IGI Securities
SERVING YOU SINCE 1994

Fiscal year 2017-18

Federal Budget

Something for everyone

Sunday, May 28, 2017

Table of Contents

Sunday, May 28, 2017

Budget 2017-18

Sunday, May 28, 2017

Synopsis

Budget	Finance Minister presented the budget for year 2017-18, with a budget deficit target of 4.1% (FY17 fiscal deficit of 4.2%) of the GDP and tax collection at 13.7% (up by +13.2%). On expenditure side, major portion has been allocated on development spending (6.3% of the GDP or up by +36.8%YoY) mainly surrounding CPEC and Energy, relief packages for low-income / farmer and increase in government employees' salaries along with increase in pension. Amongst the rest Sector-wise textiles and agricultural, stood out as major beneficiary while steps to enhance/strengthen financial systems.
Equity Market	From market perspective, we believe budget FY18 to be relatively a "Neutral" event. We understand extension of super tax, increase in minimum turnover tax and dividend income would be taken negative in terms of corporate earnings, but on a broader scale increase development project spending, several relief measures for farmers/agri and textile sector and steps to enhance financial system penetration would generally be corporate earning positive. From market specific point, changes in Capital gains tax slabs will increase overall liquidity in our view as incentive for longer holding period diminishes.
Sector-wise	Amongst the sector, textiles and agricultural stood out as major beneficiary while having neutral impact on Automobiles, Power, OMCs, Banks , Cements and E&Ps.

Budget Overview

Budget 2017-18

Sunday, May 28, 2017

Overview

- **Total Budget outlay** is set at PKR 5.10trn, up by +4.3%YoY from last year budget.
- **Tax revenues are targeted** at PKR 4.33trn, up by +13.2%YoY or 13.7% of the GDP. This is led by +15.7%YoY growth in direct taxes to PKR 1.59trn and +12.9%YoY rise to PKR 2.42trn in indirect taxes. Non-tax revenues are targeted at PKR 980bn (+7%YoY).
- **Current expenditure** is reduced to PKR 3.76trn, 10.5% of GDP compared to 11.4% of GDP in FY17.
- **Subsidies** have been scaled back to PKR 139bn from PKR 169, with major cuts coming from subsidies to K-Electric.
- **Total development expenditure** is targeted at PKR 1.34trn (3.7% of the GDP) up by a massive ~+43%, of this PKR 1001bn (~40%YoY growth) has been allocated for Federal PSDP and PKR 180bn has been allocated for CPEC.
- **Overall fiscal deficit target** is set at PKR 1.48trn or 4.1% of GDP, including provincial surplus of PKR 347bn.
- **Major financing** remains skewed towards domestic sources (PKR 968bn or ~65% of the total fiscal deficit) with banks contributing nearly 40.2% or PKR 390bn and non-banks contributing the rest of PKR 578bn.

Exhibit: Consolidated Federal Budget Snapshot

PKRbn	FY17B	FY17R	FY18B	YoY%
Total Revenues	2,780	2,616	2,926	12%
Total Expenditure	4,395	4,256	4,753	12%
Fiscal Balance	(1,615)	(1,640)	(1,827)	11%
Provincial Surplus	339	290	347	20%
Consolidated Fiscal Balance	(1,276)	(1,350)	(1,480)	10%
Fiscal Deficit	-3.8%	-4.2%	-4.1%	-3%
GDP (PKRbn)	33,509	31,862	35,919	13%

Source: MoF & IGI Research

Exhibit: GoP Economic targets

	FY17B	FY17R	FY18B	FY19F	FY20F
GDP growth %	5.7	5.3	6.0	6.5	7.0
Inflation %	6.0	4.5	6.0	6.0	6.0
Fiscal Account (%age of GDP)					
Total Revenue	16.0	16.2	17.2	17.3	17.5
Tax Revenue	12.9	13.1	13.7	14.2	14.6
FBR Tax Revenue	10.8	11.1	11.2	11.8	12.2
Non Tax Revenue	3.1	3.1	3.5	3.2	2.9
Total Expenditure	19.8	20.4	21.3	21.3	21.4
Fiscal Balance	(3.8)	(4.2)	(4.1)	(4.0)	(3.9)
Revenue Balance	0.9	0.2	2.2	2.7	2.9
Total Public Debt	61.4	64.8	61.4	57.8	54.3
GDP PKRbn	33,509	31,862	35,919	40,876	46,597

Budget 2017-18

Sunday, May 28, 2017

Revenue

- The government has set an ambitious tax collection target of PKR 4.33trn for FY18, which is +13% YoY higher as compared to revised FY17 collection of PKR 3.82trn.
- Areas for additional revenue generation are increase in sales tax and custom duty by 11%YoY and 18%YoY respectively. To highlight, direct tax as ratio of tax revenue is still stagnant at range of 35-37%. This implies regressive tax structure and governments failure to broaden tax net filers.
- Growth in tax collection is estimated on the back of substantial +16%YoY increase in direct taxes to the tune of PKR 1.59trn on account of +16%YoY growth in income tax to PKR 1.58trn. To recall, government has not been able to meet its previous year target by PKR 214bn.
- Indirect taxes are projected to grow by +13%YoY to PKR 2.42trn, with sales tax contributing almost +66% followed by +24% contributing through custom duties.
- Non-tax revenue is targeted at PKR 0.98trn (PKR 0.91trn in FY17).

Exhibit: Net Federal Revenues

PKRbn	FY17B	FY17R	FY18B	YoY%
Tax Revenues	3,956.1	3,825.2	4,330.5	13%
FBR	3,621.0	3,521.0	4,013.0	14%
Direct	1,558.0	1,378.8	1,594.9	16%
- Income Tax	1,538.8	1,363.8	1,577.6	16%
- Other Direct Taxes	19.2	12.6	14.6	16%
Indirect	2,063.0	2,142.2	2,418.1	13%
- Custom	413.0	491.1	581.4	18%
- Sales tax	1,437.0	1,445.0	1,605.2	11%
- Fedral Excise	213.0	206.1	231.5	12%
Other	335.1	304.2	317.5	4%
- GIDC	145.0	80.0	110.0	38%
- Petroleum Levy	150.0	155.0	160.0	3%
Non-Tax Revenues	959.5	912.1	979.9	7%
- PTA 3G	75.0	32.5	10.0	-69%
- Dividends	85.1	87.3	93.3	7%
- SBP Profits	280.0	228.0	260.0	14%
Less: Provincial Share	2,135.9	2,121.3	2,384.2	12%
Total Revenues	**2,779.7**	**2,616.0**	**2,926.1**	**12%**

Budget 2017-18

Sunday, May 28, 2017

Expenditure

- As elections are nearing, government has kept total expenditure growth relatively high, where major focus has been on development spending.
- Total expenditures targeted for budget FY18, are estimated at PKR 5.10trn, growth of +5%YoY.
- The governments revised current expenditure for FY17 was nearly in line with initial budgeted target of PKR 3.9trn.
- Amongst the current expenditure, the combine debt servicing and defense contribution stands at ~61%, up by +3.7%YoY.
- On subsidy side, the government has targeted a 18%YoY reduction, with major cuts coming from subsidies to KEL.
- Federal development expenditure is targeted at PKR 1.34trn (3.7% of the GDP) up by a massive ~+43%, of this PKR 1001bn (~40%YoY growth) has been allocated for Federal PSDP and PKR 180bn has been allocated for CPEC.

Exhibit: Expenditure

PKRbn	FY17B	FY17R	FY18B	YoY%
Current Expenditure	3,844.0	3,904.8	3,763.7	-4%
- Debt Servicing	1,360.0	1,361.1	1,363.0	0%
- Defence	860.2	841.4	920.2	9%
- Subsidies	140.6	169.0	138.8	-18%
- Civil Govt. Pay	88.0	93.2	104.3	12%
- Other	1,395.2	1,440.0	1,237.3	-14%
Development	1,050.9	936.4	1,340.5	43%
- Fed. PSDP	800.0	715.1	1,001.0	40%
- Other Devl	156.6	127.6	152.2	19%
- Net Lending	94.3	93.8	186.9	99%
Total Expenditure	**4,894.9**	**4,841.2**	**5,104.2**	**5%**
Total Expenditure / GDP	**14.6%**	**15.2%**	**14.2%**	

Exhibit: Subsidies

WAPDA/PEPCO	95.4	102.6	102.5	0%
- Tariff Differential	60.0	91.0	65.0	-29%
KESC	22.6	15.4	15.5	1%
Others	22.6	51.0	20.8	-59%
Total Subsidies	**140.6**	**169.0**	**138.8**	**-18%**
Total Subsidies / GDP	**0.4%**	**0.5%**	**0.4%**	

PSDP Allocation

Federal	800.0	715.0	1,001.0	40%
- WAPDA	130.0	134.3	60.9	-55%
- National Highway Authority	188.0	209.7	319.7	52%
Provincial	875.0	824.0	1,112.0	35%
Total PSDP	**1,675.0**	**1,539.0**	**2,113.0**	**37%**
Total PSDP / GDP	**5.0%**	**4.8%**	**5.9%**	

Financing

- For FY18, Major financing remains skewed towards domestic sources (PKR 918bn or ~65% of the total fiscal deficit) with banks contributing nearly 40.2% or PKR 390bn and non-banks contributing the rest of PKR 578bn.

- Government bond issuance is estimated at PKR 115bn (compared to a borrowing of PKR 110bn in FY17), while short-term treasury bills are expected to surge to PKR 45bn from PKR 34.5bn last year.

- From external sources, the government expects to raise PKR 105.5bn through a sukuk bond issuance, while government is eyeing to raise nearly PKR 50bn in privatization proceed.

Exhibit: Financing

PKRbn	**FY17B**	**FY17R**	**FY18B**	**YoY%**
Net External Financing	234.4	373.8	511.4	37%
Domestic Borrowing	991.6	958.5	918.2	-4%
Non-bank borrwoing	538.7	217.2	528.0	143%
- PIB	150.0	110.0	115.0	5%
- Tresuary Bills	100.0	34.5	45.0	30%
- Sukuks	0.5	0.5	60.0	n.m.
Bank Borrowing	452.9	741.3	390.1	-47%
Privatisation Proceeds	50.0	17.8	50.0	181%
Fiscal Financing	1,276.0	1,350.0	1,479.6	10%
%age Share				
External Funding	18%	28%	35%	
Domestic Funding	82%	72%	65%	

Exhibit: External Financing Sources

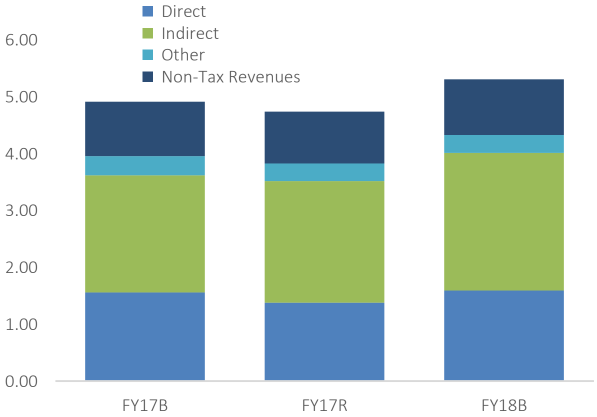
PKRbn	FY17B	FY17R	FY18B	**YoY%**
Project Loans	219.1	299.8	340.6	14%
Programme Loans	133.8	112.2	95.6	-15%
Other Aid	443.8	559.6	374.5	-33%
- IDB	47.7	61.3	163.5	167%
- Soverign Bond	105.5	-	-	0%
- Sukuk Bond	79.1	-	105.5	0%
Project grants	22.8	24.7	27.1	10%
Kerry Lugar	-	-	-	0%
External Resources	819.6	996.3	837.8	-16%
Less Repayments	**585.2**	**622.5**	**326.4**	**-48%**
LT Foreign Loans	443.8	507.0	286.6	-43%
ST Foreign Loans	141.4	115.5	39.8	-66%
Net External Borrowing	234.4	373.8	511.4	37%

Budget 2017-18

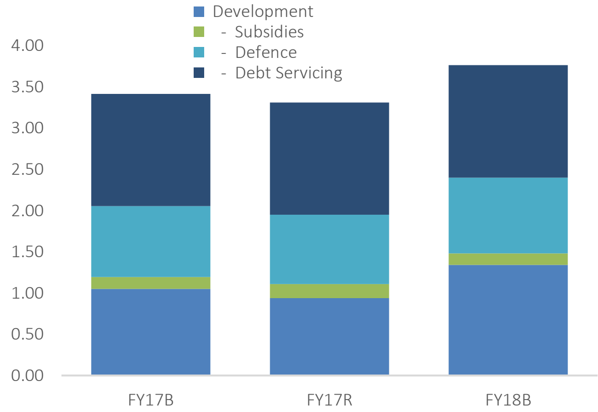
Sunday, May 28, 2017

BRP 009

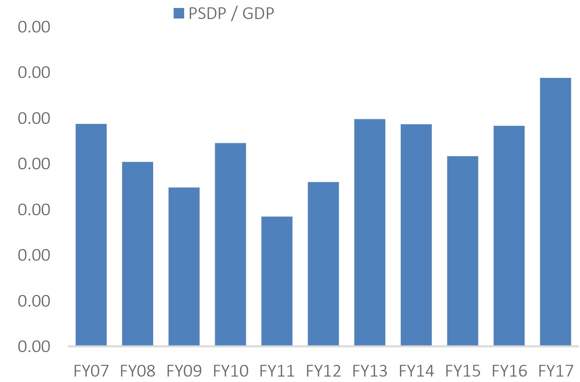
Tax and non-tax revenues



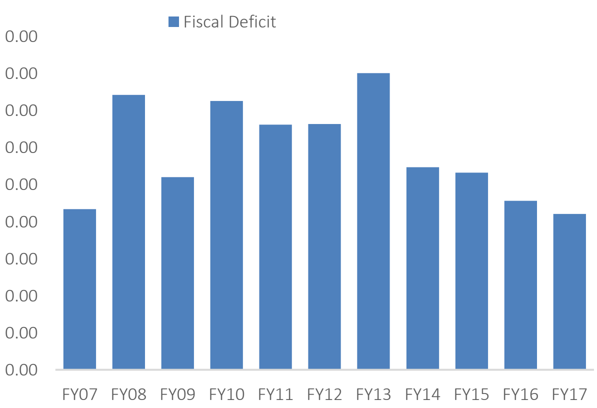
Expenditure



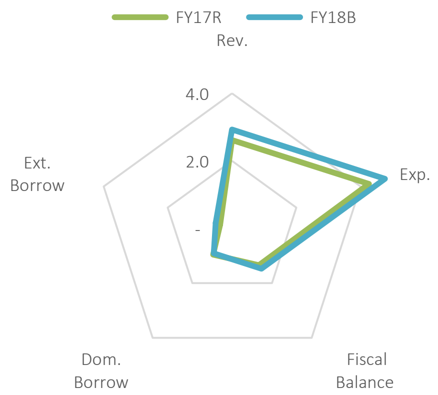
PSDP as a %age of GDP, a historic high



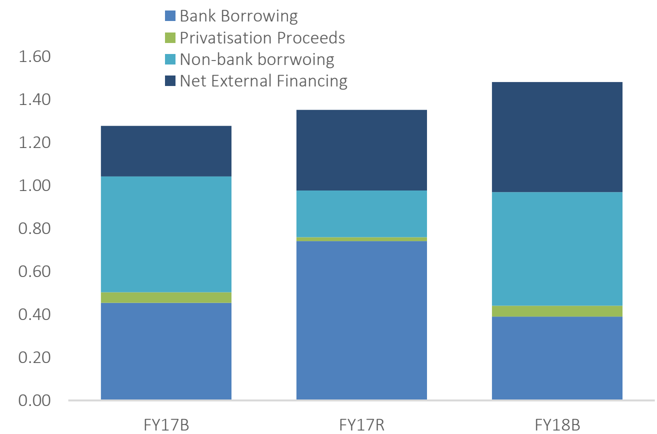
Fiscal deficit snapshot



Major source of Revenue/Expenditures



Sources of Funding



Source: MoF & IGI Research

Equity Market Overview

Equity Market

- From market perspective, we view budget to be market **Neutral**. The budget includes introduction of fixed CGT rate of 15% for filers and 20% for non-filers irrespective of holding period. This measure can be taken negatively by the market as it longer holding period. Moreover, dividend income tax rate is increased by 2.5% to 15%.

- On corporate earning side, planned reduction of 1% in corporate tax to 30% (other than Banks) along with extension of tax credits for listing by 10% for two additional years is positive.

- However, continuation of Super Tax on corporate having profits (excluding depreciation and business losses) => PKR 500mn will be charged at 3%, while for banks a rate of 4% is applicable irrespective to profits size. This could put downward pressure on overall corporate earnings. For banks' we estimate earnings could easily trim off by an average 7%, while for companies under our coverage this could shave off almost 4-7% of bottom line slightly higher than last year 'Super Tax' charge, owing to depreciation.

- Sector-wise, the budget is going to benefit textiles and agricultural, while having neutral impact on Automobiles, Power, OMCs, Banks , Cements and E&Ps.

Exhibit:

Capital Gain tax (CGT)

			Tax Year 2017		Tax Year 2018	
Holding period	2015	2016	Filer	Non-Filer	Filer	Non-Filer
Less than 12 months	12.5%	15.0%	15.0%	18.0%	15.0%	20.0%
between 12 and 24 months	10.0%	12.5%	12.5%	16.0%	15.0%	20.0%
More than 24 months	0.0%	7.5%	7.4%	11.0%	15.0%	20.0%
Acquired before 1st July, 2012	0.0%	0.0%	0.0%	0.0%	15.0%	20.0%
Future Commodity contracts	0.0%	0.0%	5.0%	5.0%	15.0%	20.0%

Equity Market

Neutral

Budgetary Measure	Budgetary Measure	Impact
Capital Gain Tax (CGT)	Introduction of fixed CGT of 15% for filers and 20% for non-filers irrespective of holding period.	Neutral to Negative
Withholding Tax (WHT)	Advance Withholding tax rate of 0.02% adjustable on commission of members of Stock Exchange is now being moved to final tax	Neutral to Negative
Tax Credits	At present, upon enlistment of a company on the stock exchange, 20% tax credit for a period of two tax years is available on the tax payable by such company. In order to further incentivize the enlistment of companies on the stock exchange such tax credit is being extended for another two tax years, however, such tax credit shall be allowed @10% of the tax payable for each of these subsequent two tax years.	Positive
Corporate Earnings	Corporate tax rate reduced by 1% to 30% for FY18	Neutral to Positive
	Super tax is extended for another year at 4% on banks and 3% on non-bank companies.	Negative
	Minimum tax of 1.25% will now also be charged on turnover for the companies incurring gross loss compared to 1%. (Unchanged at 0.5% for OMCs)	Negative
		Negative
Dividend	The present rate of tax of 12.5 % on dividend income is proposed to increase to 15%. Furthermore, rate of tax on dividend received from mutual funds is being rationalized and enhanced from existing 10% to 12.5%.	Negative

Sector Overview

Construction and Materials Sector

Neutral

Budgetary Measure	Sector Impact
Increase in Federal PSDP to PKR 1001bn in FY18 from PKR 715bn (revised) in FY17, up by 40%	**Positive:** Higher government spending in infrastructure along with private investment in construction, would increase demand of cement.
Formation of Pakistan Infrastructure Bank (PIB) and Pakistan development fund (PDF) accompanied by loans provided to low income segments through microfinance banks for housing infrastructure with 40% loan guarantee.	**Positive:** The government aims to setup Infrastructure bank with paid up capital of USD 1bn to finance private investors in development projects along with launching of PDF which would be offered to Pakistani diaspora to channelize their remittances. Hence, construction activities are not likely to be hampered by constrained fiscal space.
FED to be charged at fixed rate of PKR 1.25/kg instead of PKR 1/kg, effective Jul-17.	**Negative:** With increase in FED rate, retention prices of cement manufacturers will decline by PKR 12.5/bag.
Increase in sales tax on steel sector to PKR 10.5/unit of electricity as compared to PKR 9/unit.	**Negative:** This will result in margin contraction for steel manufacturers.
Corporate tax rate has been reduced by 1% to 30%.	**Positive:** Reduction in tax rate would enhance profit after tax for all companies in construction sector.
Super tax at the rate of 3% to be continued for FY18.	**Negative:** We estimate reduction in sector's earning due to extension of super tax in FY18.

Fertiliser Sector

Positive

Budgetary Measure	Sector Impact
Urea price maintained at PKR 1,400/bag for farmers, subsidy of PKR 36bn, sales tax at 5% on urea (same as last year)	**Positive:** With ~1.4mn urea inventory with fertilizer manufacturers, this would increase the offtake, leading to easing cash flow and better profitability. Retail price for manufacturers at PKR 1,615/bag (adjusting for reduced sales tax).
Sales tax on DAP reduced from PKR400/bag to PKR 100/bag. Subsidy of PKR 300/bag abolished.	**Neutral:** No impact on DAP manufacturer and importers as subsidy is replaced by ST. Retention price remains same.
Price of imported urea reduce by PKR 200 to PKR 1000/bag	**Neutral:** No impact as imported urea is old and farmer prefer local urea.
Agriculture loan mark up 9.9% for restricted area.	**Positive**: Participation by small farmers would augment in agriculture sector
Sales tax on agricultural diesel engines (from 3 to 36 HP) is proposed to be exempted.	**Positive:** The incentive aims to spur agricultural activity.
Corporate tax rate has been reduced by 1% to 30%.	**Positive:** Overall profitability of the sector would improve with the advent of decline in corporate tax.
Super tax at the rate of 3% to be continued for FY18	**Negative:** Bottom-line of the sector would reduce for FY18.

OMC Sector

Neutral

Budgetary Measure	Sector Impact
Withdrawal of 2% sales tax on lubricant oil	**Neutral-Positive:** Sales tax is passed over, however higher consumption expected as a result of lower price. HTL and SHEL to remain key beneficiaries.
Higher Petroleum Levy for FY17 to the tune of PKR 160bn which is up by +3.2% from PKR 155bn last year (revised).	**Neutral:** Petroleum levy is entirely passed on to the consumer so it will have a Neutral effect on all OMCs.
Minimum turnover tax of 1% of total turnover will now be charged to companies incurring gross loss.	**Neutral**: OMCs are charged minimum turnover tax rate of 0.5% of turnover.
Allocation of PKR 48bn, PKR 35bn, PKR 38bn, PKR 10bn, PKR 26bn, PKR 2.5bn and PKR 8.2bn for Lahore to Abdul Hakeem Section, Multan-Sukhar section, Hakla to Yarik D.I Khan Motorway, Faisalabad Khanewal expressway, Thakot to Havelian, Sukkur-Hyderabad and other highways section have been allocated respectively.	**Positive:** Demand for Asphalt is expected to increase, providing better opportunities for APL.
Corporate tax rate has been reduced by 1% to 30%.	**Positive:** Reduction in tax rate would enhance profit after tax for all companies in OMCs sector. Earnings to increase by PKR 1.03/share, PKR 0.75/share, PKR 0.99/share and PKR 0.28/share for PSO, HASCOL, APL and SHEL.
Super tax at the rate of 3% to be continued for tax year 2018.	**Negative:** Sector's Earnings would be reduced by 4-5% for 2017.
Tax rate on dividend income increased from 12.5% to 15%.	**Neutral-Positive:** This will be positive for OGDC, POL and ATRL as they receive substantial dividend income from their investments in associates.
Total Power sector subsidy remains the same as last year at PKR 118bn.	**Neutral-Negative:** With no resolution in circular debt and no increase in power sector subsidy, receivables amount for PSO should remain a key concern.

Budget 2017-18

Sunday, May 28, 2017

Banks

Neutral - Negative

Budgetary Measure	Sector Impact
Super tax: Super tax at the rate of 4% to be continued for tax year 2017.	**Negative:** Imposition of 4% super tax will erode banking sector earnings by 7% in CY17.
Exemption on cash withdrawal by branchless banking agents: At present, tax @ 0.3% and 0.6% is deducted upon aggregate cash withdrawals exceeding PKR 50,000 / day from filers and non-filers respectively; exemption is being accorded to branchless banking agents operating under the Asaan Mobile Account Scheme from withholding tax on cash withdrawals	**Neutral:** Minimal impact on profitability
Tax neutrality in Islamic Banking viz-a-viz conventional banking: Tax neutrality has been accorded in the case of Musharika financing by extending the benefit of depreciation on assets co-owned in the case of a Musharika arrangement	**Positive:** For Islamic banks and conventional banks .
Loans for Farmers: ZTBL and National Bank of Pakistan will launch a new scheme for small farmers with holdings of 12.5 acres who will be provided agricultural loans at a reduced rate of 9.9% per annum. The volume of agriculture credit is being enhanced to PKR 1,001bn.	Neutral
Risk Sharing Guarantee Scheme (house financing): Risk Sharing Guarantee Scheme for low-income housing will be launched. Under this scheme, the Government will provide 40% credit guarantee cover to Banks and DFIs for home financing for up to PKR 1mn. This along with Land Revenue Records will be used for Mortgage Financing to ensure more security for banking sector	Neutral

Budget 2017-18

Sunday, May 28, 2017

Power Sector

Neutral

Budgetary Measure	Sector Impact
Power subsidy maintained at PKR 118bn in FY18 which is the same as last year. However, subsidy to WAPDA has been increased by PKR 7.1bn to PKR 102.5bn (FY16-17 revised PKR 102.58bn), while subsidy to KESC has been reduced to PKR 15.5bn from PKR 22.6bn (revised FY16-17 PKR 15.42bn). Tariff differential subsidy been increased by PKR 5bn to PKR 65bn (revised FY16-17 PKR 91bn)	**Neutral:** With no indication of resolution of circular debt in the budget, we see probability of gradual rise in circular debt and subsidies amount to increase incase of reversal of oil prices.
Government plans to add 10,000MW of electricity to National grid by 2018, whereas 15,000MW to be added beyond 2018.	**Neutral:** With additional capacity coming online we expect supply deficit to eliminate once 10,000MW of electricity generation comes online as current peak hour deficit stands at around 6,000-8,000MW.
Tax rate on dividend income increased from 12.5% to 15%.	**Neutral-Negative:** This will be negative for HUBC as it receives dividend income from Laraib, HPSL and dividend income from Narowal post demerger in FY17.
Corporate tax rate has been reduced by 1% to 30%.	**Positive:** KAPCO will be subject to decrease in corporate tax rate with an earnings impact of 1%.
Super tax at the rate of 3% to be continued for tax year 2016.	**Neutral-Negative:** We believe IPPs will remain exempt from super tax except for KAPCO which will result in EPS impact of 4%.
Government has maintained its allocation of PKR 50bn (FY16-17 Budget is PKR 17.77bn) for privatization proceeds for FY18.	**Neutral:** Government expects to privatize Discos and KAPCO in FY18.
CD rate on Bituminous coal and other coal equalized @ 5%. However, for the Power Projects in IPPs Mode, CD on import of both types of coal reduced to 3%	**Neutral:** This will have no impact on IPPs as it is a Passover item. However, this will bring down coal based tariff.

Automobile Sector

Neutral

Budgetary Measure	Sector Impact
Super tax is to be continued at the rate of 3% for FY18	**Negative:** This will result in 4-5% reduction in earning of auto sector companies.
Corporate tax rate brought down to 30%.	**Positive:** Reduction in tax rate would enhance profit after tax for all companies in Automobile sector.
Leasing and certain other financial institutions will collect 3% withholding tax on value of motor vehicles from non filers.	**Negative:** This will negatively affect the sales volumes of automobiles.
Removal of Regulatory Duty (RD) on Bead Wire.	**Positive:** This will positively impact earnings as input costs reduces. (GTYR).

Budget 2017-18

Sunday, May 28, 2017

Textile Sector

Positive

Budgetary Measure	Sector Impact
5% Regulatory Duty levied on import of synthetic filament yarn (of polyesters). And, proposed to levy sales tax @ 6% on commercial import of fabrics.	**Positive:** For spinners
Retail sales of five export oriented sectors are chargeable to sales tax @ 5%. It is proposed to increase the said to 6%.	**Neutral:** Increase in sales tax by 1% to 6% remains neutral for the sector as it is passed over to end consumer.
Zero Rated Sales tax regime to continue for 5 export oriented sectors including textile	**Neutral:** Zero rated sales tax regime is neutral for textile sector as it was introduced last year and maintained this year.
It is proposed that 5% Regulatory Duty may be levied on its finished product of metalized yarn while rate of customs duty on its vital raw materials may be reduced from 20% to 11%.	**Positive:** Imposition of RD on finished goods of metalized yarn and reduced CD of 11% on imports of raw material to decrease cost and increase profitability
Stamping foil used in producing high value added finished leather will also be exempted from customs duty; and Exemption of 3% CD on raw skins & hides	Positive
In consultation with public and private stakeholders, the government will launch Brand Development fund for textile sector	Neutral
Textile package of PKR 180bn	**Positive:** Timely disbursement of textile package as indicated by the government should bode well for textile companies
Pending payments of sales tax refunds to be made by Aug-2017	**Positive:** Refund of sales tax would benefit textile companies in the form one time increase in other income and improve cash flows
Cotton hedged trading to be initiated.	**Positive:** This will bring stability in cotton prices in Pakistan.
ERF and LTTF rate to continue	Positive

Consumer

Neutral-Positive

Budgetary Measure	Sector Impact
Zero rated regime maintained supplies on milk and fat filled milk.	**Negative:** Dairy sector falls under the ambit of exempt taxation, which we believe would create cash flow issues due to delayed claim of refunds from government.
Reduction in GST on machinery import for poultry sheds from 17% to 7% and removal of RD/reduction in CD from 11% to 3% on chicken stock,	**Positive**: Reduction in GST and CD on poultry remains positive for ASC
Removal of 5% customs duty on cool chain machinery maintained.	**Positive:** Beneficial for companies investing in frozen foods like ASC
10% of invested value tax credit for BMR, expansion, establishing new industry and 20% tax credit on Enlistment extended to Jun-19.	**Positive:** This would encourage further investment in consumer sector.
FED on aerated water maintained at 11.5%.	**Neutral:** This would escalated cost of production for Nestle and MUREB, which would likely be passed on.
Corporate tax rate has been reduced by 1% to 30%.	**Positive:** Profitability of the sector would improve
Super tax at the rate of 3% to be continued for tax year 2018.	**Negative:** Earnings for the sector would reduce for the year 2017.
Reduction of withholding tax rates on Fast Moving Consumer Goods from 3.5% to 2.5%	**Positive:** We flag this positive for TREET, as this will likely reduce cost .

Budget 2017-18

Sunday, May 28, 2017

Other Sector

Neutral-Positive

Budgetary Measure	Sector Impact
Exemption of sales, promotion and advertising expense over and above of 5% of turnover for pharmaceutical companies extended to 10% of turnover.	**Neutral-Positive:** Exclusion of advertising expense over and above 5% of turnover will result higher taxable income for Pharmaceutical companies. However, most pharmaceutical companies remain below 5%.
Insurance companies or agents to collect advance tax at the time of collection of insurance premium at the rate of 4% for general insurance and 1% for life insurance from non-filers on premium exceeding PKR 200,000 per annum has been increased to PKR 300,000 per annum	**Negative:** This will likely increase cost of doing business and reduce earnings for Insurance companies.
collection of withholding tax on purchase of tobacco by manufacturers of cigarettes at the rate of 5% of the purchase value of tobacco, at the time of collecting cess.	**Neutral-Negative:** Increase in FED is passed over, however illicit sale of cigarettes and availability of cheaper cigarettes remains negative for sector earnings. 5% WHT at time of collecting cess remains neutral as it is passed over to end consumer.
Addition of 10,000MW electricity by 2018 and 15,000MW beyond 2018.	**Positive:** With increase investment in power sector, higher spending would be needed on transmission system, which in our opinion would be beneficial for PEAL's power division.
Federal Excise Duty on telecommunication services is proposed to be reduced from 18.5% to 17.0% and customs duties at the rates of 11% and 16% withdrawn and uniform rate of 9% RD levied on telecom equipment	**Positive:** PTC to be key beneficiary as reduction in FED and CD would ease cash flows and improve margins owing to higher calling minutes

Other Key Measures

- Minimum wage increased to PKR 15,000 from PKR 14,000 per month
- 10% increase in pension
- For Power Projects in IPPs Mode, CD on import of coal is reduced to 3%.
- CD reduced on uncoated polyester film and aluminum wire from 20% to 11% for manufacturers of metalized yarn.
- Reduction of CD on fabric (non-woven) for pharmaceutical industry from 16% to 5%.
- Reduction of CD on sheets for veneering rom 16% to 11%.
- Reduction of RD on aluminum waste or scrap from 10% to 5%.
- Reduction of duty on import of hatching eggs from 11% to 3%
- Sales tax on agricultural diesel engines (from 3 to 36 HP) is proposed to be exempted.
- Levy of 2% sales tax on lubricating oils withdrawn.
- Federal Excise Duty on telecommunication services is proposed to be reduced from 18.5% to 17%.
- At present an individual is obliged to pay advance tax if his latest assessed taxable income is PKR 500,000 or more. the threshold for payment of advance tax on the basis of latest assessed taxable income is being enhanced from PKR 500,000 to PKR 1,000,000

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: Target Price: A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. ROE: Return on equity is the amount of net income returned as a percentage of shareholders' equity. P/E: Price to Earnings ratio of a company's share price to its per-share earnings. P/B: Price to Book ratio used to compare a stock's market value to its book value. DY: The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Sunday, May 28, 2017

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Jawad Ameer Ali	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	jawad.ameer@igi.com.pk
Anjali Kukreja	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	anjali.kukreja@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Tanweer Kabeer	Research Analyst/Funds Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: w w w .igisecurities.com.pk

Stock Exchange Office
Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2 , Fax: (+92-21) 32429607

Lahore Office
5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Islamabad Office
Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office
Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office
Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office
Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Abbottabad Office
Ground Floor, Al Fatah ShoppinigCenter , Opp. Radi
Station, MansehraRoad, Abbottabad
Phone: (+92-99) 2408243 - 44