

ANNUAL BUDGET REVIEW (2019-20)

Difficult and unpopular budgetary measures to weigh on consumers and corporate earnings in near-term

Wednesday, 12 June, 2019

State Minister for Revenue Hammad Azhar presented the PTI government's first annual budget for 2019-20 on 11th Jun 2019, with a total outlay of Rs7,022bn as compared to Rs5,385bn last year (30% increased).

Total tax revenue has been budgeted at Rs5,822bn. The bulk of the revenue will be drawn from FBR taxes, which are projected to reach Rs5,555bn in the coming fiscal.

The fiscal deficit, or the shortfall between the government's revenues and its expenditures, amounts to Rs3,151.2bn or 7.2pc of GDP.

GDP growth target has been set at 4pc for FY20 as compared to 3.3% (9-year low) in FY19 on account of 2.9pc growth in agriculture, 2pc growth in industry and 4pc growth in services.

Inflation is estimated to remain between 11-13pc in this fiscal year. Pakistan last saw inflation touching 11.5pc in FY2011-12.

The current account deficit is set at \$8.3bn or 3pc of GDP for 2019-20.

The defense budget remained the same as the last year's Rs 1,150bn amid PTI's austerity drive to resolve the financial woes. The minister, however, said that there will be no compromise on the defense capability of the country.

All retail shops having an area of more than 1,000 square feet (111 square yards; 3.67 marla) to integrate their points of sale (POS) with the FBR's computerized systems so that all their sales are reported in real time.

As expected, the government has taken tough and unpopular decisions in its first annual budget in order to curb deficits and revive the deteriorating economy. The proposed budgetary measures will contract the size of the economy, put burden on consumers and cut the corporate earnings in near-term. However, it will pave the way for the economy to get back on right track in future.

Sector	Budget Impact
Banks	Negative
Cements	Negative
Steel	Negative
Textiles	Negative
Autos	Negative
Power Generation	Negative
Pharmaceuticals	Positive
Paper & Board	Positive
Chemicals	Positive
Fertilizers	Neutral
Oil & Gas	Neutral
Overall Market	Negative

Salient Features	Impact	Sector
Minimum wage has been increased to Rs17,500 per month	Positive	Consumers
Minimum income on salaried and non-salaried class decreased to Rs. 600,000 and Rs. 400,000 respectively	Negative	All Sectors, Consumers
GST maintained at 17%	Positive	All Sectors
Corporate tax fixed at 29% for the next two years	Negative	All Sectors
3% import duty exempted for 19 items of raw materials and essential items of medicinal use	Positive	Pharmaceuticals
FED increased on cements from PKR 1.5/kg to PKR 2.0/kg	Negative	Cement
Formation of Treasury Single Account	Negative	Banks
Tax credit for companies hiring fresh graduates	Positive	All Sectors
Tax on dividends at 25% for companies which are exempt from tax on income or for which tax is not payable due to tax credits, brought forward business or depreciation losses	Negative	Capital Market
Tax credit allowed on purchase of machinery by companies for BMR lowered from 10% to 5% for tax year 2019.	Negative	All Sectors
Sales tax on sugar increased from 8% to 17%.	Negative	Sugar
Taxation imposed on reversal of provisions previously allowed but later reversed	Negative	Banks
Increased tax on the fixed income assets	Negative	Banks
Increased tax on the fixed income assets	Positive	Capital Market
Federal PSDP budget has been increased to Rs. 950 bn from Rs. 675 bn	Positive	Cement, Steel
Increased FED from PKR 7.8/100 cubic meter to PKR 10/MMBTU on LNG	Negative	Oil & Gas
5% customs duty to be levied on LNG import	Negative	Oil & Gas
Increased FED from 11.5% to 14% on aerated water	Negative	Food
Imposed FED of 10% on non-aerated sugary, flavored juices, syrups and squashes	Negative	Food
Increase FED from 16% to 17% on Vegetable ghee and cooking oil. Concessional rate on edible seeds removed	Negative	Food
Sales tax reduced from 17% to 7.5% on food related inputs i.e. meat, vegetables, flour etc. for restaurants/bakeries	Positive	Food
Imposed FED at 2.5% on up to 1000cc vehicles, 5% on 1001cc to 2000cc and 7.5% on above 2000cc on locally manufactured or assembled motor vehicle. Previously, there was 10% FED on above 1700cc motor vehicles.	Negative	Autos
Standard 17% GST restored on five zero-rated sectors	Negative	Textiles, Leather
Duty on elastomeric yarn and non-woven fabric to be reduced	Negative	Textiles
Tax on dividends paid by power generation companies increased to 15% from current rate of 7.5%	Negative	Power Generation
Basic raw material for paper production exempted from customs duty	Positive	Paper and Boards
Restoration of normal regime for steel sector	Negative	Steel
Withdrawal of restriction on purchase of immovable property by non-filers	Positive	Construction Material
Exemption of duty on import of plant and machinery for setting up hydrocracker plants for oil refining	Positive	Refineries
Removal of bar on export of PMC and PVC to Afghanistan	Positive	Chemicals
Receipt of gift would now be considered as income	Positive	Economy

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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

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SELL	Less than and equal to -5%

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