TPL Properties Limited

Diversifying revenue streams to trigger earnings growth

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From what started off as a company developing and investing in real estate, TPLP has come a long way ever since the sale of its flagship project 'CenterPoint'. With diversification at the helm of its operations now, TPLP aims to become a real estate investment holding company with multiple business lines comprising of real estate development, property management and REIT management. The company also aims to diversify into commercial property projects and smart warehousing while the management has also highlighted the roll-out of several more REITs in the coming years.

Upcoming projects poised to improve earnings outlook: TPLP has diversified its operations into Real Estate Construction, Development and Management by investing into various new projects. According to the management, the company has three ongoing projects which include:

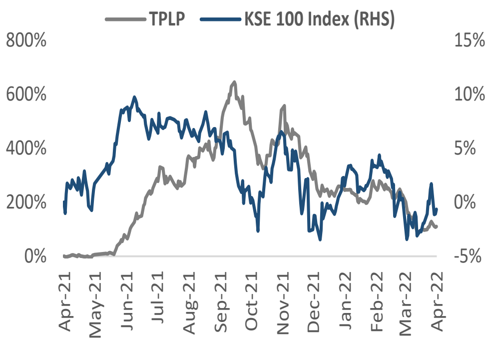
i) One Hoshang: A premium residential development project where civil works have been initiated following all necessary regulatory approvals. One Hoshang is located at Civil Lines, Karachi and is Pakistan's first Gold LEED certified luxury project with an estimated cost of PKR 6Bn and an expected IRR of 20%. The project is expected to be completed by FY25 and comprises of residential apartments and retail space spread over an area of 275k sq. ft. According to the management, the newly formed REIT will develop the project with off-plan sales in collaboration with various international design partners to ensure exquisite quality.

ii) TTZ Phase 1: The company aims to build a one-of-its-kind technology park spanning over 600k sq. ft. with the aim of enabling tech companies and start-ups create a tech ecosystem in the country. The cost of this project is estimated at PKR 6.6Bn while IRR is expected to be 28%. As things stand, land has been acquired in Korangi, Karachi while regulatory approvals are underway. The company aims to bring it under the umbrella of Special Technology Zone Authority (STZA) for tax and other incentives. Expected completion for the IT park is FY25. The project is expected to comprise of offices and business hotel offering 40+ rooms. As per the management, REIT will own the project and conduct sale/lease transactions of offices while owning and operating the hotel premises.

iii) The Mangrove: With an estimated build-up area of 10mn+ sq. ft. and development cost of PKR 168Bn in Korangi, Karachi, The Mangrove is the largest project of TPLP. The company aims to build a high end gated community comprising of residential apartments, commercial offices, and retail space along with various other facilities including but not limited to communal and best in class amenities. The management expects completion of the project by 2032 whereas development of first phase is expected to be completed in the current year. IRR of the project is estimated at 45%. The project will be under the ambit of REIT which will develop the project with off-plan sales of developed units and plots in collaboration with renowned international partners.

Setting up Pakistan's first hybrid REIT Fund: TPLP has announced to set up a multi-purpose REIT with fund size of USD 500Mn and a target IRR of ~30%. In the initial

TPLP vs. KSE-100 Index



%	3M	6M	12M
Absolute	-23	-44	147
Relative to KSE	-25	-48	144

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phase, the company has secured its first round of funding and successfully raised ~PKR 18.35Bn (USD 98Mn) with anticipated IRR in the range of 20-45%. PKR 7.1Bn have been invested by TPLP being the strategic investor while new capital of PKR 11.3Bn is raised through financial institutions. The main purpose of the fund will be to invest in land, development, yielding and underperforming assets with a total build-up area of 13Mn sq. ft. As per management, the investment mix will comprise of international investors (60%), local investors (30%) and TPL Properties (10%) as a seed investor. The yearly management fee of RMC will be 1.5% of NAV while performance fee and profit from sale of inventory will be 15% each. Moreover, investors in REIT units will be attributable for dividend income (regulatory pay-out of 90% if tax exempt status is to be maintained) as TPLP has a strategic holding of 35% in the REIT.

TPLP was awarded a license in FY19 to carry out REIT management services as an NBFC by SECP. The main reason behind the formation of REIT was to increase investor's participation in real estate through formal channels and to attract foreign investments in the country. Another source of income for the company will be through Development Advisory Income which is a fixed charge of 5-10% of construction cost and variable charge of 10-15% on profit of the project/valuation gain on rental assets. TPLP has also delved into Property Management, whereby the main responsibility would be to manage upcoming projects through repairs and maintenance. The company plans to earn a 5-10% profit margin through this venture.

Other projects in the pipeline: The company also plans to introduce real estate plans in different cities across the country after the successful launch of its current projects that are still in development phase. Based on its pipeline, the company is planning to further its reach in Karachi through additional investment of USD 160Mn+ in 5 different projects with a total developable area in excess of 550k Sq. Meters. Moreover, the company is planning to invest USD 70Mn in Lahore for 2 projects with a cumulative size of 225k Sq. meters and USD 155Mn in Islamabad for 4 projects spread across 425k Sq. Meters.

Conclusion: Given its robust expansion plans and state-of-the-art upcoming projects, TPLP is formalizing the local real estate sector. With main focus on long term value creation, the company will have four core pillars as its business model in its evolving business structure. Firstly, significant ownership in REIT will provide the company a healthy dividend income stream on a continuous basis. Secondly, continued development of these projects will bring in development fees. Thirdly, as the owner of RMC, it will receive dividends as RMC charges management fees from the REIT. Finally, share of earnings from TPL Property Management Services will increase as more projects are managed by the company in the future.

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

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