REP-091

28 April, 2018

BUDGET REVIEW 2018-19

Research Department
111-555-275
research@abbasisecurities.com

Overview

- The total outlay of the budget FY19 is Rs5.9tr which is 16.2% higher than the size of the budget estimates in FY18
- Gross Revenue target is set at Rs5.6tr which includes FBR's tax target of Rs4.4tr
- GDP growth target is set at 6.2% for FY19 as compared to 5.8% in FY18
- Tax to GDP target is set at 3.8% for the next fiscal year
- The overall expenditure during 2018-19 has been estimated at Rs 5.9tr which includes current expenditure amounting of Rs4.7tr and 1.1tr allocated for development expenditure
- For subsidies, the government has proposed an allocation of Rs189bn while Rs1.1tr will be allocated for defense and Rs1.6tr for debt servicing
- Govt. has also proposed to increase the salaries and pension by 10% while those pensioner who are above the age of 75 will get minimum pension of Rs15,000
- Individuals having income up to Rs1.2mn will be exempted from income tax and income above Rs1.2mn will be taxed as per slab announced previously
- Govt. has proposed to decrease the corporate tax rate from 30% to 25% in the next 5 years
- Abolishment of super tax in next 3 years (4 years for banks) by reducing it 1% every year
- Agricultural disbursement target is set at Rs1.1tr as compared to Rs1tr set in the last budget
- Tax holiday of 10 years is proposed for setting up deep conversion refinery with a installation of minimum 100,000bpd this benefit will also be available for existing refineries
- Govt. has rolled over the same incentive for agriculture sector as announced in last year budget except the subsidy which is now left in the hands of provincial governments
- Govt. has proposed to set a uniform sales tax rate of 2% on all types of Fertilizers and reduction in sales tax on feedstock from 10% to 5%

• In FY19 budget govt. has proposed to abolish tax on bonus shares. We expect this will increase the issuance of bonus shares which was declining due to imposition of 5% tax on bonus shares in FY14 budget (Refer fig.1 for list of companies which issued bonus shares in 2013) *(Positive)*

• Govt. has also proposed to reduce corporate tax by 1% every year to bring it down to 25% from current 30% *(Positive)*

• Removal of super tax by declining it 1% every year. We expect this will be negative for the market, in FY18 super tax will be charged at 3% to banks and financial services while 2% for other companies *(Negative)*

•Govt. introduced advance tax on broker in Finance Act 2014 at the rate of 0.01% and further increased it to 0.02% in Finance Act 2016 on the value of sale and purchase of securities. However, Govt. has now proposed to make this tax adjustable (from Final Tax Regime (FTR) to Presumptive Normal Tax Regime (PTR)) *(Positive)*

• Currently Govt. charges tax of 7.5% on undistributed profits if 40% of profit after tax was not distributed. In order to provide relief Govt. has proposed to reduce tax rate to 5% and the condition of 40% distribution of profit is also lowered to 20% *(Positive)*

• In order to promote Real Estate Investment Trust (REIT), the rate of tax on dividends to unit holders is proposed to be reduced from 12.5% to 7.5% *(Positive for DCR)*

• Tax credit under section 65B, 65C,65D and 65E for establishing new units, expansion and BMR is proposed to extended up 30 June 2021 *(Positive)*

Fig. 1 List of Bonus Paying Stock Under Coverage

Symbols	Stock Bonus 2013	Symbols	Stock Bonus 2013
APL	20%	PAEL	10%
PSO	20%	GLAXO	10%
ACPL	15%	SEARL	30%
KOHC	20%	ABL	10%
AGTL	35%	FABL	13%
MTL	20%	HBL	10%
ATLH	25%	MCB	10%
NATF	25%	AICL	182%

Source: PSX, AS Research

Budgetary Measures	Comments	Impact
Cement & Steel (Neutral to Positive)		
Allocation of Rs1,001bn for PSDP	Govt. has proposed to allocate Rs1,001bn for PSDP, with more focus towards power projects and water reservoirs (i.e Bhasa Dam). We expect this will be positve for cement and steel sector	Positive
Custom Duty on coal is likely to be reduced from 5% to 4.5%	We expect this reduction would increase our earning estimate by 1%	Positive
Increase in FED on cement bag from Rs1.25 to Rs1.50 per kg	Govt. is increasing FED on cement bag from currently Rs1.25/kg to Rs1.50/kg. However, we expect this will be passed on to the consumer. However, failure to bypass the impact would have a negative impact on cement player's earnings by 8%-13%	Neutral
Reduction of sales tax and value addition duty on LNG	Sales tax on RLNG is proposed to be reduced from 17% to 12%, and removal of value addition tax on RLNG which was previously levied at the rate of 3%. Currently MLCF and DGKC are using RLNG as input fuel mix	Positive
Rate of sales tax on electricity unit increased from Rs10.5/unit to Rs13/unit for steel sector and increase in CD on steel scrap by 1%	Sales tax on electricity consumed by rebar manufacturers and ship breaking units is proposed to be increased from Rs10.5/kwh to Rs13/kwh along with 1% addition in custom duty on scrap. This will increase cost of production by Rs2,000-2,300/ton. Previously rebar manufacturers are used to pass on the impact in any rise in the input cost(s)	Neutral

Budgetary Measures	Comments	Impact
Fertilizer (Positive)		
Sales tax on feed stock reduced from 10% to 5%	Govt. has proposed to reduce sales tax on feed stock from 10% to 5%. Currently FFC's and EFERT's cost of Feed stock account for Rs500/bag and Rs301/bag, as a result of this reduction feed stock per bag will come down by 1.4% for FFC and 1.1% for EFERT respectively	Positive
Sales tax on all fertilizers reduced to 2%	Govt. has proposed to reduce sales tax on urea, industry is currently paying sales tax of Rs65/urea bag, which will be reduced to Rs26/bag. However Govt. did not address sales tax refund issue	Neutral
Increase in agriculture credit from Rs1.0tr to Rs1.1tr	Agriculture credit has been increased by 10% to Rs1,100bn. This will improve farmer economics and agriculture output, which will result in improved off-take of the fertilizer sector	Positive
Sales tax on imported LNG used by fertilizer for feed stock has been abolished	GST on import of RLNG for feed stock is proposed to be abolished (previously 5%) However, use of LNG as feedstock is unviable at prevailing rate	Neutral

Budgetary Measures	Comments	Impact
Automobiles & Parts (Negative)		
Custom Duty on import of electric cars to be reduced from 50% to 25%	Govt. has proposed to reduce custom duty on import of electric cars to 25% from 50% and has given exemption in RD which was previously levied at ~15%. This change in custom duty and RD will push import of cars	Negative
Non filer restricted to buy imported or new car	Non-filers has been disallowed to purchase of cars, this may reduce automotive demand	Negative
Custom Duty on Carbon Black Rubber which is used as a raw material in tyre reduced to 16% from 20% previously	Govt. proposed to reduce the CD on carbon black rubber which is used as a raw material for manufacturing of tyre. We expect this will be a positive for GTYR	Positive
Banks (Positive)		
Reduction in Super tax	Super tax on banks is currently levied at 4%. The Govt. has decided to reduce it by 1% each year going forward and it will subsequently be abolished	Positive

Budgetary Measures	Comments	Impact
Oil & Gas (Neutral to Negative)		
Tax incentive on setting up oil refinery	Govt. has proposed 10 year income tax holiday for setting up deep conversion oil refinery with the minimum capacity of 100,000bpd. This benefit is also available for both new and existing players	Neutral
Increase in Levy on Petroleum products	Govt. has put petroleum levy target of Rs300bn in FY19 budget and has proposed to increase the levy to maximum Rs30/liter on different products. Currently levy charges are in the range of Rs3/liter to Rs14/liter. We expect this will increase the price of petroleum products and will cause decline in demand	Negative
Tobacco (Negative)		
Increase in FED	FED on locally produced cigarettes shall be enhanced under Tier-1, TIER-2 and TIER-3 to Rs3,964, Rs 1,770 and Rs 848 per thousand cigarettes respectively	Negative

- **Disclaimer** **REP-091**

Disclaimer: This document is prepared for information purposes only. The information and data on which this report is based are obtained from sources which we believe to be reliable but we do not guarantee that it is accurate or complete. This document does not take account of the investment and trading objectives, financial situation and particular needs of clients, who should seek further professional advice or rely upon their own judgment and acumen before making any investment / trading decision.

- **Analyst Certification**

The author(s) of this report hereby certifies(y) that this report accurately reflects his/their own independent opinions and views as of the time this report went into publication and that no part of his/their compensation was, is or will be affected by the recommendation(s) in this report. The research analyst or any of his/their close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or their close relatives have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or his/their close relatives have not traded in the subject security in the past 7 days and will not trade for 5 days post publication of the report.

- **Valuation Methodology**

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

· Comparable Method (P/E, P/B etc.)

· Discounted Cash flow Method

·Equity and Asset based valuation

- **Rating**
  - BUY Total return more than 20% from last closing of market price
  - HOLD Total return is in between 10% and 20% from last closing of market price
  - REDUCE Total return is less than 10% from last closing market price

ABBASI SECURITIES

Contact us:
Email: research@abbasisecurities.com
Website: www.abbasisecurities.com
Telephone: 111-555-275

Jama Punji
سرمایہ کاری سمجھداری کے ساتھ