KASB SECURITIES

morning shout

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FY09 Budget – Key Takeaways

- Minister for Finance unveiled the PRs2trn pro-agri Federal Budget FY09 with the over riding theme of balancing fiscal prudence with popular objectives.
- Fertilizer and OMCs turnout to be the gainers from the budget due to increase in DAP subsidy and non materialization of much-hyped change in OMC margins.
- Autos (increase in duties), banks (200bp increase in NSS rates), refineries (duty cut) and cement (increase in FED) would likely be negatively impacted from the budget.

Federal Budget FY09 unveiled

Federal Minister for Finance unveiled the PRs2trn pro-agri Federal Budget FY09, the first of the new government where as expected, the over riding theme was balancing fiscal prudence with popular objectives. Fiscal constraints however did become evident in some unpopular steps. From a stock market perspective, while extension of CGT was expected before hand and so was an increased emphasis on savings, market reaction should be centered on sector specific developments in fertilizers, banks, refineries and autos in particular. An interesting addition to the speech was the increase in size of judges' bench which opens the field for debate on judges' restoration. We will revert with detailed analysis later in the day.

Increased emphasis on savings

The government not only increased rate of return on long term National Savings (NSS) by 200bp, it also plans to introduce short term paper with yields linked to T-Bills. A sovereign competitively priced instrument is a threat to stock market and bank deposits. Impact on stock market should be muted due to differences in investor class and to some extent pricing in of threat in the recent 20% decline. Bank deposits we believe should not be overly impacted but liquidity crunch faced by banks could be exaggerated (in price or quantity) if corporate deposits are attracted to the instruments. This is also competition for IPP dividend yields.

Key Budget winners- fertilizers and OMCs

Increase in DAP subsidy, removal of GST on all fertilizers and the general pro-agri tone of the budget should bode well for fertilizers.

Non materialization of any changes in OMC pricing formula and a lower subsidy allocation indicate a higher pass through of international oil prices, which should ease pressure on the receivables issue. Market is likely to react positively to this.

Key Budget losers- Autos and refineries

Autos have been hit by additional levies raising cost for consumer by 3-10%. With dwindling sales and low pricing power this should exert pressure on auto companies.

While deemed duty reduction did not materialize, government tweaked duty on other products. Market could cheer less than expected negatives for refineries but we remain cautious due to overhanging threat of change in deemed duty.

Increase in FED of cement necessitates another price hike of PRs11.65/bag (+4%) but slow demand and regulatory risk could prove to be an impediment.

In addition to NSS, banks also face pressure of provisions being non-tax deductible expense from now. This should impact cash flow (and income lost on float) as higher tax liability will most likely appear as deferred tax asset.

Other developments worth mentioning

1) GST raised across the board by 100bp to 16% which is a blanket tax and does not discriminate on the basis of income; 2) increase in minimum wage to PRs6000; 3) higher tax rate on Luxury imported items and 4) exemption of turnover tax for loss making companies.

Refer to important disclosures on page 2

Morning News

- **Auto Sales dip by 14.2% YoY in May 2008** (PAMA)

According to data released by PAMA for the month of May, auto sales of locally assembled cars and LCVs declined by 14.2% YoY to 15,893 units. PSMC sales were down 15% YoY to 9,921 units while INDU faced dip of 2.7% YoY. 11MFY08 sales decline of 6.2% YoY is inline with our expectations of 6.7% YoY lower volumes for FY08 to 191k units. However, we could see a jump in MoM performance of auto sales during June 2008 due to 1) incremental inventory buildup of 1,828 units during April–May 2008 and 2) buyers preferring to receive their vehicles before end of WHT exemption period on 30th June 08.

Technical View

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Sell Between 13,110 Points And 13,215 Points; First Support 12,950 Points, Second Support 12,865 Points

The index opened on a marginally negative note and after touching its day's low it took to a recovery trend to close in the green. Volumes were on the lower side and stood at 131.20 mln down by 9.36%. Despite the fact that the index has given a breakout above its resistance trendlines (black and orange lines), the weak volumes are a cause for concern. This could be a false breakout as volumes do not justify the phenomenon. It would be prudent to wait for a confirmation.

Supporting the above argument, the Stochastic Oscillator maintains its downtrend generating a sell signal, which makes yesterday's formation a bearish divergence, hence supporting the false breakout. The 14-D RSI has not shown a significant move and remains flat. Moreover the 30-DMA has cut its 200-DMA from above and the 50-DMA is on the verge of doing the same. This is a medium-term bearish signal as the 200-DMA has started to stall as well.

It is suggested to sell between 13,110 points – 13,215 points. The first support is at 12,950 points and the second support is at 12,865 points.

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KSE-100 Intra-day Movement

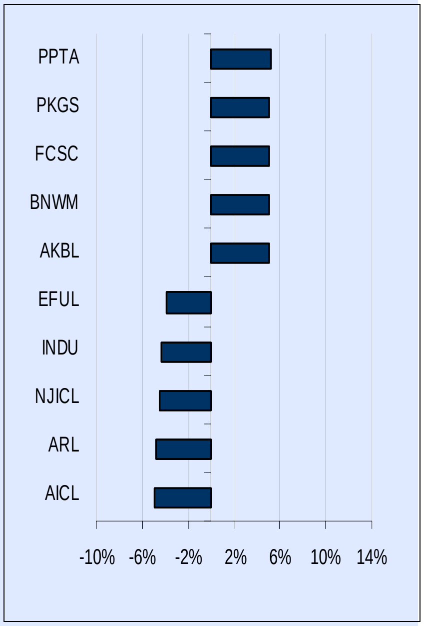
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US$mn
KSE30	15,246.15	1.40%	185.89
KSE100	13,016.38	1.07%	204.03
KSE All Share	9,319.66	1.07%	216.12
MCB	305.90	3.00%	18.57
AHSL	173.80	2.42%	17.86
POL	401.50	1.90%	16.50
NBP	179.55	4.39%	15.75
PPL	266.48	-0.57%	13.94

Source: KSE

KSE-100: Top Gainers & Losers



Source: KSE