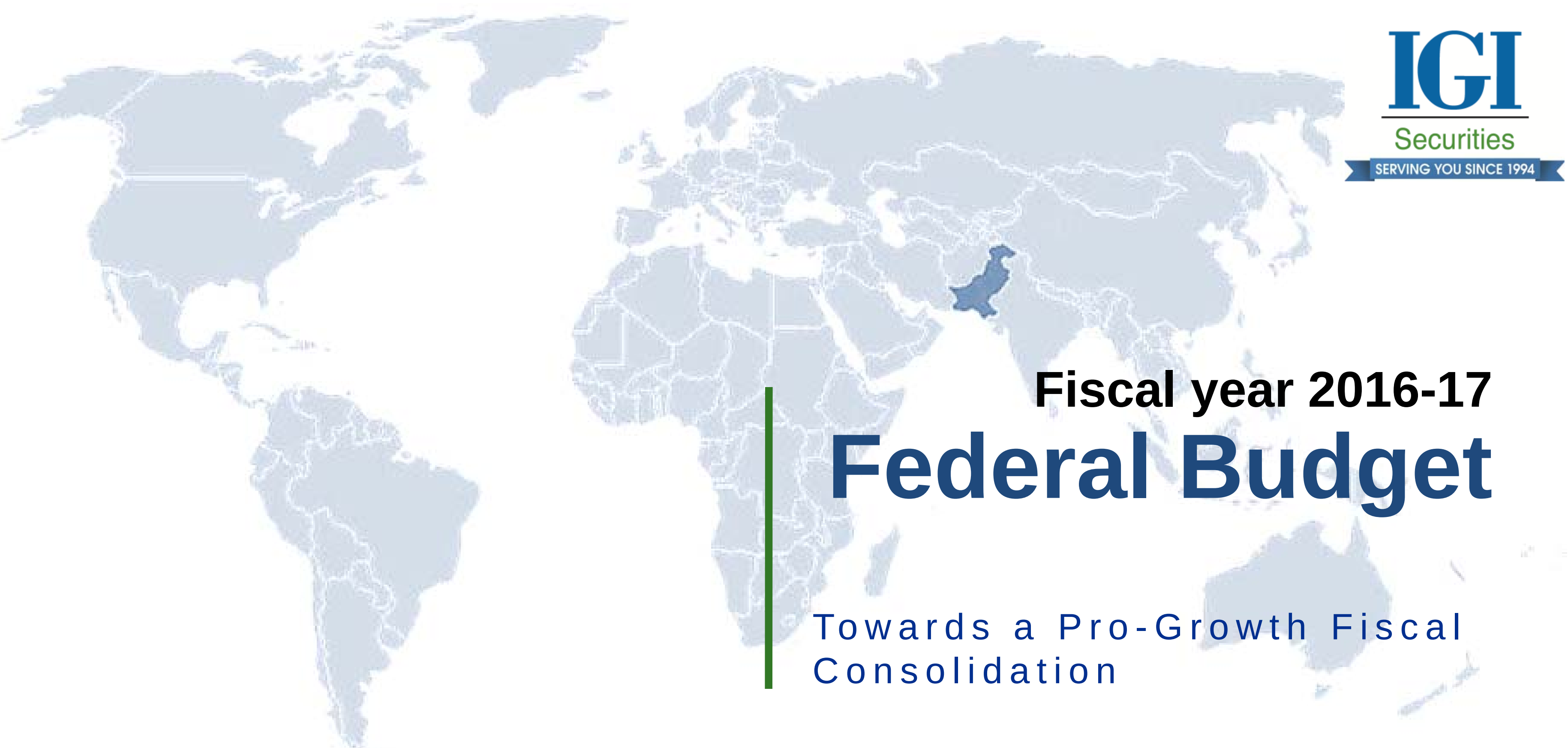


IGI Securities
SERVING YOU SINCE 1994

Fiscal year 2016-17

Federal Budget

Towards a Pro-Growth Fiscal Consolidation

Summary

The elected PML-N led government presented the Federal budget for fiscal year 2016-17 on 3rd June 2016. Major focus was to reduce the Fiscal Deficit by cutting non-development expenditure, increasing tax net-with special focus on punitive tax measures on non-filers. On the development front, particular emphasis was on development of highways and CPEC based projects, with certain sectors benefiting more than others. In our view the overall budget is Neutral event for the Equity Market. We have presented a brief overview on possible economic outcomes on economy and major sectors outlook.

June 6, 2016

Table of Contents

June 6, 2016

Budget 2016-17

June 6, 2016

BRP 009

Synopsis

Budget	The government has its set fiscal deficit target of 3.8% of the GDP (PKR 1.28trn), down from 4.3% last year deficit. In addition GDP is estimated to grow by +5.7% in FY17. In our view the Budget 2016-17 lack meaningful measures to address the perennial fiscal problems such besetting the economy. Primarily we say this as the budget didn't carry within it any credible path to increase tax-to-GDP ratio or broadening tax net and reduce non-productive expenditure. Nevertheless, The budget did featured pro-growth formula as larger share of expenditure was set aside for development projects, mainly surrounding CPEC and energy sector.
Equity Market	From market perspective, we view budget to be market Neutral. The budget includes introduction of CGT rate differential for filers and non-filers which can be taken negatively by the market. Continuation of Super Tax on corporate would extend pressure on earnings and while withdrawal of exemption from inter-corporate dividend for companies claiming Group-relief, will also affect holding companies profitability.
Sector-wise	Sector-wise the budget is going to benefit Fertilisers, Textile, and Construction, while having neutral impact on Automobiles, Power, OMCs, and E&Ps. Whereas we view the budget to have neutral to negative impact on Banks and Consumer Staples/Discretionary.

Budget Overview

Budget 2016-17

June 6, 2016

BRP 009

Overview

The PML-N led government presented its fourth Federal budget for the fiscal year 2016-17 before the National Assembly on 3rd June 2016.

The government has its set fiscal deficit target of 3.8% of the GDP (PKR 1.28trn), down from 4.3% last year deficit. In addition GDP is estimated to grow by +5.7% in FY17.

Summary

- In our view the Budget 2016-17 lack meaningful measures to address the perennial fiscal problems such besetting the economy.
- Primarily we say this as the budget didn't carry within it any credible path to increase tax-to-GDP ratio or broadening tax net and reduce non-productive expenditure.
- The budget did featured pro-growth formula as larger share of expenditure was set aside for development projects, mainly surrounding CPEC and energy sector.
- Among others sectors agricultural sector carried special relief package, understandingly as the sector growth remained subpar during FY16 (-0.19%YoY growth).
- Industrial sector in particularly textile sector carried added benefits, such as zero-rating on input supplies, lowered export re-financing rate etc.

Exhibit: Consolidated Federal Budget Snapshot

PKRbn	FY16B	FY16R	FY17B	YoY%
Total Revenues	2,463	2,481	2,780	12%
Total Expenditure	4,089	4,096	4,395	7%
Fiscal Balance	(1,625)	(1,615)	(1,615)	
Provincial Surplus	297	337	339	1%
Consolidated Fiscal Balance	(1,328)	(1,278)	(1,276)	
Fiscal Deficit	-4.3%	-4.3%	-3.8%	
GDP (PKRbn)	30,672	29,598	33,509	13%

Source: MoF & IGI Research

GoP Economic targets

	FY16	FY17E	FY18F	FY19F
GDP growth %	4.7	5.7	6.2	7.0
Inflation %	3.5	6.0	6.0	6.0
Fiscal Account (%age of GDP)				
Total Revenue	15.9	16.0	15.9	16.1
Tax Revenue	12.6	12.9	13.4	13.9
FBR Tax Revenue	10.5	10.8	11.5	12.1
Non Tax Revenue	3.3	3.1	2.5	2.2
Total Expenditure	20.2	19.8	19.4	19.6
Fiscal Balance	(4.3)	(3.8)	(3.5)	(3.5)
Revenue Balance	-	0.9	1.3	1.6
Total Public Debt	64.8	61.4	57.8	54.3

Budget 2016-17

June 6, 2016

BRP 009

Revenue

- The government has set an ambitious tax collection target of PKR 3.95trn for FY17, which is +16% YoY higher when compared with the revised FY16 collection of PKR 3.42trn.
- Areas for additional revenue generation are Sales Tax and Custom Duty. With nominal growth rate projected at ~12%, expected elimination of SROs and much need structural reforms to broaden up tax net, we could see government meeting its tax targets. To note the government in FY16 did manage to surpass tax/non-tax collection target, albeit by a mere margin.
- Growth in tax collection is estimated on the back of substantial +18%YoY increase in direct taxes to the tune of PKR 1.55trn on account of +18%YoY growth in income tax to PKR 1.54trn.
- Indirect taxes are projected to grow by +16%YoY to PKR 2.06trn, with sales tax contributing almost +70% followed by +20% contributing through custom duties.
- Non-tax revenue is targeted at PKR 0.96trn (PKR 0.91trn in FY16), which includes 3G auction proceeds of ~PKR 75bn.

Exhibit: Net Federal Revenues

PKRbn	FY16B	FY16R	FY17B	YoY%
Tax Revenues	3,418	3,420	3,956	16%
FBR	3,104	3,104	3,621	17%
Direct	1,348	1,324	1,558	18%
- Income Tax	1,327	1,308	1,539	18%
- Other Direct Taxes	21	16	19	18%
Indirect	1,756	1,780	2,063	16%
- Custom	299	349	413	19%
- Sales tax	1,250	1,230	1,437	17%
- Fedreal Excise	206	201	213	6%
Other	315	316	335	6%
- GIDC	145	145	145	0%
- Petroleum Levy	135	135	135	0%
Non-Tax Revenues	895	913	959	5%
- PTA 3G	65	45	75	67%
- Dividends	88	82	85	4%
- SBP Profits	280	280	280	0%
Less: Provincial Share	1,849	1,852	2,136	15%
Total Revenues	**2,463**	**2,481**	**2,780**	**12%**

Source: MoF & IGI Research

Budget 2016-17

June 6, 2016

Expenditure

- The government has kept total expenditure growth relatively modest, while focus has been all on development spending.
- Total expenditures targeted for budget FY17, are estimated at PKR 4.39trn, growth of +7%YoY.
- The government revised current expenditure for FY16 was over and above initial budgeted target by nearly ~6%.
- Amongst the current expenditure the combine debt servicing and defense contribution stands at ~65%, up by +7%YoY.
- In addition healthy increase in civil government pay by nearly ~19%YoY is also a feature of current expenditure.
- On subsidy side, the government has targeted a 28%YoY reduction, with major cuts targeted in power sector.
- Fund allocation to PSDP has been raised to PKR 800bn (+21%YoY) from PKR 661bn with a special focus on highways and CPEC based projects.

Exhibit: Expenditure

PKRbn	**FY16B**	**FY16R**	**FY17B**	**YoY%**
Current Expenditure	3,166	3,282	3,400	4%
- Debt Servicing	1,280	1,315	1,360	3%
- Defence	781	776	860	11%
- Subsidies	138	197	141	-28%
- Civil Govt. Pay	73	74	88	19%
- Other	967	994	1,039	5%
Development	923	814	995	22%
- Fed. PSDP	700	661	800	21%
- Other Devl	164	128	157	23%
- Net Lending	58	25	38	50%
Total Expenditure	**4,089**	**4,096**	**4,395**	**7%**
Subsidies				
WAPDA/PEPCO	98	118	95	-19%
- Tariff Differential	60	66	60	-9%
KESC	20	53	23	-58%
Others	60	132	68	-49%
Total Subsidies	**138**	**197**	**141**	**-28%**
PSDP Allocation				
Federal	700	661	800	21%
- WAPDA	112	121	130	8%
- National Highway Authority	160	178	188	6%
Provincial	814	732	875	19%
Total PSDP	**1,514**	**1,394**	**1,675**	**20%**
Total PSDP %age of GDP	**4.9%**	**4.7%**	**5.0%**	

Source: MoF & IGI Research

Budget 2016-17

June 6, 2016

Financing

- For FY17, deficit financing is skewed towards mobilizing domestic source, whereby non-banking institutions are expected to raise PKR ~540bn (compared to PKR 601bn raised in FY16). Banking sector will fulfill almost PKR 452.9bn or ~36% of the total financing need.
- Government bond issuance are estimated at PKR 150bn (compared to a net retirement of PKR 100bn in FY16), while short-term treasury bills are expected to decline to PKR 100bn from PKR 185bn last year.
- From external sources, the government expects to raise PKR 105.5bn through a sovereign bond issuance, while government is eyeing to raise nearly PKR 50bn in privatisation proceeds in addition to 3G auction proceeds of PKR 75bn.

Exhibit: Financing

PKRbn	FY16B	FY16R	FY17B	YoY%
Net External Financing	**346**	**465**	**234**	**-50%**
Domestic Borrowing	**932**	**800**	**992**	**24%**
Non-bank borrwoing	650	601	539	-10%
- PIB	220	(100)	150	na
- Tresuary Bills	100	185	100	-46%
- Sukuks	-	38	0	-99%
Bank Borrowing	283	199	453	128%
Privatisation Proceeds	**50**	**14**	**50**	268%
Fiscal Financing	1,328	1,278	1,276	0%
%age Share				
External Funding	26%	36%	18%	
Domestic Funding	74%	64%	82%	

External Financing Sources

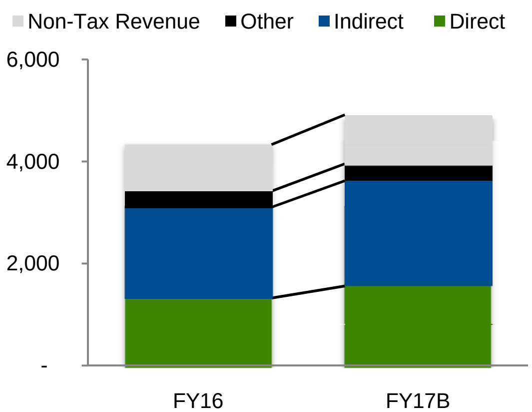
PKRbn	FY16B	FY16R	FY17B	YoY%
Project Loans	208.3	306.5	219.1	-28%
Programme Loans	187.4	324.6	133.8	-59%
Other Aid	331.9	190.3	443.8	133%
- IDB	125.9	92.4	47.7	-48%
- Soverign Bond	101.3	52.2	105.5	102%
- Sukuk Bond	-	-	79.1	na
Project grants	24.0	38.0	22.8	-40%
Kerry Lugar	-	0.3	-	na
External Resources	751.5	859.7	819.6	-5%
Less Repayments	**405.8**	**394.8**	**585.2**	**48%**
LT Foreign Loans	316.4	318.1	443.8	
ST Foreign Loans	89.4	76.7	141.4	
Net External Borrowing	346	465	234	-50%

Source: Ministry of Finance

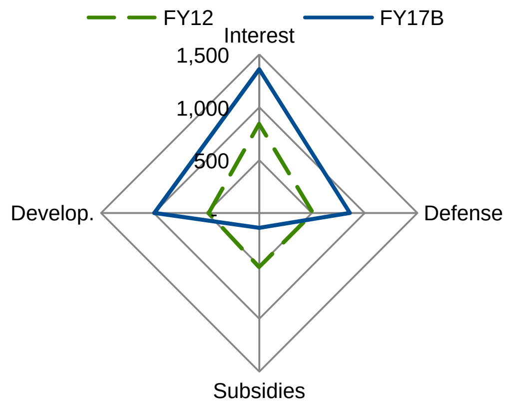
Budget 2016-17

June 6, 2016

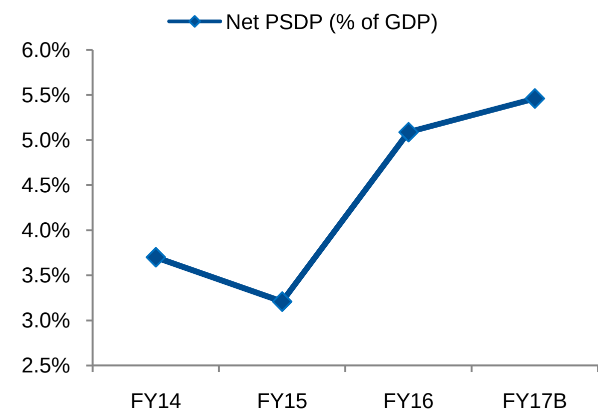
Tax and non-tax revenues



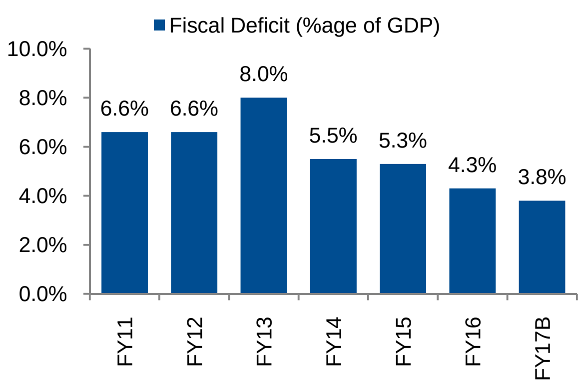
Major source of current expenditures



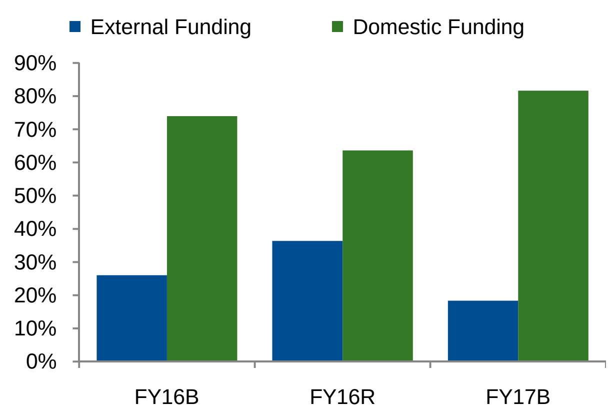
Net PSDP as a %age of GDP



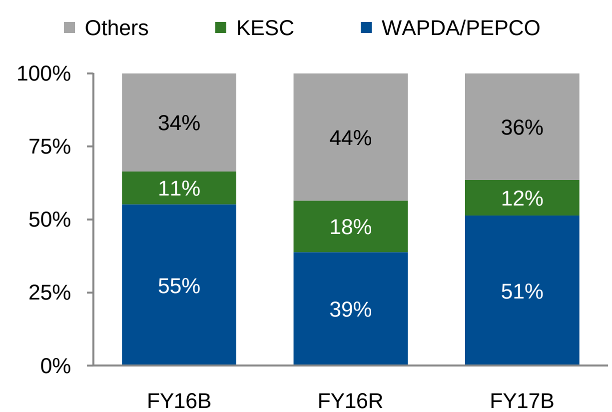
Fiscal deficit snapshot



Sources of financing



Subsidy allocation



Source: MoF & IGI Research

Equity Market Overview

Equity Market

- From market perspective, we view budget to be market **Neutral**. The budget includes introduction of CGT rate differential for filers and non-filers which can be taken negatively by the market.
- On corporate earning side, planned reduction of 1% in corporate tax to 31% (other than Banks and Exploration & Production companies) along with extension of tax credits for listing and fully equity raised BMR will generally be market 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 4-6%, 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. In addition, withdrawal of exemption from inter-corporate dividend for companies claiming Group-relief, will also affect holding companies negatively.
- Sector-wise the budget is going to benefit Fertilisers, Textile, and Construction, while having neutral impact on Automobiles, Power, OMCs, and E&Ps. Whereas we view the budget to have neutral to negative impact on Banks and Consumer Staples/Discretionary.

Exhibit: CGT effective rate

Holding period	Tax Year 2015	Tax Year 2016	Tax Year 2017	
			Filer	Non-Filer
<12 mnths	12.5%	15.0%	15.0%	18.0%
12mnths - 24mnths	10.0%	12.5%	12.5%	16.0%
+24mnths (given security was acquired on or after 1st July,2012)	0.0%	7.5%	7.5%	11.0%
Acquired before 1st July, 2012	0.0%	0.0%	0.0%	0.0%
Future Commodity contracts	0.0%	0.0%	5.0%	5.0%

*This is also valid for CGT on debt securities disposal by companies currently being charged at corporate tax rate

Source: IGI Research, MoF,

Equity Market

Neutral

Budgetary Measure	Budgetary Measure	Impact
Capital Gain Tax (CGT)	Introduction of tax differential between filers and non-filers under Capital Gain Tax (CGT).	Neutral to Negative
	Period of exemption from CGT enhanced from 4 years to now 5 years	
Withholding Tax (WHT)	Withholding tax rate of 0.01% on commission of members of Stock Exchange is enhanced to 0.02%.	Neutral to Positive
Tax Credits	Tax Credit of 20% for BMR through 100% equity extended to Jun-19.	Positive
	20% Tax Credit for 2 years allowed from current 1 year for enlistment on stock exchange	
Corporate Earnings	Corporate tax rate reduced by 1% to 31% for FY17	Neutral to Positive
	Super tax is extended for another year at 4% on banks and 3% on non-bank companies. In addition the finance bill further clarifies, that calculation of profits admissible for deduction of Super tax will now exclude depreciation and business losses. Which in short could exacerbate corporate tax charges.	Negative
	Minimum tax of 1% will now also be charged on turnover for the companies incurring gross loss	Negative
	Removal of Exemption on inter-corporate dividends for companies availing group relief. It is proposed that Group Relief claimed by holding company will now be proportional to the percentage of holding in subsidiary (previously it was claimed in full, if holding in subsidiary is 55%/75% in listed/unlisted). Further the exemption from inter-corporate dividend is withdrawn for companies claiming group relief.	Negative
Dividend	Advance tax for dividend on non-filers increased to 20% from 17.5%, while dividend from Money Market Fund, Income Fund and Real Estate Investment Trust (REIT) schemes is to be taxed at 15% from 10% for non-filers.	Negative

Sector Overview

Budget 2016-17

June 6, 2016

Agriculture Sector

Positive | **Top Picks:** EFERT

Budgetary Measure	Sector Impact
Urea price reduced to PKR 1,400/bag, subsidy of PKR 36bn, Reduced sales tax at 5% on urea.	**Positive:** With ~1.4mn urea inventory with fertilizer manufacturers, this would increase the offtake, leading to easing cashflow and better profitability. Retail price for manufacturers at PKR 1,600/bag (adjusting for reduced sales tax).
DAP prices reduced to PKR 2,500 , PKR 10bn subsidy allocated .	**Positive:** DAP offtake would likely kick in once the season starts, improving cash flow and proftability of the sector.
Sales tax exempted on pesticides.	**Positive**: This would lead to better farm economics.
Subsidy on import of urea of PKR 7bn.	**Neutral:** With higher domestic inventory levels, we anticipate no need for urea import.
Reduction in mark up rates on loans to small farmers by 2%.	**Positive:** Participation by small farmers would augment in agriculture sector.
Reduced rate of PKR 5.35/unit applicable on tube-well effective from 1st Jul-16.	**Positive:** PKR 3.5/unit reduction would bode well for farmers and reduce their overall cost and enhance margins.
Group relief against losses restricted to the extent of shareholding while withdrawing exemption from inter-corporate dividend if this relief is availed .	**Negative:** We raise red flag for ENGRO, as implementation of proposal would result in decline in earnings, since company cant take benefit of subsidiary loss and relief on inter group dividends simultaneously.
Corporate tax rate has been reduced by 1% to 31%.	**Positive:** With 1% decline in corporate tax rate, profitability of the sector would improve.
Super tax at the rate of 3% to be continued for tax year 2016.	**Negative:** Earnings for the sector would reduce by 6-7% for the year 2016.

Budget 2016-17

June 6, 2016

Construction Sector

Neutral | **Top Picks :** ACPL, CHCC, PIOC, DGKC

Budgetary Measure	Sector Impact
Increased in Federal PSDP to PKR 800bn in FY17 from PKR 661bn (revised) in FY16.	**Positive:** Higher government spending in infrastructure along with private investment in construction would increase demand of cement, glass and steel.
FED to be charged at fixed rate of PKR 1/kg instead of 5% of maximum retail price, effective Jul-16.	**Neutral:** Cement prices would be raised by PKR 30-35/bag from Jul-16 to pass on higher FED rate.
FED to be charged at fixed rate of PKR 1/kg on White cement, which was exempted from FED before.	**Neutral:** We expect White cement prices to go up by PKR 50/bag. MLCF and KOHC are the only producers of white cement in Pakistan
10% of invested value tax credit for BMR, expansion, establishing new industry and 20% tax credit on Enlistment extended to Jun-19.	**Positive:** Companies in manufacturing sector (cement, steel and glass) are investing for capacity enhancements to fulfill demand expected going forward. With Extension in tax credit facilities, we see one time increased profitability.
2% tax credit for every 50 new employees in a new industry set up till Jun-19	**Positive:** Tax credit in an expansionary environment would reduce effective tax rate increasing overall profitability.
Fixed tax rate to be charged on builders and developers on area per square basis, instead of property value.	**Neutral:** This would result in proper reporting of property prices.
Adjustable advance tax of 5% on value of mineral extracted on non-filers	**Neutral:** All cement companies extracting limestone are filers.
Increase in custom duty from 2% to 11% on cement clinker.	**Neutral:** Cement companies under our coverage do not import clinker.
Increase in sales tax on steel sector, ship breakers and steel melters.	**Negative:** This will likely result in margin contraction for ASTL and MUGHAL.
Corporate tax rate has been reduced by 1% to 31%.	**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 tax year 2016.	**Negative:** We estimate reduction in 4-6% in sector's earning due to extension of super tax in 2016 .

Budget 2016-17

June 6, 2016

Consumer

Neutral-Negative | **Top Beneficiary:** TREET

Budgetary Measure	Sector Impact
Zero rated regime abolished on supplies on milk and fat filled milk.	**Negative:** With removal of zero-rated regime, 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.
Regulatory duty of 25% imposed on Powder milk and Whey Powder in additon to 20% custom duty.	**Negative:** This would effectively increase production cost for UHT milk and tea whitener manufacturers, requiring increase in prices of such products. NESTLE, EFOODS, NOPK, SML **.**
Custom duty reduced to 2% from 5% on import of machinery by dairy, livestock and poultry.	**Positive**: Reduction in customs duty would incentivize further investment in the sector with increasing urbanization.
Removal of 5% customs duty on cool chain machinery.	**Positive:** Beneficial for companies investing in frozen foods.
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 increased to 11.5% from 10.5%.	**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 31%.	**Positive:** With 1% decline in corporate tax rate, profitablity of the sector would improve.
Super tax at the rate of 3% to be continued for tax year 2016.	**Negative:** Earnings for the sector would reduce for the year 2016.
Removal of 17.5% Regulatory Duty from Carbon Steel Strip used by blade manufacturers.	**Positive:** We flag this positive for TREET, as this will likely reduce cost .

Budget 2016-17

June 6, 2016

BRP 009

OMC Sector

Neutral | **Top Picks:** PSO

Budgetary Measure	Sector Impact
Reduction in power subsidies to PKR 95bn in FY17 from revised spending of PKR 171bn in FY16.	**Positive:** A cut down in subsidy will reduce the circular debt and consequently result in better liquidity for the Energy Chain Companies including OMCs.
Higher Petroleum Levy for FY17 to the tune of PKR 150bn which is +11.1% up from PKR 135bn last year.	**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 34.0bn, PKR 19bn and PKR 2.5bn for Lahore to Abdul Hakim Section, Multan-Sukhar section and Sukkur-Hyderabad section have been allocated respectively, in PSDP. Burhan Hakla Motorway has been allocated PKR 22bn.	**Positive:** Demand for Asphalt is expected to increase, providing better opportunities for APL.
Corporate tax rate has been reduced by 1% to 31%.	**Positive:** Reduction in tax rate would enhance profit after tax for all companies in OMCs sector.
Super tax at the rate of 3% to be continued for tax year 2016.	**Negative:** Sector's Earnings would be reduced by 4-5% for 2016.

Power Sector

Neutral | **Top Picks:** HUBC

Budgetary Measure	Sector Impact
Reduction in power subsidies to PKR 95bn in FY17 from revised spending of PKR 171bn in FY16.	**Neutral:** With no plan for resolution of circular debt in the long term, we see probability of rising debt and subsidies amount incase of reversal of oil prices.
Government plans to add 10,000MW of electricity to National grid by Mar-18, whereas Dasu, Daimar-Bhasha, Karachi Civil Nuclear Energy and other projects are expected to come online after 2018.	**Neutral:** With majority of the projects being coal and hydel based, generation cost is expected to come down significantly, post new capacities addition, resulting in easing cash flows for power and oil sectors.
Corporate tax rate has been reduced by 1% to 31%.	**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 likely remain exempt except for KAPCO which will result in EPS impact of 5%.
Government has allocated PKR 50bn for privatization proceeds for FY17.	**Neutral:** Government expects to privatize Discos and KAPCO in FY17.

Budget 2016-17

June 6, 2016

Textile Sector

Positive | **Top Pick:** NML

Budgetary Measure	Sector Impact
Textile sector granted zero-rated tax regime.	**Positive:** With zero rating implementation, cash flow issues are likely to be resolved for the sector.
Drawback of Local Taxes is still applicable for FY16-17.	**Positive:** This would continue to benefit textile exporters on FOB value subject to more than 10% rise in export sales.
Introduction of Technology Up-gradation Fund.	**Positive**: This will likely increase investments by small and medium investors.
Duty Free Import of Machinery.	**Positive:** Aid in further investment by investors in the textile sector.
Customs Duty withdrawal of Fibers.	**Positive:** Cost cutting will put less burden on consumers.
Export Refinance Facility reduced to 3%.	**Positive:** Amid reduction in refinancing rates, finance cost will likely go down, leading to increased profitability for NML, NCL GATM.
Corporate tax rate has been reduced by 1% to 31%.	**Positive:** With 1% decline in corporate tax rate, profitability of the sector would improve.
Super tax at the rate of 3% to be continued for tax year 2016.	**Negative:** Reduction in the sectors earnings.
For textile companies with approved refund payment orders (RPOs) government has will refund all the unsettled sales tax before 31st Aug-16	**Positive:** This will help elevate existing liquidity problem.

Budget 2016-17

June 6, 2016

Automobile Sector

Neutral

Budgetary Measure	Sector Impact
Auto Development Policy be effective from 1st July 2016.	**Positive:** This will positively impact earnings, however new entrants are favored at expense of existing players.
Super tax is to be charged at the rate of 3% for tax year 2016 for rehabilitation of IDPs.	**Negative:** This one time tax charge will result in 4-5% reduction in earning of auto sector companies.
Corporate tax rate reduced by to 31%.	**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 2016-17

June 6, 2016

Banks

Neutral - Negative | **Top Picks:** UBL, HBL, BAHL

Budgetary Measure	Sector Impact
Super tax at the rate of 4% to be continued for tax year 2016.	**Negative:** Imposition of 4% super tax will erode banking sector earnings by 4-6% in CY16.
FED of 16% chargeable on banking services to fall under provincial domain. However we still await clarity whether or not this will be effective retrospectively.	**Neutral:** Minimal impact on profitability
PKR 700bn has been allocated for credit to farmers with 50% guarantee of these by Government to reduce the risk of NPLs.	**Neutral:** These loans are expected to be disbursed through Government owned banks such as NBP, ZTBL and BoP.
Export Refinance Facility (ERF) has been cut by 50bps to 4% in FY17.	**Neutral**

Budget 2016-17

June 6, 2016

BRP 009

Other Sector

Neutral

Budgetary Measure	Sector Impact
Sales, promotion and advertising expense over and above of 5% of turnover for pharmaceutical companies will not be exempted.	**Negative:** Exclusion of advertising expense over and above 5% of turnover will result higher taxable income for Pharmaceutical companies.
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.	**Negative:** This will likely increase cost of doing business and reduce earnings for Insurance companies.
FED on cigarettes has been increased on bi annual basis with from 01-Jul-16 to 30-Nov-16 and 01-dec-16 onwards.	**Neutral:** Retail cigarette prices have already gone up in the market.
Addition of 10,000MW electricity till Mar-18.	**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.

Reliefs and Measures

Budget 2016-17

June 6, 2016

BRP 009

Key Relief Measure

- Corporate tax rate has been reduced by 1% to 31%.
- Increased in Federal PSDP to PKR 800bn in FY17 from PKR 661bn (revised) in FY16
- Zero rated regime granted for textile, leather, sports goods, surgical goods and carpets.
- Drawback duty to continue, and ERR to reduce by 0.5% to 3.5%.
- 5% reduced sales tax on urea and exemption of sales tax on pesticides.
- PKR 10bn and PKR 36bn subsidy for urea and DAP, respectively.
- Agri credit target increased to PKR 700bn from PKR 600bn, whereas agriculture credit rate reduced by 2%.
- Tube well tariff reduced by PKR 3.5/unit to PKR 5.35/unit for off-peak hours.
- Reduced Custom Duty of 2% from 5% on machinery for dairy, livestock and poultry sector
- Extension in of exemption to investment in Green Field Industrial till 30th June, 2019.
- Removal of RD from Bead Wire for tyres and Carbon Steel Strips used by Razor blade manufacturers.
- Exemption of 10% CGT on immovable property extended to 5 years from 2 years.
- Exemption on employer's annual contribution to provident fund is raised to PKR 150,000 from PKR 100,000.
- 2% Tax credit with industrial setups for every 50 additional employees.
- Exemption extended to Jun-19 for exports income from IT services and software provided 80% of proceeds come in via normal banking channels
- Reduction in custom duty to 3% from 20% for Thermostats of Deep Freezer
- Removal of 17.5% Regulatory Duty from Carbon Steel Strip used by blade manufacturers
- Tax credit at average tax rate extended to F insurance premiums (previously life insurance premiums only), however the tax credit will be lesser of insurance premium paid, 5% of the persons taxable income or PKR 100,000.
- Tax on payments to print and electronic media of 1.5% for filers, 12% for non filer companies and 15% for non filer non corporate entities, however non filers can file and claim the excess tax paid. Withholding tax of 20% on payments made to nonresident for foreign advertisements on television channels.
- Cottage industry redefined to include manufactures whose taxable turnover do not exceed 10mn, which was previously 5mn.

Key Relief Measure

- Proposal of deductible educational allowance comprising of tuition fee paid by individual whose taxable income for the year is less than PKR 1mn, however the allowance is less of 5% of tuition fee paid, 25% of the person's taxable income or PKR 60,000 into number of individual's children.
- The bill asks for quarterly advance tax liability determination (previously annual) and the assessed liability includes minimum tax and alternative corporate tax.
- Increase in deductible allowance for profit on loan obtained for house purchase or construction from PKR 1 mn to 2 mn.
- Final tax on filer life insurance agents reduced to 8% from 12% with a condition that the total commission is less than PKR 500,000 per annum. For buyers of immovable property with a value o PKR 3 mn is increased to 2%/4% from 1%/2% for filers/non filers, however exemption maintained if properties holding period is more than five years.
- Federal sale tax to registered manufacturers making 90% of their sales to sale tax registered person is increased to 3% from 2.5%.
- Prize on prize bond or cross word puzzle for non filers will be charged with 20% withholding tax.
- Raise in taxes on services rendered and construction contracts outside of Pakistan

Exhibit: Tax rates on service rendering and construction contracts

	Corporate		Non corporate	
	Filer	Non-Filer	Filer	Non-Filer
Service rendering	4.0%	6.0%	5.0%	7.5%
Construction contracts	3.5%	5.0%	3.8%	5.0%

- Low margin corporate service providers trimmed down minimum tax rate of 2% is extended by one year till 30 June 2017 provided the maintain an understanding by November 2016 to present their financial statements for audit.
- Poultry feed to be taxed at increased rate of 10% ad valorem from 5%.

Budget 2016-17

June 6, 2016

BRP 009

Tax Measures

- Insurance company income from all sources is not to be taxed at corporate rate.
- 25% RD imposed on Powdered Milk and Whey Powder
- Zero rates regime abolished for milk and fat milk industry.
- FED to be charged at PKR 1/kg for cement from current 5% of maximum retail price
- FED on sugar replaced with 8% sales tax.
- Federal Excise Duty on Aerated Waters is enhanced from 10.5% to 11.5% of retail price.
- Sales tax on mineral water is to be charged at 17% at retail prices instead of value of supply.
- Enhancement of tax based on fixed rate for steel sector, ship breakers and steel melters.
- Advance tax of 4% and 1% for non-filers on general and life insurance, respectively, subject to premium exceeding PKR 0.2mn.
- 4% and 3% super tax for banks and non-banks companies extended for 2016, with no adjustments allowed for business losses and depreciation.
- Tax based on area rather than value for land developers and builders.
- Gross rental income for individuals/AOP to be charged at 5-20% (exempt below PKR 200,000/annum) and to be treated as separate block
- Sale or transfer of immovable will be charged with an advance tax of 1%/2% from 0.5% /1% for filer/non filers, respectively.
- Group relief against losses restricted to the extent of shareholding while withdrawing exemption from inter-corporate dividend if this relief is availed
- Raise in FED on aerated beverages to 11.5% and locally produced cigarettes to
- Tax to be charged over and above 5% spend on promotion and advertising by pharmaceutical companies.
- 3% withholding tax on value of motor vehicles to be collected from non-filers by leasing companies.
- Provincial registered service providers which are Non-filers are to be charged advance tax of 3% by provincial tax authorities.
- Minimum turnover tax of 1% of total turnover will now be charged to companies incurring gross loss.
- Higher Petroleum Levy for FY17 to the tune of PKR 150bn which is +11.1% up from PKR 135bn last year.
- Adjustable advance tax of 5% on value of mineral extracted on non-filers
- Increase in custom duty from 2% to 11% on Cement Clinker

IGI Securities
SERVING YOU SINCE 1994

Analyst Certification

The analyst^ hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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

This document has been 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.

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 return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

IGI Securities
SERVING YOU SINCE 1994

Contact Details

Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	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) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.qureshi@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore 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: www.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