
TAURUS

SECURITIES LIMITED

A Subsidiary of National Bank of Pakistan

BUDGET REVIEW

Overview

The federal budget for FY2011-12 can be seen as an attempt by the GoP to perform a balancing act by providing relief to the common man, stimulating the economy and exercising fiscal tightening. However, it is disappointing to note that no strategy has been formulated to bring un-taxed sectors into the tax net and so called broadening of the tax base is largely restricted to catching individuals. The goal of fiscal tightening would remain elusive given the slowdown in the economy and lack of industrial growth on the back of energy shortages. A greater reform agenda could have been presented, but the lack of political will and vision has led to baby steps.

The total federal budget expenditures for FY12 are estimated at PKR 2.77trn, an increase of 8.1% over the revised estimates of the current fiscal year of PKR 2.56trn. The GoP has allocated PKR 452bn for total development expenditure. Total federal current expenditures are estimated to be PKR 2.31trn, an increase of 0.8% over FY11 revised projection of PKR 2.30 trillion.

On the revenue side, the GoP estimates tax revenue for FY12 at PKR 2.074trn, as against revised estimate of PKR 1.679trn for FY11. Non-tax revenue is forecasted to be PKR 658bn leading to gross revenue receipts of PKR 2.732trn as compared to revised estimate of PKR 2.235trn for the current fiscal year. The consolidated budget deficit (excluding grants) is PKR 851bn or 4.0% of GDP

It is surprising that the budget did not mention CGT exemption for small investors/individuals, as it was highly anticipated by the broker community in the aftermath of pre-budget meetings with the Finance Minister. In addition, if CGT is being kept, there is no mention about rationalization of modalities for these investors. The optimistic view is that the government will amend the Finance Bill to cater to these proposals.

We feel that the budget would have a "NEUTRAL to NEGATIVE" impact on the capital markets due to the uncertainty surrounding the CGT issue.

Budget Report FY2011 - 12

Key Tax Measures - Budget 2011-12 Highlights

Affected Segment	Budgetary Measure	Impact
Income Tax/Withholding Tax		
Individuals	Income tax exemption limit for both salaried and non-salaried persons has been elevated to PKR 350,000	Positive
Businesses	100% tax credit on corporate undertakings on or after 1st July, 2011 and new investment in BMR of existing companies; provided financing of such undertakings are 100% equity financed.	Positive
Individuals, Businesses	Rate of tax deductible on cash withdrawal from banks has been downgraded to 0.2% from 0.3% provided withdrawal is equal to or more than PKR 25,000	Positive
Individuals	15% tax credit to individuals on investment made in shares and premium paid to insurance companies (with regard to possession of a life insurance policy) provided that cumulative investment doesn't exceed PKR 500,000	Positive
Individuals	Tax relief on withdrawals from Voluntary Pension Fund provided that each withdrawal is above PKR 500,000	Positive
Businesses	Enhancing tax credit for companies upon their enlistment on local bourses from 5% to 15%.	Positive
Banks	Tax rate on dividends (from AMCs) for banks has been enhanced from 10% to 20%.	Negative
Foreign investors	Investments made in Govt. securities by non resident investors to be subjected to a final withholding tax of 10%	Positive
Individuals, Businesses & Banks (Islamic)	0.01% CVT on modaraba certificates and redeemable capital instruments traded on the Stock Exchange has been abolished	Positive
Custom Duty		
Food Producers	Regulatory duty on edible items abolished	Positive
Pharma	Reduction of duty on pharmaceutical raw materials reduced to 5%	Positive
General Industrials	Concession on two major raw materials namely <i>Mirror backing paint</i> and <i>waste/scrap of glass</i>	Positive
Automobiles	Concession on 15 different components relevant to the CNG compressor makers	Positive
Automobiles	Concession on import of car audio accessories	Positive
Oil & Gas	Concession in machinery and equipment with respect to oil and exploration companies	Positive
Sales Tax and Federal Excise Duty		
Businesses	Sales tax reduced from 17% to 16%	Positive
Cement	Reduction in federal excise duty (FED)	Positive
Cement	Abolishment of special excise duty (SED)	Positive
Cement	Withdrawal of Exemption on ST on concrete blocks and bricks	Negative
Food Producers	Reduction of FED on areated beverages from 12% to 6%	Positive
Automobiles	Exemptions on local supply of reclaimed lead is removed to prevent its misuse	Negative
Individuals, Businesses	VAT on commercial importers enhanced from 2% to 3%	Negative
Sugar	Withdrawal of ST on supply of local and imported sugar	Positive
Sugar	FED of 8% imposed on Supply of local and imported sugar	Negative
Tobacco	Upward limit of Federal Excise duty slabs enhanced on local manufactures of cigarettes	Negative
Tobacco	FED rationalized from PKR 1 per rod to 20% ad vol.	Negative
Tobacco	FED enhanced from PKR 5 per kg to PKR 10 per kg	Negative

Source: FBR

Budget Summary

The federal budget for FY2011-12 can be seen as an attempt by the GoP to perform a balancing act by providing relief to the common man, stimulating the economy and exercising fiscal tightening. The Minister of Finance Dr. Abdul Hafeez Sheikh has stated the objectives to be achieved by this budget:

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1. Strengthen stabilization efforts;
2. Reduce fiscal deficit further;
3. Reduce the inflation rate to single digit levels via continued fiscal consolidation;
4. Develop a broad, equitable and stable revenue mobilization system to meet development needs;
5. Maintain and further develop social safety nets for the vulnerable while moving swiftly towards the elimination of untargeted subsidies;
6. Strengthen restructuring of the loss making public sector enterprises where possible. Leading to the privatization or closure of SOEs;
7. Invest through public sector development program in important infrastructure and much needed human resource development;
8. Reduce debt to sustainable levels, well below the required 60% of the Fiscal Responsibility and Debt Limitation Act (FRDL).

Comparative Budgetary Position 2010-11 and 2011-12			PKRb
	FY11 Budget Estimate	FY11 Revised Estimate	FY12 Budget
i) Resources (a+b)	2,256	2,107	2,463
a. Internal Resources	1,870	1,817	2,049
Revenue receipts (net)	1,377	1,238	1,529
Capital receipts (net)	325	459	396
Estimated Provincial Surplus	167	120	125
b. External Resources	387	290	414
ii) Expenditure	2,423	2,559	2,767
Current Expenditure	1,998	2,296	2,315
Total Development Expenditure	445	263	452
Estimated Operational Shortfall	(20.00)	-	-
Bank Borrowing	167	452	304

Source: Budget in Brief 2011-12

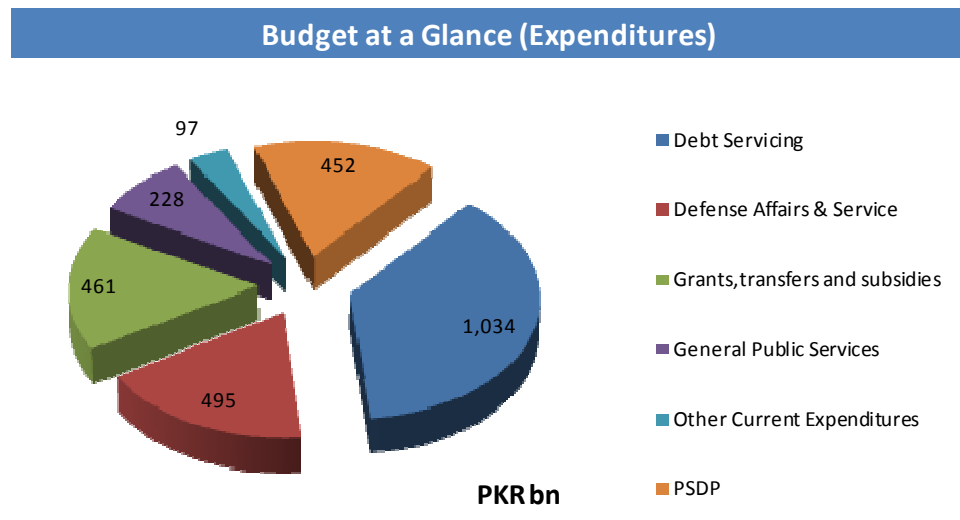
The Government of Pakistan (GoP) has attempted to include measures to help the masses such as raising the tax-free limit on incomes from PKR 300,000 to PKR 350,000, reducing sales tax from 17% to 16% and removing regulatory duty on 392 out of 397 items mainly related to Afghan Transit Trade. However, it remains disappointing that nothing was stated regarding any strategy to bring un-taxed sectors into the tax net and that the mention of broadening of the tax base is mostly

related to catching individuals. The goal of fiscal tightening would remain elusive given the slowdown in the economy and lack of industrial growth on the back of energy shortages. A greater reform agenda could have been presented, but the lack of political will and vision has led to baby steps.

Expenditures

The total federal budget expenditures for FY12 are estimated at PKR 2.77trn, an increase of 8.1% over the revised estimates of the current fiscal year of PKR 2.56trn. The GoP has allocated PKR 452bn for total development expenditure (71.5% higher than current fiscal year revised estimate of PKR 263.5bn), contributing 16.3% towards total federal expenditure. The total PSDP component is estimated at PKR 730bn that includes a provincial component of PKR 430bn while the federal portion of PSDP is projected at PKR 300bn. Water and power projects have been given priority with an allocation of PKR 36.1bn from the federal PSDP allocation. However, the actual total development spending for the current year is around PKR 462bn and so the jump in allocation for FY12 may not come into fruition.

Total federal current expenditures are estimated to be PKR 2.31trn, an increase of 0.8% over FY11 revised projection of PKR 2.30trn. The current expenditures come to 84% of total federal spending. The major portion of current expenditures will fall in the category of debt servicing (Interest payments of PKR 791bn and Repayment of Foreign Loans of PKR 243bn), which is pegged at PKR 1,034bn (45% of total current expenditures) while next major allocation is for Defence Affairs & Services at PKR 495bn (21% of total current expenditures), an increase of 11% from last year’s allotment.



Source: TSL Research

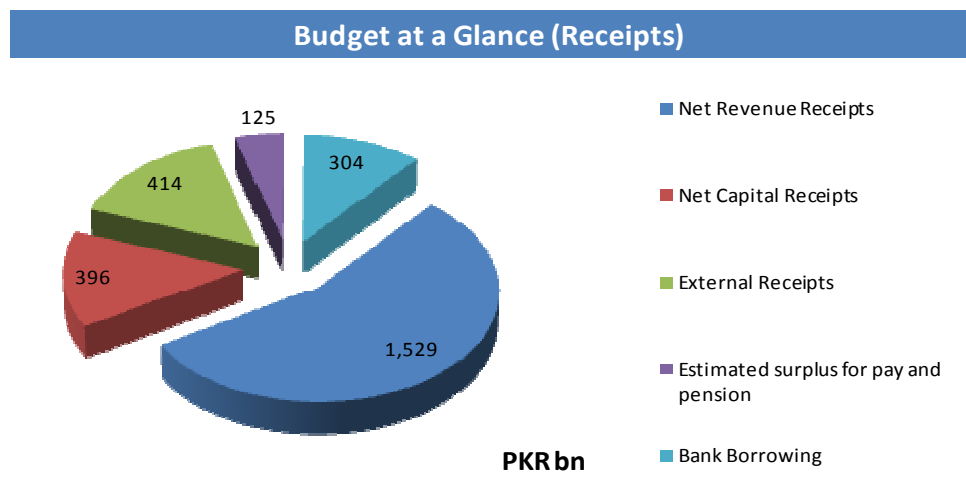
In an attempt to further reduce the fiscal deficit, the GoP has decided to curtail subsidies on essential food items and electricity. The estimated amount of total subsidies comes to PKR 166.44bn as against the revised estimates for FY11 of PKR 396bn. The major drop in subsidies is coming from the power sector that is estimated to drop by around 57% to PKR 147.28bn for FY12. This implies that power

tariffs of both Wapda and KESC will continue to rise in the new fiscal year.

Revenues

On the revenue side, the GoP estimates tax revenue for FY12 at PKR 2.074trn, as against revised estimate of PKR 1.679trn for FY11. Non-tax revenue is forecasted to be PKR 658bn leading to gross revenue receipts of PKR 2.732trn as compared to revised estimate of PKR 2.235trn for the current fiscal year. The FBR tax collection target for FY12 has been set at PKR 1.952trn as compared to the revised estimate of PKR 1.588trn. The net revenue receipts are projected to be PKR 1.529trn, 23.5% higher than FY11 revised estimate. The provincial share in federal receipts comes to PKR 1.203trn as compared to this year’s revised estimate of PKR 997.7bn. The net capital receipts are estimated to be PKR 396bn while external receipts are projected to be PKR 414bn, which includes PKR 34bn from Kerry-Lugar, PKR 70.4bn from privatization proceeds and zero funds from IMF. Total resource availability is estimated at PKR 2.463trn. The federal budget deficit comes to PKR 975bn (4.6% of GDP) while the consolidated budget deficit (excluding grants) is PKR 851bn or 4.0% of GDP due to estimated provincial surplus of PKR 125bn. The overall fiscal deficit with grants comes to PKR 724bn (3.4% of GDP). This deficit will be financed by PKR 8bn net foreign sources, PKR 413bn from non-banking sources and PKR 304bn from banking sources.

The FBR revenue target of PKR 1.952trn remains ambitious. The current year's target was PKR 1.67trn, which is likely to about PKR 1.588trn. It is likely that FY12 collection may come to PKR 1.8trn to 1.85trn. The GoP expects to achieve the FBR revenue target by focusing on indirect taxes (FED and GST) to raise more than PKR 140bn. The relief measures given on GST/FED would result in a net revenue loss of PKR 52.4bn, but the FBR believes that this can be offset by the tune of PKR 50bn through administrative efficiency. If the economy does not recover from the current doldrums, then revenue shortfall would be expected and cuts in the development budget would ensue as in the past.



Source: TSL Research

Capital Market Implications

It is surprising that the budget did not mention CGT exemption for small investors/ individuals, as it was highly anticipated by the broker community in the aftermath of pre-budget meetings with the Finance Minister. In addition, if CGT is being kept, there is no mention about rationalization of modalities for these investors. The optimistic view is that the government will amend the Finance Bill to cater to these proposals.

On the other hand, there are measures that are positive for the equity markets such as:

- Tax credit equal to 100% tax payable for formation of new companies that are 100% equity financed on or after July 1, 2011. The existing companies may also take benefit under this arrangement if investment in BMR is financed through their 100% equity, on or after by July 1, 2011. Both are valid for upto 5 years.
- In order to harmonize the existing tax credits available to individuals for investment in shares and for premium paid to Insurance Company, the maximum cumulative limit for both the investments is fixed @ 15% of the taxable income, with maximum upper limit for investment upto five hundred thousand.
- For encouraging companies' enlistment on stock exchange, the existing tax credit equal to 5% is proposed to be enhanced to 15%.
- After imposition of capital gain tax on Modarba certificates and instruments of redeemable capital traded at stock exchange through Finance Act 2010, the 0.01% CVT on such instruments is proposed to be withdrawn in order to encourage their trade.

Implications: We feel that the budget would have a **"NEUTRAL to NEGATIVE"** impact on the capital markets due to the uncertainty surrounding the CGT issue.

Our **stance** on the major sectors is as follows:

Oil Sector: We expect Neutral impact of the above developments on the overall Oil and Gas sector. Since E&P sector is regulated under the Petroleum Policies, as expected, no specific measures are part of this announced budget. While in the case of Oil marketing companies, though the government implements levies and GST through budget, however Ex-refinery prices and OMC margins determination are the responsibility of Oil and Gas Regulatory Authority.

Power Sector: Neutral to Negative: Subsidies to the power sector have been considerably reduced with the intention to decrease reliance of both WAPDA and KESC on the govt. Although projected rise in tariffs could substantially bridge the gap between generation costs and tariffs but, uncertainty over tariff raise remains significant since NEPRA's empowerment remains limited to adjusting tariff with respect to fuel price changes.

Fertilizer: Neutral as the proposed measures will be passed on to the customer.

Cement: Positive on the back of higher PSDP allocation in FY12 to PKR 730bn, specifically relating to water and power projects. Moreover, the decrease in FED and GST should have a positive impact on sales volume and profit margins if the savings are not passed onto the consumers.

Banks: Neutral to Negative impact. Tax rates have been raised on Bank's earnings from their asset management companies (AMC), but as their investments in AMCs are already too low, the negative impact will be limited. WHT on cash withdrawals has been reduced but this does not affect banks' earnings.

Telecommunication: Neutral as no new measures have been proposed.

Auto Assemblers: Neutral to Positive due to the maintenance of the status quo on the tariff regime relating to CKD, CBU and import of second hand cars.

Post-budget Investment Strategy

Given the volatility of the market, we would advocate a balanced approach with a mix of dividend and value stocks that would perform well within a holding period of 6 to 12 months.

TOP PICKS

Stock	Fair Value	Price as at 03-06-11	Upside/ (Downside)	EPS(PKR)		Forward		Stance
				CY11/FY12F	DPS(PKR) CY11/FY12F	CY11/FY12 P/Ex	Forward CY11/FY12 Div. Yield	
ACPL	78.60	54.66	43.8%	8.50	3.0	6.4	5.5%	Strong Buy
FCCL	9.20	4.90	87.8%	0.40	0.0	12.3	0.0%	Strong Buy
KAPCO	48.50	43.49	11.5%	8.70	8.5	5.0	19.5%	Accumulate
HUBC	46.20	37.71	22.5%	6.90	6.5	5.5	17.2%	Buy
PPL	228.10	220.98	3.2%	31.50	12.0	7.0	5.4%	Hold
PSO	342.00	290.17	17.9%	67.20	10.0	4.3	3.4%	Accumulate
ICI	176.40	158.30	11.4%	20.50	17.5	7.7	11.1%	Accumulate

Source: TSL Research

Macroeconomic Targets FY2011-12

The Government of Pakistan (GoP) has set a GDP growth target of 4.2% in 2011-12 as against 2.4% in 2010-11. The target appears to be doable as a turnaround would be expected in the agriculture sector in the post-flood scenario. However, the industrial sector performance would remain uncertain in the face of continuing energy shortages. The sectoral growth during FY12 is as follows:

Agriculture 3.8%

Industrial 3.1%

Services 5.0%

The fiscal deficit to GDP ratio is pegged at 4.0% as compared to 5.1% for the current fiscal year. As we explained earlier, the achievement of the fiscal deficit could be in jeopardy because of the ambitious revenue target and uncertainty over the overall economic performance

The inflation target is 12% for FY12 as against 15.5% expected for FY11. The inflationary target could be impacted by the trend in international commodity prices such as crude oil, local crop production and size of government borrowing for budgetary support.

Sectoral Review

OIL & GAS

Measures

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- Duty relief on import of E&P and other ancillary equipment
- Revenue in the shape of petroleum levy targeted at PKR 120 billion

Impact

Close but no cigar!

Amidst belt-tightening times, whereby, the enchanted doom and gloom slogans prevailed by the opposition, the much awaited, budget document for FY2012 was tabled by the government on Friday eve, which presented an outlay of PKR 2.767 trillion. For the critics it was a subdued effort up a blind alley. The opposition parties were unwelcoming and thrashed the efforts made by the government, associating it close but no cigar for the government.

There is no specific impact on the Oil & Marketing Companies but a general reduction in GST by 1% across the board would ease pump prices. The GST stands tall at 16% for the current fiscal year.

In the light of the above, a further non-budget revision is anticipated by the government for the regulated products to increase their margins for the OMCs, thus, the profitability of the sector is said to improve.

Stance - **Neutral**

TSL Oil & Gas (E&P) Universe

	Price as at 03-06-11	FY12 EPS (PKR)	Forward FY12 P/Ex	Fair Value	Upside/ (Downside)	Stance
OGDC	154.1	15.0	10.3	107.7	-30%	Sell
POL	337.1	45.6	7.4	302.9	-10%	Sell
PPL	213.6	31.5	6.8	228.1	7%	Hold

TSL Oil & Gas (OMC) Universe

	Price as at 03-06-11	FY12 EPS (PKR)	Forward FY12 P/Ex	Fair Value	Upside/ (Downside)	Stance
APL	385.4	62.4	6.2	408.4	6%	Hold
PSO	290.2	67.2	4.3	342.0	18%	Accumulate

Source: TSL Research

Our top picks in the sector are **PPL** and **PSO**

ELECTRICITY

Measures

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- Gross subsidy for WAPDA has been set at PKR 123 billion for FY12
- Inter-disco Tariff differential subsidy has been substantially downgraded to PKR 50 billion.
- Gross subsidy allocated to KESC arrives at PKR 24.6 billion.

Impact

Owing to consistent pressure from the IMF to resolve the circular debt issue on a serious note has eroded past leverage enjoyed by the GoP and subsequently the power sector.

However, budgetary measures show tightening of screws on WAPDA and KESC with substantial empowerment of NEPRA. Subsidy to WAPDA has been reduced substantially in the current budget from PKR 296 billion in the last fiscal year to PKR 123 billion in FY12 depicting a downfall of 58% YoY.

Gross subsidy to KESC was cut down even more by 48% YoY arriving at PKR 24.6 billion for the new fiscal year. Since KESC is already marred by management difficulties marred by their dispute with CBA. Cut in subsidies would eventually lead to substantial rise in power tariffs which would further fuel unrest among the general public; hence not boding well for the current govt. on political grounds.

However on a positive note, reduction in subsidies would force WAPDA and KESC to put their house in order. Moreover, since generation costs could now be completely reflected in the tariffs therefore profitability of govt. managed power companies could elevate.

Stance - **Neutral to Negative**

TSL Electricity Universe

	Price as at 03-06-11	FY12 EPS (PKR)	Forward FY12 P/Ex	Fair Value	Upside/ (Downside)	Stance
HUBC	37.7	6.9	5.5	46.2	23%	Buy
KAPCO	43.5	8.7	5.0	48.5	12%	Accumulate

Source: TSL Research

Our top pick for the sector is **HUBC**

CHEMICALS

Measures

Analyst:

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The salient features of the budget pertaining to the Fertilizer sector are:

- Decrease in GST to 16% from 17%
- Again no subsidy for Pottasic and Phosphatic fertilizer

Impact

The budget remained silent on Agri-Tax and with no significant changes for farmer support in the budget speech we remain neutral on the over all sector. However the key developments of 16% GST incase of 17% can be viewed favorable in term of Urea and we believe price to decrease by PKR 12 per 50KG bag. DAP prices would decline by PKR 40 per bag, however as price are currently as high as PKR 4,000 we do no expect it to have a significant impact.

Stance - **Neutral**

TSL Chemicals Universe

	Price as at 03-06-11	CY11 EPS (PKR)	Forward CY11 P/Ex	Fair Value	Upside/ (Downside)	Stance
FFC	141.5	14.7	9.6	135.3	-4%	Reduce
FFBL	43.4	6.7	6.5	40.7	-6%	Reduce
EPCL	11.7	2.0	5.8	12.5	7%	Hold
ICI	158.3	20.5	7.7	176.4	11%	Accumulate

Source: TSL Research

Our top pick in the sector is **ICI**

CEMENT

Measures

Analyst:

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The salient features of the budget with respect to the cement sector are:

- PSDP for FY12 has been set at PKR 730bn depicting a substantial rise of 10% YoY over last fiscal year with Federal component also elevating to PKR 300 bn (rising by 53% YoY from PKR 196bn (revised estimate) in FY11)
- Furthermore, PKR 20.5bn was allocated for the construction of Diamer-Bhasha Dam.
- Federal excise duty (FED) was reduced from PKR 700 per tonne to PKR 500 per tonne, depicting a 40% decline and subsequently will be abolished over the next two years.
- Special excise duty (SED) has been completely abolished.
- Furthermore, General Sales Tax (GST) was slightly downgraded from 17% to 16%.

Impact

Similar to previous years an over ambitious amount has been set aside for the PSDP in FY12 arriving at PKR 730 billion. Actual disbursement in FY11 was PKR 462 billion in contrast with the huge PKR 663 billion allocated. Hence, we expect actual disbursement in FY12 to also remain at similar levels. However, realistic allocation for the Diamer-Bhasha dam coupled with recurring pledges from US (under the Kerry-Lugar Bill) and the Asian Development Bank (ADB), we anticipate the construction work to commence in early FY12.

Substantial reduction of Federal excise duty (FED) and GST coupled with complete removal of Special Excise Duty (SED) and annulment of duty on white cement is welcome news for cement makers in the country; as this will help in improvement of margins particularly, for large loss making units for instance; MLCF . Furthermore, these budgetary measures could also lead to notable decline in cement prices which have constantly rising ever since December last year owing to cost push factors. Since higher cement prices have been discouraging domestic construction activity, therefore some decline in cement prices would help local off-take in its recovery.

Stance - **Positive**

Our revised estimates are therefore as follows:

TSL Cement Universe

	Price as at 03-06-11	FY12 EPS (PKR)*	Forward FY12 P/Ex	Fair Value*	Upside/ (Downside)	Stance
LUCK	74.8	12.7	5.9	86.4	16%	Accumulate
ACPL	54.7	8.5	6.4	78.6	44%	Strong Buy
DGKC	24.7	1.6	15.4	33.0	34%	Buy
FCCL	4.9	0.4	12.3	9.2	88%	Strong Buy
CHCC	10.1	1.0	10.1	11.1	10%	Hold

Source: TSL Research

* Revised for changes in FED, GST and annulment of SED

Our top picks for the sector are **ACPL, FCCL, DGKC** and **LUCK**

COMMERCIAL BANKS

Measures

Analyst:

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- Tax rate on dividends from Asset management companies raised from 10% to 20%.
- WHT reduced from 0.3% to 0.2% on cash withdrawals

Impact - Neutral to Negative

Tax rate on dividends received from asset management companies (please note: not mutual funds) has been raised from 10% to 20%. Within our universe, every bank has stake in an asset management company (AMC) and this amendment will affect them. However, this effect will be limited as compared to other investments, investments in AMCs average only 0.13% for the banks we cover (ABL, BAFL, BAHL, FABL, HBL, MCB and UBL). All other income from dividends and capital gains will be taxed as before.

Also, the withholding tax on cash withdrawals over and above PKR 25,000 has been reduced from 0.3% to 0.2%, which does not affect banks' earnings.

Meanwhile, the targeted revenue receipts through PIBS issued to banks has been raised by 43% (2011-12 budget estimate: PKR 41.6bn, revised budget estimate 2010-11: PKR 29.1bn). Targets for raising revenues through other government securities have been increased too, though not by as much. For the coming year, therefore, we can expect the crowding out of private sector credit to continue.

Speculations regarding raising of taxes on government securities from 30% to 40% and raise in overall corporate tax rate from 35% to 50% did not materialize.

According to the finance minister, investments in government securities have been made more convenient by changing the status of the WHT (@10%) to a final tax. This, according to the minister, will encourage individuals' and non-residents' investment in government securities. We, however, feel that this will not increase investment in government securities on the individuals' and non-residents' part. If it were so, then banks would have suffered in the form of increased competition for deposits.

In the last budget a new limit was imposed for provisioning of NPLs (5% of advances to SMEs), in addition to the limit of 1% for total advances. In this budget, additions have been made to let provisioning in excess of 5% be carried over to succeeding years (previously only the provisioning above 1% of total advances was allowed to be carried over). Again, this has no significance for banks' earnings.

Stance - Neutral to Negative

TSL Commercial Banks Universe

	Price as at 03-06-11	CY11 EPS (PKR)	Forward CY11 P/Ex	Fair Value	Upside/ (Downside)	Stance
MCB	200.2	23.0	8.7	200.9	0%	Hold
HBL	117.0	18.1	6.5	113.5	-3%	Reduce
BAFL	10.2	1.6	6.4	11.6	14%	Accumulate
BAHL	28.4	4.8	5.9	32.4	14%	Accumulate
ABL	61.0	11.6	5.3	65.0	7%	Hold
UBL	63.0	10.4	6.1	64.1	2%	Hold
FABL	10.0	1.3	7.7	9.9	-1%	Reduce

Source: TSL Research

Our top picks for the sector are **BAFL** and **BAHL**

FIXED LINE TELECOMMUNICATION

Measures

Analyst:

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Status quo maintained

Impact

Though the budget has provided relief to many previously FED (federal excise duty) exercisable goods, this relief has not been extended to exercisable services. As a result a 19.5% FED will continue to be levied on telecommunication services.

Stance - **Neutral**

TSL Telecom Universe

	Price as at 03-06-11	FY12 EPS (PKR)	Forward FY12 P/Ex	Fair Value	Upside/ (Downside)	Stance
PTCL	17.6	2.5	7.0	21.7	24%	Buy

Source: TSL Research

AUTOMOBILES

Measures

Analyst:

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- Status quo has been maintained in terms of CKDs, CBUs and used cars
- Reduction in GST to 16% and removal of SED of 2.5%
- 50% Regulatory Duty remains on imported vehicles of over 1800cc
- Incentive for CNG compressors manufacturing industry through concession on its 15 components
- Balloting of second phase of BTS(Benazir Tractor Scheme) is likely to begin on 6th September,2011 this will have a positive impact for the tractor sector.
- PKR 2 billion have been allocated in development expenditure under the Benazir Tractor Support Program

Impact

With no significant improvement in the existing status quo, auto industry does not stand to benefit from the FY2011-12 budget. The government has no particular policy targeting the auto sector. At present, car manufacturing is affected from numerous problems resulting in lower margins. With depressed margins, we do not believe car manufacturing would be lowering price except for Indus Motors.

Tractors manufactures are likely to register higher sales, due to increased crop prices in particular of crop and wheat. BTS (Benazir Tractor Scheme) balloting is to commence on 6th September we remain bullish on tractor manufacturing companies in particular MTL.

Stance - **Neutral to Positive**

TSL Autos Universe

	Price as at 03-06-11	FY12 EPS (PKR)	Forward FY12 P/Ex	Fair Value	Upside/ (Downside)	Stance
INDU	221.9	47.8	4.6	235.0	6%	Hold
PSMC	66.6	7.5	8.9	66.4	0%	Hold
MTL	548.9	79.1	6.9	581.9	6%	Hold

Source: TSL Research

RATINGS GUIDE

June 3, 2011

Stock	Fair Value	Price	Rating	EPS			DPS			BVPS			P/E x	Div Yld(%)	P/BV x	Beta	Shares Outstanding	Year end
				CY10/	CY11/	CY12/	CY10/	CY11/	CY12/	CY10/	CY11/	CY12/						
				FY10A	FY11F	FY12F	FY10A	FY11F	FY12F	FY10A	FY11F	FY12F						
Allied Bank	65.0	61.0	Hold	9.6	11.6	12.3	3.6	4.0	4.0	41.8	49.4	56.7	5.3	7%	1.2	1.1	860	Dec
Bank Al-Habib	32.4	28.4	Accumulate	4.1	4.8	5.6	2.0	2.5	2.5	18.3	22.1	25.2	5.9	9%	1.3	1.2	879	Dec
Faysal Bank	9.9	10.0	Reduce	1.6	1.3	2.2	NIL	1.0	1.0	22.5	24.7	26.4	8.0	10%	0.4	1.2	733	Dec
Bank Alfalah	11.6	10.2	Accumulate	0.7	1.6	2.0	NIL	1.0	1.0	16.5	17.4	18.3	6.4	10%	0.6	1.3	1,349	Dec
Habib Bank	113.5	117.0	Reduce	14.2	18.1	20.3	6.5	7.0	7.0	81.2	93.9	107.8	6.5	6%	1.2	1.1	1,102	Dec
MCB Bank	200.9	200.2	Hold	20.2	23.0	26.2	10.5	11.5	12.0	94.7	100.0	114.8	8.7	6%	2.0	1.2	836	Dec
United Bank	64.1	63.0	Hold	9.1	10.4	11.9	5.0	5.0	6.0	55.9	61.7	70.1	6.0	8%	1.0	1.2	1,224	Dec
Attock Cement	78.6*	54.7	Strong Buy	11.7	6.3	9.8	5.0	3.0	4.0	62.3	65.7	71.5	8.6	5%	0.8	0.9	87	Jun
Cherat Cement	11.1*	10.1	Accumulate	-0.1	0.5	1.6	NIL	NIL	NIL	23.5	23.5	26.6	21.0	NIL	0.4	0.9	96	Jun
D.G. Khan Cement	33.0*	24.7	Buy	0.6	1.2	2.6	NIL	NIL	1.0	72.6	77.1	84.4	21.5	NIL	0.3	1.4	365	Jun
Fauji Cement	9.21*	4.9	Strong Buy	0.2	0.5	0.5	NIL	NIL	NIL	7.2	16.0	13.6	10.0	NIL	0.3	1.5	1,331	Jun
Lucky Cement	86.4*	74.8	Accumulate	9.7	11.0	14.0	4.0	3.0	4.0	77.6	85.6	95.6	6.8	4%	0.9	1.3	323	Jun
Millat Tractors Ltd	581.9	548.9	Hold	62.4	71.2	79.1	65.0	60.0	60.0	114.5	173.4	218.3	7.7	11%	3.2	1.0	37	Jun
Pak Suzuki	66.4	66.6	Reduce	3.1	4.7	7.5	0.5	1.0	1.0	176.2	177.3	184.8	14.3	2%	0.4	0.9	82	Dec
Hub Power	46.2	37.7	Buy	4.8	5.5	6.9	5.0	5.0	6.5	25.8	26.2	27.1	6.9	13%	1.4	0.9	1,157	Jun
KAPCO	48.5	43.5	Accumulate	5.8	8.6	8.7	5.0	8.0	8.5	25.6	70.5	57.4	5.0	18%	0.6	0.7	880	Jun
Attock Petroleum	408.4	385.4	Hold	52.0	58.2	62.4	25.0	35.0	40.0	133.6	106.1	137.8	6.6	9%	3.6	1.0	69	Jun
P.S.O	342.0	290.2	Accumulate	52.8	57.7	67.2	8.0	10.0	15.0	171.0	265.0	317.4	5.0	3%	1.1	1.1	172	Jun
OGDC	107.7	154.1	Sell	13.8	14.4	15.0	5.5	5.0	5.0	36.6	45.8	55.8	10.7	3%	3.4	1.1	4,301	Jun
Pakistan Oilfields	302.9	337.1	Sell	31.4	45.6	45.6	25.5	32.0	32.0	123.1	136.7	150.3	7.4	9%	2.5	1.2	237	Jun
Pakistan Petroleum	228.1	213.6	Hold	19.5	30.2	31.5	7.5	12.0	13.0	66.9	87.6	106.1	7.1	6%	2.4	1.0	1,195	Jun
Indus Motors	235.0	221.9	Hold	43.8	42.5	47.8	15.0	13.0	14.0	160.1	213.7	244.3	5.2	6%	1.0	1.1	79	Jun
P.I.C.T.	88.3	89.5	Reduce	8.3	8.8	10.1	4.0	4.0	5.0	34.1	34.4	40.1	10.2	4%	2.6	0.8	109	Jun
P.T.C.L.	21.7	17.6	Buy	2.3	2.1	2.5	1.8	2.0	2.0	21.2	21.7	22.3	8.4	11%	0.8	1.1	5,100	Jun
FFBL	38.2	43.4	Sell	7.0	6.7	6.3	6.6	6.2	13.8	13.1	13.6	6.0	6.4	14%	3.2	1.0	934	Dec
FFC	129.2	141.5	Reduce	13.0	14.7	15.1	10.4	13.2	13.6	18.2	16.9	23.7	9.6	9%	8.4	0.8	848	Dec
ICI Pakistan	176.4	158.3	Accumulate	17.5	20.5	17.8	17.5	17.5	10.0	97.1	111.4	131.2	7.7	11%	1.4	1.0	139	Dec
Engro Polymer	12.5	11.7	Hold	-1.2	2.0	2.2	NIL	0.3	14.1	10.4	12.6	0.8	5.8	2%	0.9	1.1	663	Dec

*adjusted for budgetary measures

ECONOMIC INDICATORS

	FY04	FY05	FY06	FY07	FY08	FY09	FY10A/P
Nominal GDP (Rs billions)	5533	6548	7195	8235	9922	12082	13844
Real GDP Growth (%)	6.4	8.4	5.8	6.8	3.7	1.2	4.1
Large Scale Manufacturing Growth(%)	18.2	15.4	8.3	8.7	4.0	(8.2)	4.4
Agriculture Growth (%)	2.2	7.5	6.3	4.1	1.0	4.0	2.0
Major Crops: Wheat (m tons)	19.5	21.6	21.6	23.3	21.0	24.0	23.9
Cotton (m bales)	10.0	14.3	14.3	12.9	11.7	11.8	12.9
Sugarcane (m tons)	53.4	47.2	47.2	54.7	63.9	50.0	49.4
Rice (m tons)	4.8	5.0	5.0	5.4	5.6	7.0	6.9
Services Sector Growth (%)	6.0	7.9	6.5	7.0	6.0	1.6	4.6
Exports (US\$ millions)	12313	14391	16451	16976	19052	17688	19346
Growth (%)	10.3	16.9	14.3	3.2	12.2	(7.2)	9.4
Imports (US\$ millions)	15592	20598	28581	30540	39966	34822	34710
Growth (%)	27.6	32.1	38.8	6.9	30.9	(12.9)	(0.3)
Trade Balance (US\$ millions)	(3279)	(6207)	(12130)	(13564)	(20914)	(17134)	(15364)
Current Account Balance (US\$ millions)	280	(1070)	(4990)	(6878)	(13874)	(9261)	(3495)
SBP Foreign Exchange Reserves (US\$ millions)	10326	9578	10836	14333	8745	9527	13112
Exchange Rate (Rs per US\$)	57.6	59.4	59.9	60.6	62.5	78.5	83.8
% change	(1.6)	3.1	0.8	1.3	3.2	25.5	6.8
Total External Liabilities (US\$ billions)	35.3	35.8	36.4	39.5	44.9	51.1	54.5
Domestic Debt (Rs billions)	1979	2129	2337	2610	3275	3861	4653
of which:							
Permanent (Rs billions)	537	501	500	553	608	678	794
Floating (Rs billions)	543	778	941	1108	1637	1904	2399
Unfunded (Rs billions)	899	850	882	940	1020	1271	1456
Tax Revenue (Rs billions)	510	590	704	840	1010	1252	1483
Budgetary Expenditures (Rs billions)	899	1001	1196	1365	1921	2101	2577
Budgetary Deficit (% of GDP)	2.3	3.3	4.3	4.4	7.6	5.3	6.3
Borrowing for Budgetary Support (Rs billions)	63.7	60.2	70.9	102.0	519.9	305.6	304.6
Credit Expansion (%)	23.7	22.2	16.1	14.2	29.3	15.4	12.7
M2 Growth (%)	19.6	19.1	15.1	19.3	15.4	9.6	12.5
Consumer Price Index (FY91=100)	4.6	9.3	7.9	7.8	12.0	20.8	11.7
Sensitive Price Index (FY91=100)	6.0	11.1	7.8	9.4	14.2	22.7	13.2

Source : SBP Annual Reports

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