



AKD SECURITIES

An Overview of Opportunities & Risks in Pakistan's Capital Market

"Future of Online Trading and Mutual Funds"
Presentation in Gujranwala

Muhammad Farid Alam
Deputy Chief Executive Officer
AKD Securities Limited

Economy

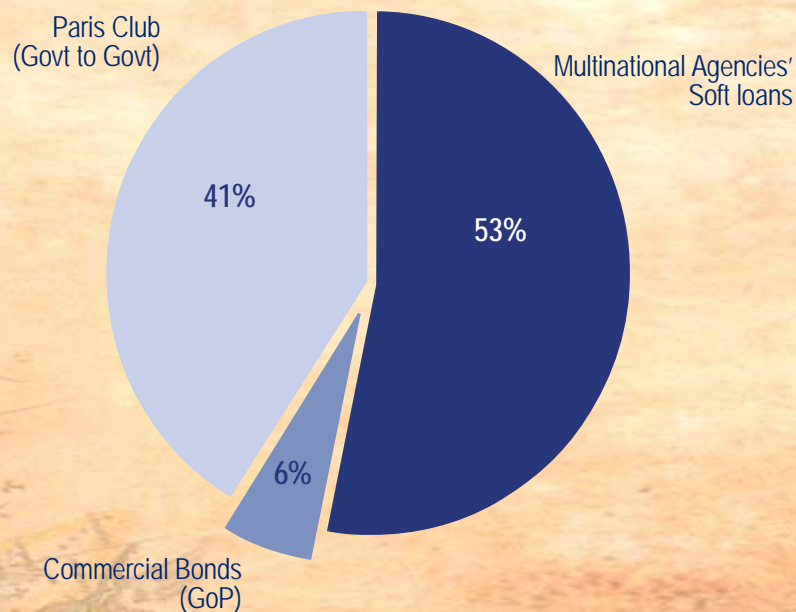
Macro Economic Fundamentals

	1999	2007	2008
Foreign Debt as a % of GDP	66.30%	26.20%	28%
Budget Deficit as a % of GDP	6%	4.2%	6.5%
Last 3 years Annual Rupee Depreciation	14%	4%	14.8%
Foreign Exchange Reserves US\$ in billion	2.3	14.0	12.0

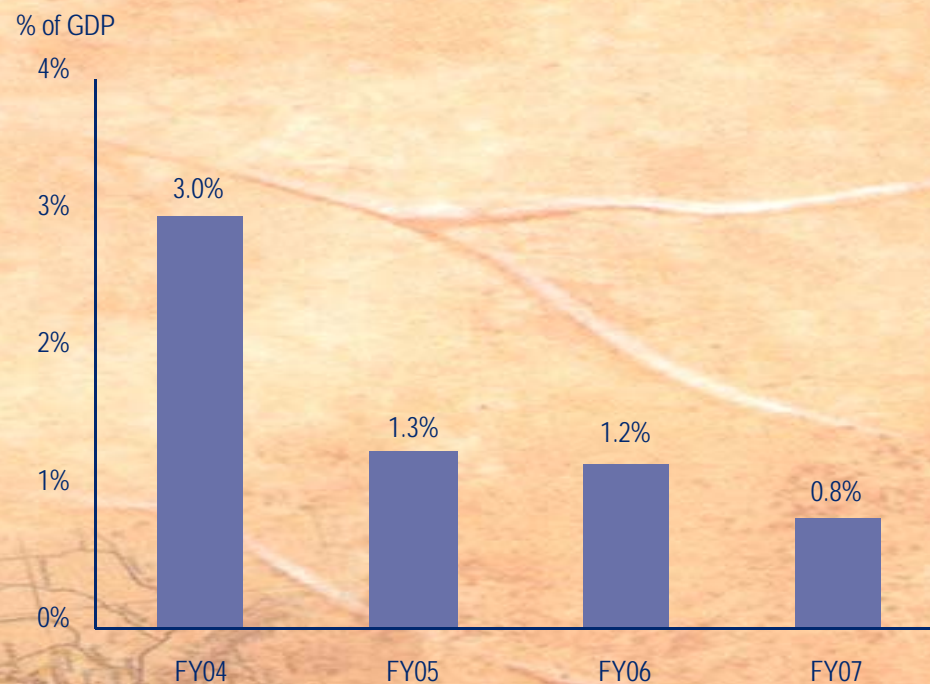
Pakistan's External Debt Profile is Comfortable

Total External Debt as at March 30, 2008 ~ US\$45 billion

External Debt



External Debt Servicing as % of GDP



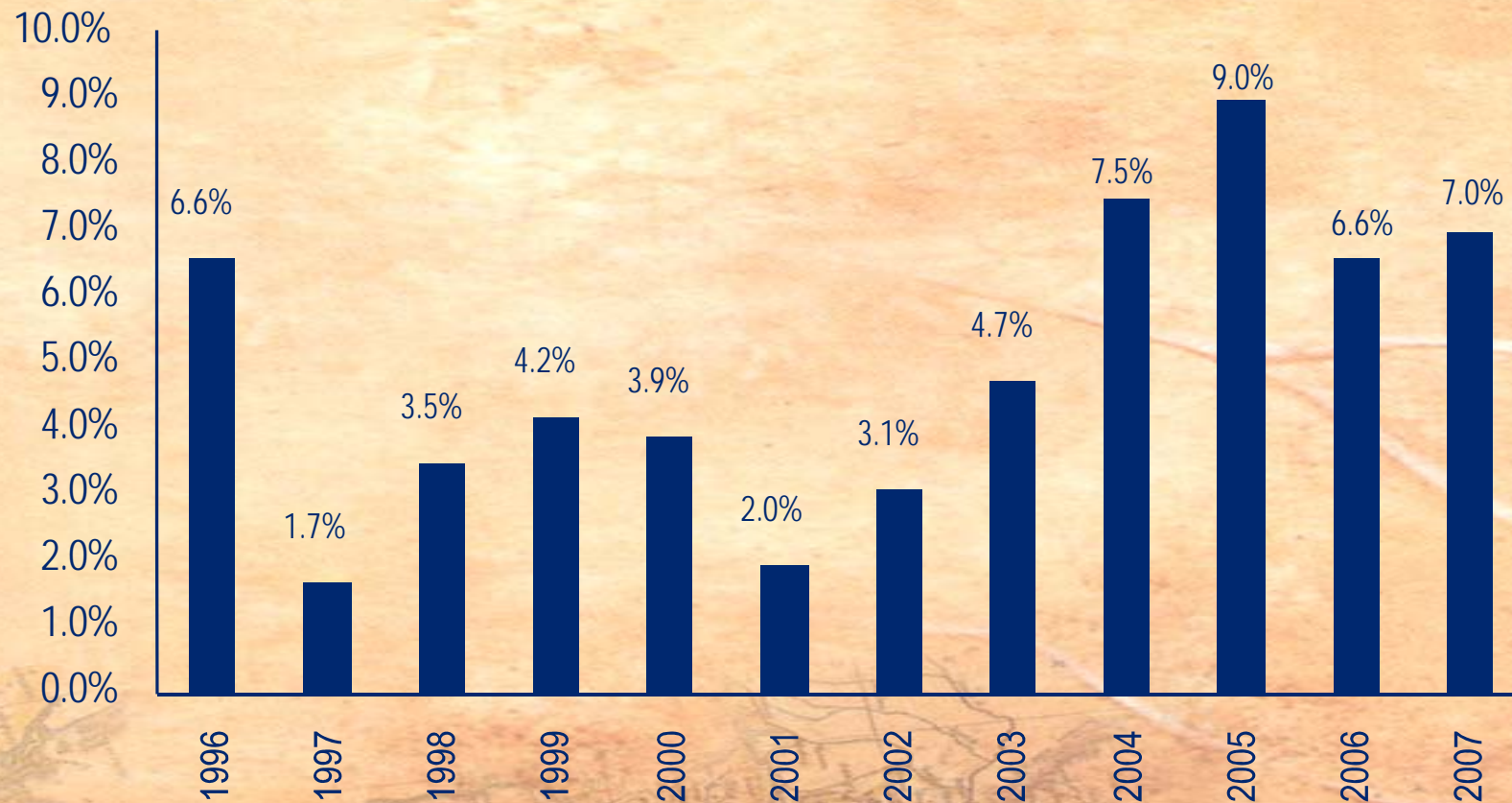
Future Economic Outlook: SOLID GROWTH!

- FY07 GDP growth was 7.0%.
- We expect real GDP growth of 6.0% - 7.0% p.a. over the next 3 years.
- Future growth will be driven by :
 - ✓ Strong domestic consumer demand (10%+)
 - ✓ Improving agricultural output (3%+ annual growth) – (5% in 2007)
 - ✓ Acceleration in industrial & services growth (6-8%)
 - ✓ Sharp increase in Government's development spending (Burning Issue)
 - ✓ Continued increases in FDI (FY08 ~ US\$ 4 billion)
 - ✓ Inwards remittances boom (FY08 ~ US\$ 6.5 billion)
 - ✓ Automobile production increase is as under:

YEAR	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
TOTAL AUTOMOBILES	66,049	80,411	74,600	103,712	151,722	198,182	243,869	255,189	178,991
TOTAL MOTOR CYCLES	86,959	108,850	120,627	175,169	303,383	416,189	520,124	467,267	474,049

Real GDP Growth Accelerated from 2003 Onwards

Policy initiatives on privatization, economic liberalization & deregulation kick started growth



High Growth Trajectory in Medium Term

- Pakistan's economy has entered a high growth phase which increasingly appears to be sustainable
- Assuming expected real GDP growth of 6% p.a., Pakistan's nominal GDP should grow from US\$129bn in FY06 to US\$225bn in FY12 (factoring 3% annual depreciation of PkR vs US\$ and average inflation rate of 8%)
- During this period, per capita GDP should rise from US\$846 in FY06 to US\$1,585 in FY12 assuming a 2% annual growth in population, estimated at 156mn at present
- As a result, the middle to lower-middle income group in Pakistan is expected to grow substantially over the next 5 years versus its relatively narrow base historically
- This is already visible in record sales of Autos, Motorcycles, other consumer durables and FMCG's
- The above developments provide the basis for rapid consumer demand growth in Pakistan going forward

Drivers of Consumer Demand

REDUCTION IN POVERTY LEVEL

According to the Centre for Research on Poverty Reduction and Income Distribution (CRPDID)/Planning Commission the headcount below poverty line in Pakistan has reduced from 34.46% in 2001 to 23.90% in 2006

INCREASE IN EMPLOYMENT

The Pakistan Federal Bureau of Statistics (FBS) estimates the unemployment rate has reduced from 8.4% in 2000 to 6.5% in 2006

RISE IN INWARD REMITTANCES

Remittances from expatriate Pakistanis have risen from less than US\$1.5bn p.a. in 2000 to over US\$5.5bn in 2007 and are expected to reach US\$6.5bn in 2008

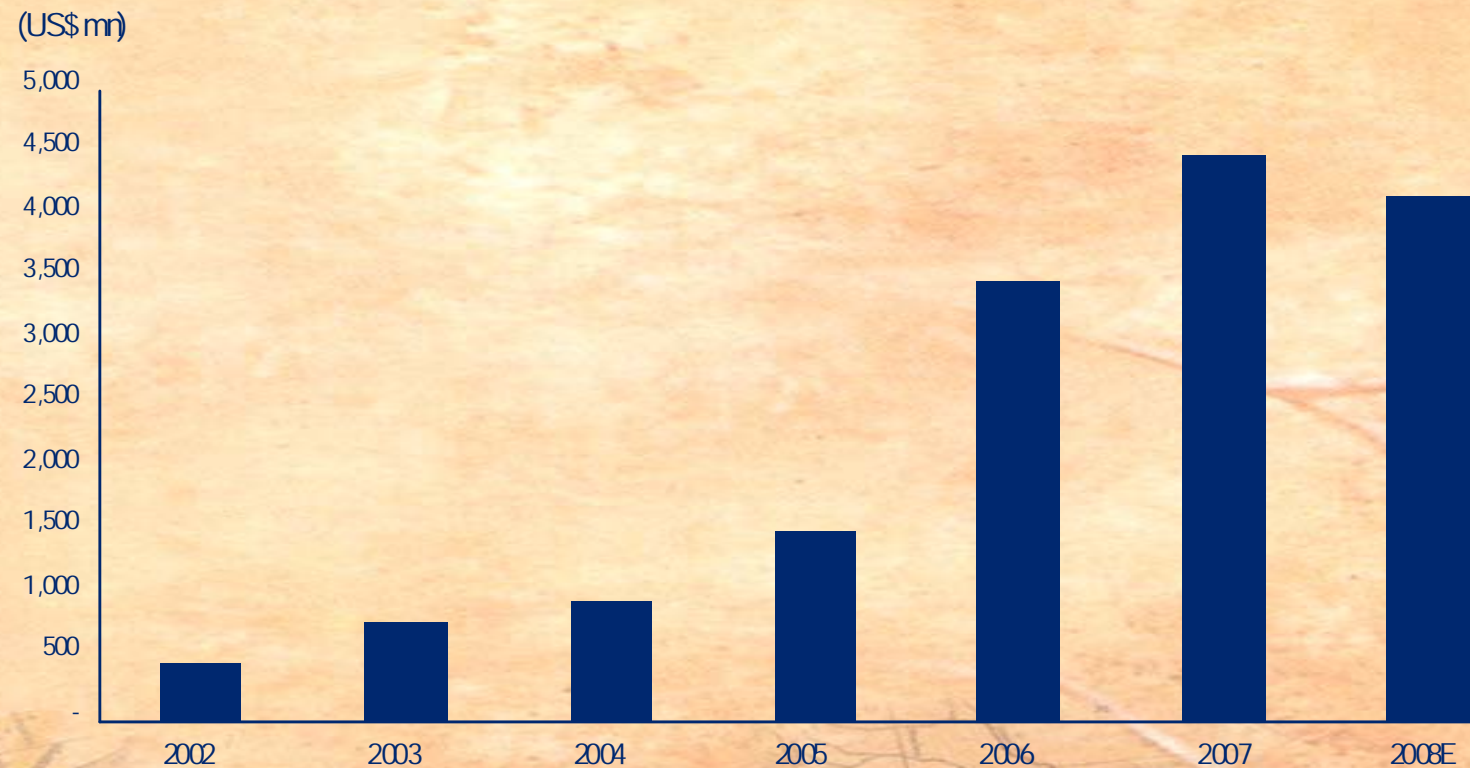
LIQUIFYING RESIDENTIAL EQUITY

Pakistan's real estate sector is essentially unleveraged. New financial industry players & product innovations are only now beginning to unlock the huge value in real estate

GROWTH IN CONSUMER FINANCE

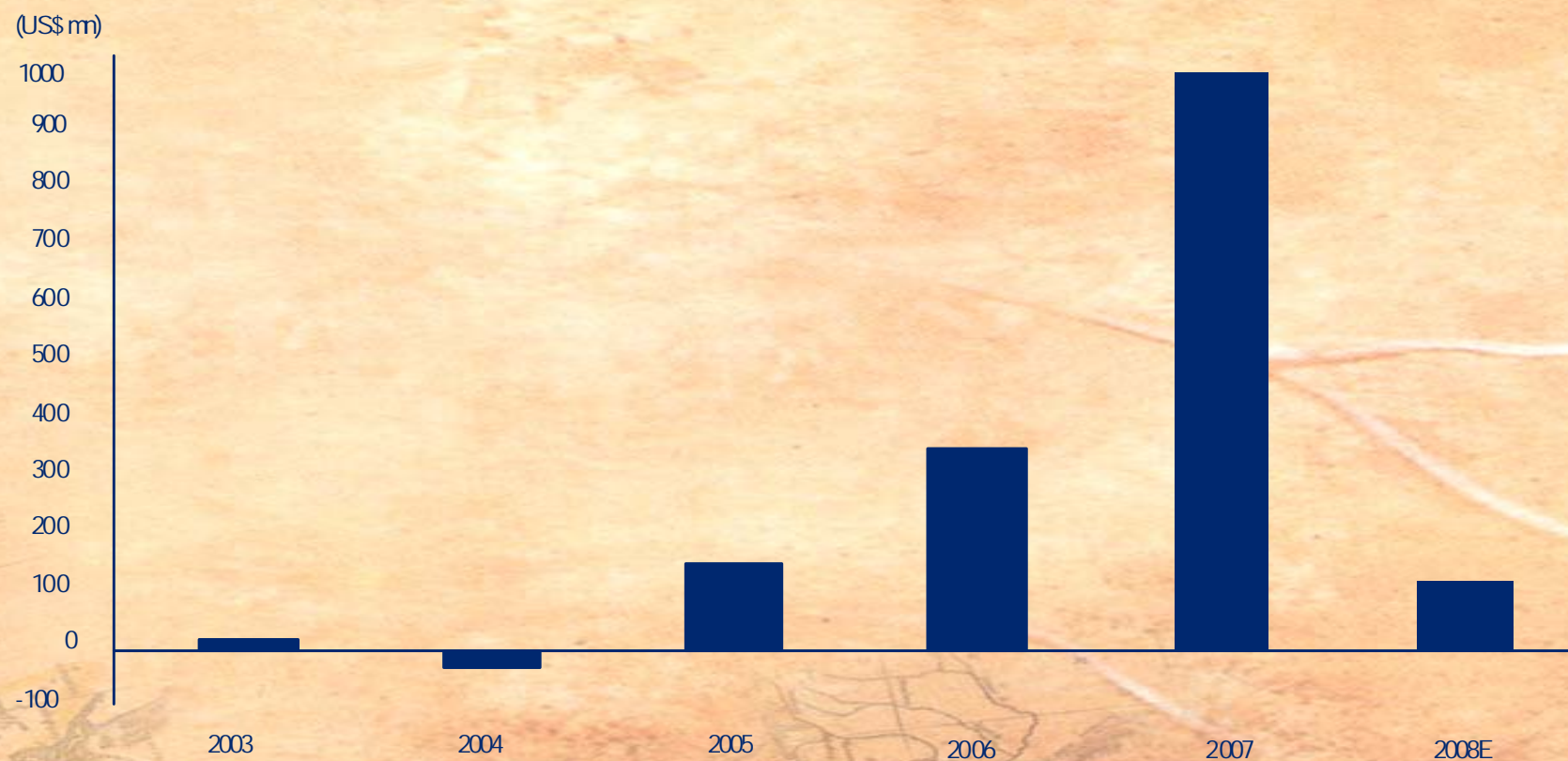
Consumer finance makes up less than 15% of banking sector earnings assets, indicating huge catch-up potential with region and will underpin demand growth going forward

Foreign Direct Investment into Pakistan



Source: Pakistan Economic Survey,
Govt. of Pakistan

Net Foreign Portfolio Investment into Pakistan*



*Excluding Recent GDR issues of OGDC, MCB & UBL Upto June 29, 2007

Pakistan's Strategic Location Advantage

Natural Trade Corridor for Central Asia & Western China



Stock Exchange

What is a Stock Exchange?

The market in which shares are traded is called a stock exchange.
(Over-the-counter markets - for small cap companies which eventually want to get listed on the main market)

- Also known as the equity market
- One of the most vital areas of a market economy
- Provides companies with access to capital - Capital formation
- Provides investors with a slice of ownership in the company and the potential of gains based on the company's future performance.

Can be split into two main sections; the primary and secondary market.

- The primary market is where new issues are first offered, with any subsequent trading going on in the secondary market.

Benefits of a Stock Exchange

- ❑ **Liquidity:** Relatively easy entry and exit
- ❑ **Transparency:** Fair price and record of all stocks usually available
- ❑ **Regulated Market:** Investor interest is protected through the laws and regulations of all exchanges as well as the regulator, the Securities and Exchange Commission of Pakistan (SECP)

Securities Traded on Stock Exchange

- ☐ Ordinary/Common shares.
- ☐ Preference Shares
- ☐ Derivatives like futures and Options
- ☐ Debt Instruments, like TFCs in Pakistan

Stock Exchanges in Pakistan

There are three stock exchanges in Pakistan:

- ☐ Karachi Stock Exchange (KSE)
- ☐ Lahore Stock Exchange (LSE)
- ☐ Islamabad Stock Exchange (ISE)

Karachi Stock Exchange

- ❑ The premier stock exchange in the country. Established on September 18, 1947.
- ❑ Initially 5 companies were listed. Presently over 650 companies are listed and the number is expected to increase in the coming years.
- ❑ Listed capital was less than Rs100mn. Now it is Rs677bn (Mar 11, 2008).
- ❑ Trade at the KSE gained momentum in early 1990s.
- ❑ Declared 'Best Performing Stock Market' of the World for the year 2002 by 'Business Week'.

Lahore Stock Exchange (LSE) & Islamabad Stock Exchange (ISE)

LSE:

- ❑ LSE came into existence in October 1970.
- ❑ LSE turnover is approx 13% of KSE.

ISE:

- ❑ The youngest of the three stock exchanges of the country incorporated on 25th October, 1989 and become fully operational on August 10, 1992.
- ❑ ISE turnover is approx. 1% of KSE.

How To Operate?

- ☐ Select a broker.
- ☐ Open an account with a broker of the relevant exchange & the Central Depository Company (CDC).
- ☐ The CDC manages and operates the Central Depository System (CDS). CDS is an electronic book entry system to record and transfer securities. Electronic book entry means that the securities do not physically change hands and the transfer from one client account to another takes place **electronically**
- ☐ Placement of order for purchase/sale of shares with the broker.
- ☐ Broker feeds the order on computer through KATS { Karachi Automated Transaction System} which is an automated order placement system.
- ☐ On matching of order i.e., a buy of say 10,000 shares is matched with a sell order of up to 10,000 completing the transaction.
- ☐ On confirmation of trade the broker provides date time and rate on which the order was executed

KSE -30 Index

The Karachi Stock Exchange launched the KSE-30 Index with base value of 10,000 points. The main feature of this index that makes it different from other indices are:

- ❑ KSE-30 index is based only on the free float of shares, rather than on the basis of paid-up capital.
- ❑ The other indices in Karachi Stock Exchange represents total return of the market. That is, when a company announces a dividend, the other indices at KSE are not reduced/adjusted for that amount of dividend (whether cash or bonus). Whereas, KSE-30 Index is adjusted for dividends and right shares

The BRIndex-30

- ❑ Composition of BRIndex is based on average turnover of past 6 months trading days. Companies' stocks are included (or removed) based on the largest average turnover recorded in the last six months.

Investor Information

- ☐ KSE, LSE, ISE, CDC and SECP websites.
- ☐ Brokers website, research reports, etc.
- ☐ Newspapers, TV, etc.
- ☐ Investor education program.
- ☐ KSE, LSE, ISE notices, quotations, etc.
- ☐ Companies annual reports.

Before stock investment consider...

- ☐ Country Risk - Economic and political stability
- ☐ Sector Fundamentals
- ☐ Quality of Earnings - Volatility
- ☐ Earnings growth, payout & Cash flows
- ☐ Quality of Management
- ☐ Ratio Analysis: Past & projected ratios of companies & industry like; PE, Dividend yield, EV/EBITDA etc.

Stock Market: Key numbers

	2004	2005	2006	2007	2008 F	2009 F
Earnings growth (%)	24.1%	35.2%	20.4%	-2.6%	16.6%	21.6%
PER (x)	21.2	15.7	13.1	13.4	11.5	9.5
Dividend Yield (%)	3.0%	3.7%	4.7%	4.3%	4.6%	5.5%
ROE (%)	24.7%	27.6%	27.7%	22.9%	23.1%	24.3%
ROA(%)	4.7%	5.4%	5.7%	4.8%	5.1%	5.6%
PBV (x)	5.2	4.3	3.6	3.1	2.7	2.3

Source: AKD Universe

***Prices as on May 20, 2008**

Forms of Risk

Two basic types of risk:

❑ Systematic Risk:

- Inherent to the entire market or entire market segment e.g., country risk

❑ Unsystematic Risk:

- Associated with a particular company/stock and can be minimized through diversification.

Return from Local Stock Exchange

- ❑ In line with the risk return theory, the stock markets in Pakistan provide a better investment route than other investment avenues.
- ❑ Annual return from investment in equities is 31% in Pakistan over the last 10 years.
- ❑ Annual return from investment in equities is 38% in Pakistan over last 5 years.
- ❑ The inflation adjusted real rate of return is 25% over last 10 years.

Investment Returns in Pakistan

Average Annualized Return	1998-2007
Stock Market	31%
Gold	15%
Defence Savings Certificates	12%
10 Year Government Bonds	11%
6-month average T-Bill	7.6%
Inflation (CPI)	6%
Bank Deposits (PLS)	4%
Rupee (Rs)/Dollar (US\$) parity	3.4%

Source: AKD Research

Returns from Other International Markets

Average Annualized Return	1998-2008
India (BSE-30 Index)	20%
America (S&P 500 Index)	5%
United Kingdom (FTSE 100 Index)	3%
Japan (Nikkei 225 Index)	2%
Hong Kong (Hang Seng Index)	11%
Pakistan (KSE 100 Index)	31%
Singapore (Straits Times Index)	10%

Index as on May 20, 2008

Source: Yahoo Finance

Online Trading

Online Trading

- ☐ Transformation in the stock trading business environment
- ☐ Uses the internet technology – Geographically neutral
- ☐ Empowerment to take timely decision
- ☐ Low commission structure
- ☐ Transparent & Secure
- ☐ Fast and easy to use

Benefits of Online Trading

- ☐ Equal Order Priority
- ☐ Real Time Portfolio Management and Updates
- ☐ Real Time Market Quotes
- ☐ Instant Trade Execution and Electronic Confirmation

Online Trading

- ❑ Provide retail investors maximum access to Pakistan's capital markets.
- ❑ Increasing the number of active investors in Pakistan
- ❑ Dramatically changing the profile of investors in the local market

Online Trading Gives You TOTAL Control Of Your Investment

Mutual Funds

What is a Mutual Fund?

- ☐ A mutual fund is a professionally managed vehicle of collective investments that collects money from many investors and puts it in stocks, bonds, short-term money market instruments, and/or other securities.
- ☐ The fund manager, also known as portfolio manager, trades the fund's underlying securities, realizing capital gains or losses and passing any proceeds to the individual investors. Currently, the worldwide value of all mutual funds totals more than \$26 trillion
- ☐ Automatic diversification -Each investor owns a pro-rata share of all investments in the portfolio
- ☐ Professional management

Why Mutual Funds?

☐ Diversification

- ☐ Own a piece of many companies

- ☐ For a small \$ amount you gain a great deal of diversification.

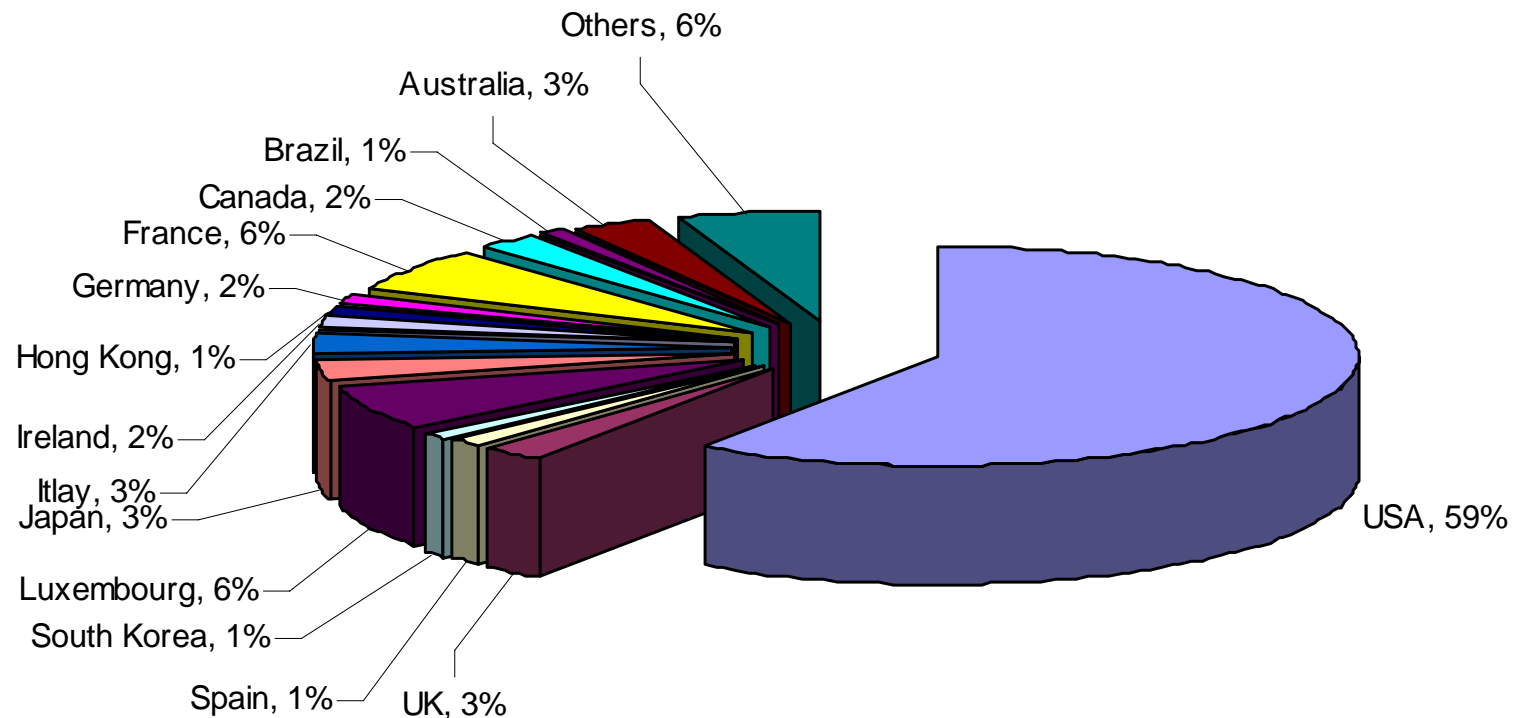
☐ Easy to match your investment objective

☐ Convenient to purchase and sell

Who can Invest in Mutual Funds?

- ☐ Almost anyone - with money to invest
- ☐ Companies, corporate bodies, financial institutions, Banks
- ☐ Foreign National and Foreign companies
- ☐ Provident, pension and gratuity funds constitutes by companies
- ☐ Non-profit organizations

World Wide Distribution of Mutual Funds Assets worth US\$ 26 trillion



How to Invest in Mutual Funds?

- ☐ Select the type of fund you wish to invest in based on your investment and return preferences
- ☐ Closed-end funds are bought from the market (Stock exchange)
- ☐ For an Open-end fund you need to open an account with an AMC Asset Management Company offering the fund

Types of Mutual Funds

Open Ended Mutual Fund

- ❑ Open ended funds constantly create new units or redeem issued unit on demand, based on net asset values (NAV). The NAV is usually calculated on a regular basis.

Closed Ended Mutual Fund

- ❑ These are investment companies which issue shares like any other company. The shares are then traded on the stock exchanges. The price of the shares is determined by the supply and demand for such shares, which may be higher or lower (normally lower) than the NAV.

Different Mutual Fund Strategies

- ☐ Equity Funds
- ☐ Fixed Income Funds
- ☐ Balanced Funds
- ☐ Capital Protected Fund

Benefits of Investing in Mutual Funds?

- ☐ Services of Investment Professionals
- ☐ Diversification
- ☐ Investment can be done in small amount
- ☐ Less volatile than the average equities portfolio of individual investor
- ☐ Liquidity – Redemption option in case of Open-end fund and sale option in case of Closed-end fund
- ☐ Protection via trustee

Mutual Fund in Pakistan

- ❑ Mutual Funds were introduced in Pakistan in 1962, with the public offering of National Investment (Unit) Trust (NIT) which is an open-end mutual fund in the public sector
- ❑ This was followed by the establishment of the Investment Corporation of Pakistan (ICP) in 1966, which subsequently offered a series of closed-end mutual funds
- ❑ There exists (till Jan 2008) 1 open end (NIT) mutual fund in public sector. 66 open-ended and 22 closed ended mutual funds under private sector management, and there are many more Funds in the pipeline.

Mutual Fund in Pakistan

As on April 30, 2008	No. of Funds	Net Asset Rsbm
Open Ended	63	339
Closed Ended	24	53
Total MFs	96	392

*Source: MUFAP

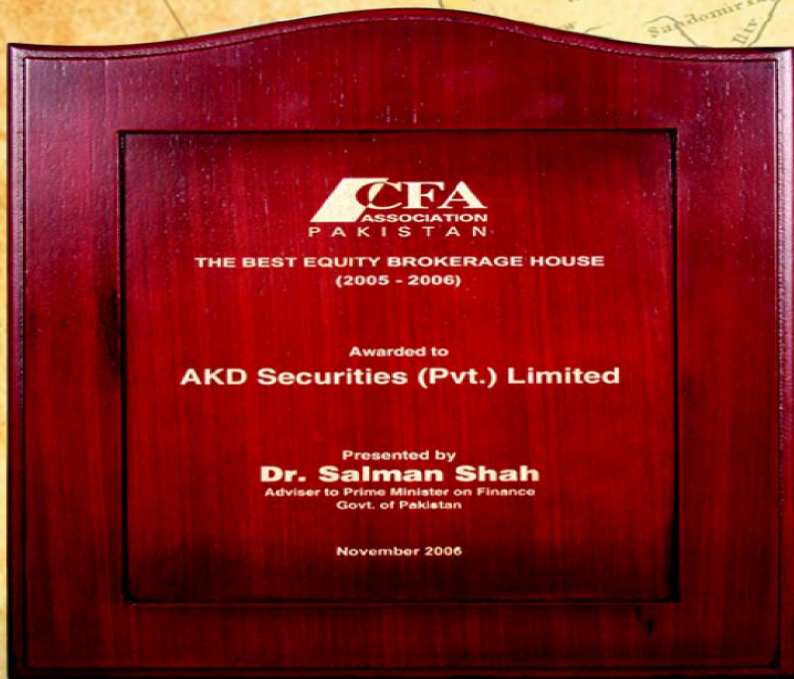
Reminder

☐ Understand your Risk Profile

☐ Know your purchase power

☐ Don't be Greedy!!

Pakistan is on the move. Now it's your turn!



Best Equity Brokerage House
(2005-2006)

- Investment Banking
- Securities Brokerage
- Online Stock Trading
- Cutting Edge Research
- Real Estate Development
- Private Equity & Venture Capital
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AKD SECURITIES LIMITED

Member: Karachi Stock Exchange

Corporate Office: 6th Floor, Continental Trade Centre,
Clifton, Block 8, Karachi, Pakistan
UAN: 111-253-111 Fax: 586-7992
Email: Website: akdsecurities.net

Thank You