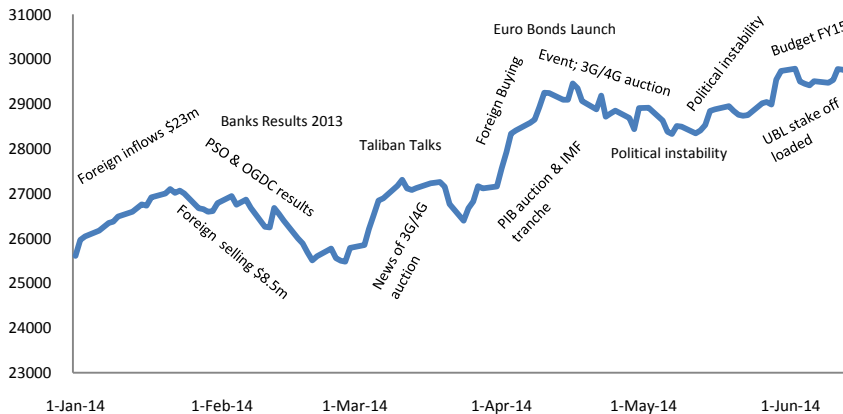


Rising Political Instability & Stock Market Outlook!

Market in trading at all time high level of 29,651 appreciated by 17% with relatively mixed volumes suggests that at peak levels index might go either way. Interestingly, stock market enticed massive interests of the foreign investors even in the days when market closed in read zone. Equities of Pakistan likely to retain investors to some extent during the operation period, given the attractive valuations with FY14 P/E of 8.05x (region12x) & dividend yield at 6.0%.



Operations against Militants impacting equity markets of Pakistan??

The Second Battle of Swat, "Operation Rah-e-Rast", (15th May 2009 to 15th July 2009, 60 days) against Militants, during this period KSE 100 index appreciated by 7.08% from 7,177 to 7,686. We think equity markets likely to neutral to positive with the "operation against Militants" going forward.

Driving forces of equities:

- 1) Potential inflows including UBL/PPL/OGDC & IMF related inflows.
- 2) Privatization led rally (Capital Market transaction & Public sector entities).
- 3) Corporate results.
- 4) Possibility to payoff circular debt arrears.
- 5) Incentives to textile sector.
- 6) WHT regime on foreign institutional investors.

Post budget the game changer will be the foreign inflows. Privatization led rally yet to be witnessed in the market which we think the key factor to stimulate the confidence of the investor. However above mentioned factors will help to add value in the equities.

Foreign investors invested \$236 million in stocks in FY14TD including highest single day inflow of \$16 million. As per NCCPL, foreigners injected \$246 million in equities so far since January CY14 to date. Keeping economic recovery in perspective, foreigner's injection in the stocks likely to further add value in the momentum. Whilst increase of country weightage in MSCI index along with inclusion of some scripts like KEL also raised hopes of higher inflows in CY14.

Political instability may dilute the impact of potential factors, however cautious optimism must be considered in investing in stocks which is the need of the hour.

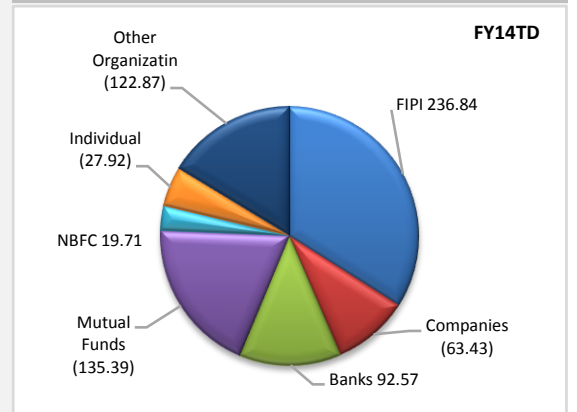
Tuesday, June 17, 2014

KSE-100 Index

| | |
|--------------------------------|--------------------|
| Index level at start of CY14 | 25261 |
| Current Index level | 29,651 |
| Appreciated by | 17% |
| Average daily volume in CY14TD | 162 million shares |
| Market Cap | \$70.11 billion |

Source: KSE-100

Foreign/Local Investors Participation (\$ million)



Source: NCCPL

Economic Data

| | |
|-------------------------|---------------------|
| C/A Deficit (10MFY14) | \$(2.16) billion |
| CPI | 8.34% |
| M2 | 6.78% |
| Trade Deficit (11MFY14) | \$(17.66) billion |
| Borrowing from SBP | Rs (260.56) billion |
| SBP Reserves | \$8.61 billion |
| Total Reserves | \$13.43 billion |
| Remittances(11MFY14) | \$14.33 billion |

Source: SBP, PBS

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