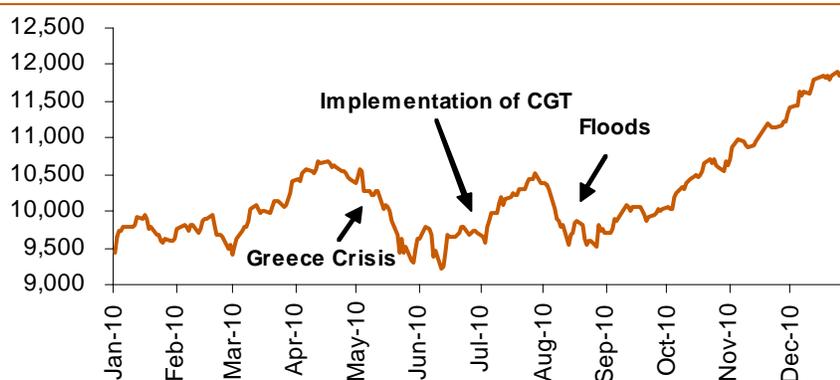


2010:

KSE dominated by foreigners

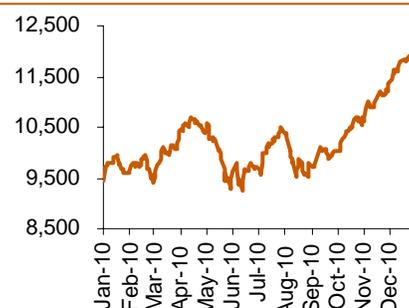
2010 turned out to be an exciting year for Pakistan market, with the benchmark KSE-100 concluding the year with an impressive 28% return (26% in US\$ terms). Although, issues such as the Greece crisis, prolonged confusion over the implementation of CGT and concerns over the flood losses kept the market under pressure for most of the first three quarters, strong foreign inflows and recovery in corporate earnings led to a strong market performance in the final quarter with the index witnessing more than 71% of the gains in last three months of the year.

KSE-100 index performance 2010



Source: KSE, JS Research

KSE-100 index performance

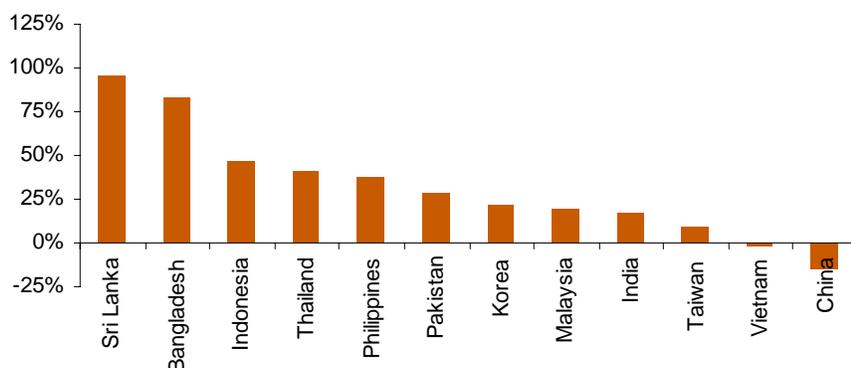


Source: KSE

Outperformed emerging Markets, lagged Frontier

Despite a challenging 2010, KSE's lower than average historic gains in 2010 seems impressive when compared to the performance of Asian Emerging Market which posted an average return of 22% for the year. However, it underperformed compared to the average 51% gains made by the regional Frontier markets including Sri Lanka, Bangladesh and Vietnam.

Pakistan and Regional markets return



Source: Bloomberg

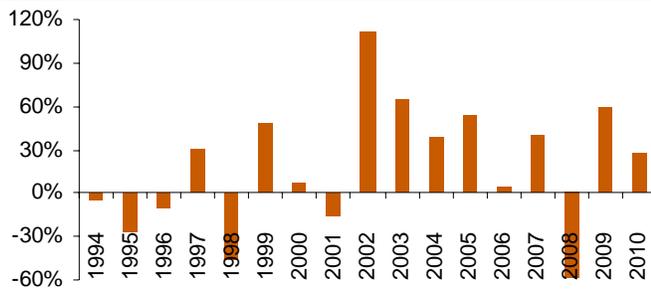
Stock Market - Key Statistics

	FY10A	FY11E	FY12F
Earnings Growth	14%	19%	10%
PER (x)	10.0	8.4	7.6
Dividend Yield	5.2%	6.1%	7.9%
ROE	18.3%	20.1%	20.1%
PBV (x)	1.8	1.7	1.5

Source: JS Research

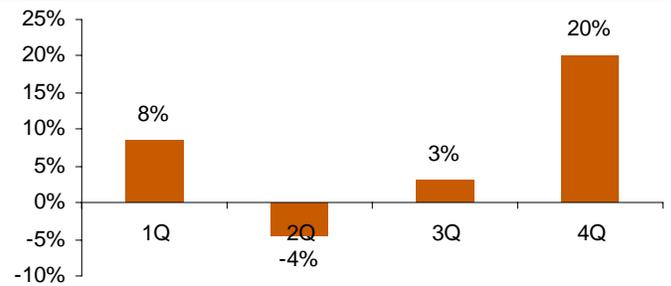
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Historical annual return of KSE-100 Index



Source: KSE, JS Research

Quarterly performance of KSE-100 Index in 2010

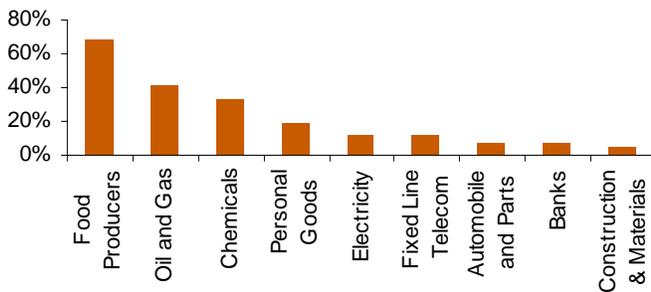


Source: KSE, JS Research

Oil & Gas and Chemicals dominated the show

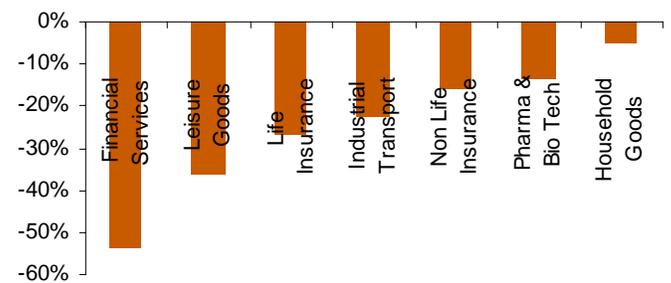
Among key sectors, Oil & Gas remained top performer with return of 41%. We believe the sector's performance is mainly backed by strong foreign interest in OGDC during the year. Chemical sector stood as the second best performer amongst heavy weights posting 33% growth in its market cap. Banks on the other hand were up only 7% mainly due to weak credit off take and investor fears over a fresh wave of NPLs post the floods. Among other blue chips, Autos and Construction Materials also posted single digit returns of 8% and 4%, respectively.

Gainers in 2010



Source: KSE, JS Research

Losers in 2010



Source: KSE, JS Research

Foreigners remained the key participants

During the outgoing year, foreign funds remained the most active participants at the local bourse outpacing local players who had primarily been caught up with liquidity concerns - especially in the absence of a leveraged product. On YTD basis, net foreign buying during the year stood at US\$522mn.

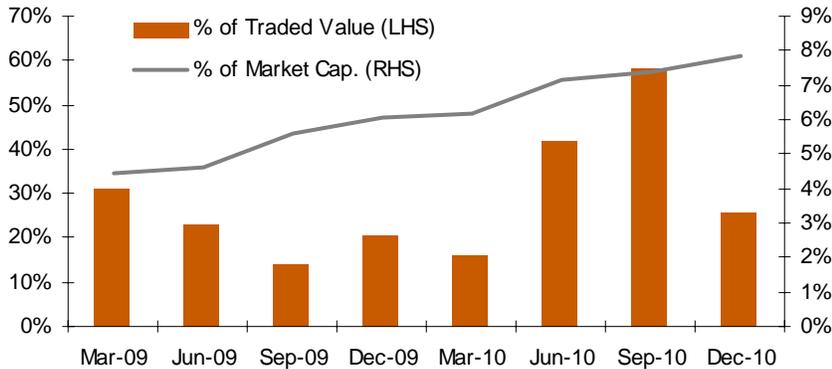
Foreign and local portfolio investments in 2010

	Gross Buy (US\$mn)	Gross Sell (US\$mn)	Net (US\$mn)
Foreign Investments	1,208	(687)	522
Companies	4,527	(4,692)	(166)
Mutual Funds	793	(923)	(129)
Banks/DFIs	1,133	(1,228)	(95)
Individuals	7,597	(7,674)	(77)
NBFC	251	(296)	(45)
Other	198	(208)	(10)

Source: NCCPL

Based on the latest available figures, foreigners now hold around 32% of the market's free float equating 7.8% of the total market cap (from 4.45% in March 2009). On the other hand, companies and mutual funds among local participants were the key sellers with net selling of US\$166mn and US\$129mn respectively.

Foreign holding as % of Market Cap.

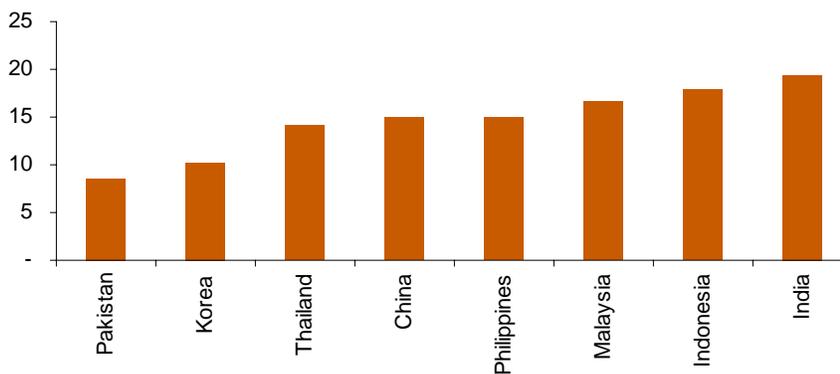


Source: SBP, KSE & JS Research

Market Outlook: Positive with Index target of 13,300

Post a difficult 2010, we maintain a positive view on the market, on the back of foreign inflows, strong FY11 earnings growth, potential introduction of leverage product and post flood reconstruction activities. From the valuation perspective, the KSE 100 is still trading at a deep 38% discount to the region (historic average discount of 32%). Also, in comparison to its own 14-year historical average PE multiple of 10.9x, it is presently trading at a 23% discount. With an Index target of 13,300 points by December 2011, we flag POL, HUBC, PSO, ENGRO, FFC, LUCK, DGKC and NML as our preferred plays in the year to come. Key risks to our thesis include higher than anticipated commodity prices and discontinuation of the IMF program.

Pakistan and Regional markets PE (x)



Source: JS Research, Thomson Reuters

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ANALYST CERTIFICATION

I, Umer Bin Ayaz, author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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