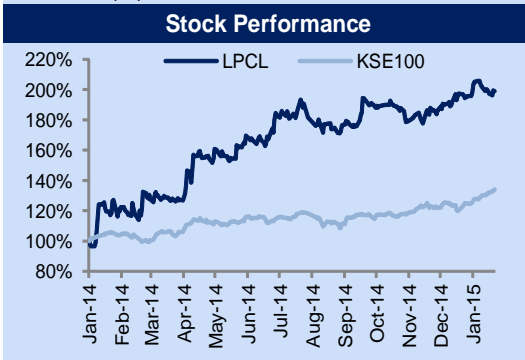


Lafarge Pakistan Cement
Construction & Material
LPCL Tender Offer: An arbitrage opportunity?

Target Price	N.A
Last Closing	17.5
Upside	N.A
KSE Code	LPCL
Bloomberg Code	LPCL PA

Shares	
Market Cap (US\$ m)	254
Market Cap (PKR m)	25,424
Outstanding Shares (m)	1,456
Free Float	25%
12M Avg. Daily Turnover(mn)	10.8
12M High Low (PKR)	8.48 18.06
Major Shareholders	Pakistan Cement Holding

Financials			
	CY12A	CY13A	9MCY14
Total Equity (PKRbn)	10.2	13.0	13.0
Total Assets (PKRbn)	19.5	20.2	19.1
Net Profit (PKRbn)	1.5	1.8	0.4
ROE (%)	15.8	15.5	3.8
EPS (PKR)	1.0	1.2	0.3
P/E (x)	17.1	14.1	51.3
P/B (x)	2.5	2.0	2.0
DPS (PKR)	0.3	0.3	-
Div Yield (%)	1.7	1.7	-



Source: KSE

Analyst

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The Background

Bestway Cement Limited (BWCL) announced entering into a share purchase agreement on July, 24 2014 to acquire ~75.9% ownership of Lafarge Pakistan Cement Limited (LPCL) at an enterprise value of USD 329mn (EV/ton of USD137), resulting in a purchase consideration of USD218mn, which translates into a per share value of approximately USD 0.197/sh of LPCL.

Latest Development - Tender Offer

As per KSE notice, BWCL has unveiled tender offer to acquire 176mn shares of LPCL (50% of remaining free float) in accordance with the statutory requirement of SECP at the price USD 0.199/sh. The cumulative stake of BWCL in LPCL will be 87.93% post acceptance of tender offer. This would result in cornering of the stock, which may keep its share price raised up.

Tender Offer Action List	Timeline
Public announcement of offer	(T)*
Last day for competitive bid	(T + 21)
Notice to stock exchange(s) for book closure dates	(T + 22)
Spot trading commences	(T + 29)
LPCL book closure for seven days	(T + 36)
List of shareholders to be provided by LPCL	(T + 43)
Offer letter to be issued	(T + 51)
Advertisement in newspaper for submission of acceptances	(T + 52)
Acceptance period	(T + 54) - (T + 60)
Public offer expires. Last date for acceptance of offer by shareholders	(T + 60)

AHL Research, *T refers to date of announcement of Public Offer

Arbitrage opportunity exists!

We believe the deal price for LPCL transaction should yield a short-term arbitrage opportunity. On a rough-and-ready basis, we have run a return sensitivity on different tender offer acceptance level coupled with various post-transaction expected market prices. At a 50% acceptance level and post-transaction selling price, ranging from PKR 17/share to PKR18.5/share, a range of returns between 6% and 10% (23% and 40% annualized) is expected. Below table summarizes the sensitivity analysis of expected gains at 50%, 60% and 70% of the tender acceptance levels:

Return sensitivity for LPCL	PKR per share			
Purchase price	17.64	17.64	17.64	17.64
Selling price in market	17.00	17.50	18.00	18.50
Tender offer (@ 101.15 PKR-USD)	20.29	20.29	20.29	20.29
Average selling price (at 50% acceptance)	18.65	18.90	19.15	19.40
Expected gain	6%	7%	9%	10%
Annualized gain*	23%	29%	35%	40%
Average selling price (at 60% acceptance)	18.97	19.17	19.37	19.57
Expected gain	8%	9%	10%	11%
Annualized gain*	31%	35%	40%	44%
Average selling price (at 70% acceptance)	19.30	19.45	19.60	19.75
Expected gain	9%	10%	11%	12%
Annualized gain*	38%	42%	45%	49%

Source: AHL Research, * Assuming 90 days for settlement

Market Review	All share	KSE-100
KSE - Closing	24,715.14	34,329.50
Points Change	91.66	208.20
% Change	0.37%	0.61%
MTD Change	1,317.23	2,198.22
YTD Change	1,317.23	2,198.22
Turnover (m)	355.43	241.03

Source: KSE

Volume Leaders	Volume(m)	Close
JSCL	29.76	18.95
FFC	18.19	131.95
KEL	16.59	9.90
TRG	14.01	15.47
FFBL	12.54	49.48

Major Gainers	Change	Close
INDU	46.56	977.77
EXIDE	45.20	1,955.20
HINO	42.24	994.75
MARI	27.53	578.18
SAPT	25.02	547.57

Major Losers	Change	Close
NESTLE	-200.00	10,300.00
COLG	-105.00	1,995.00
ARPL	-14.38	603.83
SAPL	-13.25	724.00
PCAL	-9.26	181.71

Source: KSE

Settlement Data	Volume	% Settled
FFC	8.5	44.1%
KEL	8.4	45.0%
JSCL	7.6	24.1%
FFBL	6.5	46.2%
TRG	5.6	39.5%

* data of Jan 21, 2015

Future Open Int	Shares(m)	Values(m)
ENGRO-JAN	3.0	744.9
PSO-JAN	1.9	693.0
PAEL-JAN	13.7	605.7
EFOODS-JAN	3.2	392.0
DGKC-JAN	3.0	351.7
Total	105.5	6439.9

Source: KSE

Fixed Income	21-Jan-15
6M KIBOR (%)	9.25%
T-Bill 12M (%)	8.75%
PIB 10Yrs (%)	10.09%

Source: SBP

Currency Rates	21-Jan-15
USD	100.78
EUR	116.56
GBP	152.16

Source: SBP

Commodity Prices	21-Jan-15
Gold (\$/oz)	1,293.10
WTI (\$/bbl)	47.78

Source: Bloomberg

Today's News

- Exports of textile and clothing witnessed a negative growth of 6.38 per cent in Dec 2014 to USD 1.175 billion from USD 1.255bn in the same month of previous year. The export proceeds reversed in the month of December, after witnessing a positive growth of over 7pc in November from a year ago, Pakistan Bureau of Statistics data showed on Wednesday. The reason for decline, forwarded by the private sector, was the failure of the Punjab government to provide uninterrupted power and gas supply to the textile mills. **(Dawn)**

Money Market Update

The State Bank of Pakistan (SBP) conducted a Treasury bill (T-bill) auction on Wednesday 21st January, 2015 with settlement on Friday 22nd January, 2015. The total participation was witnessed 546.267 bn (face value) against the target of 175 bn, where as T-bill maturity is 77.7 bn. The accepted amount was 168.403 bn (face value).

Results and changes in yields are as follows:

Treasury Bills	21-Jan-14					
Tenor	Participated Amt (PKR bn)	Accepted Amt (PKR bn)	Realized	Cut-off (%)	Previous Cut-off (%)	Change (%)
03 Month	5.72	0.421	0.41	8.96%	9.14%	(18.12)
06 Month	114.92	39.17	37.49	8.99%	9.25%	(26.31)
12 Month	425.62	128.82	118.60	8.86%	9.15%	(28.58)

Source: Bloomberg

Margin Trading System

January 21, 2015

	Day Vol (mn)	Day Value (PKR mn)	Wght Avg	Op. Vol (mn)	Op. Value (PKR mn)	% open	
FFC	0.84	93.06	16.6%	ENGRO	5.15	1,067.61	25.0%
ENGRO	0.33	75.13	16.3%	SSGC	7.20	234.68	5.5%
NBP	0.78	46.93	16.9%	FFC	1.96	213.96	5.0%
PIOC	0.59	43.33	17.5%	PSO	0.62	188.78	4.4%
DGKC	0.36	37.85	16.3%	BOP	20.54	181.25	4.3%
Total	9.54	572.33	16.7%	Total	96.08	4,263.64	

Source: NCCPL

MSCI Index	Last	Day	YTD	FIPI (USDm)	Net Buy/(Sell)
Pakistan	145.3	0.9%	6.5%	21-Jan-15	1.12
Frontier Mkt	596.7	0.3%	-2.5%	MTD	4.7
Emerging Mkt	976.1	2.0%	2.1%	FYTD	117.8
EM Asia	470.3	1.6%	2.8%	CYTD	4.7

Source: MSCI

Source: NCCPL

Board Meetings	Period	Date	Time	Location
Ideal Energy Ltd	2Q	23-Jan	10:30 AM	Karachi
Arif Habib Ltd	2Q	23-Jan	4:30 PM	Karachi

Source: KSE