

State of Economy: Sectors sporting a V-shaped recovery

November 16, 2009

Executive Summary

Bottom-line performance, posted by KSE-100 Index companies: V-shaped recovery

Profitability of the companies', representing the KSE-100 Index seems to have posted a sharp V-shaped recovery in the period Jul-Sept'09, as compared to the previous quarter. During the period Apr-Jun' 2009, result announcement of Refinery sectors had put a significant drag on the overall profitability along with a disappointing financial performance by the banking sector. Strong financial performance by the fertilizer sector and banking sector helped in drawing a V-shaped profitability pattern.

Banking Sector Review Maintenance of spreads and lower provisioning expense resulted in a higher ROE for the quarter (i.e. 10.14%) as compared to the last quarter (i.e. 7.22%).

With just a quarter left in CY09, the banking sector looks poised for been the talk of the market. The banking sector had to face the brunt of a depressed economic situation; however with an improvement in the overall economy the banking sector should follow the lead.

Advances & Deposit situation: Deposit growth outpaces advances growth

Advances of all scheduled banks grew by a disappointing 1.05% YTD to Rs. 3,196bn as compared to a growth of 17.6% in the corresponding period last year. The Gross advances to deposit ratio (ADR) declined to 76.2% in 31st Oct' 09 from 81.9% in end CY08.

Investments: Preference for low risk income instruments

Investment increased by 56% to Rs. 1,556bn from Rs. 997bn. Risk averse behavior of bank and the attractive rates offered available on Govt. debt securities lured bank to park their cash in Govt. IDR ratio increased from 25.8% in Dec' 08 to 37.1% in Oct' 09.

Bottom-Line improves as compared to last quarter: Higher PAT for this quarter

Although the profitability of the banking sector dipped by 33% on YoY basis, the sectoral earnings seems to have sharply rebounded on QoQ basis (up by 48%).

Lower Provisioning expense: Aids in boosting the bottom-line

Provisioning expense in the 3rd Quarter' 09 was recorded on the lower side as compared to the last quarter. The stabilizing economic situation has clearly helped in the curtailing the NPLs situation, as NPL growth has been slowing down since Jan' 09.

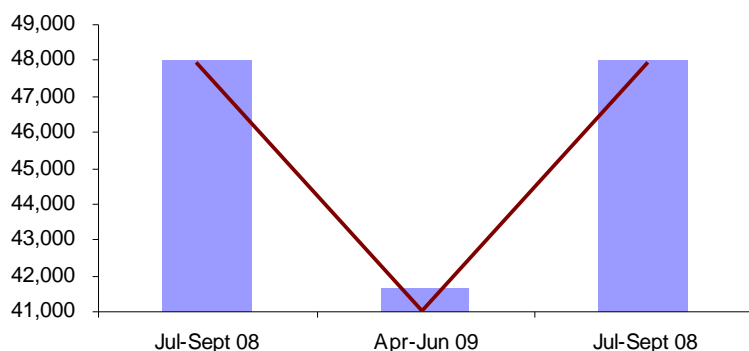
Inflation: finally in single digit

The inflation for the month of October was recorded at 8.9%, as the index dropped to a single digit for the first time in 2009. However the MoM inflation is up 1%. Core Inflation was recorded at 11% for NFNE and 10.6% for trimmed core.



State of Economy: Sectors sporting a V-shaped recovery

Bottom-line performance, posted by KSE-100 Index companies



Profitability of the companies', representing the KSE-100 Index seems to have posted a sharp V-shaped recovery in the period Jul-Sept'09, as compared to the previous quarter. During the period Apr-Jun' 2009, result announcement of Refinery sectors had put a significant drag on the overall profitability along with a disappointing financial performance by the banking sector. Strong financial performance by the fertilizer sector and banking sector helped in drawing a V-shaped profitability pattern.

Exploration and Production Sector

Profitability of the E&P sector marginally dipped by 2% even though the oil prices were 24% higher in 1Q10 as compared to 4Q09. The resultant decrease can largely be attributed to the 30% downward revision in well head gas prices. POL was the star performer, as flows from Pindori improved. POL's revenues are less dependent on gas, making it largely immune from downwards revision in well-head gas prices. However the addition of Manzali field to POL's portfolio will make gas as it's major revenue contributor.

Company's	1 Qtr 10 PAT	1 Qtr 09 PAT	Growth (YoY) %	4 Qtr 09 PAT	Growth (QoQ) %
E&P	18,466.39	29,006.23	-36%	18,801.03	-2%
POL	1,425.82	2,260.58	-37%	931.00	53%
PPL	4,975.00	7,766.00	-36%	6,715.00	-26%
OGDC	12,065.57	18,979.65	-36%	11,155.03	8%

Power Generation Sector

Company's	1 Qtr 10 PAT	1 Qtr 09 PAT	Growth (YoY) %	4 Qtr 09 PAT	Growth (QoQ) %
Power	2,631.97	2,475.85	6%	2,546.32	3%
HUBC	1,108.03	701.76	58%	816.00	36%
KAPCO	1,336.40	1,536.14	-13%	1,496.71	-11%
KOHE	187.55	237.95	-21%	233.61	-20%



Bottom-line presented a mix trend for the power sector, with Hubco posting a robust performance and Kapco largely disappointing. Hubco's project company equity (PCE) saw a 24% rise as per their PPA agreement. Kapco's earning declined largely due to higher interest rate expense for financing circular debt (Kapco's does not earn a spread on financing unlike Hubco, due to low negotiated interest compensation).

Oil Marketing Sector

Company's	1 Qtr 10 PAT	1 Qtr 09 PAT	Growth (YoY) %	4 Qtr 09 PAT	Growth (QoQ) %
OMC'S	3,329.40	(8,794.01)	-138%	4,074.51	-18%
APL	733.56	785.13	-7%	864.44	-15%
PSO	1,905.84	(8,383.15)		2,570.07	
SHEL	690.00	(1,196.00)		640.00	8%

PSO posted a disappointing result on the back of lower than expected inventory gains. The earning reflected the recurring income without the added charm of inventory gains which aids in luring investor to this scrip. However the sector looks attractive on the back of rising demand for FO (up 30% QoQ).

Cement Sector

Company's	1 Qtr 10 PAT	1 Qtr 09 PAT	Growth (YoY) %	4 Qtr 09 PAT	Growth (QoQ) %
Cement	1,829.08	927.66	97%	2,281.82	-20%
ACPL	235.75	175.07	35%	454.64	-48%
DGKC	585.00	(169.00)		204.46	186%
FCCL	148.13	220.29	-33%	306.34	-52%
LUCK	1,102.51	962.99	14%	1,524.32	-28%
MLCF	(175.10)	(278.44)	-37%	(297.84)	-41%
PIOC	(67.22)	16.75	-501%	89.91	-175%

Cement sector declined by 20% as cement prices dipped by 13.5% (YoY) to Rs.315 per bag. Price break down directly affected the gross margin. Lower gross margins went on to further suppressed the bottom-line in a high interest rate scenario (down 20% on QoQ basis).

Fertilizer Sector



Company's	3 Qtr 09 PAT	3 Qtr 08 PAT	Growth (YoY)%	9 Months 09 PAT	9 Months 08 PAT	Growth (YoY)%	2 Qtr 09 PAT	Growth (QoQ)%
Fertilizer	4,953.81	3,666.44	35%	11,043.92	9,227.06	20%	2,695.82	84%
FFBL	1,307.00	(174.00)		1,805.12	544.31	232%	485.33	169%
FFC	2,090.81	2,037.44	3%	6,638.80	5,323.75	25%	1,861.49	12%
ENGRO	1,556.00	1,803.00	-14%	2,600.00	3,359.00	-23%	349.00	346%

Profitability of the fertilizer sector grew by 84% (QoQ), with FFBL outperforming the sector with a massive 232% increase in profitability (QoQ). A record Dap off-take along with a favorable DAP pricing scenario boded well for FFBL in 3Q09.

Domestic prices have dipped by -43% YoY in 3Q09, as compared to international prices which are down by -73% YoY. Additionally, phosacid prices have also tumbled down by approximately 76% YoY in 3Q09, while domestic DAP prices are hovering 46% above international prices, boosting margins considerably.



Banking Sector Review

With just a quarter left in CY09, the banking sector looks poised for been the talk of the market. The banking sector had to face the brunt of a depressed economic situation; however with an improvement in the overall economy the banking sector should follow the lead.

Advances & Deposit situation: Deposit growth outpaces advances growth

Advances of all scheduled banks grew by a disappointing 1.05% YTD to Rs. 3,196bn as compared to a growth of 17.6% in the corresponding period last year. This snail paced advances growth can be attributed to the coupled effect of an adverse economic situation along and a high interest rate scenario which made the lending institutions risk averse along with decreasing credit demand due to higher cost.

Deposit stood at Rs. 4,194bn up by 8.62% YTD. The deposit growth was facilitated by attractive deposit rate offered by the banks to generate deposits with the 5% return floor set by the SBP intact for all banks.

The Gross advances to deposit ratio (ADR) declined to 76.2% in 31st Oct' 09 from 81.9% in end CY08.

Investments: Preference for low risk income instruments

Investment increased by 56% to Rs. 1,556bn from Rs. 997bn. Risk averse behavior of bank and the attractive rates offered available on Govt. debt securities lured bank to park their cash in Govt. securities rather than advances. Also the recent TCF issuance by the GoP to resolve the circular debt issue contributed to Increasing investment's share.

IDR ratio increased from 25.8% in Dec' 08 to 37.1% in Oct' 09.

Bottom-Line improves as compared to last quarter: Higher PAT for this quarter

(Rs Mn)	All Commercial Banks		
	2Q09	3Q09	QoQ
Interest earned	131,429	132,131	1%
Interest expensed	70,756	70,223	-1%
NII	60,673	61,908	2%
Prov./ (reversal)	27,118	16,266	-40%
NII after provisions	33,556	45,642	36%
Non int. income	22,996	20,193	-12%
Non int. exp.	39,108	40,497	4%
Profit before tax	-	-	na
Taxation	7,075	10,005	41%
Extra ord. item	-	-	na
Profit after Tax	10,369	15,332	48%



Bottom-Line improves as compared to last quarter: Higher PAT for this quarter

Although the profitability of the banking sector dipped by 33% on YoY basis, the sectoral earnings seems to have sharply rebounded on QoQ basis (up by 48%). The spread of the banking industry increased marginally by 2%, as the interest rate spread were hovering around 7.38%.

Lower Provisioning expense: Aids in boosting the bottom-line

Provisioning expense in the 3rd Quarter' 09 was recorded on the lower side as compared to the last quarter. The stabilizing economic situation has clearly helped in the curtailing the NPLs situation, as NPL growth has been slowing down since Jan' 09.

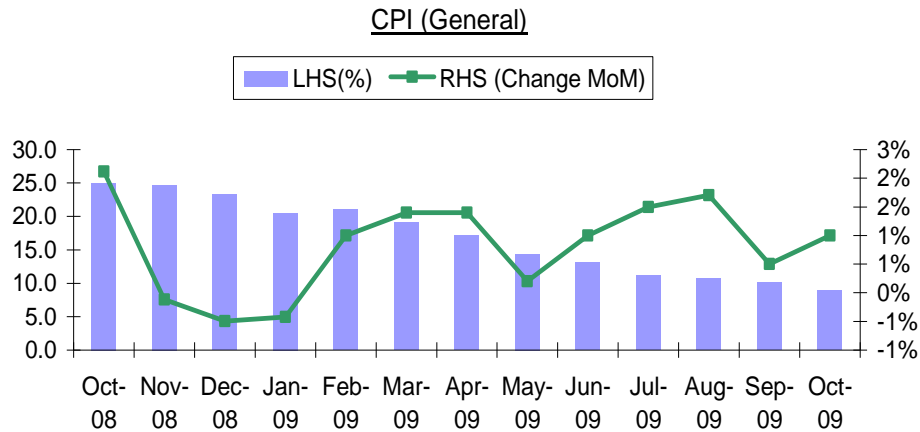
Dupont Analysis	2QCY09	3QCY09
NII/Assets (A)	4.41%	4.50%
OI/Assets (B)	1.67%	1.47%
Net Revenues/Assets (A+B=C)	6.08%	5.97%
Operating Expenses/Assets (D)	2.84%	2.94%
Provisions/Assets (E)	1.97%	1.18%
Taxes/Assets (F)	0.51%	0.73%
Total Costs/Assets (D+E+F=G)	5.33%	4.85%
ROA (C-G=H)	0.75%	1.11%
Equity/Assets (I)	0.10	0.11
ROE (H/I=J)	7.22%	10.14%
Core Equity/Assets (K)	0.09	0.10
Core ROE (H/K=L)	8.10%	11.44%

Higher ROE for the quarter

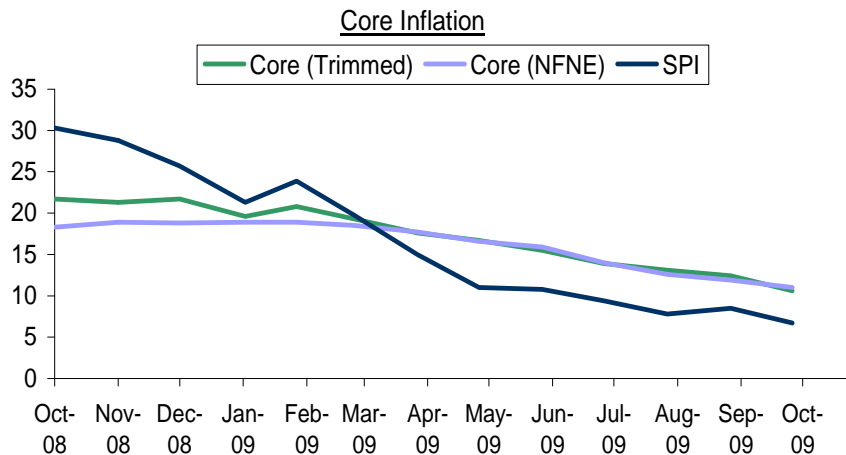
Maintenance of spreads and lower provisioning expense resulted in a higher ROE for the quarter (i.e. 10.14%) as compared to the last quarter (i.e. 7.22%). Operating expenses inched up a little but was more than offset by the decrease in provisioning as the total cost decreased in the 3Q'09.



Inflation: finally in single digit



The inflation for the month of October was recorded at 8.9%, as the index dropped to a single digit for the first time in 2009. However the MoM inflation is up 1%. Going forward the YoY inflation will reflect the MoM inflation as the high base effect seems to be fading off.



Core Inflation was recorded at 11% for NFNE and 10.6% for trimmed core. The core measures have significantly declined since its high 23.9% for the year was recorded in the month of Feb'09. SPI has dipped sharply to 6.7% in the month of Oct'09.

