Our picks in light of Medium term agenda of Government of Pakistan | Positive for FCCL, DGKC, PIOC, MUGHAL, PTC etc

Government has unveiled ambitious medium term agenda. From the stock market perspective, we see it to be good omen in terms of valuations of companies & re-rating of our universe expected PEs. The terminal growth heralds increase in valuations thus making Pakistan corporate earnings quite compelling.

Setting growth agenda from the government side after pursuing 'stabilization' agenda since May 2013 is the name of the game. Pakistan remained in the IMF program to stabilize fledging economic indicators is indeed commendable for which incumbent government can take credit. However, we believe government should pursue 'growth' agenda given needs of the burgeoning population.

From the analytical point of view we see compelling valuations in cements given allocations by government on China-Pakistan Economic Corridor (CPEC) and also National Highway Authority (NHA). We see industrial parks all along road network. We like cements, coal-fired power plants, steel, asphalt producing refineries etc. This will also help in unveiling telecom services such as direct line, LDI & net all across the country.

Some targets:

- GDP to grow by 5.5% in FY16, 6.0% in FY17 and 7.0% in FY18 ~ **future direction about Valuation models of corporate are in place**;
- Inflation to be contained at 6% ~ **still a threat given volatile global crude prices & poor administrative measures from provincial management**;
- Reducing the fiscal deficit to 4% of GDP by FY18 from 8.8% inherited ~ **government is giving emphasis on development spending by allocating Rs800bn under Public Sector Development Spending (PSDP)**

  Investment to GDP ratio is to be raised by 20% by FY18, through ~

  Objectives of FDI include:

  a) Improving the business climate, liberalizing trade and reforming state owned firms;
  b) Strengthening public debt management;
  c) Energy sector reforms covering all elements of the energy supply chain, demand management and pricing policies for better functioning of the sector;

- Foreign exchange reserves to increase to US$20 bn by FY18 ~ **mainly pumped up IMF Program wherein we believe government to purse supply side agenda by overcoming chronic issues of power & gas outages.**
  Public debt to be brought down to below 60% of GDP ~ **we believe government is now in a position to ward off domestic borrowing.**
- Tax-GDP ratio to be increased to 13% & then 15% in subsequent years ~ **government needs to bring reforms in taxation structure by increasing incidence of direct tax instead of focusing on inflation propelled indirect taxes.**
- Exports to be increased to US$32 bn from current level of US$25 bn ~ **government's supply side agenda has yet to see light of the day which is necessary for increasing exports.**
- Foreign direct investment to be increased to over US$ 5 bn ~ **government is selling stakes from entities wherein we expect development in PIAA**
- Social sectors – Education ~ 4% of GDP on education and health by FY18 ~ **the incumbent government is criticised for not focusing on social sectors.**

  The only observation in the above-mentioned agenda is towards the fact that there has to be a coherence between weak provincial administrations with proactive federal economic agenda. We hope PM is continuously engaging provinces for development agenda which is a good omen.

Compelling valuations: FCCL, DGKC, PIOC, MUGHAL, PTC etc
In light of the above, we trumpet picks Fauji Cement (FY16E PE 8.6x), DG Khan Cement (FY16E PE 8x), Pioneer Cement (FY16E PE 7.5x), MUGHAL (FY16E PE 6x), Amreali Steel (post IPO), asphalt producers Attock & National Refinery (same group companies) etc for road making. We are reviewing Attock Petroleum model.

For telecom services, we like Pak Telecom (FY17E PE 5.5x). Government is also focusing on privatization of PIAA (3Q profits is encouraging).

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