



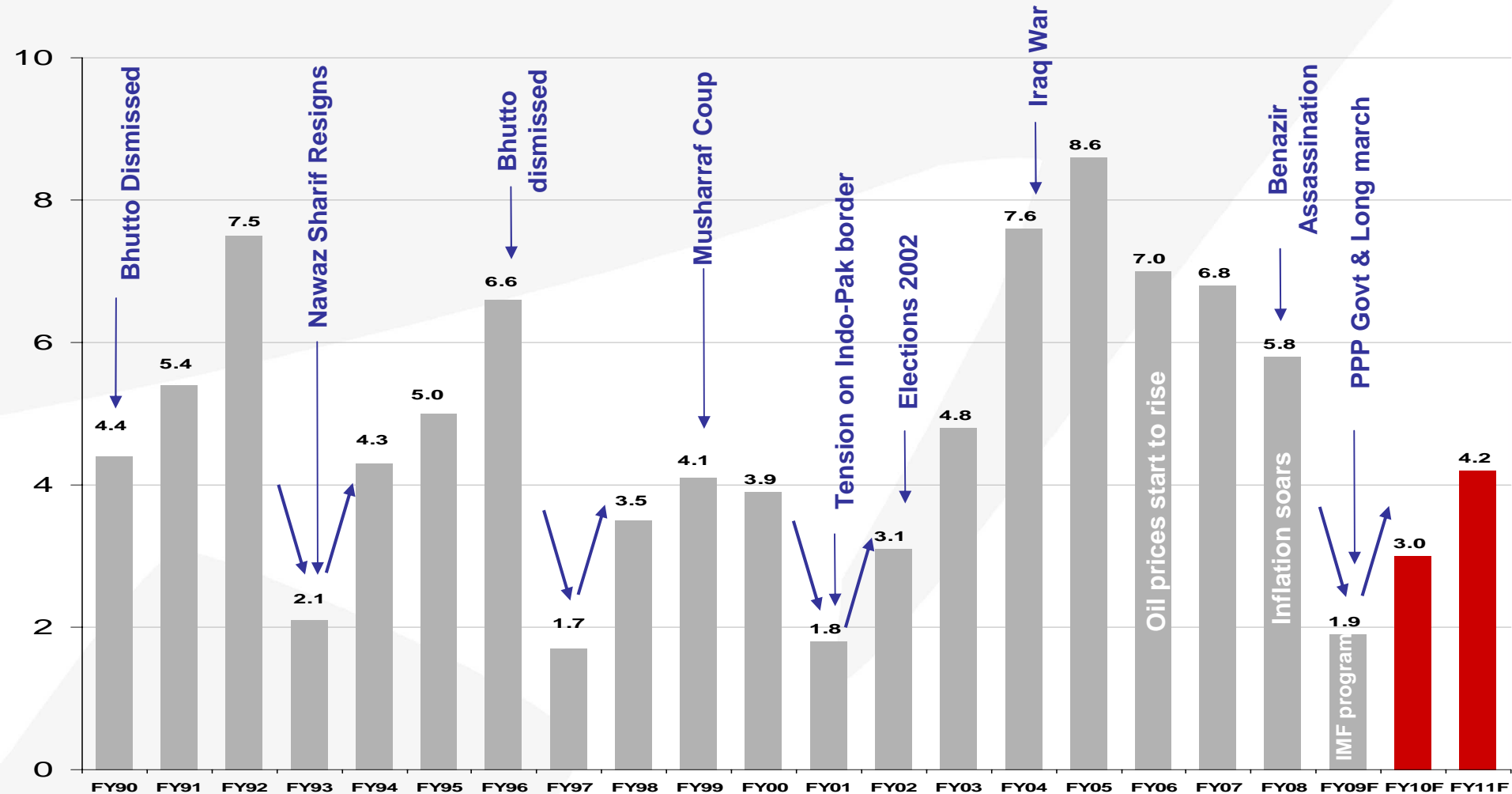
**Pakistan CFO Conference**  
Invest to Grow:  
M&A in Pakistan  
March, 2010



PAKISTAN'S PREMIER INVESTMENT FIRM

# Pakistan Economics: Sharp Recovery the Norm

The economy has grown at an average of 6.3% since FY03 and is characterized by resilience and sharp recovery in growth

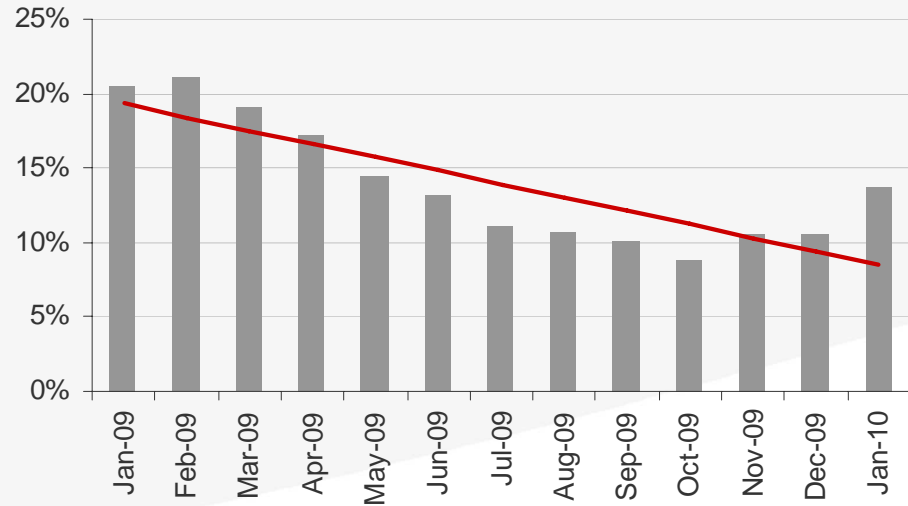


Source: SBP, BMA Research

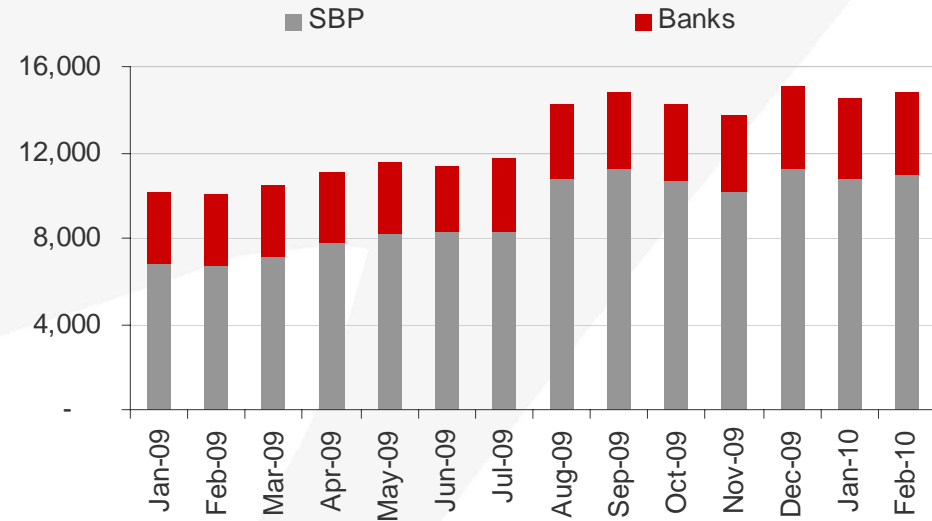
# Visible Signs of Improvement



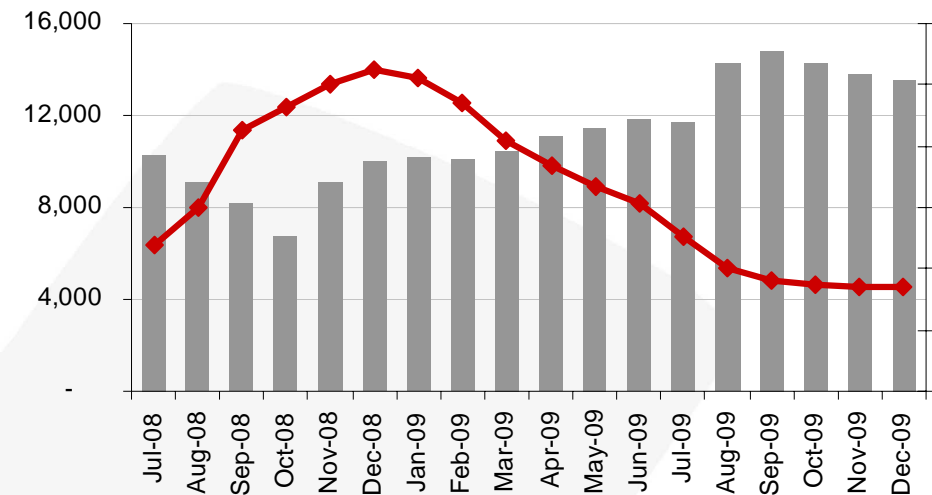
## CPI trending lower



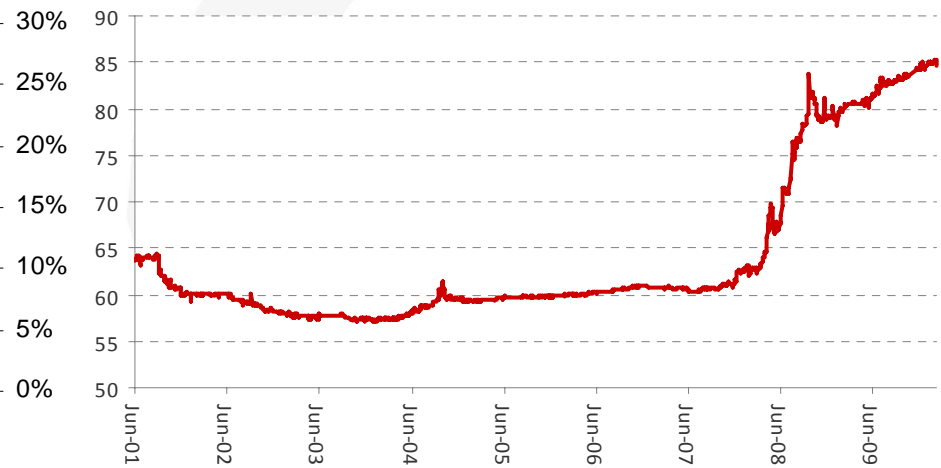
## Foreign Reserves increased to 5 month import cover



## Eurobond Yields decline to 10%



## PKR/USD far more stable now



# Valuations Lagging Fundamentals

- While most of the country's economic indicators are pointing in the right direction, the overall balance remains fragile and dotted with challenges
- We however believe that asset valuations have not priced in the improved fundamentals and have significant room to re-rate
- Banking sector transactions, for instance, are currently taking place at book value compared to 5x their book values in 2008
- Taking KSE as a proxy, forward PER multiples are hovering around 7.8x compared to past decade average of 9.5x and 2008 highs of 16x

## KSE100 12 month Forward PER

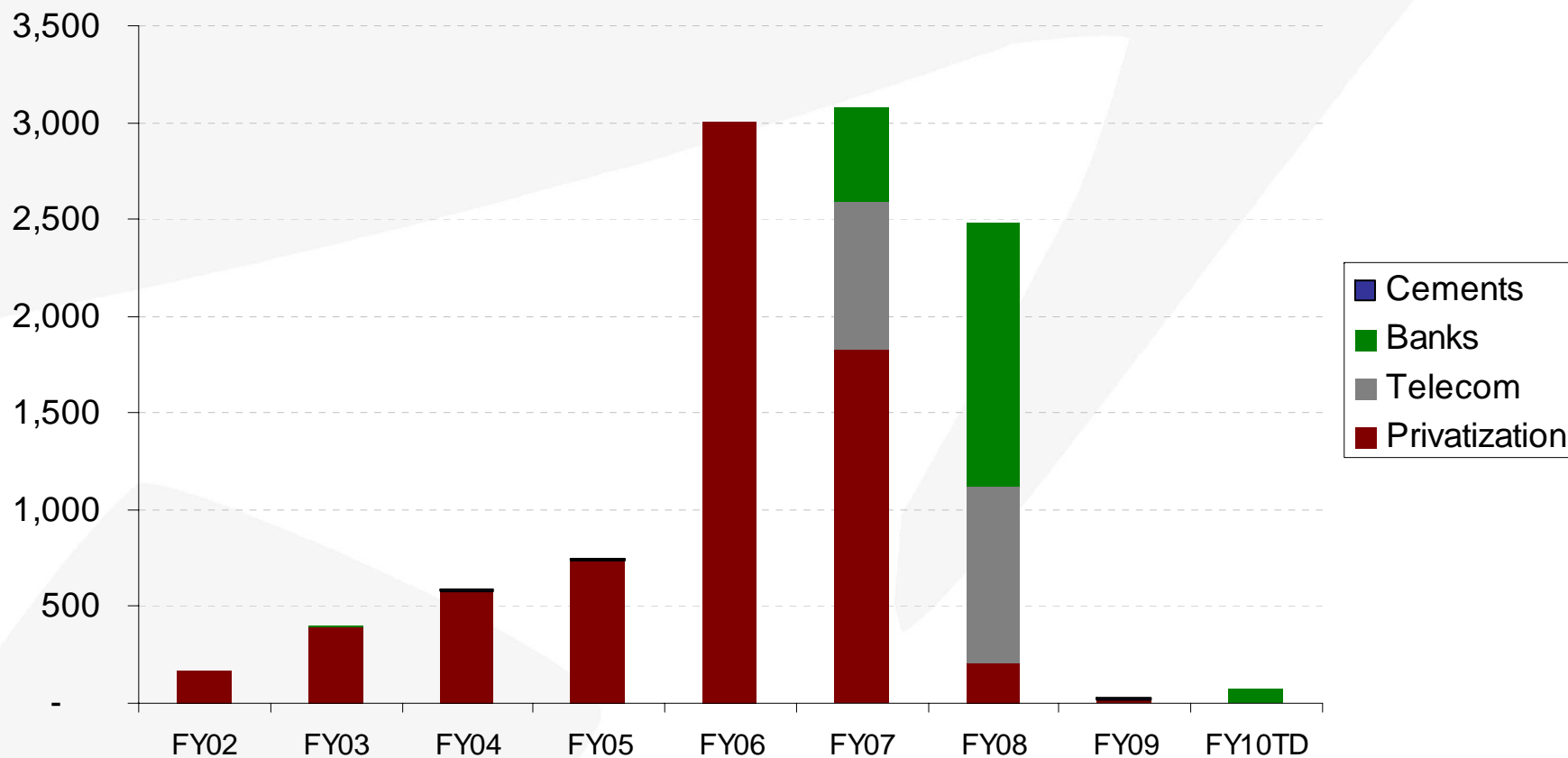




- The Textile Composite flagship company of the Nishat Group was established in 1951 while Nishat Chunian (spinning and weaving) was set up in 1991
- In addition to being the largest and most modern textile conglomerates in the country, the group today boasts of having the largest commercial bank, largest non-life insurance company, second largest cement producing company and is one of the most dominant players in the power sector
- Apart from the textile division and two small power plants, most of the growth for the group has been made possible through M&A:
  - ✓ Acquired 75% stake in MCB through a privatization deal worth USD100mn in 1991
  - ✓ Bought DG Khan Cement in 1992
  - ✓ Acquired Adamjee Insurance through a hostile takeover in 2005
  - ✓ Bought majority stakes in AES Power and AES Lalpir Power for around USD200mn in 2009
- Hence, Nishat Group was not only able to grow but reposition itself in different business sectors and became probably the largest business group in Pakistan

- M&A Activity in Pakistan has largely been dominated by Privatization, followed by foreign acquisitions in banking, telecom and cements

### M&A Activity (USDmn)



## Factors Influencing a Potential Buyer

- Cheap Valuations
- Economies of Scale
- Tapping the growth potential
- Wish to enter a new, generally more growth-oriented market
- Desire to invest excess capital

## Factors Influencing a Potential Seller

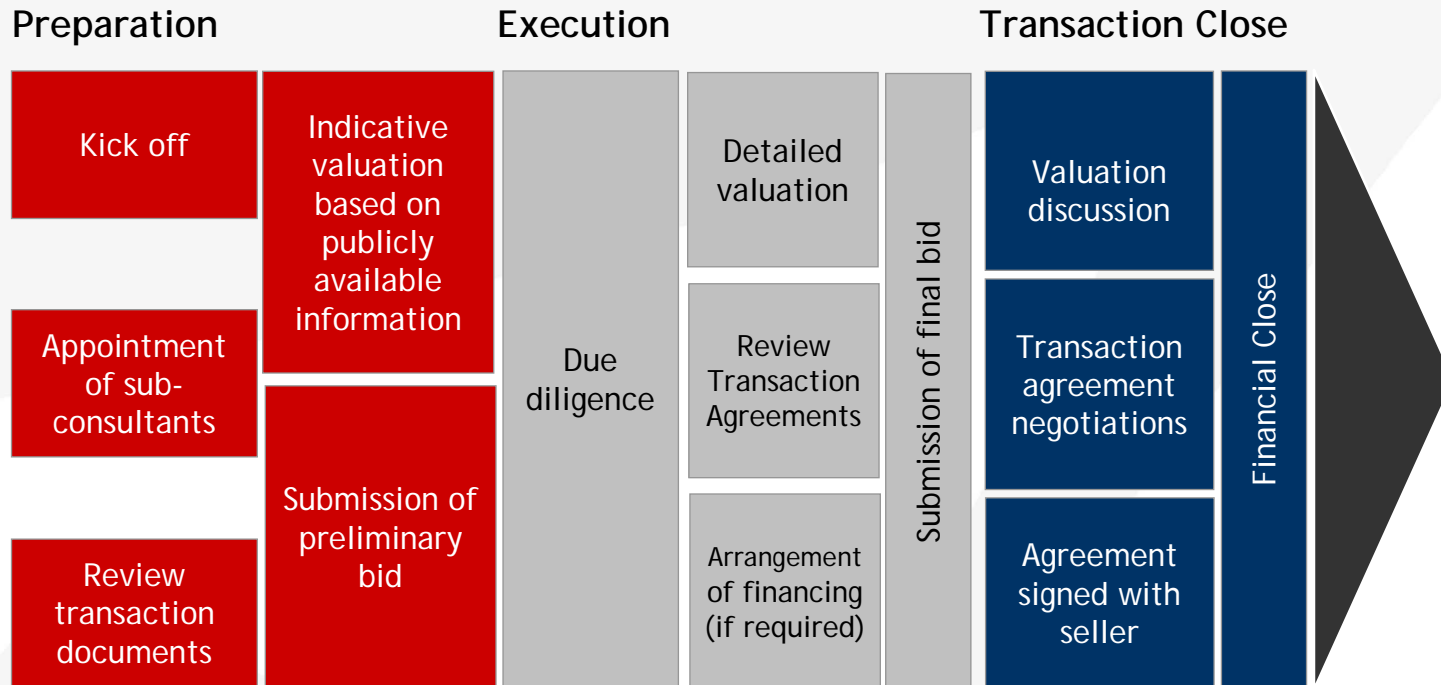
- Lack of Management Succession
- Capital Constraints
- Inability to keep up with change
- Divesting a Non-core business



- Clear Reasons for Acquisition
- Culture
- Due-Diligence
- Regulatory Requirements and Enabling Environment
- Justified Valuations
- Appropriate Financing Structure
- Timing the Acquisition relative to Business Cycle
- Advisor to the Transaction

# Process Flow for a Typical M&A Transaction

Sequential and parallel processing are necessary



## Steering Committee

**Issues:** Key decisions and Project Planning  
**Timing:** Weekly or bi-weekly update calls  
**Participants:** Client, Financial Advisor, Legal Counsel & Technical Experts

## Project Management Group

**Issues:** Day-to-day project management  
Timeline check  
Supervision of work streams  
**Timing:** Meetings held as required  
**Participants:** Financial Advisor & Sub consultants

## Key Workstreams

### Documentation / Legal

#### Tasks

- Due diligence
- Due diligence reports – draft and final
- SPA review and finalization
- Legal documentation
- Agreement among managers
- Closing documents
- Accountancy issues

#### Participants

- Financial Advisor
- Legal Counsel
- Accountants

### Corporate Finance

#### Tasks

- Financial due diligence
- Review of accounts
- Financial valuation
- Acquisition structure
- Valuation presentation
- Final range of acquisition value
- Input on SPA

#### Participants

- Financial Advisor
- Legal Counsel

### Acquisition Structure

#### Tasks

- Timetable
- Financial impact of various structures
- Preliminary assistance in Debt/ Equity arrangement
- Preparation of Bid documents
- Bidding
- Financial close

#### Participants

- Financial Advisor
- Legal council



- **In a global USD1bn+ corporation survey carried out in 2009 by E&Y and the Economic Intelligence Unit (EIU), they found:**
  - ✓ 25% of the corporations are actively planning for growth
  - ✓ 59% expect to increase or significantly increase the pursuit of new market opportunities during recession
  - ✓ 16% planned to focus their capital expenditure on strategic acquisitions
  
- **Opportunity even more exaggerated in Pakistan as**
  - ✓ Competition for assets in Pakistan has declined substantially
  - ✓ Limited foreign liquidity flow due to increased foreign risk perception in Pakistan and their own domestic issues & opportunities



- Nishat group recently announced USD200mn acquisition of AES Power
- Suroor Investments to acquire small banks including Arif Habib Bank, Atlas Bank, Mybank
- KP Chemical (Korea) acquired majority stake in Pakistan PTA Limited
- Abraaj Capital increased its stake in Boscior Refinery and KESC
- GSK acquired Bristol-Myers Pakistan stake
- Acquisition of 25% stake in Pioneer Cement by Vision Holding Middle East Limited
- Consolidation in Islamic banking

## Challenges Faced by Buyers

- Lack of Acquisition Financing
- High cost of capital for post-merger/acquisition restructuring
- Family owned business

## Challenges Faced by Sellers

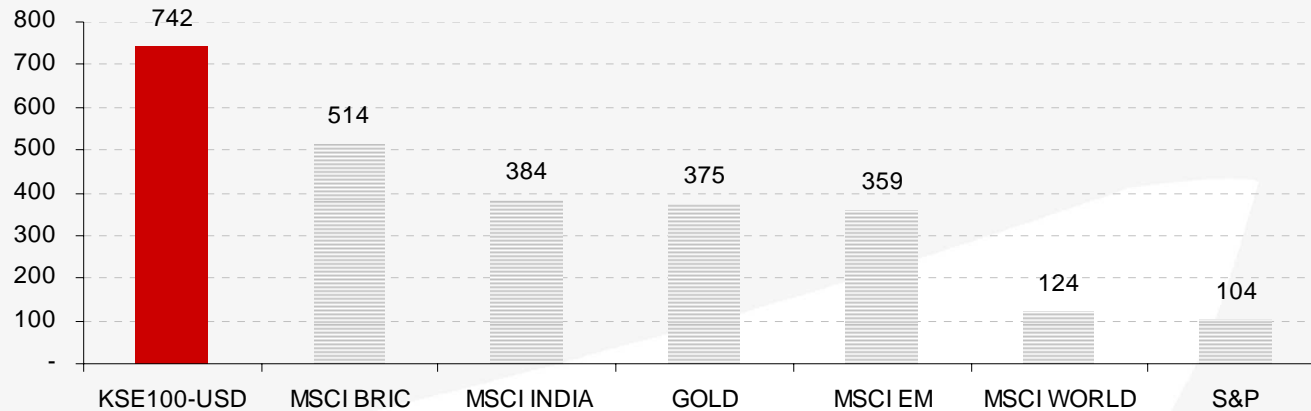
- High risk perception
- Family owned business
- Limited investor base and Private Equity Funds

# Where we Foresee active M&A Activity in Pakistan

- Commercial Banks
- Cements
- Pharmaceuticals
- Food and Beverage
- Telecom Sector
- Textiles (?)

# Crisis is a Terrible Thing to Waste

- USD100 invested in KSE100 in the aftermath of Nuclear Tests of 1998 would have multiplied to USD742 by now



- Similarly, anyone who would have invested in KSE100 in Jan09 would have doubled his wealth by now
- Strategic investments that stand out:
  - ✓ In 2009, **KP Chemical (Lotte Group)** acquired majority stake in **Pakistan PTA** for USD15mn; market value for which stands at over USD170mn today
  - ✓ **Dawood group** started acquiring **Engro Chemicals** in 1999 and continued to increase its stake up till 2004; the market value of Engro is up 11x since 1999
  - ✓ 51% of UBL privatized to Bestway & Abu-Dhabi group for USD210mn; market value of this stake stands at USD440mn today

**Thank You**