Corporates flush with cash | Forex, Pakistan

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<p></p> <div class="story__body soft--top"> <h2>AFTER a long time, cash is again the king. Corporates and high net-worth individuals are sitting on piles of cash, wondering how to put all the surplus money to profitable use. </h2> <p>�The economy is indeed flush with liquidity,� a senior economist associated with a foreign bank agreed. The State Bank of Pakistan�s recently released report, giving data for two-and-a-half months of the current fiscal year (July to mid-September) revealed that the private sector had retired debt instead of borrowing; the net borrowing by the sector during the period was negative Rs74bn.</p> <p>Professor M.A Jabbar, who teaches economics at a local business school, pointed out that a glance at the balance sheets of big companies would show a sizeable increase in �current assets� that are easily convertible into cash.</p> <p>He identified three sources that have enriched corporates and individuals alike. The first is the booming stock market, which has multiplied investors� wealth by giving out a huge return of over 120pc in less than three years. The second is the steady growth of 15-20pc in corporate profitability, and the last is the rejuvenation in the upscale property market.</p> <hr /> <h4>The corporate sector is raking in cash due to higher earnings. According to the last economic survey, 15 blue chip companies had earned a cumulative profit-after-tax of Rs286bn in ten months of FY14</h4> <hr /> <p>Large-scale construction activity, mainly in major cities � manifested by the demand and earnings growth of cement companies � is all too clear. Yet big and mighty property investors prefer to take money out into projects in adjoining countries. Dubai has again emerged as the favourite destination.</p> <p>�In the last 18 months, Pakistani investors have invested a whopping $2.6bn in the property market in the UAE; 90pc of it in Dubai,� says Muhammad Azam Khan, a stock broker and CEO of Sunrise Capital. He was a member of a delegation that recently visited Dubai. He stressed that all that money is recorded with the Dubai Chamber of Commerce and went through the central bank of Dubai.</p> <p>Azam believes, and several others agree, that according to the standard, three times that sum � or over $7bn (Rs700bn) � went to the Dubai market through irregular routes like hundi in just a year-and-a-half. Interestingly, the Pakistani investors are putting their money in greenfield projects like villas, which the constructors promise to deliver no earlier than 2017-18.</p> <p>�Pakistanis are the third-biggest investors in the Dubai property market, after Americans and Indians,� a property dealer confirmed. However, no one wanted to name the biggest local investors in Dubai as they think it could hurt their local business interests.</p> <p>Besides property, around 6,000 Pakistani companies operating in various industrial ventures in the Emirates are registered with the Dubai Chamber of Commerce. �More than return, it is the lack of confidence in the country�s economy which is chasing all that money out of Pakistan,� says another member of the delegation.</p> <p>The country�s corporate sector is raking in cash due to higher earnings. According to the last economic survey, 15 blue chip companies had earned a colossal cumulative profit-after-tax of Rs286bn in ten months of FY14.</p> <p>Corporates are investing mainly in consumer goods and the energy sector. Profitability of the cement sector for FY14 has improved by 10pc year-on-year due to a 7pc hike in prices. Combined earnings of cement companies rose to Rs31.5bn, from Rs28.6bn in FY13.</p> <p>Lucky Cement has announced an equity investment of Rs27bn in its wholly owned 660MW coal-based power project in Karachi. Its main rival, DG Khan Cement, would invest Rs3bn in associated companies � Nishat Paper Products, Nishat Dairy and Nishat Hotels and Properties.</p> <p>Other corporates are using money for their own interests. The Fauji Group, through Fauji Fertiliser and Fauji Fertiliser Bin Qasim, is venturing into the food

business, including the �halal� meat segment in foreign markets. Fauji Fertiliser Company, 44pc owned by the Army Foundation, plans to set up a $1.25bn fertiliser plant in Africa in collaboration with a consortium.</p> <p>Packages Ltd, the flagship company of the Syed Babar Ali Group, has resolved to develop a real estate project in Lahore through its 100pc owned subsidiary. Attock Cement Pakistan has signed a joint venture agreement for the installation of a 3,000-tonne per day cement grinding plant in Basra, Iraq, at a cost of $35m.</p> <p>International Industries, which claims to be the country�s largest steel pipe exporter, has announced its intention to establish a wholly owned subsidiary in Melbourne, Australia, with paid-up capital of AUD100,000.</p> <p>Thal Limited, a listed company in the fold of the House of Habib, has proposed to acquire strategic interest of over 10pc in the Sindh Engro Coal Minining Company Limited by contributing $30m to the equity. This April, IGI Insurance paid Rs732m for the acquisition of American Life Insurance Company.</p> <p>Even K-Electric plans to invest $350m to improve its transmission and distribution network. And the celebrated sale of Lafarge Cement Company concluded on July 25 when Bestway Cement Limited paid $218m for a controlling 75.86pc stake to Lafarge�s French parent, Safimo SAS.</p> <p>Published in Dawn, Economic & Business, September 29th, 2014</p> </div>