

FISCAL OPERATIONS (1QFY20)

Primary surplus stood at Rs286bn in 1QFY20 against a deficit of Rs48bn in SPLY

Monday, 2 December, 2019

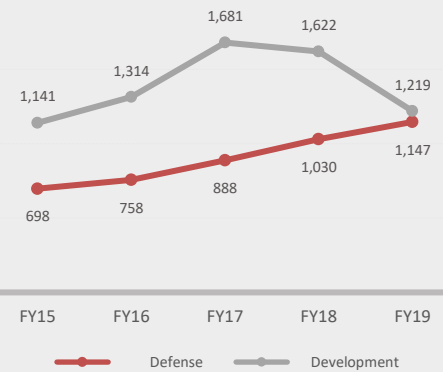
Government of Pakistan has recently published its data regarding fiscal operations according to which, the primary surplus for the first quarter of the current fiscal year was Rs 286 billion against a deficit of Rs 48 billion in the same period of last year. The budget deficit was restricted at Rs 288.083 billion (0.76% of GDP) against Rs 541 billion (1.4% of GDP) in the same period last year. Due to the growing debt burden, the country spent Rs572 billion on debt servicing in the first quarter of current fiscal year – higher by 13% from the previous year. The debt and defense spending consumed Rs815 billion or 55% of the total federal government revenues, according to the finance ministry. The overall expenditures of federal and provincial governments stood at Rs1.78 trillion– higher by 8% as compared to last year. Compared with this, the total revenues stood at Rs1.5 trillion – Rs387 billion or 35% higher than the same period last year.

As the request for a downward revision in the revenue target has been rejected by IMF, it seems that it would be difficult for FBR to meet the ambitious target of collecting Rs5.5 trillion in FY20. The FBR has collected around Rs1,614 billion in the first five months (July-Nov) of FY20, against the target of Rs1,828.4 billion. The growing shortfalls are creating concerns within business community that the government could impose further taxes, in order to bridge the gaps before the end of current fiscal year. However, the situation would get clear after the IMF's second review (expected in February 2020) that whether they agree to slash down the annual revenue collection target or not.

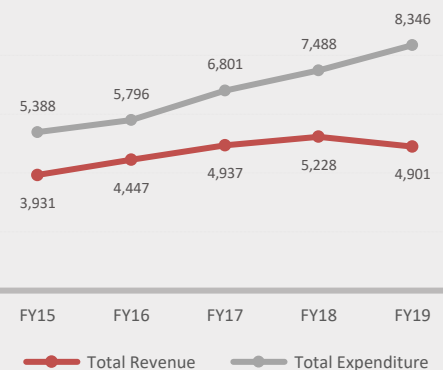
All figures in Rs'bn	1QFY19	1QFY20	YoY
Total Revenue	1,102	1,489	35.1% ▲
Total Expenditure	1,644	1,775	8.0% ▲
Budget Deficit	542	286	47.2% ▼
Primary Balance	-35	286	725.3% ▲
As % of GDP	1QFY19	1QFY20	YoY
Total Revenue	2.9%	3.4%	0.5% ▲
Total Expenditure	4.3%	4.0%	0.2% ▼
Budget Deficit	1.4%	0.7%	0.8% ▼
Primary Balance	-0.1%	0.6%	0.7% ▲
Revenue (Rs'bn)	1QFY19	1QFY20	YoY
Tax Revenue	975	1,143	17.2% ▲
Direct Taxes	299	356	19.1% ▲
Property Tax	2	8	213.9% ▲
Excise duty	44	51	15.7% ▲
Sales Tax	335	404	20.5% ▲
Taxes on International Trade	157	156	0.6% ▼
Stamp duties	14	16	12.1% ▲
Motor vehicles tax	7	7	4.6% ▼
Gas Infrastructure Development Cess	6	3	54.3% ▼
Natural Gas Development Surcharge	3	2	33.2% ▼
Petroleum Levy	44	65	45.7% ▲
Other taxes	20	25	25.6% ▲
Non-Tax Revenue	127	346	172.8% ▲
Expenditure (Rs'bn)	1QFY19	1QFY20	YoY
Current Expenditure	1,480	1,582	6.9% ▲
Mark-up Payments	507	572	12.7% ▲
Defense	219	243	10.6% ▲
Development	109	142	30.8% ▲

Key Statistics

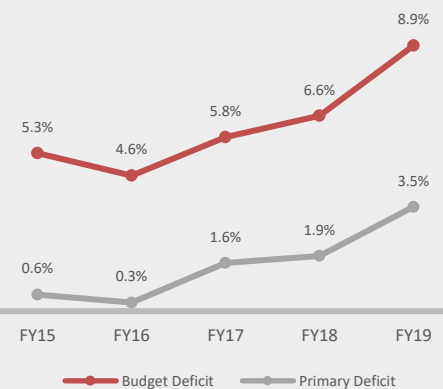
Development vs Defense Expenditure



Revenue vs Expenditure



Budget & Primary Deficit % of GDP



Sources: ACPL Research, Ministry of Finance)

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117

Email: fawad@abbasiandcompany.com

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months.

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

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

RATINGS CRITERIA

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

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

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com