

ANNUAL BUDGET REVIEW (2021-22)

Increased development spending and several tax incentives to drive the GDP growth to 4.8% in FY22

Sunday, 13 June, 2021

The finance minister Shaukat Tarin presented the PTI government's third annual budget for 2021-22 on 11th Jun 2021, with a total outlay of Rs8,480bn as compared to Rs7,295bn last year, up by 16%.

Total revenue for 2021-22 has been estimated at Rs7,909 bn indicating an increase of 20% over the budget estimates of 2020-21. FBR's revenues have been estimated at Rs5,829bn, up by 17% YoY.

The fiscal deficit, or the shortfall between the government's revenues and its expenditures, amounts to Rs3,420bn or 6.3% of GDP along with a primary deficit of Rs377bn (0.7% of GDP).

GDP growth target has been set at 4.8% for FY22 against the provisional growth of 3.94% in FY21 on account of 3.5% growth in agriculture, 6.2% growth in the industry, and 4.7% growth in services.

The current account deficit will be confined to 1.4% while the inflation will be brought down from 9.0% to 8.2%.

Unlike the previous budget, an increase of 10% in the salaries and pension of the government employees has been proposed in the budget of FY22.

The budget envisages allocation of Rs900bn for the federal Public Sector Development Program (PSDP), which is 38% higher than the previous year. Pakistan's Defense budget is Rs1,370bn, almost 6.3% higher than the last year.

The government has referred it as a "Pro-Growth Budget" as the increased spending on development projects and tax incentives given to several industries would likely to spur the growth in upcoming year. Therefore, in our view, the budget is positive for our economy and for stock market as well.

Main Sectors	Impact
Cements	Positive
Engineering	Positive
Autos	Positive
Pharmaceuticals	Positive
Chemicals	Positive
Fertilizers	Positive
Textiles	Positive
Oil & Gas Exploration	Neutral
Oil & Gas Marketing	Neutral
Banks	Neutral
Overall Market	Positive

Salient Features	Impact	Sector / SCRIP
Corporate tax rate maintained	Neutral	All Sectors
CGT rate on shares has been slashed to 12.5% from 15%	Positive	Stock Market
Reduction of duties on import of HRC and stainless steel	Positive	Engineering
Exemption of CDs and ACD on more than 350 APIs.	Positive	Pharmaceuticals
Exemption of CD & ACD on 06 life-saving drugs	Positive	Pharmaceuticals
Reduction on inputs and raw materials of food processing industry	Positive	Food % Personal Care Products
Reduction of CD & ACD on Vaccines for veterinary medicines and feed additives	Positive	Food % Personal Care Products
Reduction of CDs and ACD on uncoated paper and paperboard	Positive	Paper & Board
Reduction on CD & ACD on raw material for manufacturer of aseptic plastic packaging	Positive	Paper & Board
Reduction of duties on raw material/inputs of footwear industry	Positive	Leather & Tanneries
Exemption of ACD on import of raw materials for cables / optical fiber manufacturers	Positive	Cable & Electrical Goods
Reduction of CD & ACD on inputs for Electronics Manufacturing Industry	Positive	Cable & Electrical Goods
Reduction of CD & ACD on raw materials for Paint Industry	Positive	Chemical
Reduction of CD & ACD on raw materials for Chemical and Artificial Leather Industry	Positive	Chemical
PKR 2Mn loans allocated for low cost housing schemes applicable to people below age 30	Positive	Cement, Engineering
PSDP has been increased from PKR 630Bn to PKR 900Bn	Positive	Cement, Engineering
PKR 91Bn has been allocated for the dams	Positive	Cement, Engineering
FED on telecommunication to be reduced from 17% to 16%	Positive	Technology & Communication
WHT of mobile phones decreased from 12.5% to 10%.	Positive	Technology & Communication
Turnover tax abolished for SEZ's and 10-year tax holiday for STEZ's (special technology eco-nomic zone)	Positive	Technology & Communication
It is proposed that export of services may be zero-rated	Positive	Technology & Communication
Small cars up to engine capacity of 850cc to be exempt from value added tax besides reduction in sales tax rate from 17% to 12.5%	Positive	Automobiles
Exemption from VAT on import of electric vehicles, CKD kits for small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions	Positive	Automobiles
Government will provide up to PKR 200,000 interest free loan to farmers for purchase of tractor and machinery	Positive	MTL, Fertilizer
Exemption from tax on import of agricultural equipment	Positive	Fertilizer
Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10 years	Positive	Refinery
Additional customs lined abolished for 164 lines	Positive	Textile, Others

SCRIP RECOMMENDATIONS

Equity Research | Sunday, 13 June, 2021

Textile Composite

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
NCL	BUY	Dec 21	90	51.85	73.6 ▲	56.8	0.9	FY21E	1.75	3.4	9MFY21	15.11	FY21E	20.97	2.5	240	108
ILP	HOLD	Dec 21	80	69.99	14.3 ▲	19.9	3.5	FY21E	2.00	2.9	9MFY21	5.29	FY21E	7.26	9.6	869	130
GATM	BUY	Dec 21	60	46.73	28.4 ▲	32.6	1.4	FY21E	1.50	3.2	9MFY21	8.08	FY21E	9.59	4.9	428	107

Oil & Gas Exploration Companies

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
OGDC	BUY	Dec 21	125	92.72	34.8 ▲	160.0	0.6	FY21E	6.10	6.6	9MFY21	15.45	FY21E	21.04	4.4	4,301	645
PPL	HOLD	Dec 21	100	90.07	11.0 ▲	126.7	0.7	FY21E	-	0.0	9MFY21	14.01	FY21E	18.48	4.9	2,721	482
POL	HOLD	Dec 21	400	379.94	5.3 ▲	141.9	2.7	FY21E	36.60	9.6	9MFY21	33.74	FY21E	42.24	9.0	284	108
MARI	BUY	Dec 21	1,800	1550.05	16.1 ▲	698.0	2.2	FY21E	6.00	0.4	9MFY21	175.08	FY21E	237.10	6.5	133	22

Pharmaceuticals

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
HINOON	BUY	Dec 21	750	614.00	22.1 ▲	115.8	5.3	CY21E	18.00	2.9	1QCY21	10.74	CY21E	42.97	14.3	35	9
SEARL	BUY	Dec 21	320	256.98	24.5 ▲	66.5	3.9	FY21E	3.00	1.2	9MFY21	8.98	FY21E	13.82	18.6	240	108
AGP	BUY	Dec 21	120	102.52	17.1 ▲	30.2	3.4	CY21E	3.50	3.4	1QCY21	1.37	CY21E	5.50	18.6	280	84

Technology & Communication

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
SYS	SELL	Dec 21	380	506.19	24.9 ▼	52.9	9.6	CY21E	5.00	1.0	1QCY21	3.83	CY21E	17.82	28.4	123	62

Food & Personal Care Products

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
MFL	SELL	Dec 21	28	31.44	10.9 ▼	55.3	0.6	FY21E	-	0.0	9MFY21	0.12	FY21E	0.26	120.9	122	47
TOMCL	SELL	Dec 21	27	37.35	27.7 ▼	23.3	1.6	FY21E	-	0.0	9MFY21	1.88	FY21E	2.47	15.1	112	50
UNITY	SELL	Dec 21	45	49.36	8.8 ▼	5.9	8.4	FY21E	0.90	1.8	9MFY21	2.68	FY21E	3.74	13.2	994	76

Real Estate Investment Trust

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
DCR	BUY	Dec 21	11	11.21	1.9 ▼	23.1	0.5	FY21E	1.17	10.4	9MFY21	0.90	FY21E	1.21	9.3	2,224	556

Commercial Banks

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	Recent EPS		Expected EPS		P/E (F)	Shares ('mn)	Free Float ('mn)
MCB	BUY	Dec 21	205	164.96	24.3 ▲	160.4	1.0	CY21E	20.00	12.1	1QCY21	5.73	CY21E	29.14	5.7	1,185	415
BAHL	BUY	Dec 21	90	72.90	23.5 ▲	71.9	1.0	CY21E	5.00	6.9	1QCY21	4.14	CY21E	15.05	4.8	1,111	722
BAFL	BUY	Dec 21	42	32.45	29.4 ▲	51.2	0.6	CY21E	4.00	12.3	1QCY21	1.95	CY21E	7.35	4.4	1,777	563
BOP	BUY	Dec 21	11	8.19	34.3 ▲	19.8	0.4	CY21E	1.00	12.2	1QCY21	0.69	CY21E	2.80	2.9	2,644	1,116

Cement

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
FCCL	BUY	Dec 21	28	24.03	16.5 ▲	14.4	1.7	FY21E	1.50	6.2	9MFY21	1.89	FY21E	2.52	9.5	1,380	759
ACPL	HOLD	Dec 21	200	177.17	12.9 ▲	120.5	1.5	FY21E	3.50	2.0	9MFY21	6.98	FY21E	9.83	18.0	137	23
MLCF	BUY	Dec 21	58	46.83	23.9 ▲	28.5	1.6	FY21E	1.00	2.1	9MFY21	2.37	FY21E	3.26	14.4	1,098	267
CHCC	HOLD	Dec 21	190	186.73	1.8 ▲	51.7	3.6	FY21E	1.00	0.5	9MFY21	11.44	FY21E	15.49	12.1	194	106

Engineering

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
MUGHAL	HOLD	Dec 21	120	115.33	4.0 ▲	32.4	3.6	FY21E	3.00	2.6	9MFY21	9.97	FY21E	13.02	8.9	252	61
ASTL	BUY	Dec 21	55	45.92	19.8 ▲	37.4	1.2	FY21E	1.50	3.3	9MFY21	3.12	FY21E	3.73	12.3	297	74
AGHA	HOLD	Dec 21	35	34.67	1.0 ▲	22.6	1.5	FY21E	-	0.0	9MFY21	2.77	FY21E	3.48	10.0	576	120

Automobile Parts & Accessories

	Stance	Target Price		LDCP	Upside (%)	BV (T)	P/B (T)	Dividend		D/Y - F (%)	EPS		EPS	P/E (F)	Shares ('mn)	Free Float ('mn)	
PTL	HOLD	Dec 21	75	68.78	9.0 ▲	40.5	1.7	FY21E	-	0.0	9MFY21	5.71	FY21E	7.03	9.8	42	140

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DEFINITION OF TERMS

TP	Target Price	DDM	Dividend Discount Model	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	JPB	Justified Price to Book

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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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Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

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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