WEEKLY INSIGHT

The Week in Perspective

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The ready USD traded in a band of 30 paisas against the PKR during the week under review with trades ranging from PKR 84.22 to PKR 84.47 and tilting downwards on account of inflows to PKR 84.22.

Commodity

07 Gold bounces back towards USD 1100 an ounce

Weekly Summary

Equities

	KSE100	Turnover (mn)	Market Cap (PKRbn)
24.12.09	9,422.23	146.08	2,714.06
18.12.09	9,183.73	96.81	2,646.90
Change	**238.50**	**49.27**	**67.15**

Money Market (%)

	O/N	3 Month	6 Month
24.12.09	10.68	12.15	12.28
18.12.09	12.45	12.15	12.28
Change	**(1.77)**	**0.00**	**0.00**

Forex

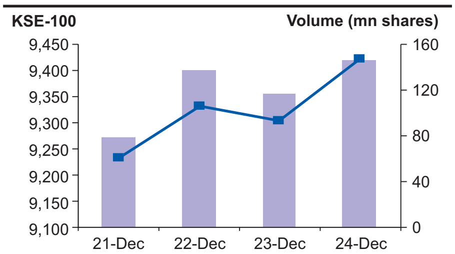
	(PKR/USD)	(PKR/Euro)	(PKR/GBP)
24.12.09	84.19	121.10	134.45
18.12.09	84.16	120.79	136.18
Change	**0.03**	**0.31**	**(1.73)**

KSE: Top five Volumes as of Dec24'09

		Prices in PKR			
Scrip	**Volume (mn)**	**High Price**	**Low Price**	**Close Dec24**	**Close Dec18**
NCL	15.36	20.36	19.31	20.14	19.53
OGDC	9.12	112.03	108.03	111.37	108.03
FFBL	9.06	26.38	25.38	26.15	25.38
DGKC	8.79	30.79	29.35	30.55	29.35
WTL	6.59	3.86	3.5	3.83	3.62

Source: KSE, & IGI Research

KSE - 100 Index Performance



Source: KSE & IGI Research

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IGI Securities

Analyst Opinion

NML – AES Acquisition: *Power*ful consolidation

Nishat Mills Limited (NML) recently entered into an agreement with AES Pakistan Holdco Ltd to buy a majority stake holding in AES Lalpir (Pvt) Ltd and AES Pak Gen (Pvt) Ltd. The two power plants have combined generation capacity of 727MW and operate on Furnace Oil. AES Lalpir became operational in CY97, while AES Pak Gen in CY98 with a 30yr Power Purchase Agreement (PPA) with WAPDA, expected to last till CY27. The proposed investment indicates NML's intent to diversify in the power sector and benefit from the stable dividend income generated from these companies.

Deal at a discount

According to the notice issued by NML, the book value per share (BVPS) of AES Lalpir and AES Pak Gen as of Sep30'09 stood at PKR 28.42 and PKR 33.46 respectively. Although the final purchase price has not been agreed between the stakeholders, NML has indicated a maximum price of USD 0.188 per share (PKR 15.89) for AES Lalpir and USD 0.175 per share (PKR 14.79) for AES Pak Gen, respectively. Purchase at these levels indicates a 44% and 56% discount to Sep09 book value of AES Lalpir and AES Pak Gen, respectively.

Acquisition to pent-up bottomline

As per the requirements of the company's ordinance 1984, NML can make investment up to USD 60mn (PKR 5,070mn) for the purchase of stake in AES Lalpir and AES Pak Gen. According to our estimates, the total value of the two power plants stand at PKR 10.99bn. Thus, a maximum of 46% stake is expected to be acquired by NML in the two companies. In our opinion, in line with the earnings projections for the two plants by NML, the acquisition of stake in them should lend support to the bottomline profitability, moving forward.

Outlook

At its last closing of PKR 70.09 per share, NML is trading at FY09 PE of 10.29x. The final decision on the acquisition is expected to be taken in company's Extra Ordinary General Meeting on Jan25'10. In our opinion, a positive development in the said acquisition will lend major support to company's bottomline going forward.

AES - Company Value

	Aes Lal Pir	Aes Pak Gen
Book Value (PKR)	28.42	33.46
Expt Pur. Price (USD)	0.188	0.175
Exchange Rate	84.5	84.5
PKR Purchase Price	15.89	14.79
Number of shares (mn)	345	372
Investment (PKR mn)	**5,485.56**	**5,502.16**

Source: Company Notice-NML & IGI Research

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Refineries to wage on pricing battle

Representative from refineries and stake holders in the energy chain are meeting again today, on Dec23'09, to further discuss alternatives to correct ambiguities in the refinery sector's operations. This is another episode in a series of negotiations that are taking place in Islamabad after the sector announced a deadline of Dec25'09 for the resolution of its demands after which they could possibly be forced to discontinue their operations. The consortium of refineries, which includes ATRL, PRL, NRL and BOSI, are demanding i) a review of the pricing mechanism and ii) a resolution to their liquidity woes.

Pricing review in today's agenda

With the refineries deadline on the horizon, the following changes in the pricing mechanism will be on the agenda in today's meeting.

Firstly, a review of the **Mogas pricing mechanism** will be in order which was changed last year in Jul08 without consultation with the refineries. It is currently linked to the average monthly price of MS 95 RON as published on Platts and converted to MS 87 RON price by using the unitary method. This, very often, produces negative margins for the value added product which has historically maintained positive spreads. Refineries will demand a reversion to the previous pricing formula which was linked to the average monthly price of Naphtha as published on Platts with a premium of USD 60 per MT.

Secondly, the consortium will look to lobby for an increase in the **deemed duty on HSD**. HSD is a key revenue driver for the refining sector comprising almost 25% - 35% in the total product mix for each refinery. The product is currently being provided a deemed duty of 7.5% which was slashed last year in June from its previous levels of 10%. Reverting back to a deemed duty of 10% will improve margins and enable refineries to consolidate their financial standing.

Lastly on the agenda will be a proposition to change the **frequency of pricing**. Refined products were previously priced fortnightly rather than monthly. Moving back to a fortnightly pricing will help the refineries book gradual inventory gains which will look to partly mitigate the exchange losses they are prone to on crude oil procurement.

Liquidity relief to provide lifeline

Also, on the liquidity front, refineries stand at the crux of the circular debt issue and are asking for relief. They are demanding that PSO make payments to their receivables which had mounted to PKR 65.31bn (ATRL: PKR 11.7bn, PRL: PKR 14.7bn, NRL: PKR 11.7bn) in Nov09. Another solution that has been presented in Islamabad is the implementation of cash based sales on future off-take. If agreed upon, improved inflows will provide refineries a lifeline until a more concrete solution to the circular debt issue is offered by the government.

Outlook

With a view based on past encounters with regulators, we remain skeptical that an immediate consensus will be reached regarding the pricing anomalies in today's meeting. However, with recent news coming over ex-depot pricing we can expect a more holistic revision of downstream oil pricing. Fresh propositions for ex refinery pricing are now on the cards with recommendations of a complete abolition of deemed duty on HSD and the implementation of a fixed processing fee on all products. Also, on the circular debt front, we do not expect the government to issue further TFC's and cash based sales or payment of receivables from PSO maybe become the only avenues of liquidity for the ailing sector.

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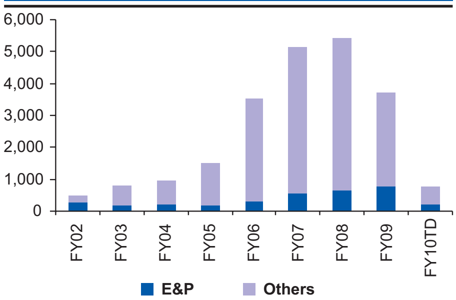
E&P Sector: Potential beckons

Sector Wise FDI (USD mn)



Source: SBP & IGI Research

Recently released FDI numbers for 5mo FY10 reveal that the overall inflow of foreign investment in Pakistan has declined by a staggering 52% YoY. However, amidst the slowdown, investment into the E&P sector stands firm at USD 207mn, accounting for nearly 26.7% of the total investment during the period. During the past 8yrs, the sector has attracted nearly USD 3.2bn or 17% of the total foreign direct investment in Pakistan. An impressive discovery ratio 1:3.3, prospective regions, vast untapped onshore/offshore areas and improving fiscal/ pricing regimes have been the major factors behind the influx of interest in the E&P sector. We highlight some of the aspects of the E&Ps that make the sector an attractive investment avenue.

Drilling results imminent

A number of exploratory wells have entered the drill stem testing phase, with results expected to be announced in the imminent future. Of the 14 exploratory wells currently being drilled, 4 wells have entered the production testing phase - normally the last phase after which the well is either declared dry or considered a discovery. Makori West -01 - in the oil/gas rich TAL block - is also undergoing testing to explore the presence of hydrocarbons. 3 huge discoveries have already been made at the TAL block, in recent years. POL is drilling 2 wells on its operated fields, however, the pace of these drillings has been relatively slow and these wells are yet to enter their testing phase.

Drilling Status

Exploratory Well	Operator	Drilling date	Status	OGDCL	POL	PPL
Dakhni North-01	OGDCL	10/07/2008	Production Testing	100%		
Dhodak Rubbly-01	OGDCL	14/6/2009	Production Testing	100%		
Tando Jam -01	OGDCL	28/6/2009	Production Testing	100%		
Makori West -01	MOL	9/7/2009	Production Testing	27.70%	21.10%	27.80%

Source: PPIS & IGI Research

E&Ps are a hedge against Rupee devaluation

Speculative attacks on the currency after SBP's announcement to completely transfer oil payments to the commercial banking channels have lead to the PKR facing pressure against the Greenback recently. Oil and gas prices for E&P companies are denominated in the USD, which essentially means that as the PKR depreciates against the USD, the depreciation is reflected in the form of higher E&P revenues.

Wellhead gas prices to experience a double digit increase

The wellhead gas price for the E&P companies is revised semiannually. The pricing mechanism of most of the fields is either linked to international HSFO or Arab Light oil prices. With Arab light oil and HSFO prices rebounding by 23% and 62% HoH respectively (Jun-Nov09 period), we are expecting wellhead prices for some fields to be raised as high as 22% HoH. Capped fields' pricing will also see a 3% rise due to the PKR depreciation vis-à-vis the greenback.

Outlook

Based on our calculations, the Pakistan E&P sector is currently trading at FY10 P/E and P/BV of 8.3x and 2.7x respectively. In addition, the sector is currently offering a forward dividend yield of 5.6% and trades at EV/BOE of USD 2.6/BOE which implies a significant discount to the regional companies. At current share price levels, we recommend a stock selective approach and maintain a positive stance on PPL and POL, while a neutral stance on OGDC.

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KAPCO - Liquidity on the rise

Power tariff hike to improve liquidity

The Government of Pakistan (GoP) plans to increase the power tariff by 13.5% from Jan01'10 in line with the phased tariff hike amounting to a total of 24% agreed upon by policymakers. According to our estimates, at current power tariff levels KAPCO's receivables amount to PKR 7bn per month from WAPDA, against which the company has historically received an average PKR 2.5bn per month in the YTD. With the tariff hike in place after Jan10, we expect receivables to increase to PKR 3.8bn based on the incremental amount of cash flows available to WAPDA from consumers.

Dividend star set to shine in FY10

KAPCO paid out dividend of PKR 6.45 per share in FY09 resulting in more than a 100% payout for the company. Going forward in FY10, we expect the dividend play to continue, however, given the current liquidity constraints we expect the payout ratio to dip to approximately 90%. We expect full year dividend payout of PKR 7.17 per share resulting in FY10E dividend yield of 15.7%. Moreover, according to our estimates the company's dividend payout is expected to post a 5yr CAGR of 12% between FY09 to FY14E.

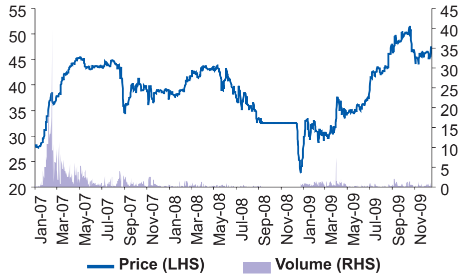
Interim dividend on the cards in 1H FY10

The company has historically paid out interim dividend with its half yearly results and in our opinion the trend is set to continue. However, amid liquidity constraints related to circular debt we expect an interim dividend of PKR 2.25 per share in 1H FY10. At current levels, this translates into an effective annualized dividend yield of 23%.

Circular debt – No imminent resolution in sight

The non resolution of circular debt remains the only issue hampering the liquidity of the sector. The company's net receivables from WAPDA declined to PKR 12bn in Sep09 as against PKR 26bn in Jun09 with the company receiving approximately PKR 48bn through the two TFCs issued by GoP in Mar09 and Sep09 worth 80bn and 83bn respectively. However, with GoP intent upon not issuing further TFCs to pay off the outstanding amount and no movement seen on the proposed USD 2bn equity fund address the issue, it continues to weigh down sector's profitability through increased financial charges, emanating from increased dependence on short term borrowing to meet working capital requirements.

KAPCO: Price - Volume **(mn)**



Source: Bloomberg & IGI Research

Recommendation

At its last closing of PKR 45.60 per share, KAPCO's stock is trading at FY10E and FY11E PE of 5.72x and 5.55x respectively which is at a discount to benchmark KSE-100's FY10E PE in the region of 8x. Furthermore, the stock offers FY10E dividend yield of 15.7%. Moving forward, the proposed increase in the power tariff and visibility on the resolution of the impending issue of circular debt could be key positive trigger for the scrip. We maintain our BUY stance on the scrip with Jun10 PO of PKR 60 per share.

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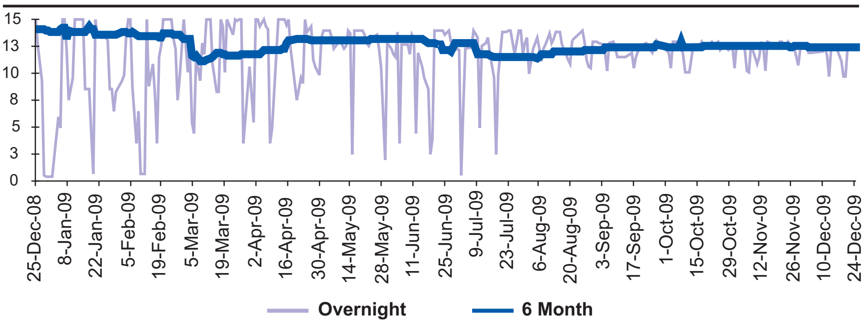
Money Market

The Money Market remained fairly active despite the upcoming long break in capital market activity towards the end of the week. O/N rates traded in a large band of over 200bps, trading at 11.90% during the earlier part of the week and then dipping to a low of 9.60%. SBP injected another PKR 120bn in funds into the market since Saturday, bringing the Weekly average to a recent low of 10.49%.

Call rates, however, remained in a narrower band trading in the range of 12%, opening the week at 12.60% and closing the week at 11.25%. Meanwhile, secondary yields on benchmark 6M T-bills remained flat at 12.20% as did the 5yr PIB in the range of 12.63%. 6M KIBOR also remained generally flat at 12.46% WoW; however, increasing activity and maturities of government securities in 3Q FY10 should loosen KIBOR towards the 12.00- 11.50% mark.

Liquidity has remained tight in 2Q FY10 necessitating the intervention of the SBP at regular intervals. Most economic numbers reflected on the upside in the current week with the Balance of Payments narrowing by 81% to USD 1.4bn in 5mo FY10 and reflecting a surplus of nearly USD 1bn. Remittances also continued to soar past expectations, with average monthly run rate of over USD 750mn or an annualized USD 9bn. 5mo FY10 Remittances have reached USD 3.8bn. Regulatory easing to ensure that remittances are brought into the country via formalized channels is also helping to strengthen the flow.

Interbank Money Market - Overnight and 6 Month KIBOR Rates



Source: SBP & IGI Research

Foreign Exchange Market

The ready USD traded in a band of 30 paisas against the PKR during the week under review with trades ranging from PKR 84.22 to PKR 84.47 and tilting downwards on account of inflows to PKR 84.22. In forward swap trades, shorter tenors remained active as banks appeared to have ample liquidity and also due to injection of over PKR 100bn by SBP in the MM on a weekly basis in 2Q FY10. Earlier in the week swap points for the shorter tenors of 1W, 2W and 1mo were seen around 20, 33 and 73 paisas and closed at 12.5, 23 and 63 paisas respectively.

Longer tenors did reflect volatility as the USD liquidity of bank's Nostro accounts bounced up and down with trades for 3mo and 6mo contracts were seen around 209 and 430 paisas before closing at 205 and 415 paisas respectively. In the forthcoming week however, shorter tenors are expected to remain volatile amid high fluctuations in inflows and outflows into the Bank's Nostro Accounts, but the trend is likely to settle as heavy maturities of the government securities lubricate the interbank market in 3Q FY10.

Money Market Rates (Closing)	
Discount	12.50
O/N	9.55
1 week	11.13
2 week	11.90
1 month	12.05
2 month	12.13
3 month	12.15
4 month	12.30
5 month	12.30
6 month	12.28
9 month	12.23
12 month	12.20

Source: IGI Research

Average Rates (Week)	
O/N	10.68
1 week	11.67
2 week	12.00
1 month	12.07
2 month	12.13
3 month	12.15
4 month	12.30
5 month	12.30
6 month	12.28
9 month	12.23
12 month	12.19

Source: IGI Research

Interbank FX Mid rates	
Spot	84.23
O/N	0.08
1wk	0.12
2wk	0.24
1 mo	0.64
2 mo	1.35
3 mo	2.05
4 mo	2.78
5 mo	3.48
6 mo	4.15
12 mo	8.40

Source: IGI Money Market

Foreign Exchange Rates	
EUR/USD	1.4337
GBP/USD	1.5957
USD/JPY	91.64

Source: IGI Research

Commodity

Gold Spot Price/oz	
USD	1,104.70
GBP	689.60
AUD	1,248.04
CAD	1,155.96
CHF	1,144.08
EUR	767.55
JPY	100,831.50
ZAR	8,275.20
INR	51,622.63
CNY	7,542.90
HKD	8,568.44

Source: www.invest.gold.org

Gold Spot Price	(USD/oz)
Previous Closing	1,086.70
Open	1,084.90
High	1,097.10
Low	1,080.10
Close	1,094.00
Prices as of Dec 23'09	

Source: Bloomberg

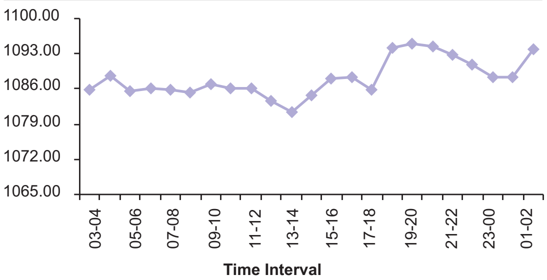
Pivot Table	
Resistance 1	1,123.70
Resistance 2	1,107.00
Resistance 3	1,100.50
PIVOT POINT	1,090.30
Support 1	1,083.80
Support 2	1,073.60
Support 3	1,056.90
Prices as of Dec 23'09	

Source: Bloomberg

Crude Oil Price (USD/bbl)	Dec 23'09	Dec 22'09
WTI Cushing Spot*	75.67	73.75
Dated Brent Spot	74.55	72.72

Source: Bloomberg

Intraday Graph (USD/OZ)



Source: Bloomberg & IGI Research

Gold bounces back towards USD 1100 an ounce

Gold prices were generally stable to higher yesterday, after hitting a 7-week low a day before, which prompted buying of the metal. Bullion closed at USD 1096 an ounce in the international markets as the Greenback witnessed broad-based sell off on disappointing data on US home sales. This led the key USD pairs to claw back on gains with EUR/USD consolidating up to midday trades, before closing higher 0.6% DoD at USD 1.4337. Trading in GBP/USD, however, failed to lift off the USD 1.6 level with session closing slightly off its previous close at USD 1.5957.

Crude trades past USD 76/bbl

Crude oil posted impressive gains yesterday and traded past USD 75/bbl on inventory draw down of crude oil and gasoline in US. A USD pullback also added to oil gains with crude futures at NYMEX closing at USD 76.67/bbl

Outlook

Gold prices for the weekend are likely to track USD movement in response to data expected to be released today. That said, should the data continue to come weak for US, the investors may lock in further gains in the Greenback which could prove positive for Gold.

Market data as of December 23, 2009

Contract	Contract Date	Traded Volume	Open Interest	Pvs Sett Pr	Curr Sett Pr	Change	% Change	Trading Unit
TGOLD50	10-Jan	0	0	33946	34315	369	1.09	PKR/tola
TGOLD50	10-Feb	0	0	34448	34836	388	1.13	PKR/tola
TGOLD50	MA10	0	0	34457	34845	388	1.13	PKR/tola
TGOLD100	10-Jan	0	0	33946	34315	369	1.09	PKR/tola
TGOLD100	10-Feb	0	0	34448	34836	388	1.13	PKR/tola
TGOLD100	MA10	0	0	34457	34845	388	1.13	PKR/tola
MINIGOLD	4-Aug	0	0	30483	30878	395	1.3	PKR/10 g
MINIGOLD	5-Aug	0	0	30493	30819	326	1.07	PKR/10 g
MINIGOLD	1-Aug	0	0	30503	30829	326	1.07	PKR/10 g
MINIGOLD	2-Aug	0	0	30533	30859	326	1.07	PKR/10 g
MINIGOLD	3-Aug	0	0	30543	30869	326	1.07	PKR/10 g
GOLDKILO	10-Jan	9	1	29104	29420	316	1.09	PKR/10 g
GOLDKILO	10-Feb	0	0	29534	29867	333	1.13	PKR/10 g
GOLDKILO	MA10	0	0	29542	29874	332	1.12	PKR/10 g
GOLD	10-Jan	67	115	29131	29447	316	1.08	PKR/10 g
GOLD	10-Feb	4	5	29561	29894	333	1.13	PKR/10 g
GOLD	MA10	0	0	29569	29901	332	1.12	PKR/10 g
GO1OZ	JA10	0	0	1085.2	1097	11.8	1.09	USD/t oz
GO1OZ	FE10	104	106	1085.4	1097.2	11.8	1.09	USD/t oz
GO1OZ	AP10	361	121	1086	1097.8	11.8	1.09	USD/t oz
GO100OZ	JA10	0	0	1085.2	1097	11.8	1.09	USD/t oz
GO100OZ	FE10	1	2	1085.4	1097.2	11.8	1.09	USD/t oz
GO100OZ	AP10	5	1	1086	1097.8	11.8	1.09	USD/t oz
CRUDE100	FE10	0	0	74.29	77.35	3.06	4.12	USD/bbl

Source: National Commodity Exchange Limited

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