REP-091

26 April, 2018

BUDGET PREVIEW 2018-19

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Overview

- The incumbent government is all set to announce its sixth and last budget on Friday the 27th of April,2018
- According to news report the total budget outlay is expected to be around Rs5.5tr as compared to Rs5.1tr for FY18, i.e. 8% higher than last year
- GDP growth target is expected to be set at 6.2% for FY19 as compared to 5.8% in FY18
- In terms of sectors growth targets for agriculture, industry and services to be set at 3.8%, 7.6% and 6.6% respectively
- Target for budget deficit is expected to be set at 6.2% of GDP (5.8% in FY17-18)
- Current Account Deficit (CAD) is expected to be targeted at 3.8% of the GDP ($12.5bn) whereas inflation target is expected to remain around 6%
- In terms of taxation we expect the government to introduce further measures for increasing tax filler base by imposition of higher taxes on non-fillers
- Revenue target is expected to be of Rs4.4tr while expenditure allocation is expected to be around Rs1.2tr for defense budget and Rs1.6tr for debt servicing
- Govt. is going to allocate Rs750bn for Public Sector Development Programme (PSDP) which is lower than last year's amount of Rs1.1tr

Fig.1 Macro Economic Indicators

	FY15	FY16	FY17	FY18E	FY19E
GDP Growth	4.1%	4.5%	5.3%	5.8%	6.2%
Import	41,668	41,357	48,545	54,700	56,500
Export	24,090	21,972	21,660	24,267	27,300
CAD (USD mn)	2,795	4,867	12,098	14,500	12,500
CAD % of GDP	1.0%	1.7%	4.0%	4.2%	3.8%
Inflation	4.5%	2.9%	4.1%	4.5%	6.0%

Source: PBS,SBP,Economic Survey, AS Research

• For subsidies, the government has proposed Rs219bn for CY19 budget which is up from Rs144 billion revised budget for the outgoing year. Out of total subsidy Rs119bn is allocated for power sector, Rs4bn for utility Store Corporation and Rs1.5bn subsidy for cost differential for sale of wheat

Fig.2 Budget Highlights

Rs in billion	FY13A	FY14A	FY15A	FY16A	FY17A	6MFY18A
Tax Revenue	2,199	2,565	3,018	3,660	3,969	2,027
Non Tax Revenue	783	1,073	913	787	967	358
Gross Federal Receipt	2,982	3,637	3,931	4,447	4,937	2,385
Less:Provincial Share	222	239	281	377	401	241
Net Revenue Receipt	2,760	3,398	3,650	4,070	4,535	2,144
Total Expenditure	4,816	5,026	5,388	5,796	6,801	3,181
Overall Deficit	**1,834**	**1,389**	**1,457**	**1,349**	**1,864**	**796**
As percentage of GDP						
Tax Revenue	9.6%	10.1%	11.0%	12.4%	12.5%	5.6%
Non tax Revenue	3.4%	4.2%	3.3%	2.7%	3.0%	1.0%
Total Expenditure	21.0%	19.8%	19.7%	19.6%	21.3%	8.9%
Debt Servicing	4.3%	4.5%	4.6%	4.3%	4.2%	2.1%
Defense	2.4%	2.5%	2.6%	2.6%	2.8%	1.1%
Development	5.0%	4.9%	2.8%	4.4%	5.3%	1.7%
Fiscal Deficit	8.0%	5.5%	5.3%	4.6%	5.8%	2.2%

Source: MoF

Capital Market
Expected Measures and Impact

Tax Rate on Bonus Shares likely to be abolished— *(Positive)*

• In FY14 budget govt. imposed 5% tax on the value of bonus shares consequently companies had reduced the issuance of bonus shares moreover govt. revenue has also shrunk substantially. In order to increase the issuance of bonus shares PSX has also proposed to the govt. to remove tax on bonus shares. In our view govt. may not abolish tax rate completely instead they might lower tax rate to 2%-3%

Reduce Rate of Capital Gain Tax *(Positive)*

• PSX has proposed to reduce the CGT to 10% where holding period is up to 12 months, 9% in case of more than 12months and up to 24 months, 8% in case of more than 24 months and up to 36 months and 0% for more than 36 months

•Currently government collect GGT at flat rate of 15% and 20% for filers and non-filers irrespective of their holding period. We expect Govt. may revise the CGT rate and bring down at the level of FY17 (for detail see fig. 3)

• PSX has also proposed to exempt the foreigners from capital gain tax

Fig.3 Adjustment in CGT Since 2013

Tax year	Less than 6 month	More than 6month but less than 12 month	Over 12 month	12 month or more but less than 24 month	24 month or more
2013	10%	8%	-	-	-
2014	10%	8%	-	-	-
2015	13%	13%	13%	10%	-
2016	15%	15%	15%	13%	8%
2017 filers	15%	15%	15%	13%	8%
2017 non-filers	18%	18%	18%	16%	11%
2018 filers *	15%	15%	15%	15%	15%
2018 non-filers *	20%	20%	20%	20%	20%

*Source: Finance Bill 2013?18; * Holding period is 24 months or more, but the security was acquired on or after 1st July, 2013*

Fig.4 List of Historical 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

Abolishment of Super Tax — *(Positive)*

• Govt. is likely to abolish super tax of 3% (4% on banks) on companies which they imposed in FY14 budget to support the Internally Displace Persons (IDPs) as a result of war on terrorism. However with the improvement in law and order situation govt. may decide not to carry super tax forward. We expect this will be positive for listed companies

Tax Credit on Enlistment of Company — *(Positive)*

• PSX has proposed to increase the rate of tax credit on listing of new companies to 20% for 5 years which is currently 20% for 3 years and 10% in last 2 years

Tax on Dividend Income (Neutral)

• In last year's budget Govt. increased the tax rate for filers from 12.5% to 15% and for non filers to 18%. There is no proposal from PSX for the reduction in tax on dividend and we also we also don't expect any amendment in tax rate in upcoming budget

Rationalization of Taxation Regime for Brokers (Neutral)

• Govt. introduced the 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. PSX proposed to reduce the rate to 0.005% from 0.02% in order to reduce the cost of doing business

Tax Relief on REITs *(Positive)*

• In FY15 budget listed REIT fund inserted in the category of Money Market or Fixed Income Fund from stock fund as a result tax on dividend increase from 10% to 12.5%. PSX proposed to bring down the tax rate on dividend on REIT fund at the level of Stock Fund.

• PSX also proposed to exempt tax on unrealized gain on REIT (both for development and rental) up to 2025. Currently this benefit is available up to 2020 and for development REIT

Tax on inter corporate dividend *(Positive)*

PSX proposed to remove the tax on inter corporate dividend which was imposed in Finance Act. 2016 We expect possibility of amendment in this clause is low

Sector Analysis and Impact

Proposed Budgetary Measures	Possibility	Comments	Impact
Cement & Steel			
Federal PSDP allocation is expected to be reduce to Rs750bn (Rs1tr allocated in 2017-18 budget)	High	PSDP is a driver of economic growth besides ensuring an equitable socio-economic development. In our view a cut in PSDP would ease pressure on the government's fiscal deficit (Government has released only Rs607.4bn till Mar-18 out of Rs1tr allocated under federal budget 17-18). We expect that private sector cement demand will remain robust despite slow down in government spending	Neutral
Custom Duty on coal is likely to be reduced from 11% to 5%	Moderate	Cost of coal is a major part of cement manufacturing cost (i.e. 40%-50%) and the recent rally in coal prices has already shrunk industry margins, which are hovering around 28%-30% (45% previously). This reduction in CD may result in improved margins	Positive
Increase in dumping duty on clinker and cement	Low	APCMA has demanded that the government should increase anti dumping duty on cement and clinker to a uniform rate of 35% from current levels of 11% and 20% respectively to protect local manufacturers	Positive
Increase in FED on cement bag	High	Govt. is considering to increase FED on cement bag from currently Rs1.25 per kg to Rs1.50per kg. However, we expect this will be pass on to consumer	Neutral

Proposed Budgetary Measures	Possibility	Comments	Impact
Banks			
Deletion of super tax	High	Pakistan Banks Association (PBA) has proposed to remove super tax on banks in upcoming budget (previously 4% was imposed on banks earning over Rs500mn). However, we have not incorporated any super tax in CY18 estimates, and extension of super tax for another tax year would trim our banks earnings by 3%-4%	Positive
Increase in tax rate on withdrawal of 50k or above on non filers	High	The government is likely to increase tax on cash withdrawal to fine non-filers, which discourage cash transactions and may force non-filers to become filer	Neutral
Power			
Super tax to discontinue this year	High	IPPs are exempt from corporate tax apart from KAPCO. If super tax is removed KAPCO will be the only beneficiary in power sector	Positive

Proposed Budgetary Measures	Possibility	Comments	Impact
Fertilizer			
Removal of cash subsidy compensated by reduction in GIDC on feed stock and sales tax reduction from 5% to 2%	High	We expect the government is likely to remove urea cash subsidy of Rs100/- along with a reduction in sales tax from 5% to 2% which is compensated by reducing GIDC on feed stock to Rs250/mmbtu (currently GIDC on feed stock account for Rs300/mmbtu). We expect this would result in reducing receivable pile up against cash subsidy	Positive
Fertilizer industry proposed to rationalize sales tax on input cost	High	Currently Fertilizer industry is paying tax 10% on feedstock, 17% on fuel cost while 5% on urea sales, consequently ~Rs44/bag refund on sales tax builds up. Fertilizer industry proposed to reduce the sales tax on input cost to minimize refund pileup	Positive

Proposed Budgetary Measures	Possibility	Comments	Impact
Automobiles			
Removal of RD on auto grade steel which is not manufactured in Pakistan	Moderate	Local manufacturing of some types of auto grade steel is not possible, PAMA seeks to get an exemption on this duty (ranging from 5%-30%)	Positive
Rationalization of GST on tractor input components (both local and imported) from current 17% and removal of 2% CD on imported components	High	Tractor industry currently paying 17% GST + 2% CD on imports against a 5% sales tax on tractors, the tractor industry faces a credit crisis due to the upsurge in refunds. In order to relieve OEM's (MTL / AGTL), PAMA has proposed rationalization of input tax to match output rates and removal of CD	Positive

Proposed Budgetary Measures	Possibility	Comments	Impact
Textile			
Removal of custom duty on import of PSF	Low	APTMA has proposed that Government should allow Duty / Tax free import of PSF, so that industry competes with other international producers; however execution of such event has low possibility	Positive
Reduction in electricity tariff from Rs11kwh to Rs7kwh	Moderate	APTMA has also demanded to reduce the electricity rate to Rs7/KWh while industry is currently paying Rs11/KWh	Positive
Turnover tax	Low	Currently companies are paying 1.25% minimum turnover tax. APTMA has demanded to reduce this to 1% to improve liquidity	Positive
Gas price should be reduced	Low	Gas price should also be reduced to at least regional peers average of $4/mmbtu, while RLNG consumers are paying $11/mmbtu	Positive

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- **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

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