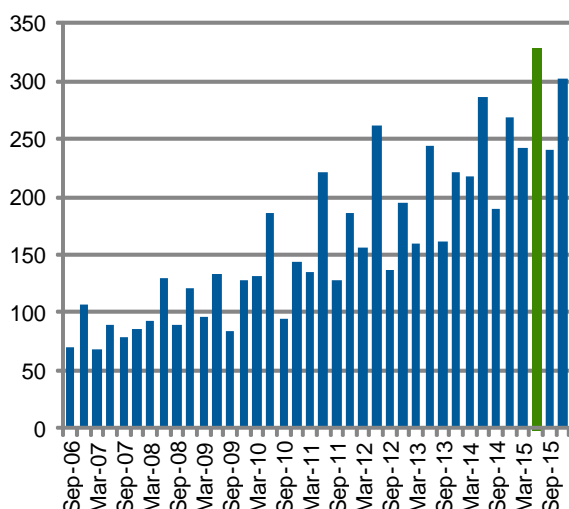


Day Break

Monday, 25 April 2016

Strategy

Direct Tax Collection During FY16 (PKRbn)



Strategy

Super Tax Likely to Increase Tax Burden for Companies in FY17

Super Tax to Increase Tax Burden for Companies in FY17

As per the [news](#) reports, the government has shown intention to continue Super tax in FY17. To recall, the one-time super tax was levied to collect funds for ongoing Operation Zarb-e-Azb, with an estimated collection amount of PKR 22-24bn (or 0.1% of the GDP). The tax was imposed irrespective of the quantum of income for banking companies and was charged at the rate of 4% for banks and at a rate of 3% for companies / individuals other than banking having taxable income above PKR 0.5bn.

Analysis

Although it's too early to suggest whether government will continue with Super-tax in FY17, we did our preliminary impact analysis on companies under our coverage. For banks' average earnings impact comes at ~6%, with HBL having the biggest negative impact. For rest of manufacturing companies, average earnings impact comes at 4%. Through our coverage companies, we estimate government will be able to generate additional tax collection of PKR 14.6bn in FY17.

Super tax on Banks

For banks in particular, effective taxation (IGI banking stocks) shot up to 41% compared to 34% last year. To add, this higher effective tax rate also includes other than super tax changes, the flat 35% tax rate on all sources of banking income. Nevertheless, much of the super tax provisions were made during the 2QCY15 (applicable on CY14 taxable income) which took banks' profitability down by an average 2-3%, as per our estimates.

Super tax on Oil & Gas Exploration Companies

Oil & Gas exploration companies will be charged at taxable income. Under the Ordinance income from principle activities are exempted from super tax, whereas income arising from other sources will be subject to super tax, which can result in ~0.4%-0.8% additional tax liability.

News Link:

<http://nation.com.pk/national/24-Apr-2016/super-tax-to-stay-in-next-budget>

Source: Ministry of Finance, News

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Monday, 25 April 2016

Exhibit: Company-wise earnings impact of Super-tax

Company	EPS (PKR)			DPS (PKR)			Target Price (dec-16)			Additional Tax(PKR mn)
	2016F	2016F (ST)	2016F (ST)	2016F	2016F (ST)	Change (%)	2016F (ST)	2016F (ST)	Change (%)	
Commercial Banks										9,616
HBL	24.5	22.85	-7%	14.00	13.00	-7%	252.9	245.1	-3%	2,411
UBL	22.34	20.96	-6%	14.35	13.46	-6%	210.7	205.7	-2%	1,687
MCB	23.55	22.03	-6%	16.00	15.00	-6%	244.1	238.4	-2%	1,693
ABL	14.51	13.62	-6%	7.00	7.00	0%	127.5	123.1	-3%	1,020
NBP	11.07	10.45	-6%	8.00	8.00	0%	70.1	69	-2%	1,329
BAFL	5.37	5.06	-6%	2.00	2.00	0%	31.8	30.8	-3%	504
BAHL	7.76	7.32	-6%	4.30	4.00	-7%	57	55.4	-3%	493
FABL	3.55	3.32	-7%	1.00	1.00	0%	20.4	19.9	-2%	277
AKBL	4.1	3.94	-4%	1.50	1.50	0%	25.4	24.7	-3%	202
Oil & Gas Marketing Companies										708
PSO	55.2	52.81	-4%	15.00	15.00	0%	454.3	451.5	-1%	650
HASCOL	11.45	10.97	-4%	6.00	5.70	-5%	160.3	159.7	0%	58
Power Generation & Distribution										422
HUBC	10.91	10.91	0%	10.70	10.70	0%	119.4	119.4	0%	-
KAPCO	11.33	10.85	-4%	10.25	9.75	-5%	80.4	79.9	-1%	422
Automobile Assembler										501
INDU	146.63	140.26	-4%	88.00	84.00	-5%	1,019.50	1,013.40	-1%	501
Cements										2,112
LUCK	45.17	43.26	-4%	10.60	10.10	-5%	672	670.2	0%	618
DGKC	22.64	21.75	-4%	6.50	6.20	-5%	228	227.3	0%	393
MLCF	11.93	11.42	-4%	4.80	4.60	-4%	104	103.6	0%	269
FCCL	4.58	4.38	-4%	3.90	3.70	-5%	56	55.7	-1%	265
PIOC	12.59	12.02	-5%	7.75	7.40	-5%	133	132.6	0%	129
CHCC	15.9	15.29	-4%	6.68	6.42	-4%	137	136.4	0%	107
ACPL	25.64	24.53	-4%	17.95	17.17	-4%	266	264.9	0%	128
KOHC	30.21	28.89	-4%	10.40	10.42	0%	283	281	-1%	203
Fertilizers										1,065
FFC	8.75	8.37	-4%	8.58	8.20	-4%	105	104.6	0%	488
FFBL	2.04	1.95	-4%	1.60	1.50	-6%	59	58.9	0%	79
EFERT	8.39	8.02	-4%	3.60	3.40	-6%	97	96.7	0%	498
Food Producers										165
EFOODS	5.1	4.89	-4%			NA	167	167	0%	165

Source: IGI Research

Analyst Certification

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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)

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