

# ANNUAL BUDGET REVIEW (2020-21)

The economy wouldn't have to face immediate inflationary pressure; Thanks to the Tax-Free Budget

Friday, 12 June, 2020

State Minister for Revenue Hammad Azhar presented the PTI government's second annual budget for 2020-21 on 12<sup>th</sup> Jun 2020, with a total outlay of Rs7,295bn as compared to Rs8,238bn last year, down by 11%.

Total revenue for 2020-21 has been estimated at Rs6,573 bn indicating an increase of 19% over the budget estimates of 2019-20. FBR's revenues have been estimated at Rs4,963bn, up by 27% YoY.

The fiscal deficit, or the shortfall between the government's revenues and its expenditures, amounts to Rs3,195bn or 7% of GDP along with a primary deficit of Rs249bn (0.5% of GDP).

GDP growth target has been set at 2.1pc for FY21 against the provisional growth of -0.38% in FY20 on account of 2.8% growth in agriculture, 0.1% growth in the industry, and 2.6% growth in services.

The current account deficit will be confined to 4.4% while the inflation will be brought down from 9.1% to 6.5% and the foreign direct investment will be enhanced by 25%.

An unexpected move has been made by the PTI government in its budget for FY21 that it hasn't increased the salaries and pension of the government employees.

The size of PSDP for 2020-21 is Rs1,324bn. Out of this, Rs676bn has been allocated to provinces while Federal PSDP has been estimated at Rs650bn. Pakistan's Defense budget is Rs1.289tr, almost 12% higher than the last year.

The government has referred it to a "Tax-Free Budget" as there is no new tax in order to provide relief to the people. Therefore, in our view, it is positive for our economy in the sense that the economy wouldn't have to face immediate inflationary pressure after this budget unlike the previous budgets.

Sector	Impact
Banks	Neutral
Cements	Positive
Steel	Positive
Textiles	Neutral
Autos	Negative
Tobacco	Negative
Power Generation	Neutral
Pharmaceuticals	Positive
Chemicals	Positive
Fertilizers	Neutral
Oil & Gas Exploration	Neutral
Oil & Gas Marketing	Neutral
<b>Overall Market</b>	<b>Neutral</b>

Salient Features	Impact	Sector / SCRIP
Corporate tax rate maintained	Neutral	All Sectors
Reduction in regulatory duty from 12.5% and 17.5% to 6% and 11%, respectively on Hot Rolled Coils (HRC)	Positive	ISL, ASL, STPL
Reduction in ACD on scrap to 0%	Positive	ASTL, MUGHAL
Regulatory duty on several industrial inputs is also being reduced to decrease their cost of doing business	Positive	All Sectors
40 raw materials of different industries to witness reduction in CD	Positive	All Sectors
In order to encourage documentation, it has been decided to provide relief to organized retail sector which is integrated online with FBR through Point of Sale system. Their existing sales tax rate is proposed to be reduced from 14% to 12%	Positive	All Sectors
Increase in the rate of FED on cigars, cheroots, and cigarillos and cigarettes from 65% to 100%	Negative	Tobacco
Levy of FED on e-liquids of electric cigarettes @ Rs 10 per ml	Negative	Tobacco
FED on cement reduced from Rs. 2 per kg to Rs. 1.75 per kg	Positive	Cement
Elimination of Additional Custom Duties (ACD) on coal import by 2%. Total duties on coal will now reduce to 3%	Positive	Cement
Treasury single account (TSA) is in the last stage of approval	Neutral	Banks
Withholding tax on foreign remittance is being removed to bolster remittances through official channel	Positive	Banks
Super tax has been extended on the banking sector once again for another year	Negative	Banks
Subsidy to LNG sector for providing Gas on lower rates to industry is revised down to Rs10bn from Rs24bn	Neutral	Fertilizers, Textile
Rs70bn allocated for Covid-19	Positive	Pharmaceuticals
Duty free import of life saving drugs	Positive	Pharmaceuticals
Levy of FED @ 7.5% ad valorem in case of locally manufactured double cabin (4x4) pick up vehicles and @ 25% in the case of imported ones	Negative	Automobile
Exclusion of motorcycles and rickshaws from advance tax	Positive	SAZEW
Capital gains tax on immovable property will be reduced Along with this, holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years	Positive	Real Estate
Additional customs duty on Paraxylene and Ethylene have been removed	Positive	LOTCHER
Exemption from 2% ACD on import of edible oils and oil seeds	Positive	Consumers, UNITY
The minimum threshold of supplies by retailers for obtaining CNIC of the buyers is proposed to be increased from Rs 50,000 to 100,000	Positive	Consumers
Incentivizing soap manufacturing industry by reducing rate of Additional Customs Duty on Palm Stearin	Positive	Consumers
Exemption of custom duties on import of raw material by beverage can manufacturers	Positive	Consumers
Reduction in Custom duty and exemption from Additional Custom Duty on import of raw material by food packaging industry	Positive	Consumers
Exemption allowed on import of dietetic foods intended for special medical purposes for the children suffering from Inherited Metabolic Syndrome	Positive	Consumers
Levy of FED on caffeinated energy drinks @ 25%	Positive	Consumers

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#### DEFINITION OF TERMS

<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

#### VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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