

ANNUAL BUDGET REVIEW (2023-24)

Tax on bonus shares, unexpected income and the extension of super tax to weigh on stock market

Saturday, 10 June, 2023

Ishaq Dar became the fourth finance minister in four years to present the federal budget 2023-24 with a total outlay of Rs14.5 trillion, as compared to the expenditures of Rs11.1 trillion last year, up by 30.4%.

Tax revenue target has been set at Rs9.2 trillion, 27.8% higher than the collection of last year. Non-tax revenue target has been set at Rs2.96 trillion, 83.1% higher than last year, while the remaining Rs2.3 trillion would be financed through borrowings.

Total development budget has been set at Rs1.15 trillion out of which Rs950 bn are allocated for PSDP and Rs200 bn under Public Private Partnership. Rs1.8 trillion has been allocated to defense while the target debt servicing would be Rs7.3 trillion. The government has set a target for GDP growth of 3.5% while aiming to keep inflation at 21% for the upcoming fiscal year.

The annual budget presented today raises some concerns regarding its effectiveness and long-term sustainability. The measures taken in the budget do not appear to be as stringent as required by the International Monetary Fund (IMF). Consequently, it is unlikely that the government will be able to persuade the IMF to resume its program based on this budget alone. The budget seems to be more of a temporary solution, with unrealistic targets proposed. This is likely due to the upcoming elections in a few months. It is anticipated that the new government, armed with a fresh mandate, will issue a supplementary budget following the elections, aligning it more closely with the IMF guidelines.

Contrary to rumors, the budget does not impose a tax on companies' undistributed profit. However, it does introduce a 10% tax on bonus issues. Additionally, the extension of the super tax and the imposition of a 50% tax on unexpected income resulting from economic factors are expected to have a negative impact on the stock market.

Going forward, stability in the stock market is anticipated post-elections, once the new government initiates a new IMF program. It is hoped that this will provide a foundation for economic recovery and investor confidence.

Main Sector	Impact
Information Technology	Positive
Construction	Positive
Autos	Negative
Pharmaceuticals	Neutral
Fertilizers	Neutral
Textiles	Negative
Commercial Banks	Neutral
Overall Market	Neutral to Negative

Salient Features	Impact	Sector / SCRIP
10% final WHT re-imposed on bonus shares (20% for non-ATL)	Negative	All Sectors
Super Tax extended to 10% based on various income slabs	Negative	All Sectors
Additional tax of 50% on unexpected income during last 5 years	Negative	All Sectors
Turnover tax reduced from 1.25% to 1.0% for companies listed on PSX	Positive	All Sectors
Tax on IT consultants reduced from 16% to 15%	Positive	Technology
IT sector has been declared as SME	Positive	Technology
Sales tax has been exempted on IT imports by IT exporters	Positive	Technology
Continuation of concessionary fixed tax rate of 0.25% for IT	Positive	Technology
Concessionary tax rate of 20% on banks for advances to IT sector	Positive	Technology
Increase in PSDP and focus on the construction of mega dams	Positive	Cement, Steel
Extension of Income Tax exemption for FATA residents	Positive	Cement, Steel
2% tax on buying immovable property through remittance is abolished	Positive	Cement, Steel
Concessionary tax rate on banks for advances to low-cost housing	Positive	Cement, Steel, Banks
RD increased on imported glass from 15% to 30%	Positive	Glass
Exemptions granted to the import of used vehicles above 1300cc	Negative	Automobile
Reduction of CD from 10% to 5% on non-localized (CKD) of HCV	Positive	Automobile
Concessionary tax rate of 5% on digital payments to eateries	Neutral	Commercial Banks
0.6% WHT on non ATL individuals for cash withdrawal	Neutral	Commercial Banks
GST on leather textile increased from 12% to 15%	Negative	Textile
Removal of regulatory duty of 5% on synthetic filament yarn	Positive	Textile
Exemption of CD on import of inputs for solar panels & batteries	Positive	Economy
Exemption of sales tax on contraceptives and accessories	Positive	Pharmaceutical
Inclusion of one more API and 3 drugs in existing duty-free regime	Positive	Pharmaceutical
Agricultural lending target increased from Rs1.8tn to Rs2.25tn	Positive	Fertilizer
Exemption of CD on import of seeds	Positive	Fertilizer

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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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- 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
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