after they were blocked off following the deadly cross-border strike in Nov-11 that killed 24 Pakistan Army personnel. It is expected that tariffs will be imposed under the new conditions for raising funds to fight homegrown extremism. The move is seen as a step towards achieving a thaw in Pak-US relations; however both sides are wary that there is still some distance to go before normalcy is restored.

KSE-100 Intra-day Movement



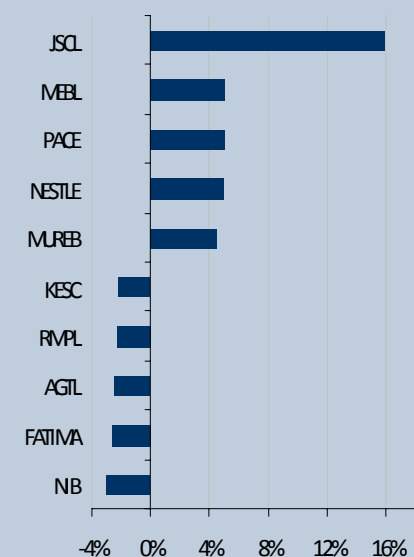
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$m
KSE30	10,600.95	-0.38%	34.85
KSE100	11,515.59	-0.28%	38.15
KSE All Share	7,979.01	-0.24%	39.32
ATRL	111.65	1.76%	3.83
PSO	238.91	0.34%	3.41
ENGRO	102.25	-1.47%	3.37
PPL	172.25	0.71%	3.34
FFC	165.95	-0.56%	3.04

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	4,278.60	-2.00	-0.05
Shanghai Composite	2,296.08	29.70	1.31
Hang Seng	19,942.95	256.03	1.30
BSE 30	16,643.74	192.27	1.17
Jakarta Composite	4,001.07	22.94	0.58
KLSE Composite	1,523.07	5.69	0.37
Nikkei 225	8,639.68	89.10	1.04
NZSE 50	3,264.74	17.24	0.53
Straits Times	2,811.20	15.80	0.57
Seoul Composite	1,914.97	22.58	1.19
Taiwan Weighted	7,233.69	0.00	0.00
KSE-100 Index	11,515.59	-32.13	-0.28

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,001.02	40.38	2.06
BEL-20	2,196.63	40.93	1.90
CAC 40	3,328.94	64.01	1.96
DAX	6,416.26	61.69	0.97
AEX General	320.48	4.96	1.57
Swiss Market	6,194.45	78.22	1.28
FTSE 100	5,741.15	38.78	0.68
American Markets			
Dow Jones Ind. Average	12,625.19	46.24	0.37
NASDAQ Composite	2,788.33	18.62	0.67
NASDAQ -100	2,441.70	15.74	0.65
S&P 500 Index, RTH	1,314.50	6.46	0.49

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	1.5	(2.5)	(9.0)	(9.0)	n.m	19-01
India	189.7	484.8	1,044.2	1,044.2	245.6%	18-01
Indonesia	95.5	178.0	389.0	389.0	243.7%	19-01
Japan	Na	1,816.3	1,816.3	1,816.3	-74.5%	13-01
Philippines	25.0	48.0	253.1	253.1	444.7%	19-01
South Korea	681.3	1,419.8	2,423.1	2,423.1	107.4%	19-01
Taiwan	119.8	105.7	1,029.4	1,029.4	-94.8%	18-01
Thailand	(87.4)	3.3	(89.4)	(89.4)	84.4%	19-01
Vietnam	1.3	(17.8)	(93.9)	(93.9)	-386.3%	19-01

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)	11.79	11.84	-0.05
10- year PIB (Average)	12.38	12.46	-0.08
Pkr/ US\$	90.02	90.21	-0.19

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	100.39	-0.20	-0.20
Gold	1657.20	-6.60	-0.40
CRB Index (19 th Jan)	311.96	1.45	0.47

Source: Bloomberg

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