

Strategy

Projects	Cost (PKRbn)
Storm Water Drains / Resettlement	5
Roads	62
Solid Waste Management	15
Sewerage Treatment & Disposal	163
Mass Transit System	447
Others	111
Sindh Government	802
Federal Government	300
Total	1,102

Strategy

Karachi Transformation Package to benefit Construction and Allied Companies

- The Prime Minister of Pakistan in conjunction with provincial government of Sindh (GoS) on Saturday, 5th September, 2020 earmarked roughly PKR 1.1trn (USD 6-7bn) or ~2.5-3.0% of the GDP size transformation package for Karachi city.
- The package aims to address the chronic municipal and infrastructure issues of the largest metropolis of the country that were highlighted in the recent monsoon rains. Key categories the package would address includes, Water supply, Anti-encroachment, Revamping of sewerage and solid waste management and other transport and road building related construction.
- Although it's too early to dictate a quantum volume, we foresee additional demand rising from Karachi Transformation Plan (KTP) could bolster construction sector demand particularly for companies premised in the South region.
- We recommend 'Buy' call on LUCK under cements, EPCL under allied companies, ISL under steel and APL under OMC for potential beneficiaries of the said package.

Karachi Transformation Plan (KTP) earmarked at PKR 1.1trn

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The package aims to address the chronic municipal and infrastructure issues of the largest metropolis of the country that were highlighted in the recent monsoon rains.

The package is sub-divided into four major categories,

- Water supply
- Anti-Encroachment Drive and resettling of the displaced
- Revamping City Sewerage & Solid Waste Management
- City Transport, including Karachi Circular Railway, Bus Rapid Transit and Other lines and road constructions

Funding largely to be carried out by Sindh Government, while additional funding sources to be provided by federal

In terms of funds pooling Sindh government will contribute PKR ~802bn while, federal government will contribute. Moreover, the city transformation packages will be executed via Provincial Coordination Implementation Committee (PCIC) chaired by the Chief Minister Sindh. On the funding side, projects of water supply and sewerage will primarily be carried out by Sindh and Federal government. Further World Bank (WB) and other foreign agencies including Asian Development Bank (ADB) and China will also partner in. China will directly fund

Analyst

IGI Research

research@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

PKR 249.2bn for Karachi transit (KCR) while, Sindh government will plug in PKR 50.8bn.

Exhibit: Projects proposed under Karachi City Transformation Plan In PKRbn				
Project	Project Cost	Incurred	Budgeted for FY21	Additional Funding Required
Storm Water Drains / Resettlement	4.70	1.60	2.30	0.80
Roads	62.30	13.90	7.10	41.30
Solid Waste Management	14.86	0.36	2.70	11.80
Sewerage Treatment & Disposal	162.60	15.40	6.03	141.17
Mass Transit System	447.43	1.52	10.36	435.55
Others	110.50	14.40	3.50	92.60
Sindh Government	802.39	47.18	31.99	723.22
Federal Government	300.00		0.00	
Total	1,102.39		31.99	

Source: Media Reports, IGI Research

Construction Sector to benefit

Although it's too early to dictate a quantum volume, we foresee additional demand rising from Karachi Transformation Plan (KTP) could bolster construction sector demand particularly for companies premised in the South region.

Exhibit: Construction and allied industries potential beneficiaries of KTP			
S.No	Sector	Key Beneficiaries	Comments
1	Cements	LUCK, ACPL, DGKC	Though South cement players are operating at full capacity, thanks to export dispatches, the new local demand injection would result in shift in sales mix from exports to local given local sales provide better retentions (PKR 396/bag) as against exports (PKR 330/bag). This will lead to margin improvement culminating to greater earnings.
2	Steel	ASTL, INIL, ISL	Both ASTL and INIL possess excess capacities to sufficiently meet demand from this development. This will result in greater sales volumes and improved earnings.
3	Other Allied Companies	EPCL	PVC pipes has major uses in Water supply, Sewerage and another construction activities. We think EPCL with a market share of 75-80% could directly benefit out of Karachi Transformation Plan (KTP). Although the company is operating at a 100% utilisation level, company upcoming capacity of 100kT is expected in 1q2021 could potentially grab a slice of additional demand emanating from KTP.
4	OMCs	APL	APL is major player domestically in asphalt market. We think APL could potentially benefit of the total PKR 62bn (additional required funding of PR 41.3bn) earmarked for road making.

Source: IGI Research, Company Accounts

Cements

Lucky Cement Limited (LUCK)

'Buy' Recommendation – TP PKR 711

We recommend a 'Buy' call on LUCK with a Dec-20 target price of PKR 711/share offering 16% upside from last close. The scrip is expected to present a 3Yrs Earnings CAGR of 52% and is preferred due to its growing cement income and portfolio value that comprises interests in chemicals, power generation and life sciences.

Attock Cement Pakistan Limited (ACPL)

'Hold' Recommendation – TP PKR 167

We recommend a 'Hold' call on ACPL with a Dec-20 target price of PKR 167/share offering 1% upside from last close. The stock is currently trading at a 5Yr average forward earnings P/E of 8.85 and offers a healthy dividend yield of 8.2% in the same period. The scrip is expected to deliver a 3Yrs earnings CAGR of 30%

DG Khan Cement Company Limited (DGKC)

'Hold' Recommendation – TP PKR 108

We suggest a 'Hold' call on DGKC with a Dec-20 target price of PKR 108/share which is 7% below its LDCP price of PKR 116/share. The stock is currently trading at a 5Yr average forward earnings P/E of 8.81 and offers a healthy dividend yield of 8.2% in the same period. The scrip is expected to deliver a 3Yrs earnings CAGR of 3.3x

Steel

Amreli Steels Limited (ASTL)

'Hold' Recommendation – TP PKR 57

ASTL: We recommend a 'Hold' call on ASTL with a Dec-20 target price of PKR 57/share offering 7% upside from last close. The stock is currently trading at a 5Yr average forward earnings P/E of 6.75 and offers a healthy dividend yield of 6% in the same period.

Other Allied Companies

Engro-Polymer Company Limited (EPCL)

'Buy' Recommendation – TP PKR 50

Based on our Dec-20 target price of PKR 50/share offering an upside of +28% from current price of PKR 38/share. The stock is currently trading at a forward FY21 P/E of 8.6x.

Oil Marketing Companies

Attock Petroleum Limited (APL)

'Buy' Recommendation – TP PKR 396

We maintain our BUY stance on APL with our Dec-20 target price of PKR 396/share offering +11% upside from last close. APL is trading at FY21 P/E of 10.8x and offers a healthy dividend yield of 6%/8% for FY21/22. We base our liking for the stock on lower exposure to circular debt and market leader in asphalt market where any new road projects are likely to benefit the Company.

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Time Horizon: Dec – 2020

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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JamaPunji

 سرمایہ کاری سمجھداری کے ساتھ

<http://www.jamapunji.pk>

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

IGI Finex Securities Limited

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Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	Islamabad Office Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	Rahim Yar Khan Office Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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