

Value Call

Monthly Review and Outlook

28 February 2006

The Market

The index has set another record by crossing the 11,000 level during the month under review. Participants remained bullish on the market during the period on the back of strong corporate result announcements, privatization plays and discovery related news in the E&P sector. The extraordinary rise in the E&P sector has raised concerns over the KSE-100 index as the appropriate benchmark for the market.

Small Cap Review

The story highlights some fundamentally strong small cap stocks which due to limited free floats are frequently overlooked by investors.

Pakistan State Oil @ 430

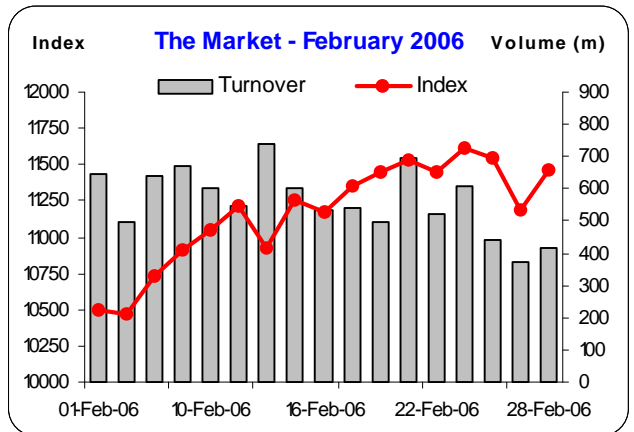
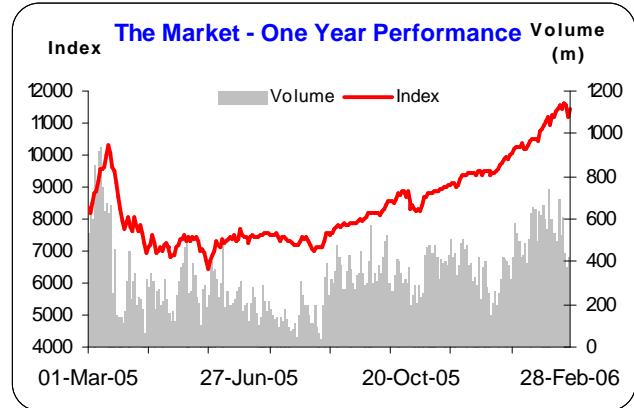
Till 2009, as per our forecast, earnings are expected to increase at CAGR of 7.37%. Based on the EPS forecast of Rs40.97 (FY06) and using sustainable PE ratio of 11.5 for the company, our short term target price for the stock is **Rs471/share** indicating an upside of 9.5% from the closing price of last working day of February 2006 and we advise investor to **HOLD**. Using DCF, our fair value for the stock is **Rs422/share** depicting marginal downside of 1.9% and we advise investors to **REDUCE** investments in the stock.

Short-term: **HOLD** / Long-term: **REDUCE**

Gandhara Nissan Limited @ 35.05

The company has shown significant growth especially after amalgamation in 2004. The increasing demand of trucks and buses in the country may lead to higher revenues and profitability in the coming future. Potential CKD assembly of Nissan Cars in FY07 and production under contractual agreements are likely to support bottom-line. Our DCF based long-term fair value is **Rs45/share** giving an upside potential of 28% on the current price level.

Short-term: **BUY** / Long-term: **BUY**



Stock Market Data

		31-Jan-06	28-Feb-06	%?
KSE-100		10524.2	11456.3	8.9%
Shares Traded	m	8,382	10,190	21.6%
Value Traded	Rsm	851,608	1,357,873	59.4%
	US\$m	14,217	22,631	59.2%
Market Cap.	Rsb	3,030	3,261	7.6%
	US\$b	50.6	54.3	7.4%

Performance for the month of February 2006

Top 5 Gainers	28-Feb-06	% Chg.	Chg.(Rs.)
Sui Northern Gas	106.35	51.3%	36.05
Pakistan Petroleum	298.10	35.3%	77.70
Pakistan Oilfields	613.80	34.1%	156.05
Sui Southern Gas	37.05	32.1%	9.00
National Bank	330.20	29.5%	75.30

Top 5 Losers	28-Feb-06	% Chg.	Chg.(Rs.)
Century Paper	58.00	-36.6%	-33.50
P.N.S.C.	99.00	-27.7%	-38.00
General Tyre	37.50	-24.9%	-12.45
NDLC-IFIC Bank	26.80	-22.7%	-7.85
Cherat Cement	88.00	-18.5%	-19.95

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Market Outlook

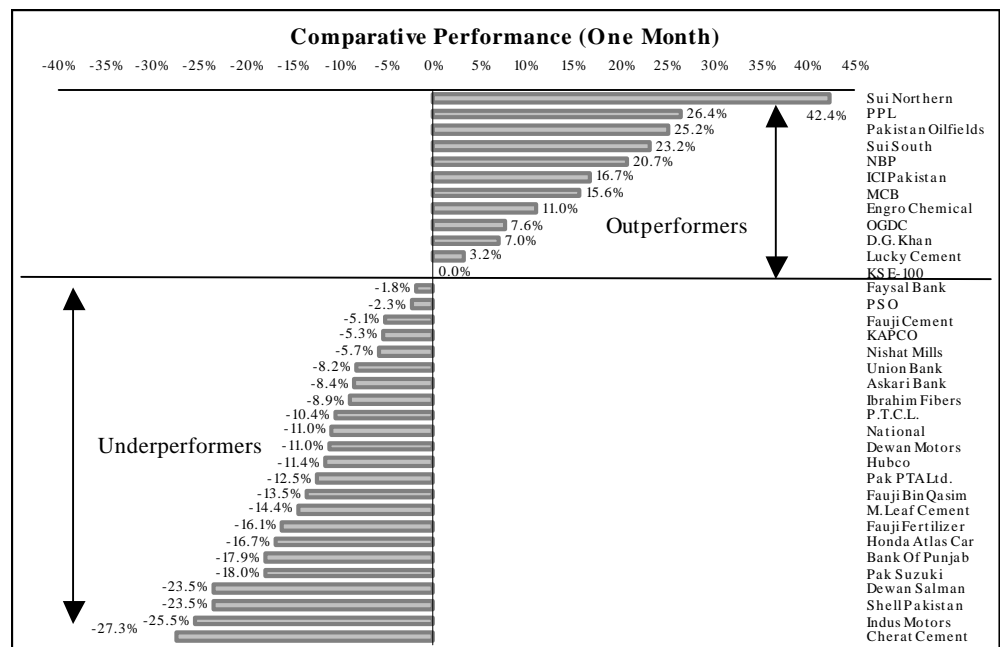
Market Review - February 2006

The KSE-100 index during the month of February 2006 gained over 9% on an average daily volume of 563m shares. The market during the period under review witnessed heavy trading activity in the E&P sector on the back of discovery related news, which once again has raised questions regarding the appropriateness of using the KSE-100 index as a performance benchmark for the market. Privatization developments and rumors in PSO, SNGPL and SSGC lent support to the market during the period under review. The month turned out to be another busy one for the Privatization Commission which achieved several milestones including the privatization of Pak American Fertilizer Limited. Corporate results continued to pour in during the month with the vast majority reporting strong bottom-line growth. Foreign portfolio investment continued to channel in the local market with cumulative net flows during the month being reported at US\$86m. Net flows during the 8-months of the current fiscal year stood at US\$470m.

Political Scenario: international and domestic

Iran's announcement regarding resumption of uranium enrichment after being reported to the United Nations Security Council has raised international concerns regarding its nuclear plans. According to latest press reports, Iran has reached a basic agreement (which has not been specified) with Russia on jointly enriching uranium, but there was no immediate sign that it would suspend home-grown enrichment. The 'Iran' issue has been under the limelight during recent times and has placed the Pakistani government in a dilemma. The local government is also facing strong opposition from the United States over the proposed Iran-Pakistan-India gas pipeline, which is imperative given the growing energy requirements of the country.

On the domestic front, the law and order situation within the country was disturbing during the month under review in the wake of countrywide protests against the publication of blasphemous cartoons, as well as the ongoing trouble in Baluchistan and the Northern Areas.



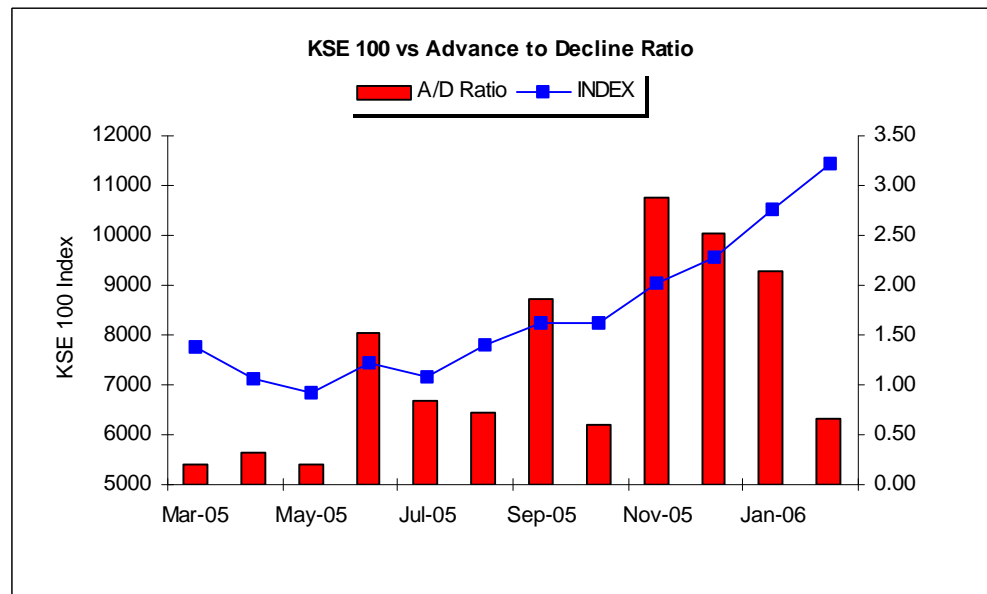
Is the index misleading?

The KSE-100 index being a total return market capitalization based index is often blamed as being misleading and 'skewed.' In other words, due to limited depth in the market, the large-cap stocks have the potential to inflate the index even at times when the rest of the market is declining. The index weightage (as of Feb 28, '06) of the E&P sector can be view in the table below:

Company	Prices - Rupees			Ind. Wtg 28 Feb '06
	1-Feb-06	28-Feb-06	% Chg	
Oil & Gas Development Corp.	125.80	146.90	16.77%	22.55%
Pakistan Petroluem Ltd.	220.20	298.10	35.38%	7.30%
Pakistan Oil Fields	460.75	613.80	33.22%	2.88%

Source: KSE website

It can be viewed from the table above that the E&P sector influences 33% of the total index and the recent bull run in these scrips has created an impression that the overall market is performing well when it is only a handful of large cap scrips pushing the index up. This view can be substantiated from the fact that the advance to decline ratio for the entire market reached its peak in Nov '05 and since then has shown a declining trend when the overall market has been rising. Also note the drastic decline in the advance decline ratio during the month of Feb '06 from 2.13 to 0.65 when the index has grown by 9.14% or 959 points which suggests that the index is indeed misleading.



E&P: Manzalai discovery

Tal Block which is located in NWFP is operated by MOL, Hungarian E&P company having a post-discovery interest of 8.4%. Other joint venture partners are OGDC, PPL, POL and GHPL with respective stake of 27.8%, 27.8%, 21.1% and 15%. The current estimates of the reserve size for Tal Block as reported in the Pakistan Energy Yearbook 2005 is 2 tcf natural gas which include Makori-1 and Manzalai-1 fields and around 39m barrels of crude oil. The current production of Tal is around 50mmcf/d gas and 450bpd crude oil. Most of the speculation in the E&P scrips centers around the natural gas reserve estimates of Manzalai-2 which so far has not been made public as test drilling and technical appraisal has not yet been completed. The rumors circulating in the market regarding the reserve estimates vary from 2tcf to 18tcf. However, POL's HY06 directors' report states that

appraisal test of Manzalai-2 yields 25.8mmcf/d gas and 500bpd of crude oil. The major beneficiaries of a sizeable discovery in Manzalai-2 are POL and PPL. In the absence of an official announcement in this regard, we have not incorporated the impact of discovery into our price targets both for POL and PPL but we do feel that in order to justify the current price levels, the discovery will have to be over 3 tcf.

Privatization Corner

The Privatization Commission achieved some important milestones during the period under review. According to press reports, the upfront payment of US\$1.4b by Etisalat and transfer of management control is scheduled to take place in the near future. The PC also conducted a two-day road show in Singapore in order to attract investors for the privatization of twin Suis and has extended the last date for submission of Statement of Qualification (SoQs) for both SNGPL and SSGC to Mar 11, 2006. According to latest press reports, the PC has decided the pre-bid meeting of Pakistan State Oil to take place on March 2, 2005. The bidding of Pak American Fertilizer Limited (PAFL) took place on Feb 28, 2005 and 30m shares of the entity were sold to Ibrahim Fibers for Rs20b (at a price of Rs667/ share). Last but not the least, the PC has also been reported of having reached a deal with Steel Mills union regarding the employees package thus making the mills' bidding possible by Mar 10, 2005.

Earnings Review

Corporate results for most of the large caps have been announced and barring a few exceptions, generally the results have been in line with market expectations. The positive corporate announcements have not only kept the market sustainable at present levels but will also decide upon the future direction for the market.

SECTORS	PAT - Rsm		
	2005	2004	% Chg
Banks	18,344	11,568	58.58%
Cement	3,834	2,063	85.88%
Refinery	2,752	3,579	-23.10%
IPP	5,284	6,355	-16.85%
O&GMC	7,007	5,230	33.97%
E&P	28,976	21,237	36.44%
Automobile Assembler	1,509	1,092	38.23%
Technology & Com	11,326	14,587	-22.36%
Fertilizer	9,665	7,446	29.81%

Note: The above results includes major companies which have announced their financial results

Small Cap Review

The purpose of this story is put focus on fundamentally strong small cap stocks which due to limited free floats are relatively ignored by the market. Our criteria for stock selection include all of the following factors:

✍ ROE history: the entity should have achieved an ROE of atleast 15% during the last three reported financial years.

✍ Positive earnings growth

✍ Market capitalization/ free float: the company's market capitalization should be below Rs10b in order to be classified as a 'small cap.'

We have selected the following companies based upon the criteria mentioned above:

Companies	Sponsors	Product Portfolio
Agriautos Industries Ltd.	House of Habib	Components ranging from shock absorbers to gaskets etc for automotive vehicles, motor vehicles, motor cycles and agricultural tractors
AL-Ghazi Tractors Ltd.	Al-Futtaim Indust. Co. LLC	Agricultural Tractors
Atlas Battery Limited	Atlas Group	Batteries for Automotive and Motor Cycles
Baluchistan Wheels Ltd.	NA	Produces diverse range of wheels for passenger cars, automobiles and agricultural tractors
Clover Foods Limited.	Lakson Group	Food products including powder drinks and chocolates
Cherat Papersack Ltd.	G. Faruque Group	Papersacks which is used by the cement manufacturers for packaging
Crescent Steel and Allied Products	Crescent Group	Steel pipes manufacturing and coating
Ferozsons Laboratories Ltd.	KFW Factors (Pvt) Ltd.	Product range varies from pharmaceuticals and soap products
General Tyre and Rubber Co. of Pak.	Bibojee Ser (Pvt.) Ltd, Pak. Kuwait Inv. Co.	Tyres and tubes for the automobile industry
Mari Gas Company Ltd.	GOP, OGDC and Fauji Foundation	Exploration and Production Company.
Millat Tractors Ltd.	AGCO, Anhui Heli Forklift Truck and Perkins Engines Co. Ltd.	Product range includes agricultural tractor, diesel engines, diesel generating sets, forklift trucks and agricultural implements
Pakistan Cables Ltd.	Chinoy Group	Manufacturers of copper rods, wires, cables, conductors and aluminium extrusion profiles
Thal Limited.	House of Habib	Manufactures jute goods and assemblers of engineering goods including auto air conditioners, wire harness & heat blowers
Zulfeqar Ind.	Packages Group	Manufacturers of soaps

The following table highlights the market cap (as of Feb 28, '05), ROE achieved during last three financial years, growth in earnings and free floats of the selected small cap companies. It should be noted that in spite of the strong earnings growth and impressive ROE ratios, these stocks are not highly traded due to their limited free floats.

Company	Mkt. Cap	ROE FY05	ROE FY04	ROE FY03	4-Y PAT CAGR	Free Float
Agriautos Industries Ltd.	2,137	43%	54%	35%	80%	23.22
AL-Ghazi Tractors Ltd.	9,270	37%	37%	49%	17%	NA
Atlas Battery Limited	391	43%	43%	30%	107%	1.94
Baluchistan Wheels Ltd.	827	25%	17%	9%	19%	8.15
Clover Foods Limited.	567	46%	46%	69%	81%	2.76
Cherat Papersack Ltd.	359	11%	16%	29%	19%	4.05
Crescent Steel and Allied Products	2,348	18%	19%	24%	58%	22.33
Ferozsons Laboratories Ltd.	2,190	40%	42%	38%	40%	5.63
Ghani Glass Mills Limited	2,241	20%	25%	30%	16%	9.09
General Tyre and Rubber Co. of Pak.	2,379	16%	22%	24%	2%	20.92
Mari Gas Company Ltd.	6,078	14%	22%	33%	17%	7.31
Millat Tractors Ltd.	4,997	23%	26%	22%	12%	11.67
Pak Elektron Ltd.	3,619	15%	35%	27%	39%	31.69
Pakistan Cables Ltd.	17,374	39%	33%	31%	102%	0.39
Shifa International Hospitals Limit	1,238	19%	20%	18%	62%	18.32
Sitara Chemical Industries Ltd.	2,366	20%	21%	20%	7%	16.77
Thal Limited.	3,158	34%	39%	47%	56%	12.59
Zulfeqar Ind.	608	28%	33%	28%	57%	3.62

Source: Annual Reports.

Total returns as measured by the change in share price as well as dividends paid during the year for the selected small cap stocks can be viewed in the following table. Note that the total returns have exceed 50% in any given year.

Total Returns - dividends and price appreciation			
	2003	2004	2005
Agriauto Ind	324%	290%	129%
Al-Ghazi Tractors	247%	162%	84%
Atlas Battery	428%	184%	51%
Baluchistan Wheels	142%	127%	108%
Cherat Papersack	365%	101%	84%
Clover Foods	203%	145%	111%
Crescent Steel	267%	99%	100%
Ferozsons Laboratories	199%	167%	135%
General Tyre & Rubber Co	149%	80%	74%
Mari Gas	187%	128%	238%
Millat Tractors	177%	174%	80%
Pak Cables	417%	209%	147%
Thal Limited	378%	205%	102%
Zulfeqar Industries	297%	148%	254%
KSE-100 Index	92%	55%	41%

Source: Taurus database

Brief Profiles

Agriautos Industries Limited

Agriautos Industries Ltd. was incorporated in 1981 as a manufacturer of automotive components. The corporation's product range caters to the requirements of both Original Equipment Manufacturers (OEM) as well as the after market. Its client base includes all major automobile assemblers, motor cycles, tractors and truck manufacturers.

During 2005, revenue base reached Rs1.454b from Rs1.281b recorded during the same period of last year, representing YoY increase of 13.53%. Company profitability has shown impressive growth of 80% (4-Year CAGR) and was reported as Rs252m for FY05. Average payout by the entity during the last three years stood at 31% while ROE during the same period has varied between 35% - 54%. The company's balance sheet carries minimal leverage thus suggesting room for further growth.

AL-Ghazi Tractors Limited

The financial and operating performance of the company witnessed a turnaround shortly after its privatization in Dec '91. The company's primary business of manufacturing Fiat tractors is a collaborative effort with Fiat New Holland. Al-Ghazi Tractors is distinguished from other players in the business as it already has achieved the highest local content (locally manufactured parts).

Sales revenue during 2004 stood at Rs6.735b, a YoY growth of 23.35%, which is mainly attributable to volumetric growth. Profitability of the company has improved by 17% (3-Y CAGR) to Rs965m while average dividend payout during the same period stood at 74%.

Atlas Battery Limited

Established in 1966, Atlas Battery provides a complete range of polypropylene and hard rubber batteries catering to the requirements of various customers. The company has a national network of 600 dealers and retail outlets.

The top-line of the company was reported at Rs950m during 2005 and has grown by 14% (CAGR) from Rs563m reported during 2001. Earnings have shown strong growth as witnessed by its 3-Y CAGR of 44% (FY01-FY04). The ROE during the same period has declined from 39% during 2004 to 17% in 2005 whereas the 3-Y average payout ratio has been 39%. The robust growth in earnings can be attributed to the ongoing boom in the local automobile industry (its clientele includes all major automobile, truck and motorcycle assemblers) and exports to other Asian and Middle Eastern countries.

Baluchistan Wheels Limited

Baluchistan Wheels Limited (BWL) was established in 1980, in technical collaboration with GKN Sankey Limited U.K for the manufacturing of steel wheels for automobiles. The Plant has an operating capacity of 376,000 units per annum. BWL is also making inroads to countries in Asia and Europe.

Turnover for the company was reported at Rs788m during 2005 compared to Rs533m during last year, representing an increase of almost 48% YoY. Profitability has increased by 19% (4-Y CAGR) which is mainly attributable to top-line growth. Sales quantity increased from 108,000 units in the year 2000 to 637,000 during 2005. Profitability ratios on the other hand have shown a declining trend till 2004, which may be attributable to higher steel prices internationally. The boom in the

automobile industry had a positive impact on the vending industry but recent concessions allowed by the government pertaining to the import of cars in the Federal Budget '05-'06 may adversely impact the vendor industry. Thus far, none of the major auto assemblers have announced any roll-back of their planned investments.

Clover Pakistan Limited.

Clover Pakistan Limited was established in Pakistan in 1986 as a business for sale of food and personal care products. The company's product portfolio includes some popular brands such as the TANG powder drink and Toblerone chocolates. The Company has successfully entered the export market and sells goods to African and Middle Eastern markets.

Turnover during 2004 was reported at Rs518m compared to Rs493m during the same period last year. The company's PAT grew by 81% (3-Y CAGR) during FY'01-FY'04 despite a decline in profitability from FY'03. This decline was mainly attributable to a rise in operating expenditures. Top-line grew on account of various marketing initiatives such higher advertising, sales promotion and streamlining of the sales network undertaken in response to the increasing level of competition in the industry. The entity has been successful in maintaining an average 3-Y payout of 33%.

Cherat Papersack Limited

Cherat Papersack Ltd. commenced its operations in December 1991. The company has an installed capacity of producing 100 million bags per annum and produced 85.02 million bags during the year 2005 (2004: 57.73 million bags). The company produces paper sacks which are used for packaging purposes by the cement industry and has a client base that includes almost all cement manufacturers in the country.

Top-line for the company grew by 25% (YoY) to Rs714m during 2005 and total dispatches by the cement sector during the same period stood at 16.35mtons. In response to robust increase in sales and expansions by major players in the cement industry, the company also undertook an expansion which was expected to come online by Sep '05 and increase production capacity by approximately 50m bags per annum

Ferozsons Laboratories Limited

The company commenced its operations in 1956 as manufacturers of fine chemicals and galenicals and as toll-manufacturers for multinational pharmaceutical corporations. Today it operates a range of its own branded generics covering Anti-infectives, Gastrointestinal, Cardiovascular and Determatology. The entity has finalized plans to setup the first biotech pharmaceutical plant in Pakistan for the manufacture of medicines to treat Hepatitis and Cancer.

The company has shown a healthy growth of 40% (4-Y CAGR) in its bottom-line, which is primarily due to top-line growth. It has maintained an average 3-Y payout of 43% during the same period with an ROE hovering between 38%-42%.

General Tyre and Rubber Company

The company was established in March '63 and its primary business is manufacturing tyres and tubes of passenger cars, light trucks and vans, trucks and buses and tractors. The company's top-line has grown steadily by 10% (CAGR) during 2000-2005, which is mainly attributable to volumetric growth. The increased volume in sales is largely due to increased demand for passenger car and light truck tyres from original equipment manufacturers (OEMs). Profitability margins for the company

have reduced in recent times, as it has not managed to increase selling prices despite rising C&F costs in order to protect its market share from imports and the smuggling of tyres. Consequently, earnings for the company rose marginally at a rate of 2% (CAGR) during FY01-05.

Mari Gas Company Limited

Mari Gas Company Limited is principally engaged in the drilling, exploration, production and sale of natural gas. It operates the second largest gas field located in Daharki, District Ghotkhi, Sind. Mari Gas was formed in the mid 80s by Fauji Foundation, Govt. of Pakistan and Oil & Gas Development Company limited to takeover the assets, liabilities and operation of Fauji Foundation (Mari Gas) and Pak Stanvac Petroleum Project. The corporation provides raw material to the fertilizer industry (including Engro Chemical Pak. Ltd. and Fauji Fertilizer Co. Ltd.) and also supplies gas to WAPDA for power generation.

The gas price mechanism is governed by Mari Gas Well Head Price Agreement dated Dec 22, 1985 which states that gas prices will be determined to ensure that total revenues generated from sale of gas and other income are sufficient to provide a minimum return of 30% (net of all taxes), on shareholder's funds after meeting specified ratios and deductibles. According to company accounts, the minimum return to shareholders for the year was 30.98% (2004: 30.47%). Additionally, there exists an escalation clause, stating that the return to shareholders will increase at the rate of 1% for each additional 20 MMSCFD of gas or equivalent oil beyond the level of 425 MMSCFD.

Revenue base for the company stood at Rs15.641b during 2004-05 compared Rs14.140b reported during the same period last year. Earnings have increased by 17% during FY01-05, whereas payout during the last three years has averaged at 24%.

Millat Tractors Limited

Millat Tractors Limited (MTL) was established in 1964 to introduce and market Massey Ferguson (MF) Tractors in Pakistan. An assembly plant was set up in 1967 to assemble tractors in semi-knocked down (SKD) condition. The company operates under licensing arrangements with various international concerns.

During FY05, top-line was reported at Rs8.326b compared to Rs6.984b during the same period last year. Earnings for the company have grown by 12% (3-Y CAGR) with an average dividend payout of 42%, whereas the return on equity achieved has varied between 22%-26%.

Pakistan Cables Limited

The company was established in 1953 under the sponsorship of BICC plc (U.K.) and the Chinoy Group. During FY05, turnover was reported at Rs2.019b compared to Rs1.280b during the same period last year. Earnings during the period FY01-FY05 have registered a massive growth of 102%, which have driven by top-line growth. Gross profit margins during the same period have also improved. During FY05, the company incurred capital expenditure amounting to Rs125m, mainly spent on upgrading and modernizing the company's production units, particularly the wire and cable making machinery, with a view to increase production capacity and minimize cost.

Thal Limited.

Thal Limited is an industrial project of the House of Habib and was established in Jan 1966. The company is engaged in manufacturing of jute goods and various engineering goods.

Turnover for the company, which was only Rs522m during 1996, grew to Rs3.517b during 2005, representing an increase of 24% CAGR during the 9-Year period. The phenomenal increase in revenue is mainly attributable to increased production (due to higher demand over the period) and improvement in the sales mix. It also exports jute goods internationally and has recently marked its presence in Egypt, Sri Lanka, Switzerland and USA. Revenue from exports accounted for 40% of the total sales during FY05. The engineering division of the company manufactures car air-conditioners and wiring harness, products which have found the upsurge in the automotive market beneficial.

Zulfeqar Industries

Zulfeqar Industries was established in 1960 and is in the business of manufacturing toilet and washing soaps including popular brands such as Capri and Opal. Despite stiff competition from imported soaps, the company has been able to increase its top-line by 14% CAGR during FY'99-FY'05 to Rs845m, and has also been able to stabilize growth in annual sales. Capacity utilization increased from 78% during 2004 to 88% during 2005. The abolishment of customs duty on soaps in the Federal Budget 05-06 is viewed as an opportunity by the company to reduce selling prices on its premium brands in order to gain market share.

Crescent Steel and Allied Products

Crescent Steel and Allied Products Limited is a steel pipe manufacturing and coating company. It also runs a spinning mill with a capacity of 6.453m kilogram of cotton yarn and is located at Jaranwala near Faisalabad.

Sales revenue were reported at Rs2.69b during 2005 registering an increase of almost 100% on a year on year basis. Earnings during FY01-05 have increased by 58% (4-Y CAGR) while the average dividend payout during the last three years has been 30%.

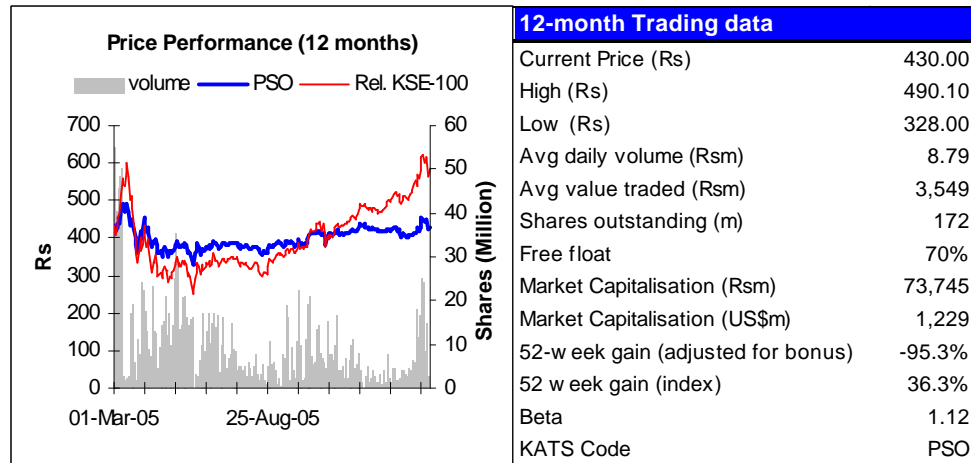
Conclusion

We would recommend investors to place the above mentioned scrips in their watch list as they offer an opportunity to diversify portfolios and reduce exposure in index heavy weights, most of which are considered fully valued at present price levels. As mentioned previously, these companies have posted strong bottom-line growth in the past and have offered investors attractive returns compared to the KSE-100 index.

S-T Target Price: Rs 471
L-T Fair Value: Rs 422

Pakistan State Oil @ 430

Short-term: HOLD / Long-term: REDUCE



Investment Summary

✎ The first half FY06 was marked by the downward trend in domestic consumption of POL products. Volume of white oil declined by 5% while black oil consumption reduced by 21% YoY.

✎ In HY06, despite the decline in volume, the topline of PSO surged to Rs153b showing an increase of 26% while bottomline increased to Rs5.3b depicting an increase of 28% YoY due to price increases.

✎ The company has now become sole supplier of Fuel Oil and lubricants to Pakistan Steel Mill and has entered into a formal agreement with the Karachi Electric Supply Corporation (KESC) for meeting its 100% Fuel Oil and HSD demand.

✎ The company's payout track record has been outstanding and in the past 5 years the average payout ratio of the company is more than 65%. In HY06, the company has already paid interim dividend of Rs11.0/share.

✎ The pre-bid meeting for privatization of the company is schedule for March 2nd 2006, which has led to added interest in the stock.

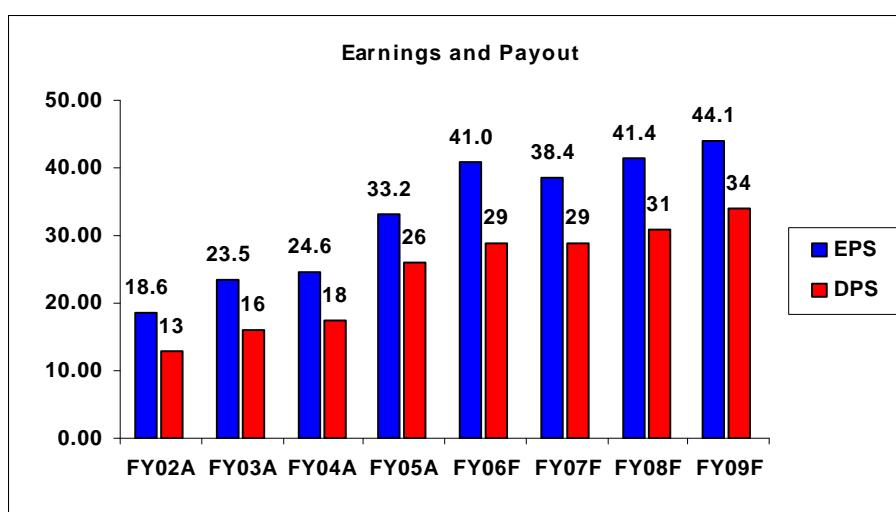
✎ At closing price of February 28th 2006, we hold a **Neutral** stance on the scrip, and in our view fund managers can **Market Weight** the stock in their portfolio.

Valuation Statistics @ 430

	FY02A	FY03A	FY04A	FY05A	FY06F	FY07F	FY08F	FY09F
EPS diluted (Rs)	18.59	23.50	24.56	33.17	40.97	38.44	41.35	44.08
growth in EPS	41.6%	26.4%	4.5%	35.1%	23.5%	-6.2%	7.6%	6.6%
P/E (x)	23.13	18.30	17.51	12.96	10.50	11.19	10.40	9.75
P/EBITDA (x)	11.85	8.99	10.67	6.62	5.51	5.81	5.41	5.04
CFS (Rs)	28.89	40.96	11.33	39.42	77.83	55.04	54.05	58.61
P/CFS (x)	14.88	10.50	37.94	10.91	5.52	7.81	7.96	7.34
BVS (Rs)	65.60	76.16	90.05	100.94	112.91	122.34	132.69	142.78
P/BVS(x)	6.55	5.65	4.78	4.26	3.81	3.51	3.24	3.01
DPS (Rs)	13.00	16.00	17.50	26.00	29.00	29.00	31.00	34.00
Dividend Yield	3.0%	3.7%	4.1%	6.0%	6.7%	6.7%	7.2%	7.9%

Earnings and Payout Forecast

For the entire FY06, we expect the company to post **PAT of Rs7.03b (EPS: Rs40.97)** depicting YoY increase of 23.5%. In FY07 as per our analysis, profitability of the company is likely to decline as crude oil prices in the international market are expected to stabilize at present level which will lead to marginal decline in domestic POL prices as government's prior losses due to non collection of PDL are expected to be recovered in FY06. Because of expected decline in domestic POL prices and variations in volumes of different POL products, we strongly believe that margins of OMCs will decline in absolute terms. Till 2009, as per our forecast, earnings are expected to increase at CAGR of 7.37%. We believe that the payout policy of the company may change once the new management takes control of the company's operations. In HY06, the company has already paid interim dividend of 110% (**DPS: Rs11.0**) and we expect company to pay 150% -180% (**DPS: Rs15.0-Rs18.0**) final dividend in FY06.



Valuation and Recommendation @ 430

At the closing price of February 28th 2006, the stock was trading at prospective earning multiples of 10.9x which is almost in line with the market earning multiple. Based on the EPS forecast of Rs40.97 and using sustainable PE ratio of 11.5x, our short-term target price for the stock is **Rs471** indicating an upside of 9.5% and we advise investor to **HOLD**. Any positive news on the privatization front can lead to a potential rally in the scrip. Using DCF, at WACC of 12.9% and growth rate of 4% our fair value for the stock is **Rs422/share** depicting marginal downside of 1.86% and we advise investors to **REDUCE** their investment in the stock.

DCF value	Rs per Share				
	Discount Rate				
Growth	11%	12%	12.9%	14%	15%
1%	416	381	354	328	307
2%	445	404	372	343	319
3%	481	432	395	361	334
4%	528	467	422	382	351
5%	590	512	456	408	372
6%	678	572	501	441	397

Brief Sector Update

During HY06, overall sales of different POL products have reduced by almost 10% compared to the corresponding period last year. Volume of white oil declined by 5%, while black oil consumption reduced by 21% YoY. The main reason behind this volumetric decline is record high prices of POL products. The high price of Mogas has spurred massive CNG conversion which is expected to continue during 2H06 and beyond. Despite the overall reduction in demand, the price increases gave a favorable boost to the sector and as a result the bottom-line of the listed OMCs increased by 41% in 1H06 compared to the corresponding period last year. Due to rehabilitation and reconstruction activities in the earthquake devastated regions, it is also likely that the demand for POL products will improve in the country. The overall sales volume in 1H06 of major players in the industry can be viewed in the table below.

<i>In thousand tones</i>	PSO	SHELL	Caltex	Attock	TOTAL Parco
Sales Domestic					
HY06	4,067	1,356	471.6	468	301.8
HY05	4,910	1,556	570	164	294
% Change	-17.2%	-12.8%	-17.2%	185.2%	2.7%
Sales Exports					
HY06	187	73	45	62	0
HY05	96	104	(1)	55	0
% Change	95%	-30%	-5832%	13%	0%
Total Sales					
HY06	4,254	1,429	517	530	301.8
HY05	5,006	1,660	569	219	294
% Change	-15%	-14%	-9%	142%	3%
Relative Market Share					
HY06	60.5%	20.3%	7.4%	7.5%	4.3%
HY05	64.6%	21.4%	7.3%	2.8%	3.8%

During the past two years, prices of crude oil in the international market have increased significantly. The impact of this hike in international crude oil prices can be witnessed in the domestic market. The government's concerted effort not to pass the impact of the high international prices to general consumers subsequently led to a loss of more than Rs40b in FY05. Despite this, the prices of major POL products have increased significantly during the past two years and this has significantly improved the top-line and bottomline of OMCs. Prices of major POL products during past two years can be seen in the following table.

<i>In PKR</i>	MS	HOBC	KERO	HSD	LDO
16-Feb-04	34.47	38.44	22.18	23.77	19.84
16-Aug-04	36.92	40.87	24	24.37	21.05
16-Feb-05	42.39	47.32	27.04	27.16	24.33
16-Aug-05	48.94	54.33	29.53	31.74	27.84
16-Feb-06	56.29	62.77	32.87	37.18	30.97
% chg in 2 yrs	63.30%	63.29%	48.20%	56.42%	56.10%

Pakistan State Oil

Five year financial performance at a glance					
Rs in billion	FY01	FY02	FY03	FY04	FY05
Net Sales	143.3	153.1	172.4	161.5	212.5
Cost of sales	136.9	146.3	163.5	152.3	198.8
Gross profit	6.4	6.8	8.9	9.2	13.7
Selling & dis expense	2.4	2.2	2.8	4.2	5.4
Operating Profit	4.0	4.6	6.2	6.5	9.5
PBT	3.5	5.1	6.2	6.3	9.2
Taxation	1.2	1.9	2.2	2.1	3.5
PAT	2.3	3.2	4.0	4.2	5.7
EPS	15.8	18.6	23.5	24.6	33.2
DPS	10.0	13.0	16.0	17.5	26.0
Gross Margin	4.5%	4.4%	5.2%	5.7%	6.4%
Operating Margin	2.8%	3.0%	3.6%	4.0%	4.5%
Net Margin	1.6%	2.1%	2.3%	2.6%	2.7%
Market Share	69%	65%	65%	61%	62%

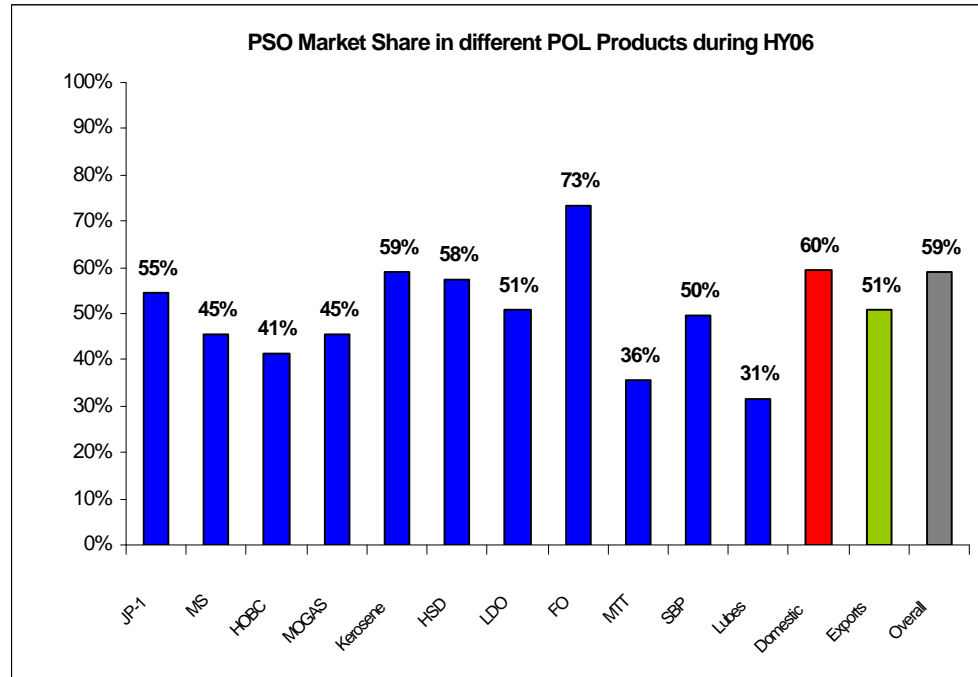
The financial performance of the company has improved significantly in the first five years of this millennium as topline grew at a CAGR of 10.35% while bottomline improved at a CAGR of 25.5%. Despite the fact of the improvement in the financial performance of the company, the market share of Pakistan State Oil has declined from 69% in FY01 to 62% in FY05. The main reason behind the declining market share can largely be attributed to the entrance of new players in the industry and in our view competition will further intensify going forward.

HY06 Result Review

The 1Q06 proved to be outstanding with bottomline growth of 109% YoY. However 2Q06 displayed the opposite trend as earnings declined by 41% YoY. Main reason behind the lackluster performance in 2Q06 was the inventory losses as the ex-refinery prices declined by 8.5% in three months which led to cumulative losses of approximately Rs1.5b to the company. In the 3Q06, we believe that the company is not going to have any inventory losses as ex-refinery prices has increased by 7% in the first two months of the ongoing quarter. During HY06, the overall financial performance of the company was better than the corresponding period last year and the bottomline increased by 28.8% YoY. The financial details of HY06 can be seen in the table below.

In PKR billion	HY06	HY05	%chg YoY
Net Sales	129.7	102.5	26.6%
CGS	122.0	96.7	26.2%
Gross Profit	7.7	5.8	32.7%
Operating and other exp	2.8	2.3	24.0%
Operating profit	4.9	3.6	38.2%
Other income	0.7	0.8	-17.5%
WPPF	0.3	0.2	27.3%
PBT	5.3	4.1	28.0%
Taxation	2.0	1.5	26.6%
PAT	3.4	2.6	28.8%
EPS	19.6	15.2	28.5%
DPS	11.0	11.0	0%
Gross Margin	5.9%	5.7%	
Operating Margin	3.8%	3.5%	
Net Margin	2.6%	2.5%	

It is expected that in 2H06, demand for POL products will increase, particularly due to the upcoming reconstruction works in earthquake devastated regions of the country, and PSO will be one of the major beneficiaries. Secondly, the company has entered into a formal agreement with the Karachi Electric Supply Corporation (KESC) for meeting its entire Fuel Oil and HSD demand and has also become sole supplier of fuel oil and lubricants to Pakistan Steel Mills. In our view, these moves will help the company to further improve its financial performance. Market share of PSO in different POL products during HY06 can be viewed in the following graph.



Payout Track Record

The payout record of this company has always been outstanding. During the current year, the company has already paid interim dividend of 110% (DPS: Rs11.00). In the past five years the average payout of the company has been more than 65% and the company has outperformed the KSE in terms of dividend yield. In the past five years the payout of the company grew at CAGR of 32.9% while bottomline has improved by 26% during the same period. After the privatization whether to maintain the present payout ratio or to retain more cash for making investments in new avenues or to pay more cash in order to recover their own investments will be dependent on the acquirer's strategy. The payout record of the company can be seen in the table below.

In PKR million	2,001	2002	2003	2004	2005
Profit After Taxes	2,251	3,188	4,030	4,212	5,689
Dividend	1,429	1,858	2,744	3,002	4,459
Payout ratio	63%	58%	68%	71%	78%
DPS	10.0	13.0	16.0	17.5	26.0
Price as on June 30(in PKR)	132.5	140.0	228.4	256.0	386.0
Dividend Yield	7.5%	9.3%	7.0%	6.8%	6.7%

Source: Company Reports and Taurus Database

Privatization Play

In the past couple of years, there have been many times the privatization process of this entity entered the final stages but unfortunately never reach completion. Once again, the privatization of this strategic asset has entered the final phase, and the pre-bid conference is schedule to take place on 2nd March 2006. The final date for the bidding is likely to be announced after the conference. It is probable that, the government will privatize PSO in this ongoing fiscal year, as it has become imperative to privatize atleast one large state own entity in order to reduce mounting pressures on the current account deficit. Furthermore, we believe that after the privatization, the new management will be open to exploring new opportunities and is likely to undertake backward integration, potentially in the **Refinery** sector. Our rationale behind this assumption is that after the entrance of Bosicor Pakistan and Attock Petroleum Limited into oil marketing and distribution businesses whose fuel supply are guaranteed will give tough competition to those OMCs who do not have their own refinery and/or storage capacity.

The Bottomline

At the present price level, we hold a **Neutral** stance on the stock and in our view fund managers can **marketweight** the stock in their portfolio. In the entire FY06, we expect the company to post PAT of **Rs7.03b (EPS: Rs40.97)**, depicting an increase of 23.5% on YoY. Till 2009, as per our forecast, earnings are expected to increase at CAGR of 7.37%. Based on the EPS forecasted of Rs40.97 for FY06 and using sustainable PE ratio of 11.5x for the company, our short term target price for the stock is **Rs471/share** indicating an upside of 9.5% from the closing price of last trading day of February 2006 and we advise investors to **HOLD**. Using DCF, at WACC of 12.9% and growth rate of 4%, our fair value for the stock is **Rs422/share** depicting marginal downside of 1.9% and we advise investors to **REDUCE** investments in the stock.

Pakistan State Oil							Rsm
Income Statement	FY04A	FY05A	FY06F	FY07F	FY08F	FY09F	
Net sales	161,538	212,504	236,364	253,133	272,773	294,147	
Cost of sales	152,347	198,757	220,750	237,691	256,119	276,178	
Gross Profit	9,191	13,746	15,614	15,442	16,653	17,969	
Operating expenses	3,432	4,460	4,455	4,857	5,296	5,775	
EBITDA	5,759	9,287	11,159	10,585	11,357	12,194	
Depreciation and amortization	791	984	1,024	1,172	1,252	1,332	
EBIT	4,968	8,303	10,135	9,414	10,106	10,862	
Other income / (expenses)	1,484	1,294	427	420	451	373	
Taxation	2,051	3,537	3,784	3,550	3,819	4,071	
Profit after tax	4,212	5,689	6,379	5,984	6,438	6,863	
EPS (Rs)	24.56	33.17	40.97	38.44	41.35	44.08	
DPS (Rs)	17.50	26.00	29.00	29.00	31.00	34.00	

							Rsm
Balance Sheet	FY04A	FY05A	FY06F	FY07F	FY08F	FY09F	
Current assets	31,633	40,737	38,643	42,991	44,192	48,527	
Net operating assets	7,620	8,111	7,381	6,209	5,957	5,625	
Other assets	3,036	3,085	3,010	3,203	3,409	3,631	
Total assets	42,289	52,078	49,034	52,403	53,558	57,784	
Current liabilities	25,326	32,767	27,443	28,937	28,025	30,189	
Long term liabilities	1,636	1,999	2,225	2,481	2,773	3,105	
Shareholder's equity	15,445	17,313	19,366	20,984	22,759	24,489	
Total equity and liabilities	42,407	52,078	49,033	52,402	53,558	57,783	

							Rsm
Cash Flow Statement	FY04A	FY05A	FY06F	FY07F	FY08F	FY09F	
Profit before tax	6,263	9,226	10,811	10,142	10,911	11,633	
Add: Depreciation	791	984	1,024	1,172	1,252	1,332	
Other non-cash expenses	289	488	174	203	238	277	
Less: change in working capital	(3,316)	(4,002)	2,558	(1,126)	(881)	(818)	
Net cash from operations	1,450	5,246	10,757	7,543	7,401	8,052	
Capex	(2,096)	(1,506)	(500)	(1,000)	(1,000)	(1,000)	
Cash from financing	570	(3,026)	(5,740)	(4,921)	(8,143)	(5,896)	
Net change in cash	353	1,001	4,699	1,728	(1,649)	1,234	
Beginning cash balance	1,228	(1,193)	(192)	4,507	6,235	4,586	
Ending cash balance	1,581	(192)	4,507	6,235	4,586	5,820	

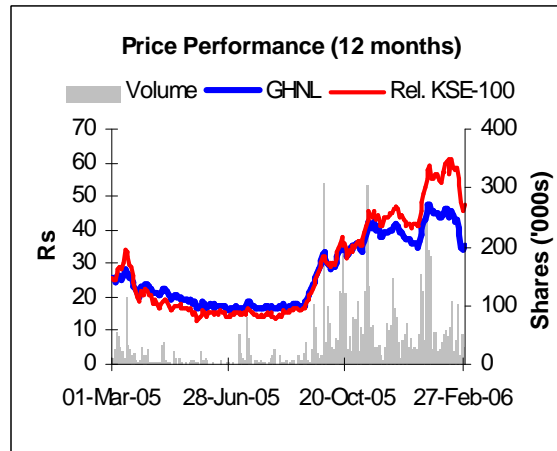
Key Ratios	FY04A	FY05A	FY06F	FY07F	FY08F	FY09F
Gross profit margin	4.7%	5.4%	5.3%	4.9%	4.9%	4.9%
EBITDA margin	3.0%	3.7%	3.8%	3.3%	3.3%	3.3%
Operating profit margin	2.5%	3.3%	3.4%	3.0%	3.0%	2.9%
Net profit margin	2.2%	2.2%	2.2%	1.9%	1.9%	1.9%
Sales growth	-5.5%	30.1%	16.0%	7.7%	7.8%	7.8%
EBITDA growth	-15.7%	61.3%	20.2%	-5.1%	7.3%	7.4%
PAT growth	4.5%	35.1%	12.1%	-6.2%	7.6%	6.6%
Return on equity	27.3%	32.9%	32.9%	28.5%	28.3%	28.0%
Return on capital employed	17.1%	24.7%	29.4%	25.0%	24.6%	24.6%
Lt debt to EBITDA	0.3	0.2	0.2	0.2	0.2	0.3
LT debt to equity	0.1	0.1	0.1	0.1	0.1	0.1
LT debt to total assets	0.0	0.0	0.0	0.0	0.1	0.1
Interest coverage (x)	26.3	22.4	25.3	31.4	33.7	36.2
Average collection period (days)	14.3	14.3	14.3	14.3	14.3	14.3
Average payable period (days)	32.2	32.2	32.2	32.2	32.2	32.2
Inventory days	20.0	21.0	21.0	21.0	21.0	21.0

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S-T Target Price: Rs 47.5
L-T Fair Value: Rs 45.0

Ghandhara Nissan Limited @ 35.05

Short-term: BUY / Long-term: BUY



12-month Trading data

Current Price (Rs)	35.05
High (Rs)	47.80
Low (Rs)	16.15
Avg daily volume (m)	0.03
Avg value traded (Rsm)	1.2
Shares outstanding (m)	45.0
Free float	37%
Market Capitalisation (Rsm)	1,577
Market Capitalisation (US\$m)	26
52-w eek gain	34.8%
52 w eek gain (index)	36.3%
Beta	0.73
KATS Code	GHNL

Key Investment Considerations

- ✍ Merger with Ghandhara Nissan Diesel Ltd. in Oct'04 (effective from Jan'04) strengthened the financial position of the company.
- ✍ Recent increase in the sales of trucks and buses will help the company to improve its earnings.
- ✍ Potential assembly of Nissan CKD units at the end of CY06 is likely to increase the top-line and bottom-line. The company can capitalize an opportunity of increasing demand of passenger cars in the country.
- ✍ Benefiting from the government policy of reducing the duty on import of CBUs, the company has taken full advantage by introducing Nissan Cars (Sunny and Cefiro) and SUVs (Patrol and X-Trail) for high-end market segment.
- ✍ Impressive 183% growth in top-line and 11% growth in bottom-line from FY04 to FY05 to reach Rs3.5b and Rs270m respectively. We expect the top-line to grow with a CAGR of 18% to Rs5.7b and bottom-line is expected to increase 1% annually to Rs276m in FY08.
- ✍ Only company with potential to entertain three market segments namely passenger cars, light commercial vehicles, trucks and buses.

Valuation Statistics @ 35.05

	FY04	FY05	FY06F	FY07F	FY08F
EPS (Rs)	5.38	6.00	4.40	4.73	6.13
growth in EPS	-18.7%	11.5%	-26.7%	7.7%	29.5%
P/E (x)	6.51	5.84	7.97	7.40	5.72
P/EBITDA (x)	0.14	0.09	0.07	0.07	0.06
CFS (Rs)	-3.97	-0.16	7.26	8.27	7.81
P/CFS (x)	-8.83	-223.70	4.83	4.24	4.49
BVS (Rs)	10.81	16.81	20.14	24.01	29.14
P/BVS (x)	3.24	2.08	1.74	1.46	1.20
DPS (Rs)	0.00	1.25	1.00	1.00	2.00
Dividend Yield	0.0%	3.6%	2.9%	2.9%	5.7%

Source: Taurus Estimates

Valuation and Recommendation

Short-term target Price

Our short-term target price is **Rs47.50** at theoretical PEx of 10.8 and the forecasted FY06 EPS of Rs4.40. At the current price of Rs35.05, the scrip shows an upside potential of 35%. Therefore, we recommend BUY to the short term investors.

Long-term Fair Value

Our **DCF based long-term fair value** of Ghandhara Nissan Limited is **Rs45** with 3% terminal growth rate and WACC of 11.35%. Our recommendation for the long-term investors is BUY as the scrip shows 28% upside potential at the current price levels.

DCF value per share		Discount Rate				
		9%	10%	11.3%	12%	13%
Growth rate	1%	48.68	42.58	37.66	33.59	30.17
	2%	54.26	46.81	40.95	36.20	32.29
	3%	61.60	52.20	45.03	39.38	34.81
	4%	71.68	59.27	50.22	43.32	37.88
	5%	86.41	69.00	57.05	48.33	41.68
	6%	109.93	83.20	66.43	54.91	46.51

WACC = 11.35%

INTRODUCTION

The Company

Ghandhara Nissan Limited, incorporated in August 1981 as a private entity was converted to a public company in May 1992. Plant located at Port Qasim, Karachi has the facilities to produce Passenger Cars, Trucks and Buses. The company is also assembling vehicles under contract agreement. Currently the company is not producing any passenger car under the brand name of Nissan but GHNL has its presence in this market segment through import and marketing of Nissan CBUs in Pakistan.

Competitors

Ghandhara Nissan Limited is facing heavy competition from HinoPak Motors Limited as the latter has an edge on GHNL in the commercial vehicle segment especially bus sales. GHNL has gained market share in truck sales but still is lagging behind HinoPak in the bus category. Other competitors in the same category are Ghandhara Industries Ltd. (Isuzu) and imported trucks and buses. As the company is not producing any passenger cars and LCV under its own name (except for the contractual agreements) therefore GHNL is concentrating on the commercial vehicles segment.

Amalgamation between GHNL and GNDL

Amalgamation between Ghandhara Nissan Limited and Ghandhara Nissan Diesel Limited (an associated company prior to amalgamation) came into effect from Jan'04 after the decision by Sindh High Court in Aug'04. Ghandhara Nissan Diesel Limited was engaged in the assembly/ progressive manufacture of Nissan Trucks and Buses. GNDL was successful in gradually decreasing its losses from FY99 to FY02 (though it earned gross profit in the same period) and finally posted a profit after tax of Rs116m in FY03.

The swap ratio was 1:2.50 showing that the shareholders of Ghandhara Nissan Diesel Limited received 2.50 shares of Ghandhara Nissan Limited in exchange of only 1 share. The total purchase consideration was Rs388.395m and GHNL acquired net assets worth of Rs393.474m. The negative goodwill of Rs5.079m was taken in the profit and loss account. This acquisition increased the paid-up capital of the company (GHNL) to Rs450m and the total assets crossed Rs1.5b and Rs2.5b mark in 2004 and 2005 respectively.

Financial highlights before amalgamation

	Rsm				
Ghandhara Nissan Limited	FY99	FY00	FY01	FY02	FY03
Sales	291	67	245	81	101
Gross Profit/(Loss)	(56)	(75)	(72)	(82)	(30)
Profit/(Loss) after Tax	(285)	(138)	(206)	(112)	298
Total Assets	977	820	752	613	547
Fixed Assets - Net	650	578	507	436	387
Gross Margin	NA	NA	NA	NA	NA
Net Profit Margin	NA	NA	NA	NA	294%
ROA	NA	NA	NA	NA	54%

Ghandhara Nissan Diesel Limited	FY99	FY00	FY01	FY02	FY03
Sales	733	549	527	500	1,323
Gross Profit/(Loss)	47	33	54	57	186
Profit/(Loss) after Tax	(58)	(56)	(23)	(5)	116
Total Assets	548	424	343	431	525
Fixed Assets - Net	191	173	159	146	135
Gross Margin	6%	6%	10%	11%	14%
Net Profit Margin	NA	NA	NA	NA	9%
ROA	NA	NA	NA	NA	22%

Source: Company Reports

Ghandhara Nissan Diesel earned gross profits in the last five years and PAT in FY03 while Ghandhara Nissan incurred gross losses and because of reversal of a liability due to waiver was taken as income, Ghandhara Nissan earned PAT of Rs298m (GNDL posted a profit in FY03 from its core business with ROA of 22% while GHNL's bottom line in FY03 actually incurred Loss).

After the amalgamation, GHNL is now producing Passenger Cars, Light Commercial Vehicles, Heavy-duty Trucks and Buses and is successfully fulfilling the requirement of all the market segments. This diversification will not only strengthen the company financially but also help in the improvement of quality as innovation in one product can prove to be helpful for other products too.

Amalgamation proved to be vital for GHNL as the sales of trucks and buses were increasing in-line with economic growth (including the construction of major projects in the country and public transport scheme) and export opportunities to Afghanistan.

Assembly of Nissan CKD

GHNL is preparing to resume the CKD assembly of new models of Nissan especially Sunny and the production is expected to start at the end of CY06. This will certainly help the company to not only capitalize on the opportunity of increasing demand of passenger cars in the country but also decide the future of GHNL in the passenger cars category. We expect the company will be able to sell 1,000 units of local assembled Nissan in FY08 and 2,000 units in FY09.

Assembly under Contractual Agreements

GHNL after phasing out the Nissan passenger cars in FY04 used its plant to assemble vehicles under contractual agreement with Sigma Motors (Pvt.) Limited. The assembled Land Rover "Defender" is a 4x4 LCV and 899 units were produced in FY05. Under contract assembly, the company produced 485 units in FY03, 1,013 units in FY04 and 1,703 units in FY05. Recently GHNL and Nexus Automotive (Pvt.) Limited agreed on the contract assembly of 1,000cc Chevrolet "Joy" and production started at the end of CY05.

Launch of Imported CBUs of Nissan

After the phase out of Nissan CKD cars and reduction of duties on import of CBU in the FY05-06 budget, the company launched new models of Nissan cars (Sunny and Cefiro) and SUVs (Patrol and X-Trail) in order to tap the imported CBU segment. The company imported 1,038 units. Approximately 374 units CBUs were sold during the year.

Review of Half Year FY06 Earnings

The company showed impressive growth during the first half of FY06. Growth in the volumetric sales from 585 units to 732 units, an increase of 25% YoY supported the top-line to reach Rs2.1b as compared to Rs1.3b in the same period last year (growth of 70% YoY). This coupled with the reduced cost of inputs improved margins. Gross and operating margin increased YoY in the 1H06 from 9% to 11% and 6% to 9%. Operating expenses increased by 36% YoY to Rs47m while the other income showed a decline of 51% YoY to stand at Rs10m in 1H06.

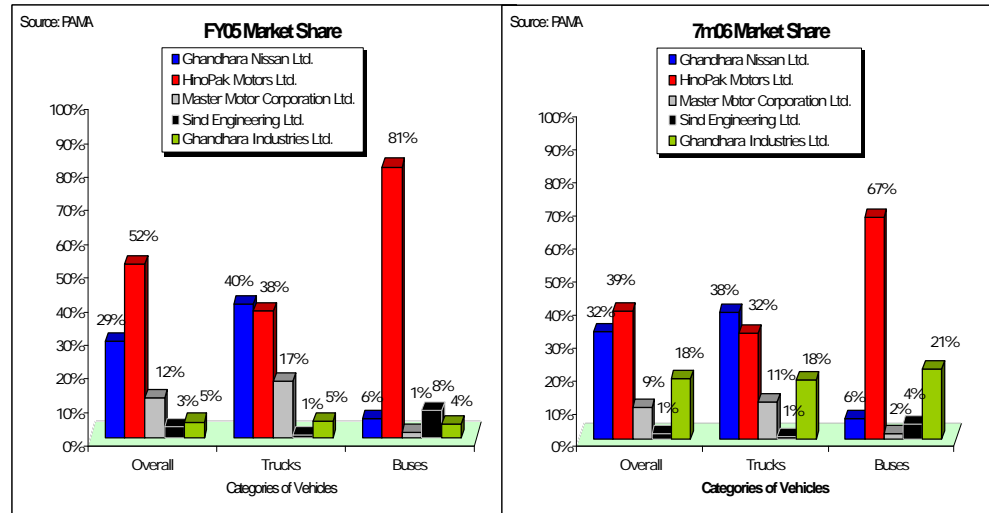
Gandhara Nissan Limited - Highlights for the half year result						Rs m
	1H06	1H05	% Chg	2Q06	2Q05	% Chg
Net Sales	2,133	1,253	70.3%	1,005	720	39.5%
Cost of Sales	1,893	1,138	66.3%	888	659	34.7%
Gross Profit	240	115	109.4%	117	61	91.0%
Operating Expenses	47	34	36.2%	22	17	35.0%
Operating Profit	193	80	140.7%	94	45	111.9%
Other Income	10	20	-50.9%	7	17	-58.8%
Financial and other charges	52	19	176.7%	32	12	179.3%
Profit before Taxation	151	81	85.5%	69	50	37.6%
Taxation	85	(7)	n.m.	60	(3)	n.m.
Profit after Taxation	66	88	-24.9%	9	54	-83.0%
Earnings per Share Rs.	1.47	1.96	-24.9%	0.20	1.19	-83.0%
Gross Margin	11.3%	9.2%		11.6%	8.5%	
Operating Profit Margin	9.1%	6.4%		9.4%	6.2%	
Net Profit Margin	3.1%	7.0%		0.9%	7.5%	
Units sold (local)*	732	585	25%	404	331	22%

* PAMA Data

Significant increase was witnessed in the financial charges from Rs14m to Rs42m, an increase of 188% (Rs28m) YoY. The bottom-line decreased by Rs22m (25%) to Rs66m. The increased provision for taxation impacted the bottom-line reducing the net margin from 7% to 3%. EPS for 1H06 comes to Rs1.47 against Rs1.96 in the corresponding period last year.

Market Share

GHNL's market share has shown a decline in the category of trucks from 40% in FY05 to 38% in 7m06 while the share in buses remained unchanged at 6% and overall share has increased to 32% in the same period. GHNL led the category of trucks with sale of 1,326 units and 890 units followed by HinoPak Motors with sale of 1,262 units and 744 units in FY05 and 7m06 respectively. Bus category was led by HinoPak Motors with 1,293 units and 354 units followed by Sind Engineering Ltd. with sale of 131 units and 23 units and GHNL secured third position with 93 units and 32 units in FY05 and 7m06 respectively.



Latest Financial Performance

Before Amalgamation

Prior to the amalgamation, financial position of Ghandhara Nissan Limited was weak. The company was incurring losses from its core business as it was unable to sell Nissan passenger cars which showed a declining trend from 310 units in FY00 to 25 units in FY04 (1 unit in FY05). Last full year before acquisition (FY03), GHNL incurred gross loss of Rs30m but the bottom-line showed net profit of Rs298m. The reason behind this unusual event was the liabilities (principal and financial charges) waived by the Allied Bank of Pakistan were taken directly into the profit and loss account. The turnaround came after amalgamation as GNDL was financially stronger than GHNL. The profits of GNDL now support the financials of GHNL and therefore GHNL is the major beneficiary of this amalgamation.

After Amalgamation

The impact of amalgamation on the financials of GHNL was positively significant. The paid-up capital crossed Rs450m and net worth jumped into positive region at Rs487m (including Rs374m of surplus on revaluation of assets) for the first time in the last five years. Debt-to-Equity dropped from 54% in FY04 to 44% in FY05 and we expect this ratio to further decrease till FY08 at 8%. As we expect the company to perform well in the next couple of years, the Time Interest Earned ratio shows an increasing trend from 2.5x in FY04 to 9x in FY05 and is likely to be 11x in FY08 as the financial charges are likely to decrease.

Key Ratios

	FY04	FY05	FY06F	FY07F	FY08F
Leverage Ratios					
Debt-to-Equity (%)	54%	44%	33%	20%	8%
Times Interest Earned (x)	2.51	8.95	5.65	6.03	11.11
Liquidity Ratios					
Current (x)	1.24	1.24	1.40	1.40	1.38
Quick (x)	0.40	0.23	0.28	0.31	0.23
Cash (x)	0.12	0.03	0.06	0.10	0.06
Profitability/Efficiency Ratios					
Asset Turnover (x)	1.09	1.60	1.94	2.20	2.40
Net Profit Margin	19.6%	7.7%	4.2%	4.5%	4.8%
Equity Multiplier (x)	3.53	3.51	2.38	2.00	1.97
Return on Equity	49.8%	43.4%	23.8%	21.5%	23.1%
Inventory Turnover (x)	4.17	3.46	3.69	4.62	4.63
Average Collection period (days)	38.69	29.47	18.67	14.07	12.02
Return on Total Assets	21.4%	12.3%	8.2%	9.9%	11.6%
Sales Growth	1119.6%	183.2%	33.4%	1.6%	19.9%
PAT Growth	-18.7%	11.5%	-26.7%	7.7%	29.5%

Source: Taurus Estimates

Current Ratio will range between 1.24x (in FY04) and 1.5x (in FY08) indicating the company is likely to maintain the difference in the current assets and liabilities. Asset Turnover increased from 1.1x in FY04 to 1.6x in FY05 and as we expect the better utilization of assets (possible assembly of passenger cars increasing the capacity utilization), this ratio is likely to reach 2.3x in FY08.

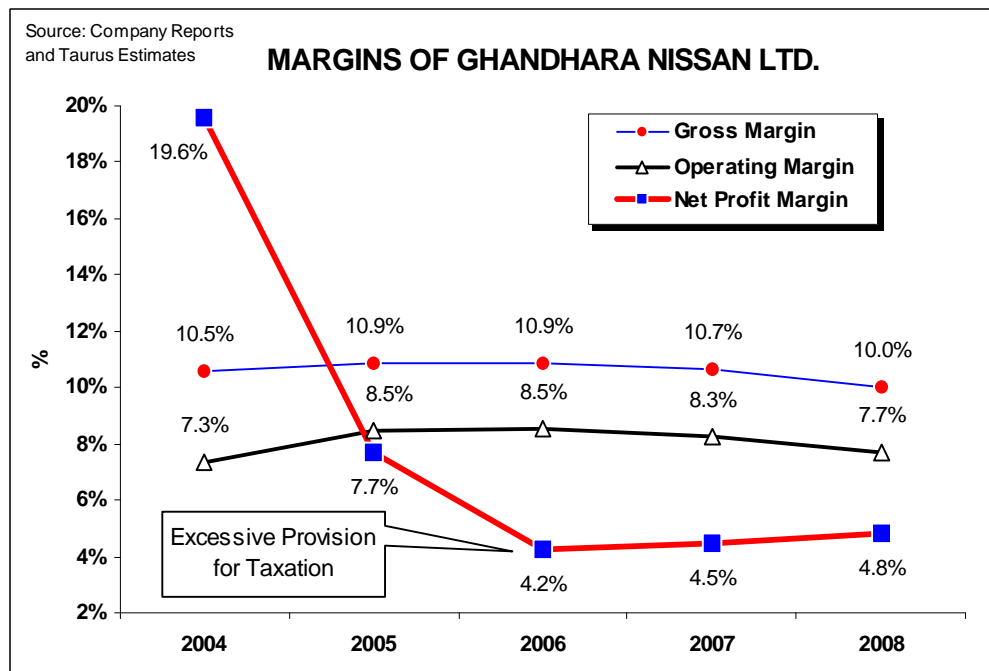
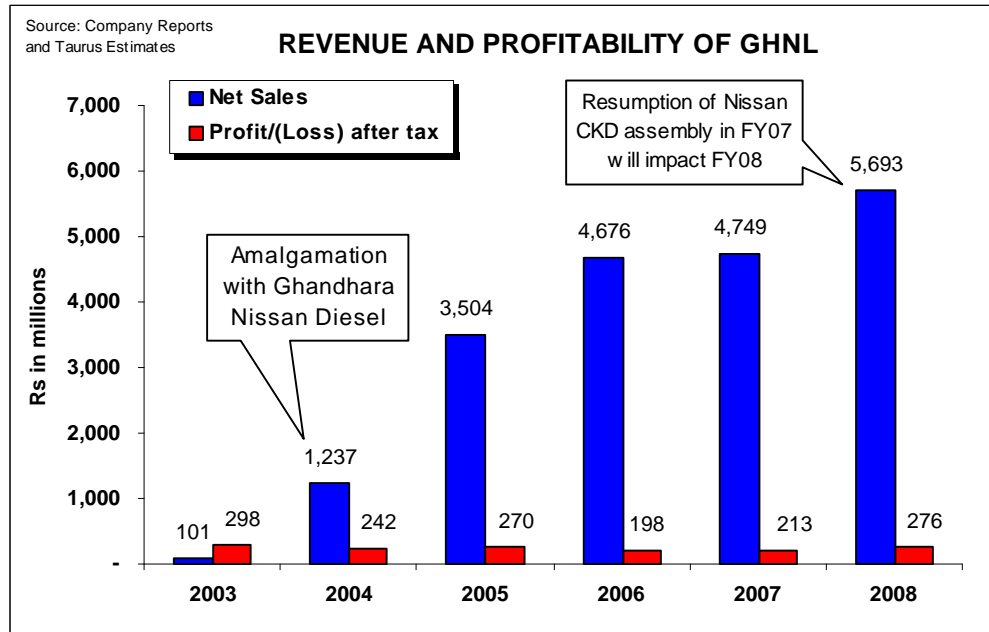
The return on equity is likely to decrease from 44% in FY05 to 21% in FY08. Du-Pont analysis shows that the decrease in ROE is due to the decrease in the equity multiplier and net margin but was slightly offset by increase in the asset turnover.

The profitability of GHNL improved as margins of GNDL were better than the margins of GHNL. As reviewed earlier, margins of GHNL were negative till FY03 and after merging with GNDL, the gross, operating and net margin of GHNL in FY05 stood at 11%, 8.5% and 8% respectively.

Earnings Outlook

Ghandhara Nissan Limited is one of the leading assemblers/manufacturers of trucks and buses and is the only company having products for three different market segments Passenger Cars, LCVs, Trucks and Buses. The diversification in the products gives GHNL an edge over its competitors as this diversification will help the company's earnings in the future.

We expect the top-line of the company to grow with a CAGR of 18% from Rs3.5b in FY05 to Rs5.7b in FY08. The bottom-line is expected to increase 1% annually from Rs270m to Rs276m in the same period. However, the margins of the company are expected to decline due to the increasing cost of inputs. The gross, operating and net margins are likely to decrease from 11%, 8.5% and 8% in FY05 to 10%, 8% and 5% in FY08 respectively. During the same period, we expect shareholders equity to grow annually at 20% to reach Rs1.3b and total liabilities to decrease 12% annually to stand at Rs1.27b in FY08. The cash and bank balances are expected to show 16% growth per annum while total assets are likely to decrease with an annual rate of 1% to reach Rs65m and Rs2.59b respectively.



Gandhara Nissan Limited						Rsm
Income Statement	FY04	FY05	FY06F	FY07F	FY08F	
Net Sales	1,237	3,504	4,676	4,749	5,693	
Cost of Sales	1,107	3,123	4,167	4,242	5,123	
Gross Profit	131	382	508	507	570	
Operating expenses	40	84	109	114	132	
Operating Profit	91	297	400	394	438	
Other income	92	27	19	19	57	
Other charges	6	16	18	20	28	
EBIT	177	309	401	393	466	
Depreciation and amortization	67	96	110	111	113	
EBITDA	244	406	510	504	579	
Financial charges	70	35	71	65	42	
Profit before tax	107	275	330	328	424	
Tax	(136)	5	132	115	149	
Profit after tax	242	270	198	213	276	
EPS (Rs)	5.38	6.00	4.40	4.73	6.13	
DPS-Cash (Rs)	0.00	1.25	1.00	1.00	2.00	
						Rsm
Balance Sheet	FY04	FY05	FY06F	FY07F	FY08F	
SHARE CAPITAL AND RESERVES						
Paid-up share capital	450	450	450	450	450	
Accumulated Profit/(Loss)	(377)	(69)	73	241	472	
Total Shareholders' equity	487	757	906	1,081	1,312	
NON CURRENT LIABILITIES						
Long term Loans	500	450	275	117	-	
Total Non Current Liabilities	656	591	418	251	133	
CURRENT LIABILITIES						
Short term finances	26	-	94	95	57	
Current maturities of long-term loans	62	133	175	158	117	
Trade & other payables	391	1,002	561	570	968	
Current Liabilities	573	1,311	834	828	1,141	
TOTAL LIABILITIES	1,229	1,902	1,253	1,079	1,275	
Total Liabilities and Equity	1,716	2,659	2,159	2,160	2,586	
Operating Fixed Assets	1,002	1,025	985	999	1,012	
Other Long-term Assets	2	8	3	3	4	
CURRENT ASSETS						
Stocks	483	1,323	935	902	1,309	
Trade debts	3	46	47	47	57	
Cash and bank balances	69	41	50	79	65	
Current Assets	712	1,626	1,170	1,158	1,571	
Total Assets	1,716	2,659	2,159	2,160	2,586	
						Rsm
Cash Flow Statement	FY04	FY05	FY06F	FY07F	FY08F	
Cash flow from operations:						
Profit before tax	107	275	330	328	424	
<i>Adjustments for non-cash charges:</i>						
Depreciation and amortization	67	96	110	111	113	
Other non-cash items	(12)	40	71	65	42	
Working capital changes	(258)	(340)	22	51	(35)	
Other operating cash items	(83)	(78)	(205)	(182)	(193)	
Cash from operations	(179)	(7)	327	372	351	
Fixed capital expenditures	(7)	(119)	(70)	(125)	(125)	
Cash from investing activities	(7)	(119)	(70)	(125)	(125)	
Long term loan - net	298	21	(133)	(175)	(158)	
Cash from financing	13	98	(248)	(219)	(241)	
Net change in cash	(172)	(28)	9	29	(15)	
Cash at beginning of the year	241	69	41	50	79	
Cash at end of the year	69	41	50	79	65	

Notes

Ratings Guide

1st March, 2006

Stock	Target Price ST/LT	Curr. Price	Rating ST/LT	EPS(Rs)			DPS(Rs)			BVPS(Rs)			P/E x	DivYld (%)	P/BV x	Beta	Sh.Out (m)	Year end
				FY04A	FY05F/A	FY06F	FY04A	FY05F/A	FY06F	FY04A	FY05F/A	FY06F						
Askari Bank	112.5 / 136.1	136.5	Sell / Reduce	12.8	12.8	15.1	1.7	2	2	37	56.2	68.6	10.7	1%	2.4	0.89	151	Dec
Bank of Punjab	117.2 / 145.8	111.4	Hold / Buy	5.8	11.3	12.9	NIL	NIL	NIL	33.4	58.6	72.2	9.9	NIL	1.9	1.17	235	Dec
MCB	122.8 / 137.6	254.7	Sell / Sell	6	15.1	17.6	2	2.8	3	22	49.1	63.8	16.9	1%	5.2	1.17	427	Dec
NBP	231.2 / 196.1	331	Sell / Sell	10.6	20.9	22.4	1.3	1.8	3	72.7	128.4	112	15.9	1%	2.6	1.07	591	Dec
Union Bank	52.9 / 81.8 103.1 / 120.5	75.95	Sell / Hold	3.2	7.6	12.5	0.8	1	1	12.8	216	32.8	10.0	1%	3.5	0.98	260	Dec
United Bank	103.1 / 120.5	154.3	Sell / Sell	7.2	12.4	18.5	1.5	2.5	5.5	33.5	412	55.3	12.5	2%	3.7	0.94	518	Dec
Azgard Nine*	51.7 / 56.7	42.2	Buy / Buy	4.3	5	7.6	1	NIL	0.3	28.9	32.9	43.7	5.5	1%	1	1	87	Sep
Nishat Mills*	105.1 / 97.7	137.8	Sell / Sell	5.2	10.4	15.2	1.7	2.5	2.5	54	82.1	78.6	9.1	2%	1.8	1.23	145	Jun
Dewan Salman*	10.5 / 17.7	17.5	Sell / Hold	0.9	-0.4	0.2	NIL	NIL	NIL	14.7	14.4	16.2	79.5	NIL	1.1	1.31	366	Jun
Ibrahim Fibers*	24.0 / 36.3	42	Sell / Sell	2.8	0.4	1.6	1.5	NIL	NIL	19.6	18.6	19.5	26.6	NIL	2.2	0.65	311	Jun
Cherat Cement*	92.3 / 106.4	88.2	Hold / Buy	5.1	6.2	9.3	2.6	2.4	5.5	14.7	21	25.6	9.5	6%	3.4	0.78	83	Jun
D.G. Khan Cement*	141.7 / 143.3	151.4	Reduce / Reduce	4.5	9.1	12.8	1.4	1.5	NIL	34.8	50.5	53.9	11.8	NIL	2.8	1.27	184	Jun
Dewan Cement*	16.2 / 33.0	18.25	Sell / Strong Buy	-2.1	0.5	0.9	NIL	NIL	NIL	10.3	5.9	15.9	20.3	NIL	1.1	1.1	83	Jun
Fauji Cement*	26.7 / 24.3	24.55	Hold / Reduce	0.9	1.4	2.7	NIL	NIL	NIL	5.2	6.6	9.3	9.2	NIL	2.6	1.49	371	Jun
Lucky Cement*	81.1 / 89.2	111.7	Sell / Sell	2.6	3.1	6.8	NIL	NIL	NIL	16.4	19.5	26.2	16.5	NIL	4.3	1.07	263	Jun
Maple Leaf Cement*	48.6 / 50.1	42.8	Accumulate / Accumulate	1.6	2.4	4.1	0.9	0.9	NIL	11.5	2.1	26.3	10.6	NIL	1.6	1.24	298	Jun
Pioneer Cement*	48.4 / 57.5	64	Sell / Sell	2.6	2	4	NIL	NIL	1	3.4	10	11.9	15.9	2%	5.4	1.29	162	Jun
Hub Power *	29.0 / 36.3	24.45	Accumulate / Strong Buy	4.7	4.7	1.9	3.2	3.9	4.1	24	27.4	23.3	12.7	17%	1	0.73	1157	Jun
KAPCO*	47.9 / 51.5	45.75	Accumulate	7.9	9.1	9.4	6.5	8	7.6	20.5	25.3	22.8	4.9	17%	2	0.71	880	Jun
PSO*	453.0 / 428.0	429	Hold / Reduce	24.6	33.2	39.4	17.5	26	29	82.6	100.9	120.6	10.9	7%	3.6	1.18	172	Jun
Shell Pakistan*	663.7 / 663.1	650	Hold / Hold	34.4	55.9	66.4	28	21.6	35	139.9	189.4	276	9.8	5%	2.4	0.67	44	Jun
Sui Northern*	75.5 / 72.2	105.9	Sell / Sell	4.6	5.5	5.8	2.5	3	3	19.2	24.8	24.4	18.2	3%	4.3	1.17	499	Jun
Sui South*	24.9 / 25.0	36.25	Sell / Sell	1.5	1.5	2.6	1.5	1.5	2.2	13.9	13.9	23.8	14.1	6%	1.5	1.11	671	Jun
OGDC*	129.0 / 123.0	146.4	Sell / Sell	5.2	7.7	10.9	4	7.5	8.8	16.1	19.3	20.9	13.4	6%	7	1.34	4301	Jun
Pakistan Oilfields*	458.0 / 464.0	604	Sell / Sell	19	28.6	45.8	12.5	12.5	12.5	56	74.6	117.9	13.2	2%	5.1	1.09	131	Jun
Pak Petroleum *	206.0 / 224.7	301	Sell / Sell	9.7	12.6	18.7	4.5	5.5	7.3	20.9	28.2	42.4	16.1	2%	7.1	1.33	686	Jun
Dewan Motors*	33.0 / 41.4	34.45	Reduce / Buy	2.9	4	4.1	1	1.5	2	12.9	16.9	17.5	8.4	6%	2	1.1	77	Jun
Gandhara Nissan*	47.5 / 45.0	33.5	Strong Buy / Buy	5.4	6	4.4	NIL	12	1	10.8	16.8	20.1	7.6	3%	1.7	0.73	45	Jun
Honda Atlas Cars*	114.3 / 134.0	110.2	Hold / Buy	9.7	3.9	16.3	4.3	2.3	6.5	46	49.9	57.4	6.8	6%	1.9	0.64	42	Mar
Indus Motor*	139.5 / 185.0	189	Sell / Reduce	18.7	18.9	23.3	9	10	12.3	42.1	56.9	58.5	8.1	6%	3.2	1	79	Jun
Pak Suzuki Motors	187.7 / 285.4	260.1	Sell / Hold	26	40	44.6	2.7	NIL	3	101.3	140.6	182	6.5	NIL	1.8	0.89	54	Dec
P.T.C.L.*	73.0 / 51.8 172.0 / 177.0	65	Accumulate / Sell	5.7	5.2	5.9	5	2	4.3	16.4	16.3	19.3	11.1	7%	3.4	1.21	5100	Jun
Engro Chemical	38.1 / 46.3 156.0 / 138.0	41.65	Sell / Sell Reduce / Accumulate	10.5	12.2	12.6	8.5	9	9	43.1	47.2	50.8	19.5	4%	5	0.83	153	Dec
Fauji Fert. Bin*	156.0 / 138.0	129.9	Buy / Hold	2	2.6	3.1	1	0.5	2	7.7	8.3	9.4	13.7	5%	4.4	1.35	934	Dec
Fauji Fertilizer*	156.0 / 138.0	129.9	Buy / Hold	8.1	9.9	13.3	9	2.2	9	24.9	25.2	36.3	9.8	7%	3.6	0.83	493	Dec
Pakistan PTA	8.1 / 12.8 165.2 / 170.4	8.95	Reduce / Strong Buy	0.9	0.7	1	NIL	NIL	NIL	3.6	4.3	5.2	12.1	NIL	2.1	1.45	1514	Dec
Packages Ltd*	1572.2 / 1755.8	1800	Sell / Reduce	13.8	14.5	17.1	5.8	NIL	10	60	110.7	65.6	12.5	5%	3.3	0.38	70	Dec
Unilever Pakistan Siddiqsons Tin Plate*	1572.2 / 1755.8	1800	Sell / Reduce	129.8	150.8	104.8	135	150	110	159.7	159.6	153.2	11.9	8%	11.3	0.32	13	Dec
Tri-Pack Films	61.3 / 54.0 172.0 / 177.0	56.05	Hold / Reduce	4.2	7.9	8.4	0.8	3.6	4	11.1	15.5	19.9	6.7	7%	2.8	1	71	Jun
Tri-Pack Films	22.7 / 65.0	63.05	Sell / Hold	3.9	1.5	1.6	NIL	NIL	0.5	31.7	33.2	34.3	41.8	NIL	1.9	0.32	30	Dec

Long term (LT) ratings based on current price differential over our long-term (over 1 year) fair value of the stock based on Discounted Cash Flow projections.

Short-term (ST) ratings based on current price differential over our short-term (0-12 month) target price. Short-term target price is based on prospective P/Ex and forecasted EPS.

P/Ex, dividend yield and P/BVx are calculated on forecasted EPS, DPS and BVPS respectively.

* Actual EPS, DPS and BVPS for FY05. Balance sheet figures are estimated until issuance of published statements.

KSE-100 Key Indicators

28th February, 2006

Sector	Company	Mkt. Cap (mln)	Equity (mln)	Sh. O/S (mln)	PAT (mln)	EPS (Rs)	P/E (x)	Price 28-Feb	Dividend Yield (%)	Weightage (%)
Mutual Funds	PICIC Growth Fund	8,741.3	9,047.0	189.0	2,678.1	14.2	3.3	46.25	7.57	0.30%
Sec. P/E: 3.77	PICIC Investment Fund *	5,398.4	5,091.1	284.1	1,075.6	3.8	5.0	19	18.42	0.18%
Modaraba	Fayzan M. Modaraba *	868.5	900.3	90.0	86.0	1.0	10.1	9.65	9.95	0.03%
Leasing Cos.	Orix Leasing	1,910.7	1,958.1	69.5	297.2	4.3	6.4	27.5	5.45	0.06%
Inv Co. / Banks	Arif Habib Securities	11,959.7	5,497.9	27.0	2,583.4	95.7	4.6	442.95	2.26	0.40%
	Jahangir Siddiqui & Co.	7,507.5	4,357.4	35.0	1,180.9	33.7	6.4	214.5	1.17	0.25%
	Javed Omer Vohra & Co.*	1,866.0	2,202.8	30.0	1,606.7	53.6	1.2	62.2	40.19	0.06%
Sec. P/E: 6.74	P.I.C.I.C. *	25,897.9	6,701.8	377.5	1,636.3	4.3	15.8	68.6	2.70	0.88%
Commercial Bank	Askari Comm Bank *	20,661.2	5,573.1	150.7	1,923.0	12.8	10.7	137.1	1.46	0.70%
	Bank Al-Habib	17,528.8	4,745.8	219.1	1,464.1	6.7	12.0	80	1.88	0.59%
	Bank Alfalah *	24,090.0	4,369.1	300.0	1,092.0	3.6	22.1	80.3	0.00	0.81%
	Bank of Punjab *	26,681.0	4,420.5	235.0	1,368.2	5.8	19.5	113.55	0.00	0.90%
	Faysal Bank *	33,031.4	6,251.2	368.4	1,753.5	4.8	18.8	89.65	5.02	1.12%
	Metropolitan Bank *	17,004.0	3,568.2	156.0	815.5	5.2	20.9	109	0.00	0.57%
	NDLC IFIC Bank *	9,008.9	1,363.9	336.2	86.0	0.3	104.7	26.8	0.00	0.30%
	MCB Bank *	111,325.0	9,392.7	426.5	2,540.0	6.0	43.8	261	0.96	3.76%
	National Bank *	195,112.8	25,257.3	590.9	6,242.9	10.6	31.3	330.2	0.45	6.59%
	PICIC Commercial Bank *	9,150.4	3,482.9	227.9	900.1	3.9	10.2	40.15	3.74	0.31%
	Prime Bank	6,001.1	3,438.1	232.2	495.3	2.1	12.1	25.85	0.00	0.20%
	Saudi Pak Comm. Bank *	4,924.8	1,466.3	256.5	307.2	1.2	16.0	19.2	0.00	0.17%
	Soneri Bank *	10,656.8	2,878.8	165.3	648.4	3.9	16.4	64.45	0.00	0.36%
Sec. P/E: 24.67	Union Bank *	19,758.4	3,335.6	260.2	829.7	3.2	23.8	75.95	1.32	0.67%
Insurance	Adamjee Insurance *	14,168.3	1,386.8	82.6	327.5	4.0	43.3	171.5	0.00	0.48%
	I.G.I. Insurance *	4,596.9	894.2	15.4	222.3	14.5	20.7	299.45	1.50	0.16%
	New Jubilee Insurance *	6,737.9	745.9	73.2	203.0	2.8	33.2	92	1.63	0.23%
Sec. P/E: 28.24	Pakistan Reinsurance *	4,950.1	1,756.6	45.0	325.5	7.2	15.2	110	0.00	0.17%
Textile Spinning	Gadoon Textile	2,273.5	2,127.3	23.4	206.9	8.8	11.0	97	2.58	0.08%
Textile Weaving	Kohinoor Weaving	1,107.5	1,693.8	33.1	(201.4)	(6.1)	N.M	33.5	0.00	0.04%
Textile Composite	Dawood Lawrencepur	3,584.4	1,894.2	38.6	486.8	12.6	7.4	92.9	0.00	0.12%
	Azgard Nine Limited *	3,752.6	2,510.1	86.9	375.3	4.3	10.0	43.2	1.16	0.13%
	Gul Ahmed Textile	2,445.6	2,268.7	42.2	75.9	1.8	32.2	58	0.00	0.08%
	Kohinoor Textile	4,148.8	3,799.0	105.8	88.5	0.8	46.9	39.2	0.00	0.14%
	Nishat (Chunian)*	6,087.5	1,886.8	75.2	635.1	8.4	9.6	80.95	3.09	0.21%
Sec. P/E: 12.61	Nishat Mills Ltd.	19,907.8	11,921.4	145.3	1,505.5	10.4	13.2	137.05	1.82	0.67%
Woollen	Bannu Woollen *	168.6	452.5	5.1	10.3	2.0	16.4	33.05	0.00	0.01%
Syn. & Rayon	Dewan Salman	6,318.7	5,279.6	366.3	(127.7)	(0.3)	N.M	17.25	0.00	0.21%
	Gatron Industries *	4,751.4	1,942.3	38.4	203.0	5.3	23.4	123.85	4.04	0.16%
Sec. P/E: 51.2	Ibrahim Fibres	12,420.3	5,762.2	310.5	132.3	0.4	93.8	40	3.75	0.42%
Jute	Thal Limited	3,158.3	1,195.0	13.9	411.8	29.6	7.7	227	2.86	0.11%
Sugar	J.D.W. Sugar Mills	2,082.4	877.4	22.6	344.4	15.2	6.0	92	0.00	0.07%
Cement	Attock Cement	5,704.5	2,122.0	72.2	861.7	11.9	6.6	79.05	1.59	0.19%
	Bestway Cement *	17,674.4	2,665.8	234.1	678.6	2.9	26.0	75.5	1.32	0.60%
	Pakistan Cement	11,032.5	5,414.6	676.8	615.3	0.9	17.9	16.3	0.00	0.37%
	Cherat Cement	7,314.0	1,742.5	83.1	512.3	6.2	14.3	88	3.41	0.25%
	D.G. Khan Cement	27,124.3	9,318.0	184.4	1,682.1	9.1	16.1	147.1	1.02	0.92%
	Fauji Cement	9,231.5	2,449.6	370.7	510.5	1.4	18.1	24.9	0.00	0.31%
	Lucky Cement	29,303.3	5,133.7	263.4	826.6	3.1	35.5	111.25	0.00	0.99%
Sec. P/E: 18.71	Maple Leaf Cement	12,657.0	6,280.9	297.8	727.5	2.4	17.4	42.5	0.00	0.43%
Tobacco	Lakson Tobacco *	14,676.6	2,554.8	51.3	1,277.7	24.9	11.5	286	4.37	0.50%
Sec. P/E: 16.5	Pakistan Tobacco *	17,373.6	3,262.8	255.5	665.2	2.6	26.1	68	3.24	0.59%
Refinery	Attock Refinery	8,929.6	2,726.0	45.5	1,222.6	26.9	7.3	196.3	0.00	0.30%
	Bosicor Pakistan	8,209.7	2,561.6	245.1	110.9	0.5	74.0	33.5	0.00	0.28%
	National Refinery	24,856.3	6,033.5	66.6	2,120.5	31.8	11.7	373	3.35	0.84%
Sec. P/E: 9.74	Pakistan Refinery	8,412.5	3,231.7	25.0	1,721.6	68.9	4.9	336.5	1.49	0.28%

Sector	Company	Mkt. Cap (mln)	Equity (mln)	Sh. O/S (mln)	PAT (mln)	EPS (Rs)	P/E (x)	Price 28-Feb	Dividend Yield (%)	Weightage (%)
Power Gen. & Dist.	KESC	109,123.6	35,924.5	8,800.3	464.0	0.1	235.2	12.40	0.00	3.69%
	Kohinoor Energy	4,405.9	4,818.8	169.5	805.4	4.8	5.5	26.00	13.46	0.15%
	Kot Addu Power	44,628.8	22,286.6	880.3	8,047.8	9.1	5.5	50.70	15.78	1.51%
Sec. P/E: 12.7	Hub Power Co.	28,581.7	31,671.8	1,157.2	5,385.4	4.7	5.3	24.70	15.79	0.97%
Oil & Gas Marketin	P.S.O.	73,753.4	17,312.8	171.5	5,689.1	33.2	13.0	430.00	4.07	2.49%
	Shell Pak	28,885.5	8,303.1	43.8	2,451.1	55.9	11.8	659.00	5.31	0.98%
	Sui Northern *	53,088.5	9,605.9	499.2	2,297.5	4.6	23.1	106.35	2.35	1.79%
Sec. P/E: 15.79	Sui Southern	24,867.0	9,353.3	671.2	996.7	1.5	24.9	37.05	4.05	0.84%
Oil & Gas Expl.	Mari Gas	6,078.5	2,607.3	36.8	361.5	9.8	16.8	165.40	1.84	0.21%
	OGDC	631,806.4	83,210.0	4,300.9	32,967.9	7.7	19.2	146.90	5.11	21.35%
	Pakistan Oilfields	80,662.2	9,808.1	131.4	3,762.7	28.6	21.4	613.80	2.04	2.73%
Sec. P/E: 20.19	Pakistan Petroleum	204,443.4	19,325.0	685.8	8,623.2	12.6	23.7	298.10	1.85	6.91%
Engineering	International Industries	6,118.9	1,169.1	42.8	373.0	8.7	16.4	143.00	1.31	0.21%
Auto Assembler	Al-Ghazi Tractor *	9,270.0	2,616.1	42.9	964.8	22.5	9.6	215.90	6.95	0.31%
	Atlas Honda	7,422.9	2,078.2	35.8	630.5	17.6	11.8	207.55	2.89	0.25%
	Honda Atlas Cars	4,680.9	2,094.4	42.0	162.2	3.9	28.9	111.45	2.02	0.16%
	Indus Motor	14,544.9	4,475.8	78.6	1,484.6	18.9	9.8	185.05	5.40	0.49%
	Millat Tractors	4,997.1	1,936.6	15.6	453.9	29.1	11.0	319.95	4.69	0.17%
Sec. P/E: 10.81	Pak Suzuki Motors*	14,186.6	5,475.7	54.0	1,403.6	26.0	10.1	262.50	0.00	0.48%
Auto & Allied	General Tyre *	2,241.4	1,070.4	59.8	235.8	3.9	9.5	37.50	0.00	0.08%
Cables & Elect.	Siemens Engg.*	9,284.7	2,148.3	7.8	412.6	53.1	22.5	1,195.00	0.00	0.31%
Transport	PNSC	13,074.3	5,814.0	132.1	2,703.3	20.5	4.8	99.00	2.02	0.44%
Sec. P/E: 11.36	PIAC (A) *	26,211.8	13,441.2	1,653.7	2,306.6	1.4	11.4	15.85	3.15	0.89%
Tech. & Comm.	PTCL 'A'	328,185.0	83,008.4	5,100.0	26,605.7	5.2	12.3	64.35	3.11	11.09%
Fertiliser	Dawood Hercules *	29,871.5	9,682.5	72.1	1,114.5	15.5	26.8	414.55	2.53	1.01%
	Engro Chemical *	34,992.7	6,585.9	152.9	1,610.6	10.5	21.7	228.80	3.72	1.18%
	Fauji Fert. Bin Qasim	37,084.2	7,727.5	934.1	2,449.1	2.6	15.1	39.70	6.30	1.25%
Sec. P/E: 16.34	Fauji Fertilizer	62,572.5	12,440.9	493.5	4,897.3	9.9	12.8	126.80	9.46	2.11%
Pharmaceutical	Abbott Laboratory *	15,670.8	2,789.6	68.0	747.1	11.0	21.0	230.50	2.39	0.53%
Sec. P/E: 16.81	Glaxo Smith-Kline *	21,627.5	5,548.2	109.2	1,471.3	13.5	14.7	198.00	3.54	0.73%
Chemicals	BOC Pakistan*	3,681.9	1,018.7	25.0	332.0	13.3	11.1	147.05	8.84	0.12%
	Clariant Pakistan *	5,100.2	897.4	15.6	335.7	21.5	15.2	327.00	3.98	0.17%
	Colgate Palmolive *	3,742.5	648.6	12.2	286.9	23.5	13.0	306.00	3.27	0.13%
	ICI Pakistan *	25,123.2	8,054.0	138.8	2,846.4	20.5	8.8	181.00	2.21	0.85%
Sec. P/E: 9.63	Pakistan PTA *	12,037.9	5,387.7	1,514.2	1,357.8	0.9	8.9	7.95	0.00	0.41%
Paper & Board	Century Papers	1,863.5	1,476.6	32.1	237.3	7.4	7.9	58.00	7.76	0.06%
	Packages Limited	15,149.9	7,736.3	69.9	1,015.4	14.5	14.9	216.80	2.77	0.51%
Sec. P/E: 13.02	Security Papers	2,967.5	2,011.3	22.0	281.7	12.8	10.5	135.00	3.70	0.10%
Vanas. & Allied	Wazir Ali Industries	220.6	(27.4)	7.6	(32.6)	(4.3)	N.M	29.00	0.00	0.01%
Leather & Tenn.	Bata Pakistan *	688.0	545.6	7.6	121.9	16.1	5.6	91.00	4.95	0.02%
Food & Per. Care	Nestle Milk Pack *	36,218.4	1,522.8	45.3	978.6	21.6	37.0	800.00	1.88	1.22%
	Rafhan Maize Prod.*	7,573.8	2,253.6	9.2	669.7	72.5	11.3	820.00	4.39	0.26%
Sec. P/E: 20.08	Unilever Pakistan *	23,929.0	2,106.4	13.3	1,724.9	129.8	13.9	1,800.00	7.50	0.81%
Glass & Ceramics	Ghani Glass *	2,378.9	812.6	31.7	199.3	6.3	11.9	75.00	6.67	0.08%
Miscellaneous	Dreamworld Ltd.	4,081.6	336.9	32.0	6.8	0.2	N.M	127.55	0.00	0.14%
Sec. P/E: 74.5	Pakistan Services *	8,025.4	923.2	32.5	155.7	4.8	51.5	246.75	0.41	0.27%

(*) Companies have PAT & Equity of 2004 while others have 2005 data

N.A = Not Available, N.M = Not Meaningful

KSE-100 INDEX	11456.27
Market Cap. (Rs m)	2,959,389
P/E (x)	16.75
Cash Yield (%)	3.36
ROE (%)	26.74

KSE-100 Statistics

28th February, 2006

20 Lowest P/E x Stocks		20 Lowest P/BV x Stocks		Top 20 EPS Stocks (Rs)	
Javed Omer Vohra & Co.*	1.2	Bannu Woollen *	0.4	Unilever Pakistan *	130
PICIC Growth Fund	3.3	Kohinoor Weaving	0.7	Arif Habib Securities	96
Arif Habib Securities	4.6	Javed Omer Vohra & Co.*	0.8	Rafhan Maize Prod.*	73
PNSC	4.8	Hub Power Co.	0.9	Pakistan Refinery	69
Pakistan Refinery	4.9	Kohinoor Energy	0.9	Shell Pak	56
PICIC Investment Fund *	5.0	Fayzan M. Modaraba *	1.0	Javed Omer Vohra & Co.*	54
Hub Power Co.	5.3	PICIC Growth Fund	1.0	Siemens Engg.*	53
Kohinoor Energy	5.5	Orix Leasing	1.0	Jahangir Siddiqui & Co.	34
Kot Addu Power	5.5	PICIC Investment Fund *	1.1	P.S.O.	33
Bata Pakistan *	5.6	Gadoon Textile	1.1	National Refinery	32
J.D.W. Sugar Mills	6.0	Gul Ahmed Textile	1.1	Thal Limited	30
Jahangir Siddiqui & Co.	6.4	Kohinoor Textile	1.1	Millat Tractors	29
Orix Leasing	6.4	Dewan Salman	1.2	Pakistan Oilfields	29
Attock Cement	6.6	Bata Pakistan *	1.3	Attock Refinery	27
Attock Refinery	7.3	Century Papers	1.3	Pak Suzuki Motors*	26
Dawood Lawrencepur	7.4	Security Papers	1.5	Lakson Tobacco *	25
Thal Limited	7.7	Azgard Nine Limited *	1.5	Colgate Palmolive *	23
Century Papers	7.9	Nishat Mills Ltd.	1.7	Al-Ghazi Tractor *	22
ICI Pakistan *	8.8	Jahangir Siddiqui & Co.	1.7	Nestle Milk Pack *	22
Pakistan PTA *	8.9	Prime Bank	1.7	Clariant Pakistan *	22

Top 20 ROE Stocks (%)		Top 20 Market Cap Stocks (Rsm)		Top 20 Div. Yld Stocks (%) ^C	
Unilever Pakistan *	81.89	OGDC	631,806	Javed Omer Vohra & Co.*	40.19
Javed Omer Vohra & Co.*	72.94	PTCL 'A'	328,185	PICIC Investment Fund *	18.42
Nestle Milk Pack *	64.26	Pakistan Petroleum	204,443	Hub Power Co.	15.79
Pakistan Refinery	53.27	National Bank *	195,113	Kot Addu Power	15.78
Lakson Tobacco *	50.01	MCB Bank *	111,325	Kohinoor Energy	13.46
Arif Habib Securities	46.99	KESC	109,124	Fayzan M. Modaraba *	9.95
PNSC	46.50	Pakistan Oilfields	80,662	Fauji Fertilizer	9.46
Attock Refinery	44.85	P.S.O.	73,753	BOC Pakistan*	8.84
Pakistan Petroleum	44.62	Fauji Fertilizer	62,573	Century Papers	7.76
Colgate Palmolive *	44.23	Sui Northern *	53,088	PICIC Growth Fund	7.57
Attock Cement	40.61	Kot Addu Power	44,629	Unilever Pakistan *	7.50
OGDC	39.62	Fauji Fert. Bin Qasim	37,084	Al-Ghazi Tractor *	6.95
Fauji Fertilizer	39.36	Nestle Milk Pack *	36,218	Ghani Glass *	6.67
J.D.W. Sugar Mills	39.25	Engro Chemical *	34,993	Fauji Fert. Bin Qasim	6.30
Pakistan Oilfields	38.36	Faysal Bank *	33,031	Orix Leasing	5.45
Clariant Pakistan *	37.41	Dawood Hercules *	29,871	Indus Motor	5.40
Al-Ghazi Tractor *	36.88	Lucky Cement	29,303	Shell Pak	5.31
Kot Addu Power	36.11	Shell Pak	28,885	OGDC	5.11
ICI Pakistan *	35.34	Hub Power Co.	28,582	Faysal Bank *	5.02
National Refinery	35.15	D.G. Khan Cement	27,124	Bata Pakistan *	4.95

^C Adjusted for Bonus & Rights

KSE-100 Sector Statistics

	P/Ex	ROE(%)		P/Ex	ROE(%)
Mutual Fund	3.8	26.55	Oil & Gas Exploration	20.2	39.77
Modarba	10.1	9.55	Engineering	16.4	31.91
Leasing Cos.	6.4	15.18	Auto Assembler	10.8	27.30
Investment Co./ Bank	6.7	37.35	Auto & Allied	9.5	22.0
Commercial Bank	24.7	25.73	Cables & Electrical	22.5	19.2
Insurance	28.2	22.54	Transport	11.4	17.16
Textile Spinning	11.0	9.73	Technology & Communication	12.34	32.05
Textile Weaving	NA	NA	Fertilizer	16.3	34.28
Textile Composite	12.6	13.04	Pharmaceutical	16.8	26.61
Woolen	16.4	2.27	Chemical	9.6	24.42
Synthetics and Rayon	51.2	2.58	Paper & Board	13.0	13.67
Jute	7.7	34.46	Vanaspati & Allied	NA	NA
Sugar	6.0	39.25	Leather & Tanneries	5.6	22.34
Cement	18.7	18.26	Food & Personal Care	20.1	57.34
Tobacco	16.5	33.40	Glass & Ceramics	11.9	24.53
Refinery	9.7	35.56	Miscellaneous	74.5	12.90
Power Generation and Distribution	12.7	15.53			
Oil & Gas Marketing	15.8	25.65	KSE-100 Index	16.8	26.74

Top 20 Liquid Stocks^b Shares(m)

P.T.C.L.A	58.20
Oil & Gas Dev.	40.58
National Bank	25.30
D.G.K.Cement	23.34
Fauji Fert Bin	17.03
B.O.Punjab	12.92
MCB Bank	11.93
Fauji Cement	11.43
PPL	10.81
Pak Oilfields	9.74
P.S.O.	8.90
Pak.PTA Ltd.	7.78
Lucky Cement	7.19
Nishat Mills	7.01
Sui North Gas	5.48
M.Leaf Cem.	4.38
P.I.A.C.(A)	3.80
Bosicor Pak	3.41
Sui South Gas	3.37
Bank Alfalah	3.31

^b12 months average**20 Lowest PEG Stocks^a**

Arif Habib Securities	0.03
Shahtaj Sugar	0.03
Pakistan Refinery	0.04
Attock Refinery	0.06
Union Bank	0.06
Clariant Pak	0.06
Picic Commercial Bank	0.08
ICI Pakistan	0.10
Jahangir Siddiqui & Co	0.10
IGI Insurance	0.10
Faysal Bank	0.13
Azgard Nine Limited	0.13
Bank Of Punjab	0.15
Indus Motors	0.15
Kohinoor Weaving	0.17
World Call Comm.	0.19
Lakson Tobacco	0.20
PICIC	0.20
Bank Al-Habib	0.21
Dawood Hercules	0.22

^agrowth taken over last 5 years**10 Highest/Lowest Rel. Perf.**

Sui Northern Gas Ltd	42.4%
Pakistan Petroleum	26.4%
Pakistan Oilfields	25.2%
Sui Southern Gas	23.2%
NBP	20.7%
Clariant Pak	16.7%
ICI Pakistan	16.7%
MCB Bank	15.6%
Engro Chemical	11.0%
OGDC	7.6%
Century Paper	-45.5%
P.N.S.C.	-36.6%
General Tyre	-33.8%
NDLC-IFIC Bank	-31.5%
Cherat Cement	-27.3%
J.O.V. & Company	-26.8%
Colgate Palmolive	-25.9%
Indus Motors	-25.5%
Saudi Pak Bank	-25.2%
Azgard Nine Limited	-23.7%

Rel. Performance taken over YoY

Economic Indicators

	FY00	FY01	FY02	FY03	FY04	FY05 A/P
Nominal GDP (Rs billions)	3183	3423	4402	4823	5533	6548
Real GDP Growth (%)	3.9	2.7	3.2	4.8	6.4	8.4
Large Scale Manufacturing Growth(%)	(0.2)	7.8	4.0	7.2	18.2	15.4
Agriculture Growth (%)	6.1	(2.2)	0.1	4.1	2.2	7.5
Major Crops: Wheat (m tons)	21.1	19.1	18.2	19.2	19.5	21.6
Cotton (m bales)	11.2	10.7	10.6	10.2	10.0	14.3
Sugarcane (m tons)	46.3	43.6	48.0	52.1	53.4	47.2
Rice (m tons)	5.2	4.8	3.9	4.5	4.8	5.0
Services Sector Growth (%)	4.8	3.1	4.8	5.2	6.0	7.9
Exports (US\$ millions)	8569	9202	9135	11160	12313	14391
<i>Growth (%)</i>	-0.7	7.4	(0.7)	22.2	10.3	16.9
Imports (US\$ millions)	10309	10729	10340	12220	15592	20598
<i>Growth (%)</i>	1.9	4.1	(3.6)	18.2	27.6	32.1
Trade Balance (US\$ millions)	(1740)	(1527)	(1205)	(1060)	(3279)	(6207)
Current Account Balance (US\$ millions)	(1143)	240	2900	3050	280	(1070)
SBP Foreign Exchange Reserves (US\$ millions)	996	1685	4329	9285	10326	9578
Exchange Rate (Rs per US\$)	51.8	58.4	61.4	58.5	57.6	59.4
<i>% change</i>	19.8	12.9	5.1	(4.8)	(1.6)	3.1
Total External Liabilities (US\$ billions)	37.9	37.2	36.5	35.5	35.3	35.8
Domestic Debt (Rs billions)	1579	1731	1718	1854	1979	2129
of which:						
Permanent (Rs billions)	260	281	368	427	537	501
Floating (Rs billions)	647	738	558	516	543	778
Unfunded (Rs billions)	672	712	792	910	899	850
Tax Revenue (Rs billions)	347	394	404	459	510	590
Budgetary Expenditures (Rs billions)	741	708	949	861	899	1001
Budgetary Deficit (% of GDP)	6.4	5.3	7.5	3.3	2.5	1.9
Borrowing for Budgetary Support (Rs billions)	40.0	(32.3)	14.3	(56.0)	63.7	71.8
Credit Expansion (%)	9.0	3.7	2.0	0.6	23.7	22.4
M2 Growth (%)	16.3	9.0	15.4	18.0	19.6	19.3
Consumer Price Index (FY91=100)	3.6	4.4	3.5	3.1	4.6	9.3
Sensitive Price Index (FY91=100)	1.8	4.8	3.4	3.8	6.0	11.1

Source : SBP Annual Reports

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Syed Zain Hussain

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Aftab Afroz Mehmoodi

Chief Financial Officer & Company Secretary

Corporate Finance

Atif Subhani - Head of Corporate Finance

Ayesha Sarfraz - Analyst, Corporate Finance

Equity Sales

Amir Zaidi - Resident Vice President (Group Chief)

Asif Jan Mohammad - Resident Vice President (Group Chief)

Muhammad Sohail Deshi - Manager

Sajid Rahim Hayat Khan - Senior Manager

Sahar Zulfiqar - Manager

M. Aftab Alam - Senior Manager

Noor-ul-Hasan - Manager

Chandar Bhan Talreja - Manager

Noureen Moin Khan - Manager

Research

Salman Rasheed - Head of Research

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