

December 30, 2011

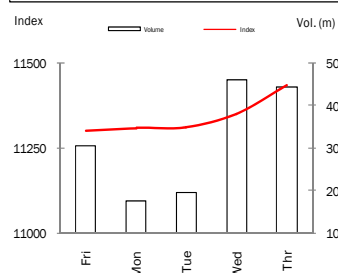
	Wed, Dec 28	Thu, Dec 29
KSE-100 Index	11,352.59	11,435.67
KSE-30 Index	10,288.20	10,318.16
Shares Traded (mn)	46	45
Value Traded - PKRm	1,518	1,176
Market Cap. - PKRbn	2,945	2,967

Market Overview

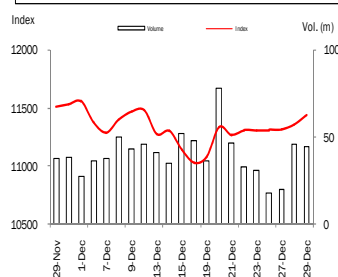
The market continued to rise on Thursday due to buying activity in oil and banking stocks. The KSE-100 Index gained 83 points to end the day at 11,435 on the back of 44m shares transacted. Most of the activity was concentrated in the Chemicals, Banks, Electricity and Fixed line telecom sectors. The top gainers according to Index points were NESTLE, OGDC and NIB; likewise the top decliners were FFBL, FFC and IBFL.

We recommend investors to hold onto their positions.

Market-Last 5 Days



Market-Last One Month



PTA expects robust growth in telecom sector

In its recently released annual report on the telecom sector, PTA has highlighted growth of subscribers (in almost all sections except fixed local loop), and revenues in FY11 (please see table below). It has also given its projections for the next ten years, which are very optimistic.

Cellular sector continues to grow

Net additions of cellular subscribers broke the falling trend (witnessed since FY08) in FY11. Cellular operators added 9.7m subscribers in the year, as opposed to 4.8m in FY10. Ufone (owned by PTC) and Warid (associate of BAFL) increased their subscriber base in FY11, after losing out in FY10. However, their market share still decreased.

We feel that cellular sector still has room to grow as 3-G license auction seems likely in March 2012. While ARPU (average revenue per user) will increase through 3-G services, we can not say for certain that they will result in profit growth, as the cost will be high. We expect the license auction to take place at around PKR 50bn, below GoP's over-ambitious target of PKR 75bn.

Telecom Sector Growth

	FY10	FY11	% Chg
Cellular Subscribers (m)	108.9	109.6	0.6%
Local Loop Subscribers (m)	6.08	5.72	-5.9%
Broadband Subscribers (m)	0.9	1.49	65.6%
LDI Minutes (m)	9,543	11,485	20.3%
ARPU (USD)	2.41	2.45	1.7%
Telecom Revenues (PKR bn)	344	363	5.4%
FDI (USD m)	374	79	-78.9%

Source: PTA Annual Report

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PTA has hope for Broadband and Mobile services

PTA's projections for 2020 (see table below) appear reasonable for both local

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World Indices	Dec 29, 2011	
Markets at Close	Index	Chg%
DJIA	12,287.00	1.12
Nasdaq	2,613.74	0.92
S&P	1,263.02	1.07
FTSE	5,566.77	1.08
DAX	5,848.78	1.34
CAC-40	3,127.56	1.84
Nikkei	8,398.89	(0.29)
H.Seng	18,397.90	(0.65)

loop and broadband services, however, appear too optimistic for mobile services. 161m subscribers by 2020 implies around 84% tele-density (penetration), which is too ambitious for a country which has around 71% population of working age (according to statistical supplement of SBP's annual report). If we incorporate our outlook on poverty (no improvement in sight) then this rate of tele-density seems even more unachievable.

PTA's projections imply 10.2% tele-density of Broadband by 2020; which is ambitious considering current penetration is only 0.9%. However, we feel that this is achievable in the next ten years as current global penetration stands at 9% (according to Point Topic, as quoted by PTA's report). PTA's projections of fall of tele-density of local loop from 3.5% in FY11 to 2.2% in FY15 and 2.8% in FY20 appear realistic to us.

Another area where we feel PTA's expectations will turn out to be correct, is the infrastructure platform, which PTA believes will be converged such that current divisions between voice and data and telecom or broadcasting, etc will cease to exist, and operators will give a wide variety of services from one platform.

PTA's Subscribers Forecast	(million)		
	2010A	2015	2020
Mobile	100	122	161
Local Loop	3.42	3.96	5.36
Broadband	1.1	12	19.5
	FY11A	2020	
Telecom Revenues (PKRbn)	363	620	

Source: PTA Annual Report

PTA's Implied Teledensities	FY10A	FY11A	FY15	FY20
Mobile	60.4%	64.8%	68.4%	84.1%
Local Loop	3.7%	3.5%	2.2%	2.8%
Broadband	0.6%	0.9%	6.7%	10.2%

Source: TSL Research

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News Snapshot

Collection of CGT on bourses: SECP likely to propose new mechanism: The Securities and Exchange Commission of Pakistan (SECP) is expected to propose new mechanism for collection of Capital Gain Tax (CGT) on stock exchanges to address concerns of broker community and investors for revival of the capital market. SECP Chairman Muhammad Ali told reporters on Thursday that the commission is studying the existing CGT collection mechanism regarding stock exchanges. (BR)

Gas shortage set to become more acute: 'emergency' next month, says Asim: Federal Minister for Petroleum and Natural Resources Dr Asim Hussain Thursday declared that there would be a gas emergency during January as its shortage would cross one billion cubic feet (BCFD) mark in the next few months. Speaking to journalists at Daultala near Gujjar Khan on the inauguration of Adhi Oil Field, Hussain said gas supply to Compressed Natural Gas (CNG) stations and industrial sector would be slashed next month. (BR)

China's bank is willing to fund IP pipeline project: Federal Minister for Petroleum and Natural Resources Dr Asim Hussain revealed on Thursday that Industrial Commercial Bank of China (ICBC) was willing to provide investment for Pak-Iran gas pipeline project. Talking to Aaj TV, the minister also said the on-going energy crisis in the country would be considerably eased after completion of this mega energy project. He clarified that no decision had been taken yet to suspend gas supply to CNG stations in January. (BR)

Reserves up: Foreign exchange reserves of the country jumped to \$16.77 billion in the week ending Dec 23, compared with \$16.66 billion the previous week. (Dawn)

Govt to bow down on IMF directives, withdraw subsidies, downsize PSDP: Pakistan has expedited implementing International Monetary Fund (IMF) terms by announcing heavy levies on power, gas and oil products, besides putting cash crops under insurance cover. The sources in the Federal Ministry of Finance (MoF) said on Thursday the Pakistan would go to IMF in February for the release of last two tranches of \$1.74 billion each. (Daily Times)