

ANNUAL BUDGET REVIEW (2022-23)

Decreased development spending and increased taxes to curb the GDP growth to 5% in FY23

Friday, 10 June, 2022

The finance minister Miftah Ismail presented the coalition government's first annual budget for 2022-23 on 10th Jun 2022, with a total outlay of Rs9,502bn as compared to Rs8,480bn last year, up by 12.03%.

FBR's revenues have been estimated at Rs 7,004bn, up by 20% YoY out of which provinces will get Rs4,100 bn and federal will receive Rs4,904 bn, and non-tax revenue is set at Rs2,000 bn.

The primary surplus is expected at 0.19% in FY23 vs 2.4% in FY22. The fiscal deficit will be brought down from 8.6% to 4.9% of GDP.

The GDP growth target has been set at 5%. The current account deficit will be confined to 2.2% while the inflation will be brought down from 11.7% to 11.5%.

Despite IMF concerns, the federal government on Friday announced a 15% increase in the salary of the government employees, as well as a 5% increase in the pensions for retired government employees.

Fixed tax rate introduced for small retail investors ranging from Rs3000 to RS10,000 which may be collected through electricity bills.

The budget envisages the allocation of Rs800bn for the federal Public Sector Development Program (PSDP), which is 11.11% lower than the previous year. Pakistan's Defense budget is Rs1,523bn, almost 11% higher than the last year.

If a person has an immovable property of Rs25 million or more, then 5% of its rate will be considered as an individual's additional income. The government would charge a 1% tax on this income.

In our view, overall, the budget is Neutral for our economy and for the stock market as well until a breakthrough with IMF.

| Main Sectors | Impact |
|-------------------------------|----------------|
| Cements | Negative |
| Engineering | Negative |
| Autos | Negative |
| Pharmaceuticals | Positive |
| Fertilizers | Positive |
| Textiles | Positive |
| Oil & Gas Exploration | Neutral |
| Oil & Gas Marketing | Neutral |
| Banks | Negative |
| Food & Personal Care Products | Positive |
| Overall Market | Neutral |

| Salient Features | Impact | Sector / SCRIP |
|---|----------|-------------------------------|
| The minimal taxable income limit will be raised from Rs0.6 million to Rs1.2 million for the salaried class | Positive | All Sectors |
| No sales tax on imported solar panels | Positive | All Sectors |
| 100% depreciation adjustment in first year of operations for corporates | Positive | All Sectors |
| People/Companies with income above Pk300mn to pay additional 2% tax | Negative | All Sectors |
| Capital gain tax structure changed from 4 years holding period to 6 years holding period | Neutral | All Sectors |
| Advance tax increased from 1% to 2% for filers and 5% for non-filers. | Negative | All Sectors |
| Cars with 1600+CC engines subject to additional advance taxes | Negative | Automobiles / INDU, HCAR |
| Annulment of Sales tax on tractors | Positive | Automobiles / MTL, AGTL |
| 3% Windfall Tax on banks pushing cumulative tax rates to 42% | Negative | Commercial Banks |
| Elimination of customs duty on agricultural machinery | Positive | Fertilizer |
| Rationalization of taxes for textile sector. | Positive | Textile |
| Annulment of sales tax on wheat, maize, sunflower, canola | Positive | Food & Personal Care Products |
| Rs12bn has been allocated for utility stores | Positive | Food & Personal Care Products |
| More than 30 pharma APIs free from custom duties | Positive | Pharmaceuticals |
| First aid bandages exempted from custom duty | Positive | Pharmaceuticals |
| Rs24bn has been allocated for health services | Positive | Pharmaceuticals |
| Rs17bn has been allocated for IT exports | Positive | Technology & Communication |
| Free laptops plus laptops on instalment will be provided | Positive | Technology & Communication |
| Allocation for PSDP lower by 11% compared to last year | Negative | Cement, Engineering |
| 250 mini sport stadiums will be constructed | Positive | Cement, Engineering |
| 3 special economic zones will be formed where state of the art facilities will be provided along with nonstop electricity and gas | Positive | Cement, Engineering |
| Tax rates on Behood Certificates reduced from 10% to 5% | Negative | Capital Market |

Scraps With High Dividend Yield

| Sr. No. | Symbol | Price | Dividend (TTM) | Payout Ratio | Payout Pattern | Dividend Yield | Debt to Equity (x) |
|---------|--------|--------|----------------|--------------|----------------|----------------|--------------------|
| 1 | EPCL | 79.70 | 20.50 | 121% | Quarterly | 25.72% | 0.84 |
| 2 | SNGP | 27.69 | 6.00 | 42% | Half Yearly | 21.67% | 3.19 |
| 3 | EFERT | 87.30 | 18.00 | 124% | Quarterly | 20.62% | 0.42 |
| 4 | ARPL | 562.00 | 115.00 | 156% | Half Yearly | 20.46% | 0.64 |
| 5 | OLPL | 20.25 | 4.00 | 77% | Half Yearly | 19.75% | 1.71 |
| 6 | HUBC | 63.03 | 11.50 | 70% | Half Yearly | 18.25% | 0.58 |
| 7 | NCL | 44.92 | 8.00 | 21% | Half Yearly | 17.81% | 1.33 |
| 8 | ISL | 54.58 | 9.00 | 51% | Half Yearly | 16.49% | 0.58 |
| 9 | UBL | 125.67 | 19.00 | 70% | Quarterly | 15.12% | *0.37 |
| 10 | FFC | 109.81 | 14.70 | 116% | Quarterly | 13.39% | 1.03 |
| 11 | APL | 300.96 | 39.50 | 31% | Half Yearly | 13.12% | 0.39 |
| 12 | BWHL | 74.50 | 9.75 | 60% | Quarterly | 13.09% | 0.02 |
| 13 | POL | 389.85 | 50.00 | 67% | Half Yearly | 12.83% | 0.02 |
| 14 | BAFL | 32.75 | 4.00 | 45% | Half Yearly | 12.21% | *0.58 |
| 15 | TGL | 100.34 | 12.00 | 41% | Annually | 11.96% | 0.41 |
| 16 | MTL | 848.92 | 95.00 | 95% | Half Yearly | 11.19% | 0.34 |
| 17 | BAHL | 63.00 | 7.00 | 41% | Annually | 11.11% | *0.55 |
| 18 | MCB | 131.87 | 14.50 | 52% | Quarterly | 11.00% | *0.39 |
| 19 | DCR | 13.88 | 1.36 | 35% | Quarterly | 9.80% | - |
| 20 | ENGRO | 262.13 | 25.00 | 66% | Quarterly | 9.54% | 0.00 |

* Advances to Deposit Ratio

Scraps With Potential of High Capital Gain

| Sr. No. | Symbol | Price | Target | Upside (%) | Support | P/E | D/E |
|---------|--------|--------|--------|------------|---------|-------|------|
| 1 | KTML | 52.51 | 90.00 | 71.4 ▲ | 51.00 | 2.92 | 0.45 |
| 2 | ISL | 56.23 | 90.00 | 60.1 ▲ | 55.00 | 3.19 | 0.58 |
| 3 | TGL | 100.34 | 175.00 | 74.4 ▲ | 100.00 | 3.45 | 0.41 |
| 4 | AVN | 74.30 | 110.00 | 48.0 ▲ | 71.00 | 18.82 | 0.11 |
| 5 | SEARL | 106.62 | 150.00 | 40.7 ▲ | 100.00 | 9.35 | 0.67 |
| 6 | SYS | 332.95 | 500.00 | 50.2 ▲ | 320.00 | 27.89 | 0.27 |

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DEFINITION OF TERMS

| | | | | | |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| TP | Target Price | CAGR | Compound Annual Growth Rate | FCF | Free Cash Flows |
| FCFE | Free Cash Flows to Equity | FCFF | Free Cash Flows to Firm | DCF | Discounted Cash Flows |
| PE | Price to Earnings Ratio | PB | Price to Book Ratio | BVPS | Book Value Per Share |
| EPS | Earnings Per Share | DPS | Dividend Per Share | ROE | Return of Equity |
| ROA | Return on Assets | SOTP | Sum of the Parts | LDCP | 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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| Stock Rating | Expected Total Return |
|--------------|----------------------------|
| BUY | Greater than 15% |
| 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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