



Discount Rate cut down by 50basis points to 9 %...

There was good news for investors when the State Bank of Pakistan cut the discount rate by 50 basis points to bring down the benchmark rate to 9% in the monetary policy announced on June 21.

This move was expected and has indicated to the visiting IMF delegation that government will not pursue a hawkish approach while obtaining the \$5 bn loan package.

The new government is business friendly and therefore reduction in the discount rate will foster the business growth and will have a positive impact on the country economy as it will support private business.

Previous government raised the domestic borrowing to more than 60% of the GDP thereby showing that they were not able to fulfil their fiscal responsibility and as a result the finance minister has announced that they will not borrow any money from state bank this year thereby bringing down the domestic loan to GDP ratio.

The SBP has left the deposit rate unchanged to 6% which will be fairly penalizing for the banks. SBP said it placed a higher weighting on moderating price pressure and lower private-sector credit relative to balance of payments position. With the decline in discount rate, the valuations of several leveraged companies will become attractive particularly for Cements, Textiles and Oil companies. Banks, on the other hand, will have to bear the brunt of lowering spreads and hence, their profitability will be affected by a mere 5% or more. The central bank has quite rightly not lowered the ceiling over PLS deposits and kept it at 6%.

Developments to follow are that china will provide \$1 bn budgetary support and three IMF installments worth \$263mn are due to be paid on June 28.

We like companies which will see restructuring such as PSO, SNGP, KESC alongwith cement players such as FCCL. Among banks we see UBL to bear some brunt of lowering spreads along with middle tier banks such as BAFL & BAHL.

We specifically like LOTCHEM (our target price Rs 10.8/sh), EPCL (our target price Rs 18/sh) & EFOODS (our target price Rs 197/sh).

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