

## Pakistan strategy update

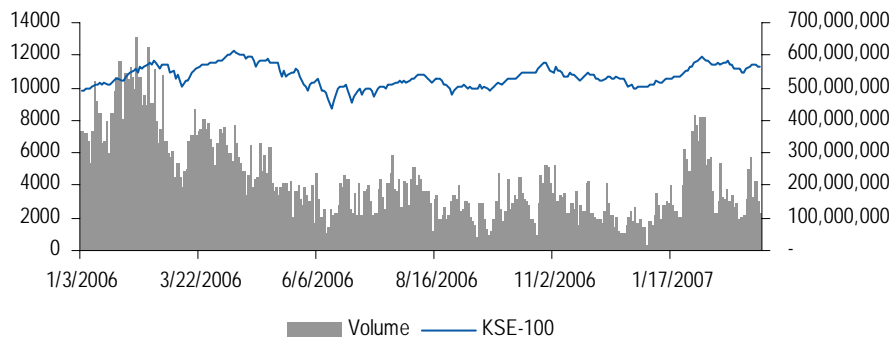
### The Chief Justice saga: A test for President Musharraf

- **Pakistan's Chief Justice suspended on March 9:** Pakistan's chief justice was suspended on March 9, with a presidential reference filed against him. He appeared in front of the Supreme Judicial Council to face the reference today.
- **Test of President Musharraf's authority:** President Musharraf has long remained in virtually full control of political events in Pakistan. His authority has remained unfettered, and unquestioned, in all steps that he has taken so far. However, this time around, public opinion has taken a negative turn. President Musharraf has tried to indirectly tinker with the media's freedom by pulling a popular opinion/talk show off the air. We believe President Musharraf may have miscalculated the amount of negative sentiment this issue has generated.
- **Investment climate impact:** We believe that investors need not be apprehensive of the situation that has been created. President Musharraf's painstaking efforts to bring the country economically to where it is today are not likely to be eroded by this one step. It is, after all, an election year and we are likely to see a few ups and downs politically. We would still recommend that investors focus on Pakistan's improving economic fundamentals.
- **The risks associated with a one-man show:** President Musharraf's central role in all policy setting has always been the greatest risk for Pakistan. We believe that as long as he stays in control with his team of technocrats running the economy, investment flows into Pakistan are unlikely to be affected significantly.

#### Pakistan

**Khalid Iqbal Siddiqui**<sup>AC</sup>  
(92-21) 5635033  
khalid.i.siddiqui@jpmorgan.com

Figure 1: KSE-100 performance and volumes since Jan 2006



Source: Bloomberg.

#### J. P. Morgan Pakistan Broking (Pvt.) Ltd

See page 5 for analyst certification and important disclosures, including investment banking relationships. JPMorgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

## How the incident has unfolded

In a dramatic move on Friday, March 9, 2007, President Musharraf summoned the Chief Justice of Pakistan Iftikhar Mohammed Chaudhary to the Army House in Rawalpindi. It remains unclear what was said in the meeting, but the upshot is that a presidential reference was filed against the Chief Justice of Pakistan, and a new acting Chief Justice has taken charge of judicial affairs in Pakistan for the time being.

### Things might not have gone completely according to plan

Since the day the Chief Justice was suspended, several other incidents have contributed to show the government in a negative light.

#### **Lawyers' protest miscalculated**

The lawyers' fraternity came out in full support of the suspended CJ to protest against his suspension. However, unseemly incidents of baton-wielding policemen hitting lawyers made the headlines the next day, not only in Pakistan, but also in foreign publications.

#### **Chief Justice also claimed to be manhandled**

The suspended CJ came out with a statement saying that he had been mistreated and manhandled by the police when he refused to get in a government car to go to the Supreme Court. After the government's repeated claims that the CJ not been rendered incommunicado by the government, he himself came out with a statement saying that he had been kept under virtual house arrest. This was yet another point of embarrassment for the government.

#### **Tinkering with media freedom never good**

The Supreme Judicial Council (SJC) issued a directive where it suggested to the media to avoid coverage of the incident until a verdict had been issued. However, two local private channels were taken off the air for a while for airing footage of lawyers being mistreated by police personnel. Their transmissions were then restored once the "objectionable" material was taken off the air.

After having received much criticism for trying to clamp down on the media, it was expected that something like this would not happen again. However, in a surprising development yesterday, the Pakistan Electronic Media Regulatory Authority (PEMRA) asked one of the local channels to take arguably the country's most popular opinion/talk show off the air.

## Test of President Musharraf's authority

President Musharraf has long been quite comfortable in the knowledge that public opinion has tilted in his favor more often than not. However, this time, the opposition parties in parliament have drummed up the issue to try and win public support of their own.

## Still in charge, but timing may have been wrong

President Musharraf, through the suspension of the CJ, may have aimed to show who's in charge, but we feel he may have got his timing wrong.

### **Judicial upheaval in an election year**

The CJ's suspension has allowed for speculation that President Musharraf wanted the CJ removed because he feared his re-election by the sitting parliament may be declared null and void by the judiciary. This theory is rooted in the fact that the suspended CJ has, on a number of occasions, given decisions against the government. These include canceling the privatization transaction of Pakistan Steel Mills and chiding the government on the issue of "missing people", to name a couple.

### **Bad publicity for Pakistan**

President Musharraf can pride himself on the rebuilding of Pakistan's image in the eye of the international community. Under his stewardship, Pakistan has evolved from a 'pariah' state into a progressive state willing to grow economically with a developing institutional framework and independence. This incident casts a negative light on Pakistan, especially with international newspapers splashing photos of lawyers being mistreated and the suspended CJ being afforded hero-like treatment.

## Investment climate impact

Despite such hiccups, we believe that Pakistan should continue to progress economically as long as President Musharraf stays in charge. His core team of technocrats remains in charge of the economy.

## Musharraf remains strongly positioned, in our view

We believe that although President Musharraf's authority may be slightly diminished in the public eye, we believe the "doomsday scenarios" of his removal from power are off the mark.

### **Acceptance of SJC decision**

President Musharraf has categorically stated that he will accept whatever decision the SJC takes. He has also stated that once the hearing of the CJ is over and the SJC gives its decision, he will publicly explain on national television the details of the entire incident.

### **Investors need not be apprehensive**

President Musharraf has been in the eye of several storms in the past (e.g. siding with the US against the Taliban, picking up Al Qaeda operatives in Pakistan, trying to negotiate with India) and has ended up surviving these problems. We believe that this incident might leave a bad after-taste in the mouth, but is not likely to derail Pakistan's economic progress. The US remains a key ally, given the continued instability on the Afghan side of the border and President G. W. Bush's ongoing pursuit of the "war on terror".

**Political ups and downs are likely in an election year**

We also believe that President Musharraf is likely to do all that he can in order to remain in power post-2007. Therefore, there are likely to be a few upheavals along the way. The question that investors need to be able to answer is whether they would like to see Pakistan under President Musharraf or under an elected politician along the lines of Benazir Bhutto and Nawaz Sharif. The likely answer to that question would be President Musharraf remaining in power.

**Continuity of policies is what Pakistan needs**

Therefore, as long as he does remain in power and Pakistan continues to progress, the stock market and other investors are likely to see it in a positive light. We remain focused on Pakistan's improving economic fundamentals. However, we believe President Musharraf is likely to have learned his lesson from this incident and will take a more diplomatic and "politically correct" approach going forward.

### Analyst Certification:

The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

### Important Disclosures

---

**Price Charts for Compendium Reports:** Price charts are available for all companies under coverage for at least one year through the search function on JPMorgan’s website <https://mm.jpmorgan.com/disclosures/company> or by calling this toll free number (1-800-477-0406).

### Explanation of Equity Research Ratings and Analyst(s) Coverage Universe:

JPMorgan uses the following rating system: **Overweight** [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Neutral** [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] **Underweight** [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst’s (or the analyst’s team’s) coverage universe.] The analyst or analyst’s team’s coverage universe is the sector and/or country shown on the cover of each publication. See below for the specific stocks in the certifying analyst(s) coverage universe.

### JPMorgan Equity Research Ratings Distribution, as of December 29, 2006

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	41%	17%
IB clients*	45%	47%	36%
JPMSI Equity Research Coverage	37%	48%	15%
IB clients*	63%	57%	47%

\*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

**Valuation and Risks:** Please see the most recent JPMorgan research report for an analysis of valuation methodology and risks on any securities recommended herein. Research is available at <http://www.morganmarkets.com>, or you can contact the analyst named on the front of this note or your JPMorgan representative.

**Analysts’ Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

### Other Disclosures

---

**Options related research:** If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation’s Characteristics and Risks of Standardized Options, please contact your JPMorgan Representative or visit the OCC’s website at <http://www.optionsclearing.com/publications/risks/riskstoc.pdf>.

### Legal Entities Disclosures

**U.S.:** JPMSI is a member of NYSE, NASD and SIPC. J.P. Morgan Futures Inc. is a member of the NFA. J.P. Morgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P. Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Commission. **India:**

J.P. Morgan India Private Limited is a member of the National Stock Exchange of India Limited and The Stock Exchange, Mumbai and is regulated by the Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Jakarta Stock Exchange and Surabaya Stock Exchange and is regulated by the BAPEPAM. **Philippines:** This report is distributed in the Philippines by J.P. Morgan Securities Philippines, Inc. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Japan:** This material is distributed in Japan by JPMorgan Securities Japan Co., Ltd., which is regulated by the Japan Financial Services Agency (FSA). **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMS) [mica (p) 069/09/2006 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-x) which is a Participating Organization of Bursa Malaysia Securities Bhd and is licensed as a dealer by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan.

#### Country and Region Specific Disclosures

**U.K. and European Economic Area (EEA):** Issued and approved for distribution in the U.K. and the EEA by JPMSL. Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research which can be found at <http://www.jpmorgan.com/pdfdoc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for persons licensed by or registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months' prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider for derivative warrants issued by J.P. Morgan International Derivatives Ltd and listed on The Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: <http://www.hkex.com.hk/prod/dw/Lp.htm>. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Singapore:** JPMSI and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Legal Disclosures section above. **India:** For private circulation only not for sale. **Pakistan:** For private circulation only not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL.

**General:** Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively JPMorgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMSI distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a JPMorgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

Revised January 30, 2007.

---

**Copyright 2007 JPMorgan Chase & Co. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of JPMorgan.**

Khalid Iqbal Siddiqui  
(92-21) 5635033  
khalid.i.siddiqui@jpmorgan.com

**Asia Pacific Equity Research**  
16 March 2007

**JPMorgan** 