

State of Economy: Selective stock picking to bear fruits going forward

Portfolio's Sectoral distribution

October 12, 2009

Fertilizer	28%
Commercial Banks	19%
Power	16%
Oil & Gas Exploration Companies	14%
Oil & Gas Marketing Companies	6%
Technology & Communication Sector	5%
Cement	4%
Paper & Board	3%
Closed-End-Mutual Funds	2%
Investment Bank/Cos/Securities	1%
Textile Spinning	0%
Textile Composite	0%
Leasing Companies	0%
Modarabas	0%
Miscellaneous	0%
Total	100%

PKIC's portfolio is heavily inclined towards the Fertilizer sector, banking sector and Power. With the fertilizer's and banking sector's year end approaching, both the sector look poised for a decent run up.

Fertilizer Sector

PKIC's Portfolios is heavily inclined towards the fertilizer sector. The fertilizer sector has always been in the limelight due to its strategic position in our economy as well as the steady payouts keeps the investors interest active.

Banking Sector

With improving economic scenario, banking sector is expected to rebound as optimism grips the sector on expectation of improved asset quality. With Incremental NPLs slowing down, it seems viable to take exposure in the banking sector via selected banking scrips, which have cleaner portfolios, strong management and are available at justifiable valuations.

Power Sector

The power sector is offering a very attractive yield in a falling interest rate scenario. Both the giants of the power sector, namely Hubco & Kapco are in our top ten holdings. The sector offers low risk with high return due to its predetermined cash-flows.

Exploration & Production Sector

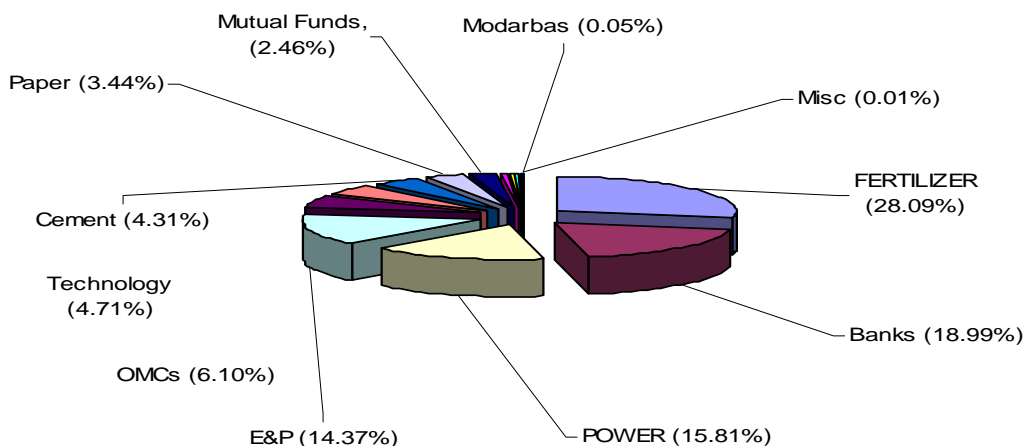
The sector trades at a PE of 8. Though the PE is below the market PE however both OGDC and PPL's dividend yield have turned un-attractive (with PIB trading at above 12.5%) at 7% and 8% for FY09 and FY10, respectively. Although the sector is still a very promising one but the recent price run-up has caused the yields to plummet.

Inflation CPI inflation inched down to 10.12% (YoY) in the month of September, increasing by 0.45% (MoM). NFNE is down to 11.9% and Trimmed core is down 12.3% as HRI(YoY) is down by 16.77%



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	EARNINGS GROWTH			ROE			PE			PKICs PE	
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2009	2010
BANKS	-5%	-32%	21%	16%	11%	12%	6.95	10.16	8.39	7.91	6.64
CEMENT	-46%	193%	-28%	9%	22%	14%	15.93	5.45	7.54	5.22	5.68
E&P	11%	22%	-9%	40%	41%	34%	9.78	7.99	8.74	6.39	6.29
FERTILIZER	27%	-8%	10%	31%	27%	29%	9.16	9.98	9.06	6.80	6.07
GAS	17%	-25%	38%	13%	9%	12%	7.14	9.51	6.88	11.00	7.15
OMC	217%	-123%	353%	46%	-13%	28%	4.22	(18.73)	7.40	(5.83)	5.58
POWER	0%	26%	28%	13%	17%	21%	11.95	9.52	7.42	6.85	4.83
MARKET	15%	-15%	14%	24%	18%	19%	8.08	9.55	8.36	8.05	5.95

The market is trading at a trailing PE of 9.58x and forwards PE of 8.36x. The Dividend yield of the market has significantly dropped, thanks to the recent run-up in the equities market.

	Market			
	2007	2008	2009	2010
PE	9.25	8.08	9.55	8.36
ROE	24%	24%	18%	19%
DY	6%	6%	6.16%	7.20%
PBV	2.18	0.24	0.27	0.23
Earnings Growth		15%	-15%	14%



	EARNINGS GROWTH		DIVIDEND YIELD		PKIC's DIVIDEND YIELD	
	2009	2010	2009	2010	2009	2010
BANKS	-32%	21%	4%	5%	8%	10%
CEMENT	193%	-28%	2%	3%	5%	3%
E&P	22%	-9%	7%	8%	9%	16%
FERTILIZER	-8%	10%	9%	9%	15%	16%
GAS	-25%	38%	7%	12%	9%	14%
OMC	-123%	353%	4%	8%	2%	10%
POWER	26%	28%	10%	13%	15%	21%
MARKET	-15%	14%	6%	7%	9%	11%

Fertilizer Sector

PKIC's Portfolios is heavily inclined towards the fertilizer sector. The fertilizer sector has always been in the limelight due to its strategic position in our economy as well as the steady payouts keeps the investors interest active.

	FERTILIZER			
	2007	2008	2009	2010
PE	11.97	9.45	9.75	9.35
ROE	29%	31%	29%	29%
DY	7%	8%	8%	9%
PBV	3.48	2.88	2.78	2.67
Earnings Growth		27%	-3%	4%

The fertilizer sector is trading at a PE of 9.75 (above the markets PE of 9.55). The fertilizer sector generally trades at a premium to the market due to the inclusion of Engro which trades at higher multiples. Engro chemicals is presently trading at a PE of 22x, having a weightage of 30% in the fertilizer sector causing the PE of the entire sector to inch upwards. However the sector's PE without engro is at 8.43 (below the market). Both FFBL and FFC offer yield of above 11%.

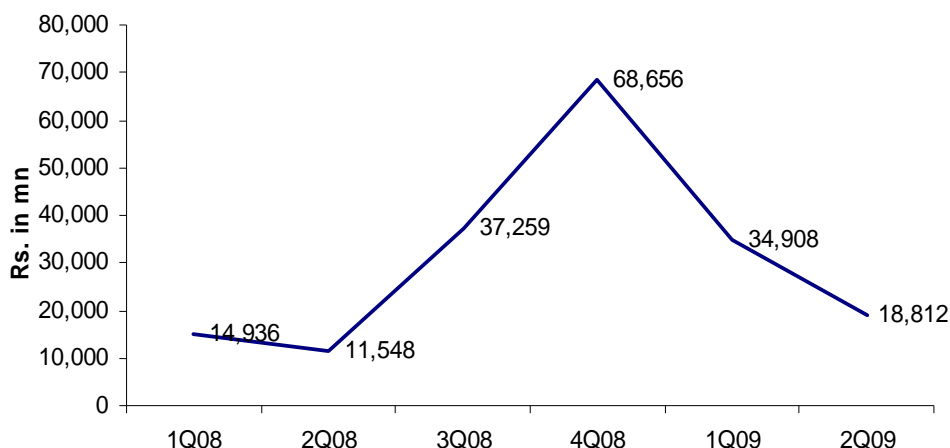
Urea and DAP offtake for Aug' 09 was recorded at 598k tons up 42% YoY and 205k tons up 315%, respectively. DAP has continued its stellar performance this year with Aug 09 sales seeing an 8x increase on YoY basis. This rationalizes the fact that FFBL is our biggest holding (Rs. 200.685mn), while FFC is our second largest holding (Rs. 180.642mn)

Banking Sector

	BANKS			
	2007	2008	2009	2010
PE	7.66	8.08	11.81	9.75
ROE	20%	16%	11%	12%
DY	3%	3%	4%	4%
PBV	1.51	1.32	1.24	1.16
Earnings Growth		-5%	-32%	21%



The banking sector did not actively participate in the initial rally leading the markets from its stubborn levels of 7,000 to 8,500 (except MCB Bank and HBL). However with improving economic scenario, banking sector is expected to rebound as optimism grips the sector on expectation of improved asset quality. With Incremental NPLs slowing down, it seems viable to take exposure in the banking sector via selected banking scrips, which have cleaner portfolios, strong management and are available at justifiable valuations.



Book Values of Top Five Banks:

Book Values		
	BVs	PBv
MCB	93.74	2.48
ABL	37.16	1.46
HBL	93.03	1.41
UBL	46.48	1.36
NBP	101.01	0.86

Amongst the top five banks UBL and NBP are the cheapest in terms of their book values. Thus based on the low comparative valuation UBL and NBP seems to be attractive. Both UBL and NBP are a part of our top ten holding. We own 2.05mn shares of UBL, costing Rs. 113.599mn, while 1mn shares of NBP, costing Rs. 80.168mn.

Power Sector:

	Power			
	2007	2008	2009	2010
PE	10.77	10.79	8.59	6.70
ROE	14%	13%	17%	21%
DY	10%	8%	11%	14%
PBV	1.50	1.44	1.43	1.42
Earnings Growth		0%	26%	28%



The power sector is offering a very attractive yield in a falling interest rate scenario. Both the giants of the power sector, namely Hubco & Kapco are in our top ten holdings. The sector offers low risk with high return due to its predetermined cash-flows. The sector also allows the investors to hedge against PKR devaluation. Leveraged investments by Hubco, allows the company to earn higher than agreed IRRs.

Explorations and Production sector

	E&P			
	2007	2008	2009	2010
PE	10.90	9.78	7.99	8.74
ROE	40%	40%	41%	34%
DY	7%	8%	7%	8%
PBV	4.38	3.94	3.29	2.96
Earnings Growth		11%	22%	-9%

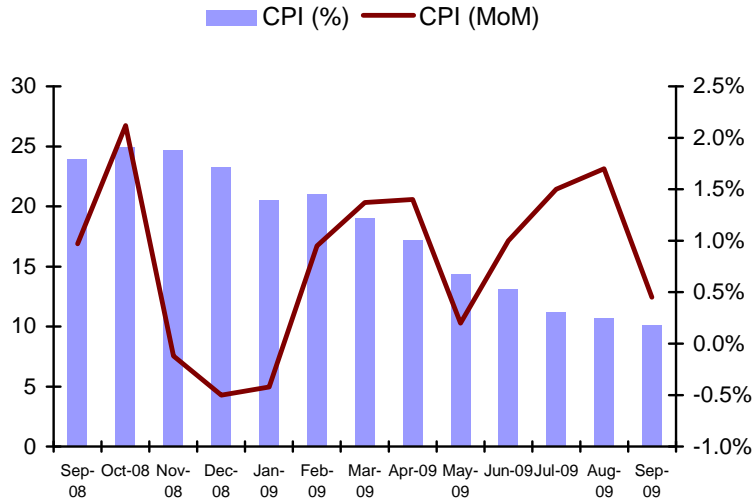
The sector trades at a PE of 8. Though the PE is below the market PE however both OGDC and PPL's dividend yield have turned un-attractive (with PIB trading at above 12.5%) at 7% and 8% for FY09 and FY10, respectively. Although the sector is still a very promising one but the recent price run-up has caused the yields to plummet.

The PE of the sector is understated because of the inclusion of PPL, which trades at a PE of 6.12x, dragging down the entire sectors PE. PPL also has the highest dividend yield (8.48%) within the E&P sector. These depressed valuation are a result of an expected decline in its profitability on YoY basis due to expected lower wellhead prices of its key fields i.e. Sui, Kandhkot and Sawan (all being uncapped fields). Wellhead gas prices of Sui and Kandhkot are expected to be PKR115/MMbtu for 1HFY10, a 32% decline on HY basis.



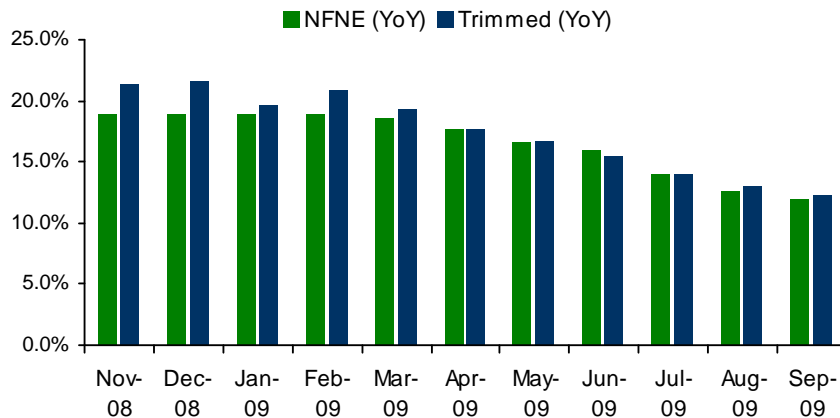
Monetary Policy statement (MPS): Key policy rate (Discount rate) to be reduced by 100bps to 12%, in the upcoming MPS on the 30th of November, 2009

CPI inflation inched down to 10.12% (YoY) in the month of September, increasing by 0.45% (MoM).



CPI increased by 0.45% on MoM basis, the year on year inflation dropped to 10.12%. Commodities that posted an increase in the month of September over August are: Tomatoes up by 43.08% (Mainly caused by the heavy rainfall in August), fresh fruits up by 2.95%, vegetable up by 19.01%, etc.

Core Inflation: NFNE is down to 11.9% and Trimmed core is down 12.3% as HRI(YoY) is down by 16.77%



Non-Food and Non-Energy (NFNE) dropped to 11.9% in September, while trimmed core decreased to 12.3%. These indices are expected to get downwards sticky as the HRI Index is down by 16.77% (YoY)

P.S that the HRI comprises of 46% of NFNE measures

