

## Pakistan Economy

# BUDGET FY 2021-22: INITIAL IMPRESSIONS

A budget that supports growth projections

The Finance Minister, Mr. Shaukat Tarin, unveiled the budget for FY 2021-22 in the National Assembly today having a total outlay of PKR 8.5Trn. The growth target for next year is set at 4.8% of GDP and this year's budget recommendations seem in-line with next year's growth projections as the govt. rolled out major relief measures for a number of sectors. Some salient features of the budget are as follows:

- National PSDP outlay set at PKR 2,102Bn (Federal; PKR 900Bn, Provincial; 1,202Bn), up by 36% YoY.
- Government expects large scale manufacturing to grow by 6.0% in FY 2021-22.
- Government has set debt repayment target of PKR 3,060Bn for FY 2021-22.
- Government has set NFC distribution target of PKR 3,411Bn for FY 2021-22, up PKR 707Bn / 25% YoY.
- FBR tax collection target has been set at PKR 5.8Trn for FY 2021-22 compared to PKR 4.7Trn in FY21.
- Subsidies target of PKR 530Bn for FY 2021-22.
- Government is eyeing total revenue collection of PKR 7,909Bn for FY 2021-22 of which PKR 5,829Bn pertains to tax revenue while the remainder (PKR 2,080Bn) relates to non-tax revenue.
- Government has allocated PKR 260Bn for Ehsaas programme.
- No change in tax rates for salaried class individuals.
- Government to provide interest-free loans of up to PKR 500,000 to the less privileged.
- Turnover tax ceiling for small business raised from PKR 3Mn to PKR 10Mn.
- Capital Gain Tax on disposal of securities is reduced to 12.5%.
- 10% increase in pension for retired employees.
- Minimum wage increased to PKR 20k per month.
- USD 1.1Bn allocated for vaccination drive, 100Mn vaccination target by Jun-22.
- 12 types of WHT's abolished including PSX, Margin financing, banking transactions, air travel.

### Sector-wise Proposals

#### Capital Markets (Positive):

- CGT on PSX reduced from 15% to 12.5%
- 12 types of WHT's abolished including PSX, Margin financing, banking transactions, air travel.

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**Cement (Positive)**

- PKR 2Mn loans allocated for low cost housing schemes applicable to people below age 30.
- New Pakistan Housing Authority has been made. Low income people will get PKR 300,000 subsidy with low mark-up on loan. Uptil now applications of PKR 100Bn worth has been received by the banks.
- PSDP has been increased from PKR 630Bn to PKR 900Bn.
- Relating to the constructions of dams and water preservation, PKR 91Bn have been allocated out of which PKR 57Bn, PKR 23Bn, PKR 6Bn and PKR 5Bn are assigned for Dasu hydro power project, Daimer Bhasha dam, Mohmand dam and Neelum Jhelum, respectively.

**Steel (Positive):**

- Steel and alloy custom duty removed.

**I.T Telecommunication sector (Neutral to Positive):**

- Telecom sector to be given the status of an industry.
- FED on telecommunication to be reduced from 17% to 16%.
- Special Technology zones will be introduced and import of plant, machinery and raw material in those zones is proposed to be exempted by sales tax .
- WHT of mobile phones decreased from 12.5% to 10%.
- Turnover tax abolished for SEZ's and 10-year tax holiday for STEZ's (special technology economic zone)
- To promote IT sector, it is proposed that export of services may be zero-rated.

**Pharmaceuticals (Positive):**

- Custom duty on 350 APIs abolished.

**Chemical (Positive):**

- The rate of sales tax on potassium chlorate is proposed to be increased from Rs. 80 per kg to Rs. 90 per kg in addition to 17% standard sales tax rate.
- Reduction if CD/ACD on raw materials for paint industry.

**Banks (Positive)**

- Govt has proposed removal of WHT on Banking Transactions.

**Real Estate (Positive):**

- Reduction of block taxation on capital gains on disposal of immovable properties if gain exceeds Rs. 20Mn.

**Automobile (Neutral):**

- Small cars up to engine capacity of 850cc to be exempt from value added tax besides reduction in sales tax rate from 17% to 12.5%.
- Exemption from VAT on import of electric vehicles, CKD kits for small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions.
- PKR 0.2Mn subsidy announced for tractors.
- Income from 'On' money on vehicles will be taxed.

**Power (Neutral to Positive):**

- Power sector subsidy allocated at PKR 118Bn.
- Measures to control Circular Debt to be implemented in the next two years which include controlling line losses, increasing renewable energy and restructure of private power debt among others.

**Agriculture and Fertilizer (Positive):**

- Government has set aside PKR 12Bn for food security.
- Government will provide up to PKR 200,000 interest free loan to farmers for purchase of tractor and machinery.
- Exemption from tax on import of agricultural equipment.

**Refinery (Positive):**

- Zero-rating is proposed to be withdrawn from Petroleum Crude Oil, parts/components of zero-rated plant and machinery, import of plant and machinery by petroleum and gas sector and supply, repair and maintenance of ships.
- Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10 years.

**Consumer/Food (Neutral to Positive)**

- Reduction of duties on raw material/inputs of footwear industry.
- Reduction/exemption of CD & ACD on inputs for poultry industry.
- Dairy industry tax reduced.
- Sales tax on sugar is proposed.
- Reduction/exemption of CD/ACD on inputs for electronic manufacturing industry

**Others:**

- Electronically heated tobacco products are also proposed to be brought into the tax net.
- Reduction in block taxation on interest income, if it exceeds PKR 5Mn annually.
- Reduced rate of withholding tax of 3% on oilfield services, warehousing services, logistic services, collateral management services and telecommunication services.
- Exemption from tax for bagasse fired power generating units and reduced rate of tax on dividend income from such projects.
- Federal tax down from 8% to 3% for commodities.
- Additional customs lined abolished for 164 lines.

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

### Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)