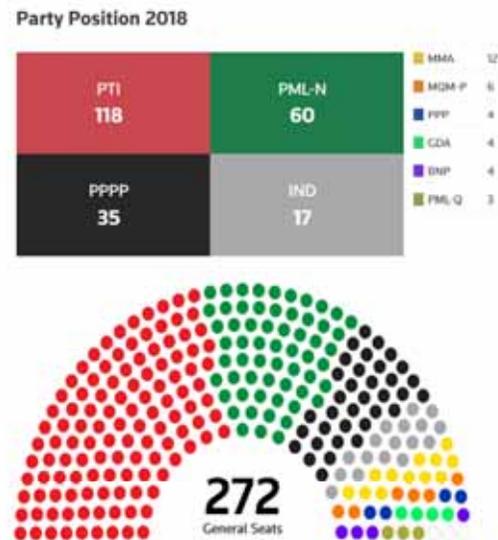


Day Break

Thursday, 26 July 2018

Strategy

Exhibit: Election Party Mapping



Election 2018

The Dust Settles; PTI to form the government

- General Election 2018, preliminary statistics points to a clear-cut Pakistan Tehreek-e-Insaf (PTI) lead by considerable margin at ~115-120 over the outgoing government party PML-N at 60 seats
- Against the popular perception of hanged parliament, given a tally of 137 seats required to form a government PTI stands quite comfortable to form the new government
- The party has been strongly advocating for both social and economic reforms. Strong emphasis on governance through institutional reforms has been labelled as party's top most agenda.
- Inheriting an economy with alarming twin deficit along with high debt levels, the new government will quickly form and step up its efforts to mend the economy loose end.
- Election news and anticipation has kept market nervous in recent days. With election dust finally concluding to a better outlook, we expect market to shows of signs of short-term recovery and market valuation multiple will be quick to respond.

More Than Bargained for?

As the dust settles on the much anticipated General Election 2018, preliminary statistics points to a clear-cut Pakistan Tehreek-e-Insaf (PTI) lead by considerable margin at ~115-120 seats over the outgoing government party PML-N at 60 seats. The result is pretty much in line with market and survey consensus. On provincial level PTI performance comes out a surprise in Punjab as it managed to bag in 95 seats just shy of ruling PMLN party at 106 seats. Similarly, PTI also has a clear cut majority in KPK province with 55 seats which is even better than previous election result of 45 seats. From Sindh, PPPP leads by 60 seats lower than 86 seats in 2013 election.

Go it Alone

Against the popular perception of hanged parliament, given a tally of 137 seats required to form a government PTI stands quite comfortable to form the new government albeit with a small support of independent candidates. However, an all party's conference has been called up by the runner up parties, the vast lead gathered by PTI in the general election rules out the possibility of a larger block being formed against PTI in our opinion.

What's On the Menu?

Claiming to initiate a massive anti-corruption drive allegedly against previous government, PTI's government is expected to keep the political landscape of the country violate. The party has been strongly advocating for both social and economic reforms. Strong emphasis on governance through institutional reforms has been labelled as party's top most agenda. On social side, with laying on KPK performance background heavy investment in education, health sector and policing can be expected. Moreover, performance of public enterprises could see better days ahead. Broader reforms under varies head includes;

- *Governance:* Transparency, strengthening of National Accountability Bureau (NAB), civil service reformation
- *Judicial reforms:* Drawing accessible, fair and speedy justice, de-politicization of police,
- *Social:* Broader investment in primary education, a universal health package for the citizens

Source: Geo News & IGI Research

Link: <https://www.geo.tv/election>

Analyst

Saad Khan

saad.khan@igi.com.pk

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

Exhibit:

Preliminary Election Result

National Assembly		Punjab - PP		Sindh - PS		KPK - PK		Baluchistan - PB	
Party	Seats	Party	Seats	Party	Seats	Party	Seats	Party	Seats
PTI	118	PML-N	106	PPPP	60	PTI	55	BAP	10
PML-N	60	PTI	95	PTI	14	MMA	6	BNP	7
PPPP	35	IND	35	GDA	11	ANP	5	MMA	6
IND	17	PPPP	6	MQM-P	6	PPPP	3	IND	4
MMA	12	MMA	-	PML-N	3	IND	3	PTI	3
MQM-P	6								
BNP	4								
GDA	4								
Total Seats	256 / 272		242 / 297		94 / 130		72 / 99		30 / 51

Source: IGI Research, Geo News,

Caught Between a Rock and Hard Place

Inheriting an economy with alarming twin deficit along with high debt levels, the new government will quickly form and step up its efforts to mend the economy loose end, starting from ballooning external accounts. However, we opine no nearby quick fix is available other than extending out to IMF or other lending agencies, which will certainly be unwelcoming for a party that has contested largely and strongly in opposition of taking up loans from IMF and other foreign agencies. Leaning to fiscal side, the populous tax measures introduced by the previous government are also highly expected to be reversed given a weak fiscal starting point and ambitious fiscal re-balancing requirements.

Exhibit:

Economy rebalancing and reforms

Head	Key Focal Area	Process
Balance of Payments	Exports	Formation of Export Processing Zone Export oriented sector will fall under zero-rated Faster system and mechanism to deal with sales tax refunds Facilitate imports of manufacturing inputs (e.g. synthetic fibre) at low tariffs. Introduction of cascading tariff on Raw materials, intermediates, and finished goods to move production towards value added export We will champion diversification of our export product suite. We will increase our export destinations through economic diplomacy and institutional support while adhering to our commitments within the GATT/ WTO framework.
		Currency We will ensure that our foreign exchange rate is regulated based on economic fundamentals.
Growth	SME	SME focused growth with various incentives Shift away from rent seeking models to increase system efficiency. Complete rural electrification through renewable and off-grid solutions. Transition towards "power exchange", allowing more efficient technologies to get precedence in dispatch.
		Power Continue to support the expansion and utilization of indigenous coal, primarily Thar Coal. Revive oil & gas exploration. Champion and expand net metering and solarisation of houses.
	Construction	Implement a policy framework to build housing units for the low and lower-middle income segments only. Provide fiscal and regulatory incentives to resolve demand and supply side issues of low-income housing; which will also include incentives for allied industries. Rationalise "Services Tax" levied on developers on low cost housing development. We will expedite construction of Diامر-Bhasha dam and will speed up feasibility studies for other dams.

		<p>We will build small dams across Pakistan to conserve water and fulfil local demand.</p> <hr/> <p>Agriculture</p> <p>Optimising existing and introducing new subsidy programmes We will reduce import duty on farm machinery to increase productivity.</p> <hr/> <p>We will make energy costs regionally competitive for the textile sector. We will ensure release of blocked tax refunds and subsequent refund orders issued will take form of "Negotiable Instruments".</p> <p>Textile</p> <p>We will increase our cotton production through better inputs and research, while ensuring right prices are offered to farmers.</p> <p>We will establish internationally accredited labs for product testing and improve product quality.</p> <hr/> <p>We will champion local textile machinery manufacturing and incentivise plant upgradation.</p> <p>We will strengthen the allied industries to ensure that required inputs are manufactured in Pakistan to the extent economically viable.</p> <hr/> <p>Tourism</p> <p>Promote and position Pakistan as "Asia's Best Kept Secret" in the global tourism market. Develop 20 new tourist destinations in 5 years; 4 each year.</p>
Fiscal accounts	Tax Revenues	<p>Increase FBRs autonomy by reducing the influence of Ministry of Finance and will ensure FBR is performance managed. Champion the shift towards direct taxation as the primary source of tax revenue as opposed to indirect taxes. Champion sustainable initiatives to reduce taxes on businesses. Improve audits by establishing risk engines and smart algorithms to identify potential taxpayers for audit. Publish names of non-compliant debtors and strongly pursue large tax evaders</p> <hr/> <p>PSE</p> <p>Remove SOEs under the purview of line ministries to initiate de-politicisation. Corporatize all SOEs and transfer ownership to a wealth fund, modelled along the lines of Khazanah in Malaysia.</p>
CPEC		<p>We will ensure the completion of CPEC but encourage a shift towards partnerships for project completion. We will utilise expertise from China to supplement domestic manufacturing capabilities and enhance yields in agriculture.</p>

Market

Election news and anticipation has kept market nervous in recent days. With election dust finally concluding to a better outlook, we expect market to show signs of short-term recovery and market valuation multiple will be quick to respond. For a medium to long-term given relatively first-timer candidates, political maturity, quick and sustainable responses to reforms and economic decisions will dictate market direction. So far, on the outlook PTI looks strong enough to pull this off. We prefer building up position in E&Ps, Banking stocks with preference of UBL, HBL and AKBL. Under fertilizer EFERT, FFC and FATIMA, and for autos we prefer INDU. Under cements and construction LUCK, KOHC, DGKC, MLCF, MUGHAL and ASTL and HUBC under power. For Textiles we like NML and NCL.

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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
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@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) 35777863-70	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
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Lahore Office

5-F.C.C. Ground Floor,
Syed Maratib Ali Road, Gulberg II
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

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

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

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) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-992) 408243 - 44

Abbottabad Office

Ground Floor, Al Fatah Shopping Center,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Stock Exchange Office

Room # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 324262651-2
Fax: (+92-21) 32429607

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258437, 3258762