

BUDGET FY22

Going for growth

Key Highlights of Budget FY22 and its impacts



Foreword

“Crisis provides the opportunity for us to do things that you could not do before – Rahm Emanuel”

The Federal Minister for Finance Division, Shaukat Tarin, has presented federal Budget FY22 in National Assembly on 11th June with stupendous revenue target of PKR 7.91tn, up 24% YoY . The budget has been received positively by public and private sector as there was no additional tax burden announced due to ongoing Covid-19 emergency and some significant relief majors for some sectors.

The GDP target set for the upcoming year is 4.8%, which we believe is on conservative side given the many global economies are still recovering from pandemic leaving ample capacity in economy to grow. During the year, country has witnessed V-shaped post-pandemic recovery with stellar GDP growth of 3.94%. The industrial and services growth jumped 3.57% and 4.43% respectively, while agriculture sector posted sluggish growth rate of 2.77% in FY21.

On revenue side, government has set optimistic FBR revenue target of PKR 5.83 tn, up 24%, which we believe is too ambitious in absence of new taxes and measures like third-party tax audits. Target of petroleum levy for FY22 is increased by 22% to PKR 610 bn, which will translate in higher energy in prices and inflation going forward. On expenditure front, share of PSDP for FY22 is generously revised to PKR 900 bn which is 43% higher than the previous budget of PKR 630 bn in FY21, this will bode well for construction and steel sector.

The measures such as reduction in CGT from 15% to 12.5% for tax filers on disposal of securities, along with signal of further rationalization in coming years, removal of 10% Withholding tax (WHT) on Margin Financing, reduction in Turnover Tax from 1.50% to 1.25%, reduction/exemption of duties on import of HRC, exemption from FED on cars with the engine capacity of 850cc or lower will be welcomed.

We believe, the budget is more inclined towards the growth measures with special incentive for capital markets, therefore, the market response towards the budget would be positive.

This publication provides a sectorial analysis, which covers the impact of the budget FY22 on the key sectors. We hope it makes for an interesting read.

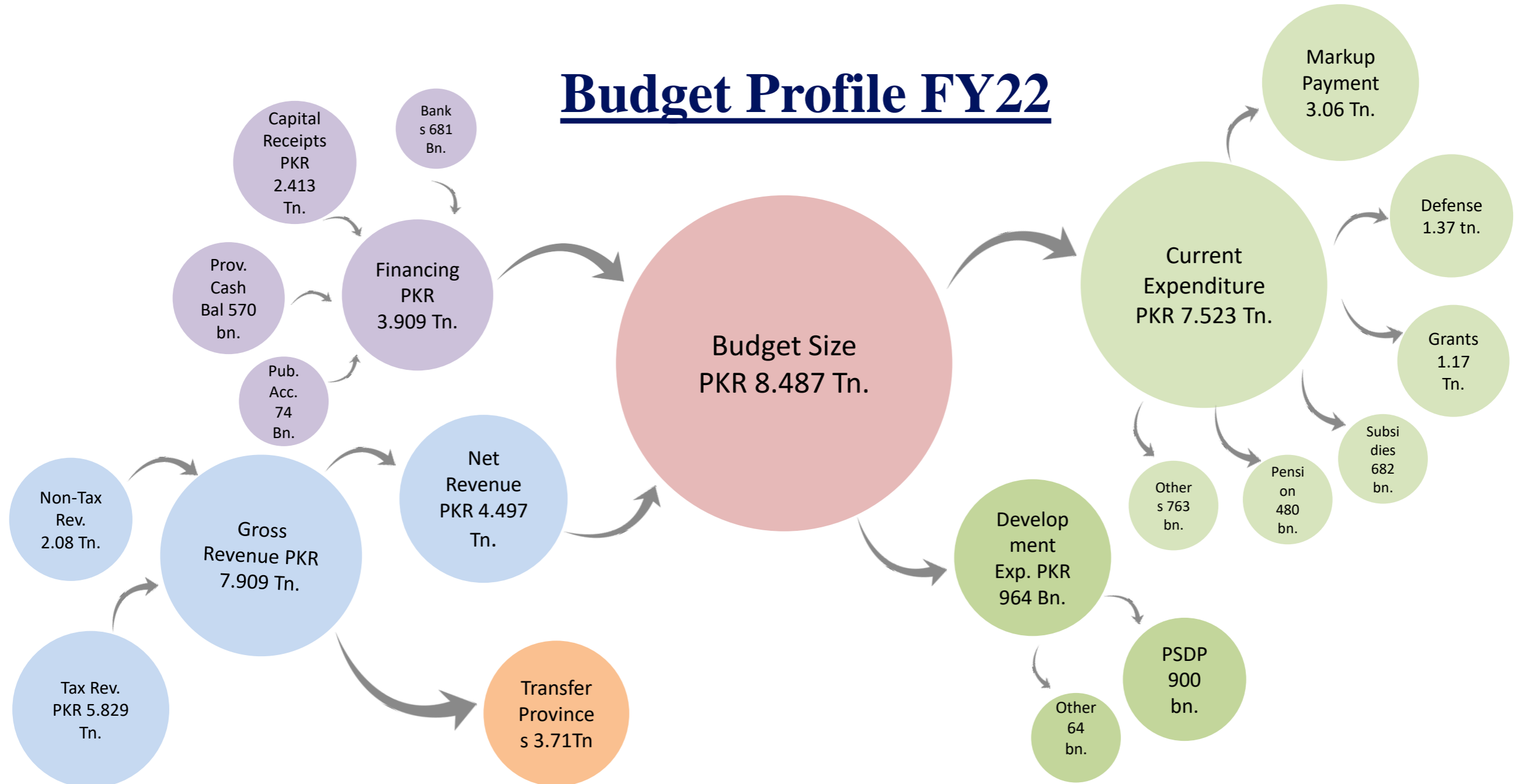
Research Team

Aba Ali Habib Securities

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Budget Profile FY22



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Key takeaways from Budget FY22

- **Capital Gain Tax on sale of securities reduced;** The GoP has announced the reduction in CGT from 15% to 12.5% on sale of securities for investors whose name appear in active tax-payer list.
- **Removal of WHT on cash withdrawals and bank transactions;** The withholding tax will be removed on cash withdrawals, banking transactions and bank instruments.
- **Reduction in sales tax for automobiles;** Sales tax is reduced from 17% to 12.5% on vehicles with the engine capacity of 850cc or lower, along with removal of VAT.
- **Reduction in Turnover Tax:** Government has proposed to reduce turnover tax from 1.5% to 1.25%
- **Exemption from Income Tax for 10-years:** Exemption from income tax for a period of 10 years on deep conversion unit of new refineries and BMR of old Refineries
- **Reduction in duties on HRC;** Government has proposed to reduce/exempt CD, ACD, RD on import of flat rolled sheets of HRC and stainless steel.
- **Exemption of duties on APIs:** ACD and CD is proposed to be removed from import of 350 different APIs for pharma sector.
- **Reduction in FED on Telecommunication:** Federal Excise Duty on telecommunication services is proposed to be reduced to 16%
- **Exemption of duties on raw material:** ACD and CD is proposed to be reduced on import of raw material for footwear, electronic appliances, paint and poultry sectors.

AAH's point of view

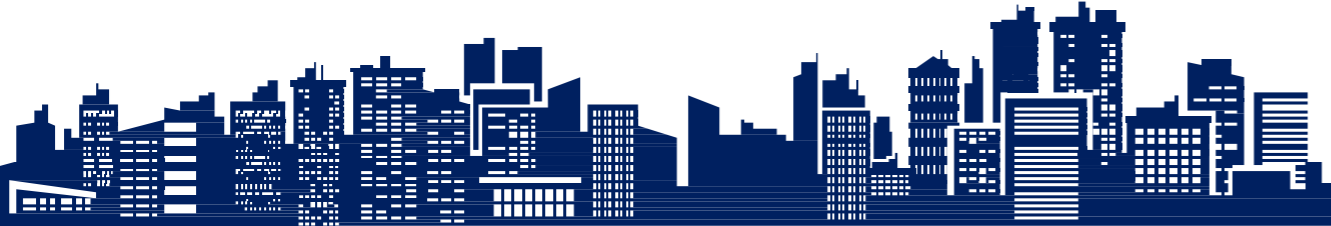
We believe market will take the budget positively in light of relief measures provided to the capital markets and heavy weight sectors economy. We expect cements, automobiles, refineries to gain the most followed by pharma, IT and steels. Reduction of WHT on non-filers on withdrawal of cash and government's target to auction PKR 1.2 tn of Sukuks may bode well for banks as well.

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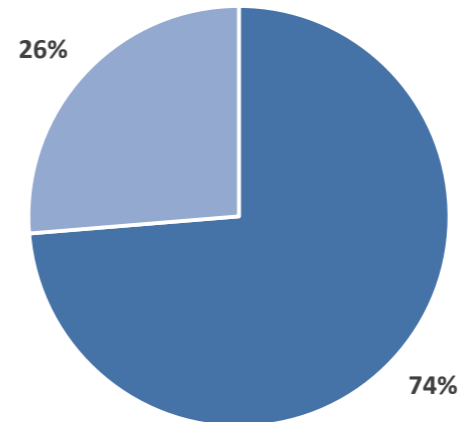
Comparison



Highlights from Budget FY22

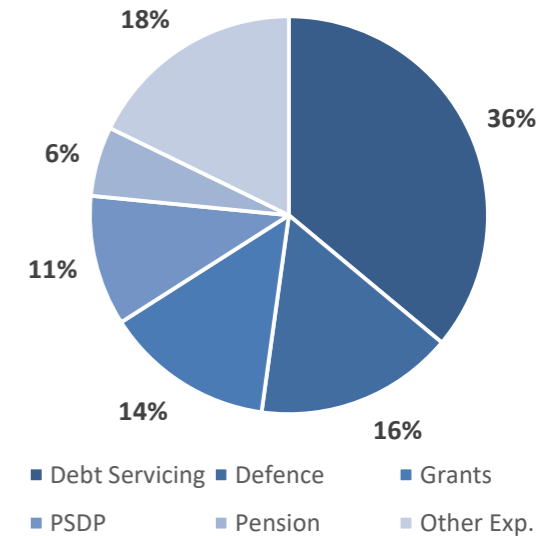
- The government has set GDP target of 4.8% for FY22.
- The total outlay of the budget is estimated to be PKR 8.487tr, which is 17% higher compared to the revised budget of FY21.
- Out of total estimated expenditures, PKR 1.37tr is allocated for defense servicing (up by 6% YoY), where subsidies amount is set to be at PKR682bn (up by 59% YoY) while, PKR 3.06tr is allocated for debt servicing, up by 7% YoY.
- On the other hand, Gross revenue receipts is estimated to be PKR 7.91tr up by 24% YoY, on the back of 24% YoY increase in FBR revenues, which comprises 74% of total gross revenue receipts.
- The size of PSDP is PKR 2.135tr out of which PKR 1,235bn has been allocated to provinces.
- To finance the fiscal deficit, Govt has estimated Domestic non- bank borrowing of PKR 1.49tr comprises ~44% of total projected fiscal deficit while, domestic bank borrowing and external financing is estimated to be PKR 681bn (20%) and PKR1,246bn (36% share).

Revenue Receipts



■ Tax Revenues ■ Non-Tax Revenues

Expenditure Breakup



■ Debt Servicing ■ Defence ■ Grants
■ PSDP ■ Pension ■ Other Exp.

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PKR Billion	FY21				FY22		
	Budget	Revised	+/-	% GDP	Budget	+/-	% GDP
Tax Revenues	4,963	4,691	-5%	10%	5,829	24%	11%
FBR Taxes (Direct)	2,043	1,789	-12%	4%	2,182	22%	4%
FBR Taxes (Indirect)	2,920	2,902	-1%	6%	3,647	26%	7%
Non-Tax Revenues	1,610	1,704	6%	4%	2,080	22%	4%
PTA (3/4G Licences)	27	34	26%	0%	45	34%	0%
Mark-up (PSE)	93	75	-20%	0%	90	20%	0%
Dividends	61	40	-34%	0%	90	124%	0%
SBP Profit	620	700	13%	2%	650	-7%	1%
Royalty Natural Gas	77	83	8%	0%	100	20%	0%
Petroleum Levy	450	500	11%	1%	610	22%	1%
others	282	272	-3%	1%	494	82%	1%
Gross Revenue Receipts	6,573	6,395	-3%	14%	7,909	24%	15%
Less: Provincial Transfers	2,874	2,704	-6%	6%	3,412	26%	6%
Net Revenue Receipts	3,700	3,691	0%	8%	4,497	22%	8%

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PKR Billion	FY21				FY22		
	Budget	Revised	+/-	% GDP	Budget	+/-	% GDP
Current Expenditure	6,346	6,561	3%	14%	7,523	15%	14%
Mark-up Payment	2,946	2,851	-3%	6%	3,060	7%	6%
Pension	470	470	0%	1%	480	2%	1%
Defence	1,286	1,295	1%	3%	1,370	6%	3%
Subsidies	209	430	106%	1%	682	59%	1%
Grants	905	932	3%	2%	1,168	25%	2%
Others	530	583	10%	1%	763	31%	1%
Development Expenditure	791	662	-16%	1%	964	46%	2%
Net PSDP	650	630	-3%	1%	900	43%	2%
Other Development Exp.	141	32	-77%	0%	64	100%	0%
Total Expenditure	7,137	7,223	1%	16%	8,487	17%	16%

Source: Budget document FY21, Aba Ali Habib Research

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PKR Billion	FY21				FY22			
	Budget	Revised	+/-	% GDP	Budget	+/-	% GDP	
Fiscal Deficit	(3,437)	(3,532)			(3,990)			
Est. Provincial Cash Balance	242	242			570			
Consolidated Fiscal Deficit	(3,195)	(3,290)		-7.2%	(3,420)		-6.3%	
GDP (Market Price)	45,567	45,567		100%	53,867		100%	
Financing of Fiscal Deficit								
External Financing	810	815	1%	2%	1,246	53%	2%	
Bank Financing	984	649	-34%	1%	681	5%	1%	
Non Bank Financing	1,544	2,067	34%	5%	1,241	-40%	2%	
Privatization	100	-	-100%	0%	252	N/A	0%	

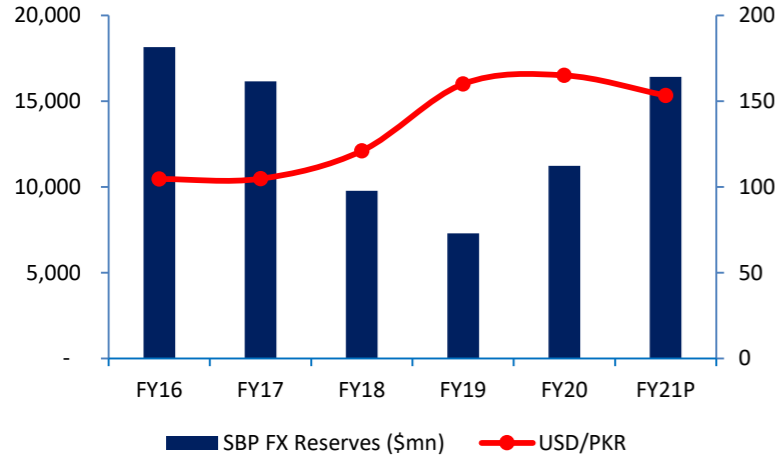
Source: Budget document FY21, ABA Ali Habib Research

Overview

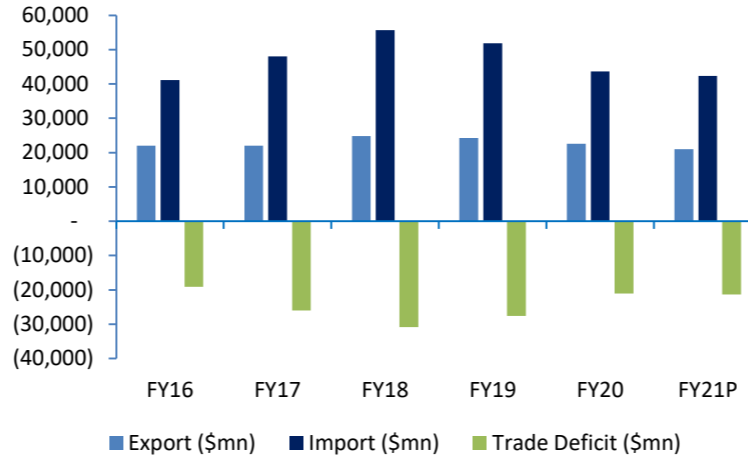
Budgetary targets

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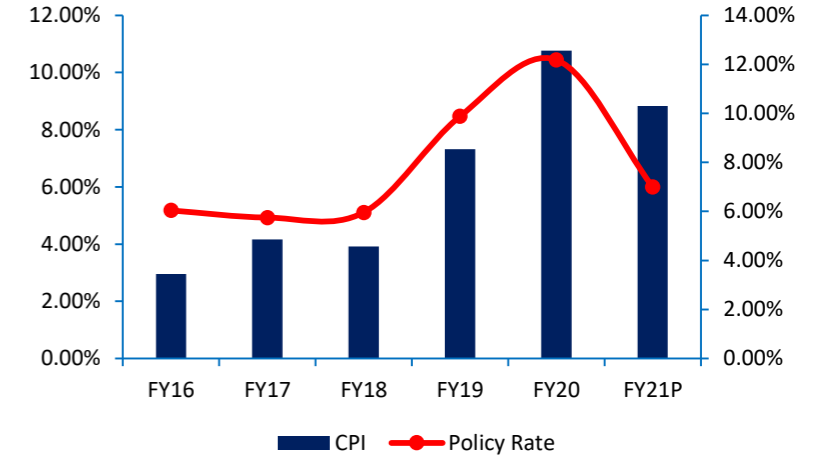
Comparison



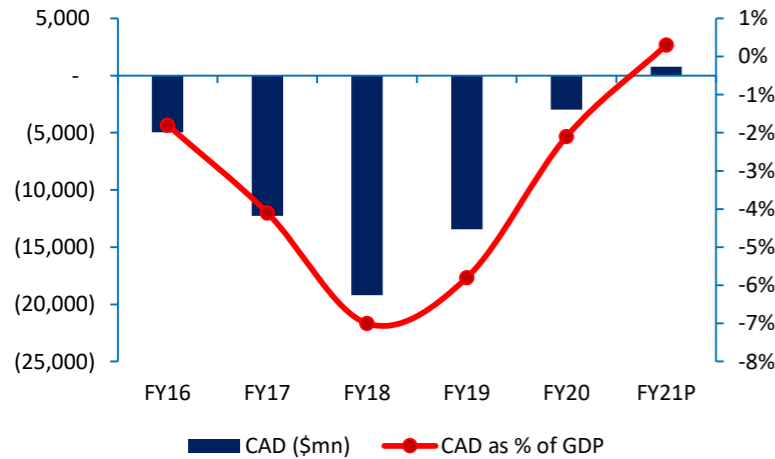
Source: SBP, Economic Survey, Aba Ali Habib Research



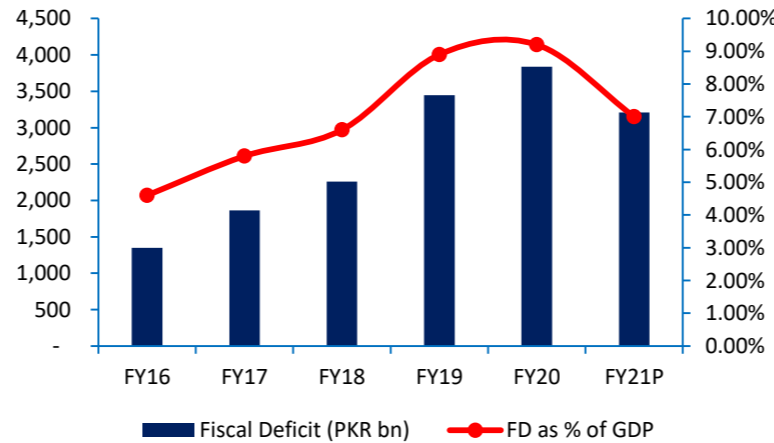
Source: SBP, Economic Survey, Aba Ali Habib Research



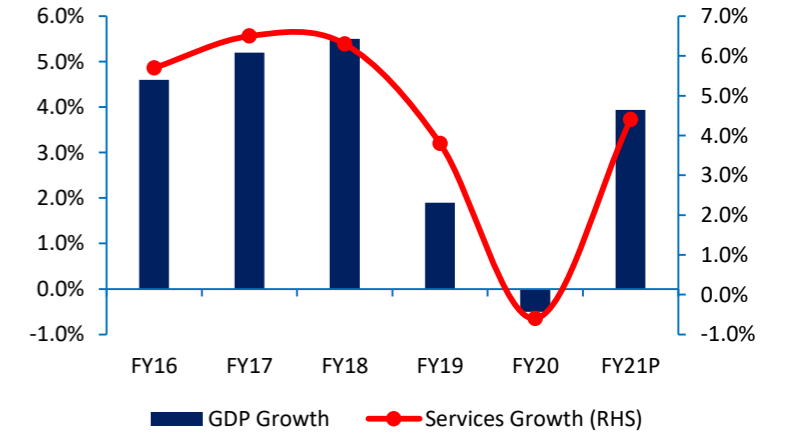
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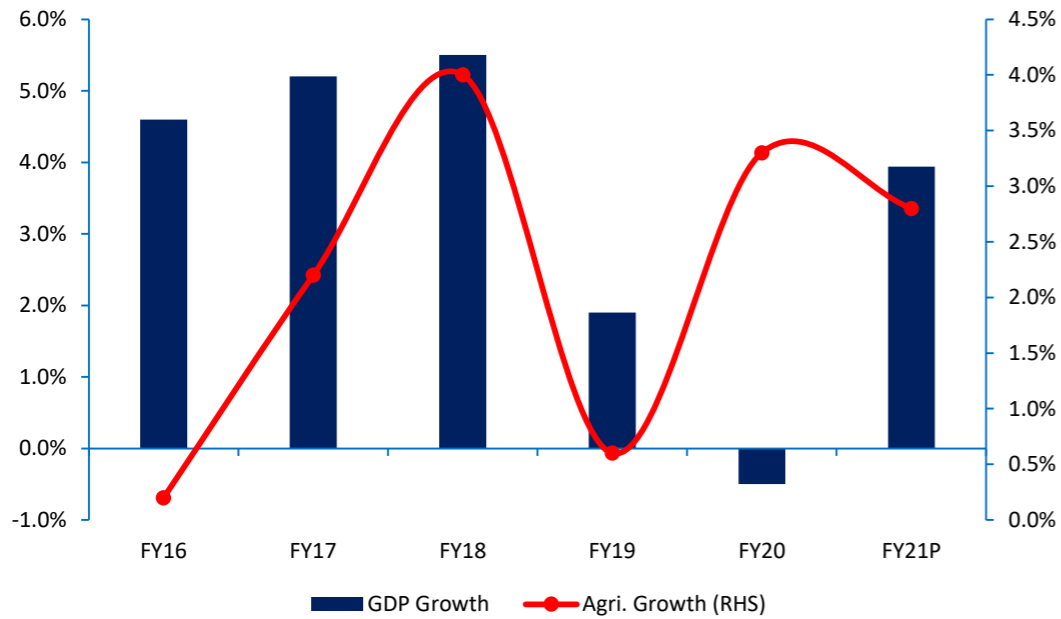
Source: SBP, Economic Survey, Aba Ali Habib Research

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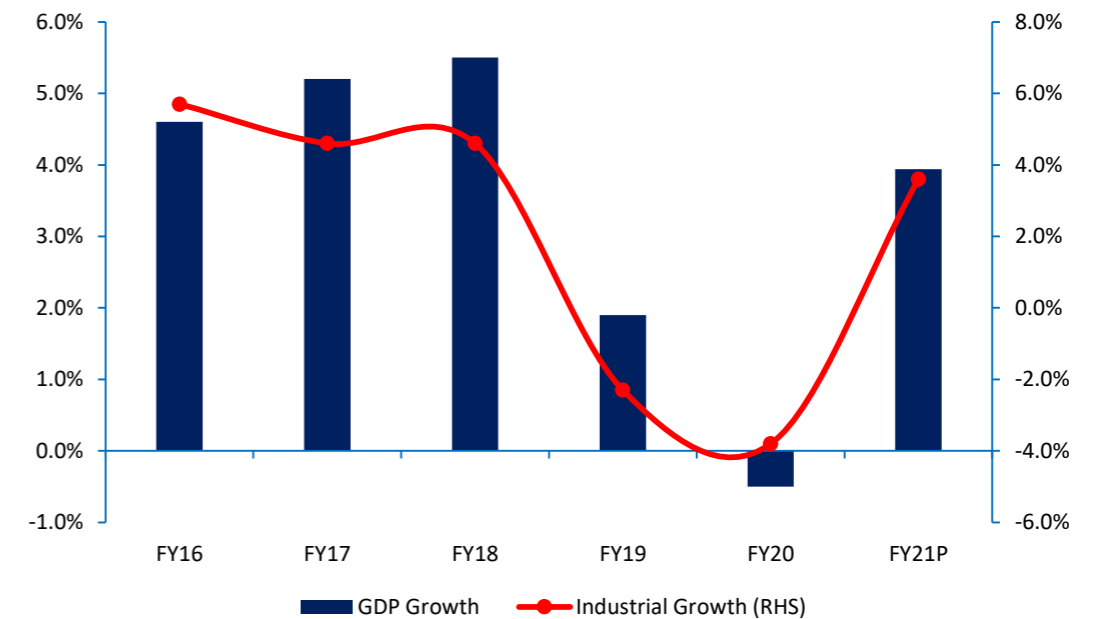
Budgetary targets

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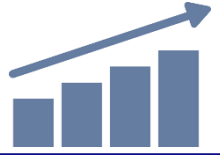
Comparison



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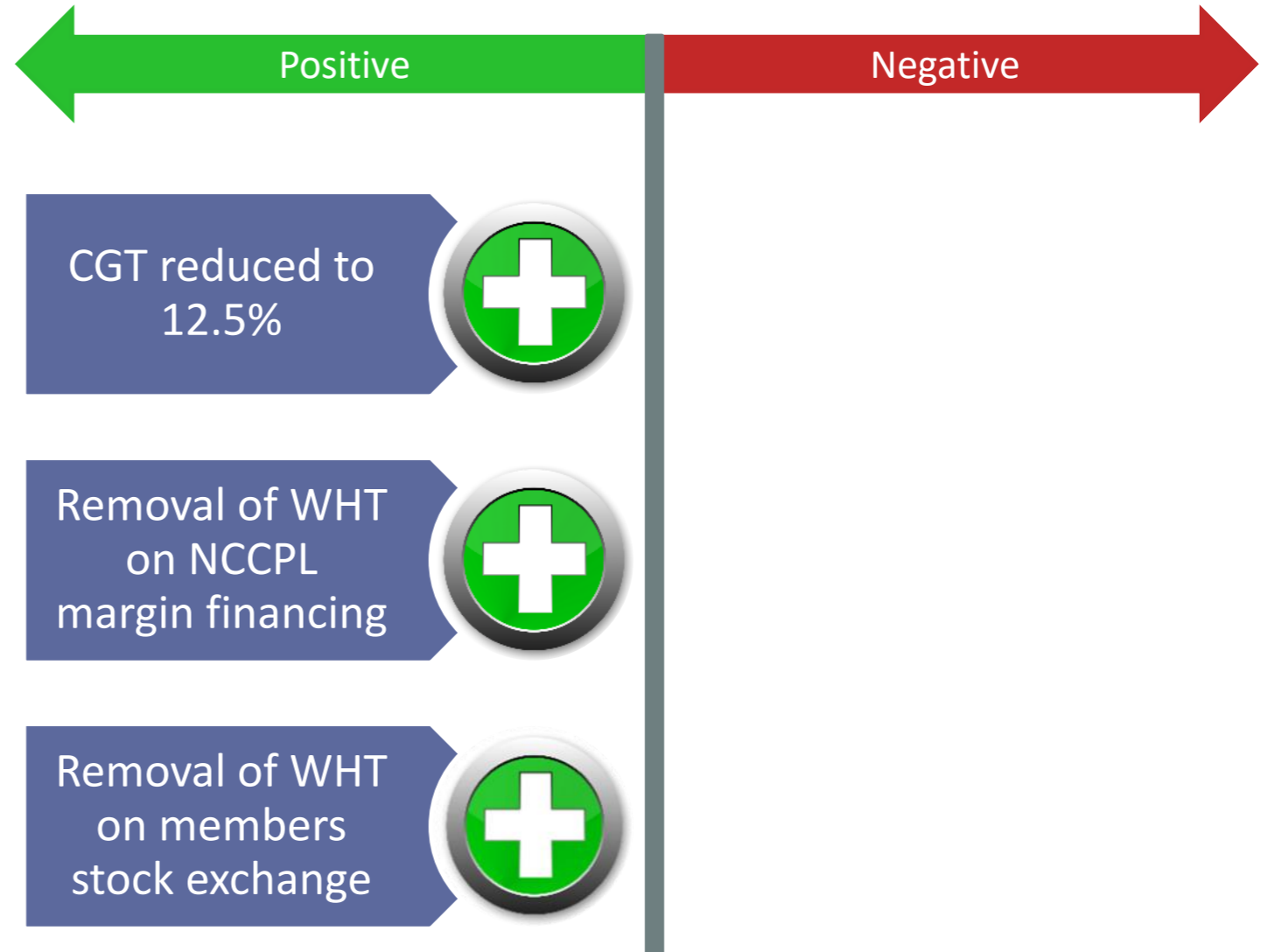
Source: SBP, Economic Survey, Aba Ali Habib Research



Capital Market

IMPACT – Positive

- Reduction Capital gains tax (CGT) to 12.5% from 15% for investors in Active tax payers list (ATL)
- Removal of 10% WHT on NCCPL margin financing
- Removal of 0.2% WHT on members of stock exchange

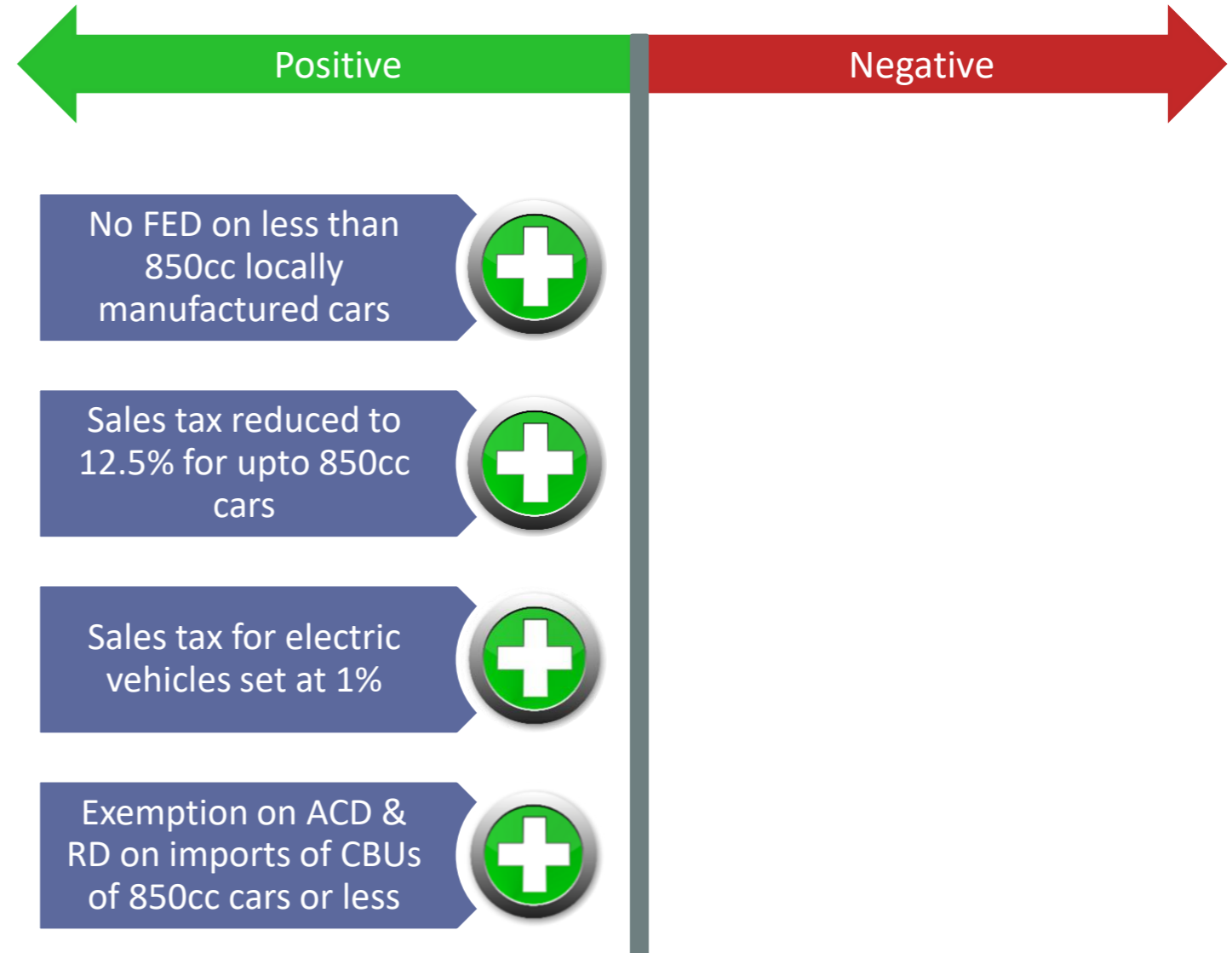


Automobile Assemblers & Parts



IMPACT – Positive

- FED on locally manufactured cars of 850cc removed
- Sales tax on 850cc cars reduced to 12.5% from 17%
- Tax on “on” money to be implemented to discourage “on” culture
- Sales tax set at 1% on local supply of electric vehicles along with relaxation on CKD units of electric vehicles
- ACD and RD made exempt on import of CBUs of 850cc cars

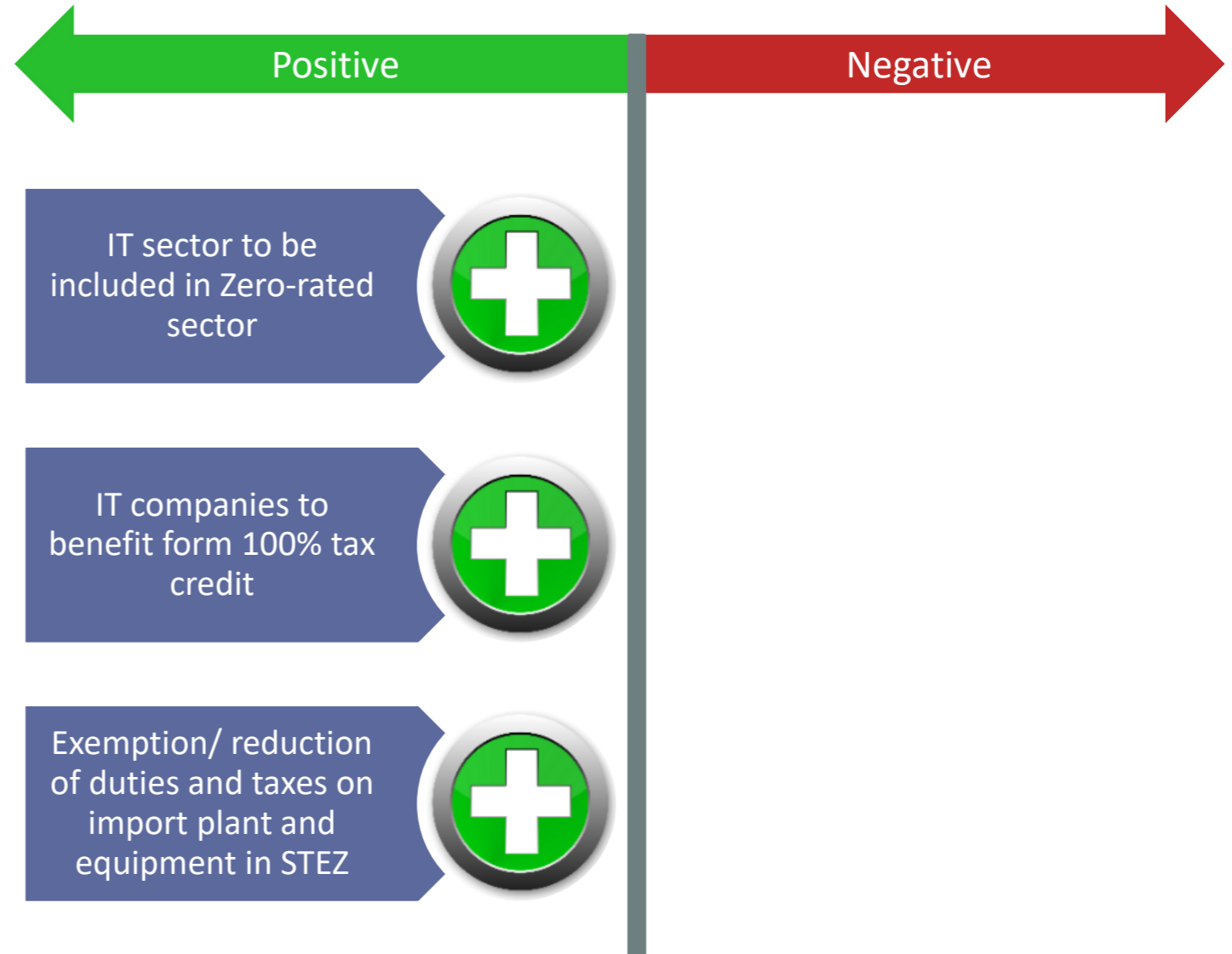




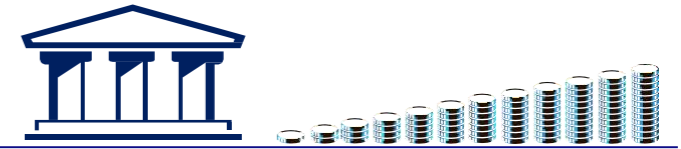
Technology

IMPACT – Positive

- Government has to include export of IT services in zero rated sector
- Technology companies can benefit from a 100% tax credit provided 80% of the export revenue is repatriated into Pakistan
- Special Technology Zones will be introduced and import of plant, machinery and raw material in STEZ is to be exempted of sales tax
- Turnover tax proposed to be abolished for SEZs and 10-year tax holiday for STEZs

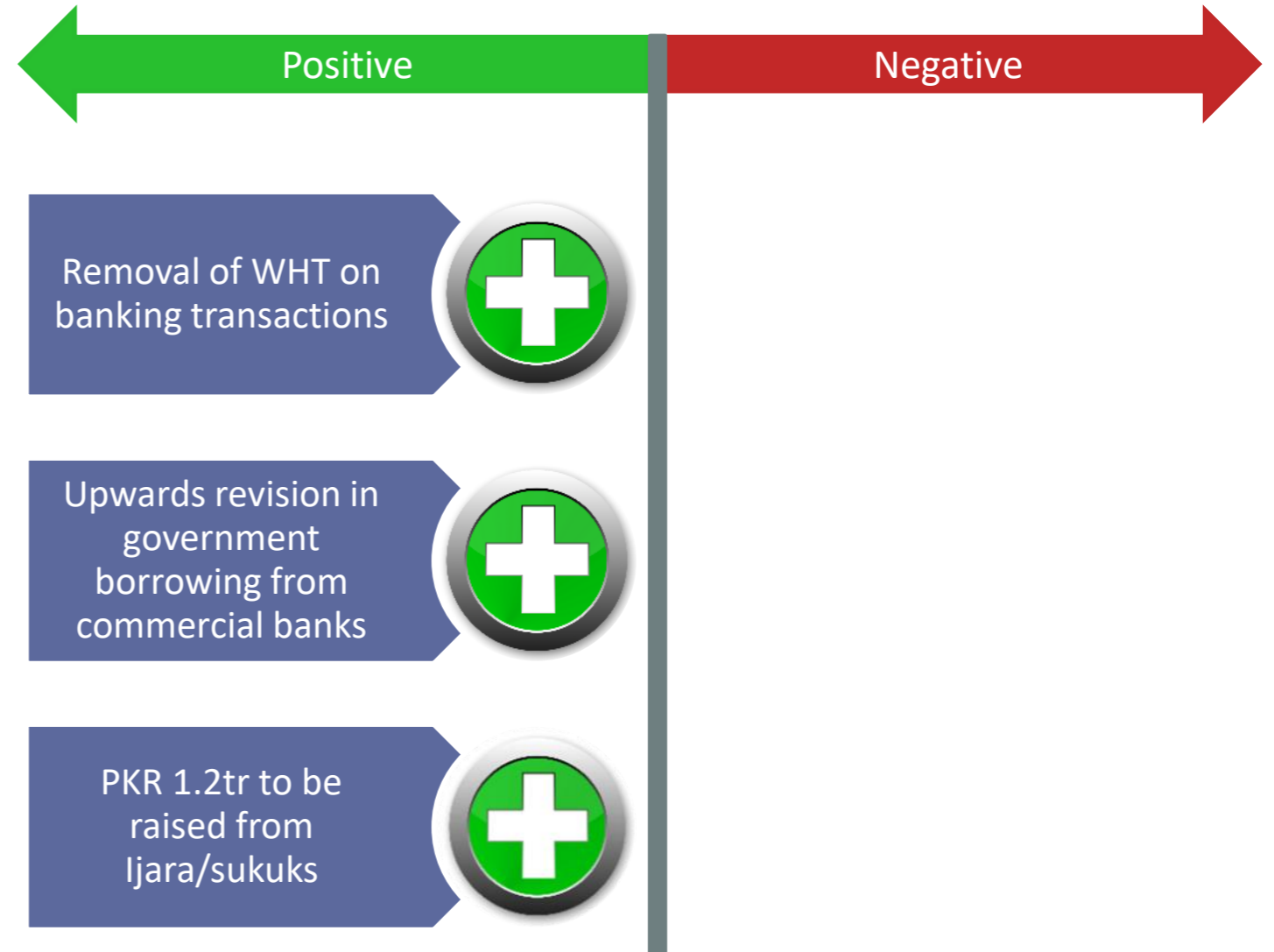


Commercial Banks



IMPACT - Neutral

- Withholding tax on cash withdrawals, banking transactions and bank instruments is proposed to be removed
- Government borrowing target from commercial banks increased to PKR 2.4 trillion
- Government to raise PKR 1.2tr from sales of Ijara Sukuks, which will bode well for Islamic banks i.e. MEBL, BIPL, FABL

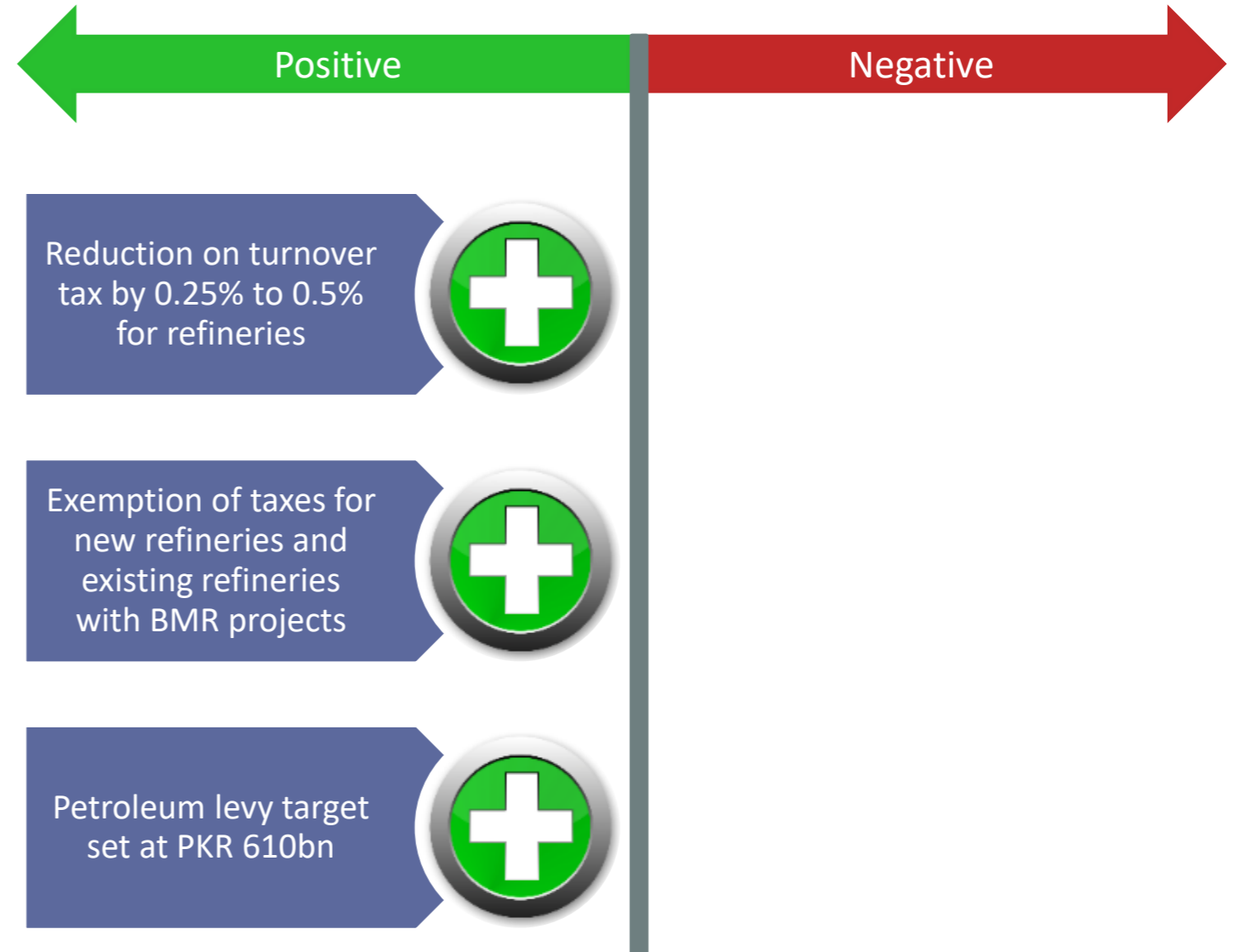


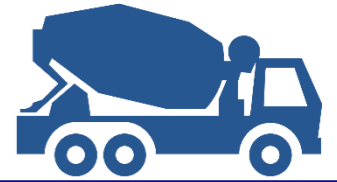


OMCs & Refineries

IMPACT – Positive

- Reduction in turnover tax for refineries to 0.5% from 0.75%
- Exemption of income tax for new refineries and BMR projects of existing refineries
- Government increased petroleum levy target to PKR 610bn compared to PKR 450bn in FY21

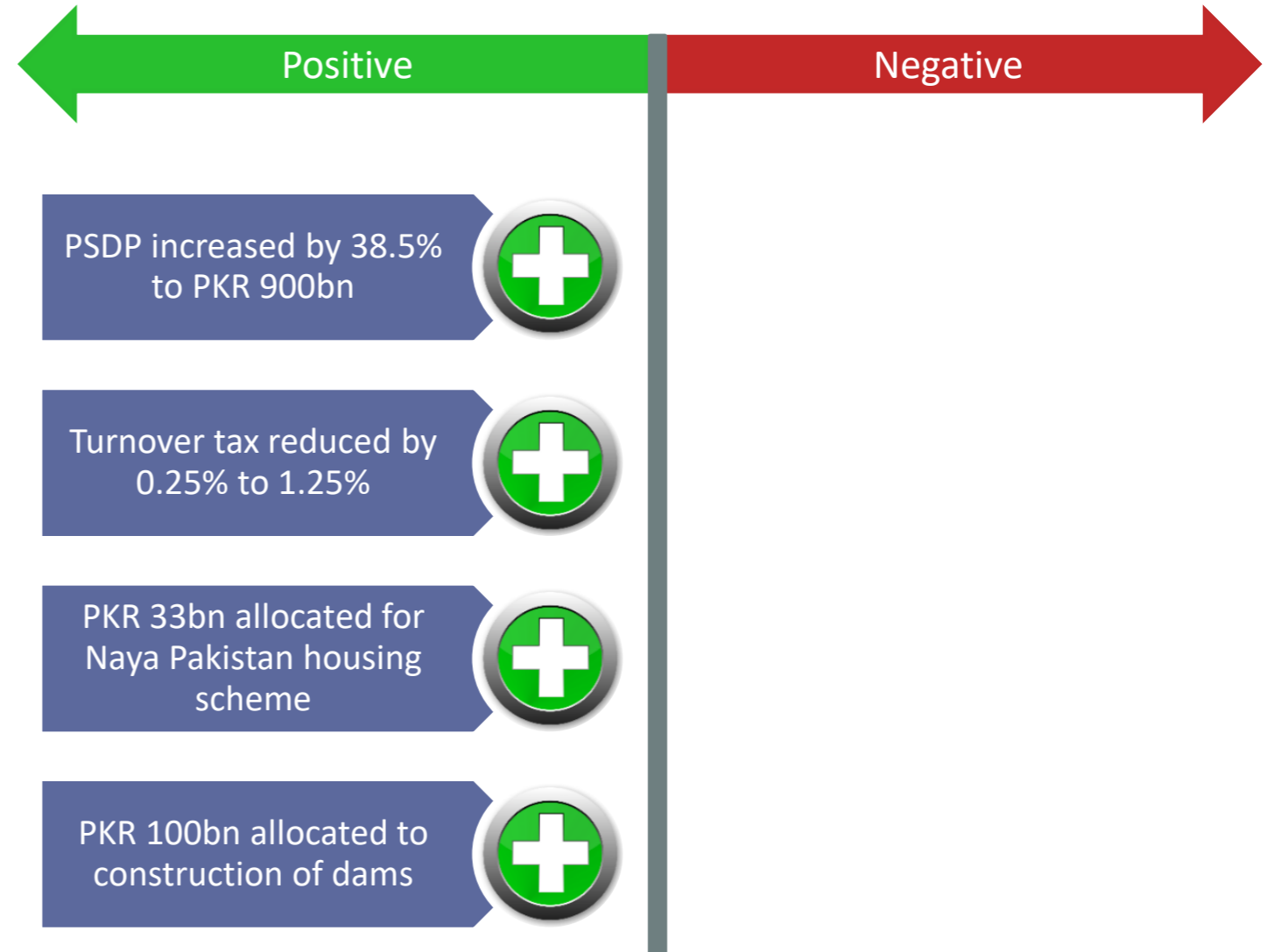




Cement

IMPACT - Positive

- PSDP allocation increased 38.5% to PKR 900bn against revised target of PKR 650bn in FY20
- Turnover tax to be reduced to 1.25% from to 1.5% last year
- A subsidy of PKR 33bn has been allocated for Naya Pakistan Housing Authority, of which PKR 3bn reserved for markup subsidy to encourage construction/development.
- PKR 57bn 23bn 6bn and 14bn allocated for Dasu, Diamir-Bhasha, Mohmand and Neelum Jhelum dam, we believe commencement of operations to drive cement offtakes.

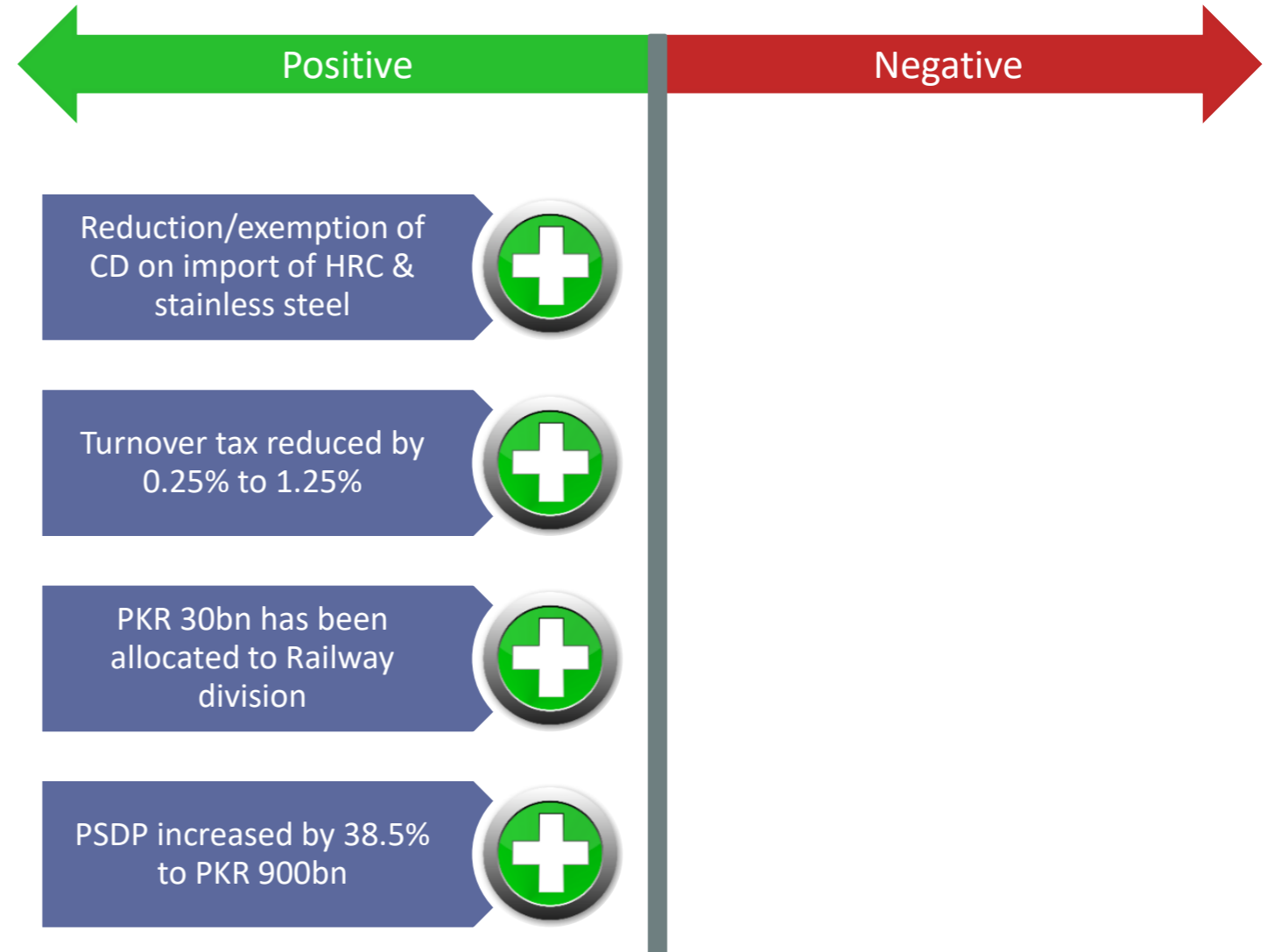


Steels



IMPACT - Positive

- Turnover tax proposed to be slashed to 1.25% from 1.5%
- Reduction of CD on import of HRC, currently flat steel manufacturers (ASL & ISL) to benefit.
- Railways division allocated PKR 30bn under federal PSDP budget compared to PKR 24bn last year along with PKR 33bn allocated for Naya Pakistan housing scheme

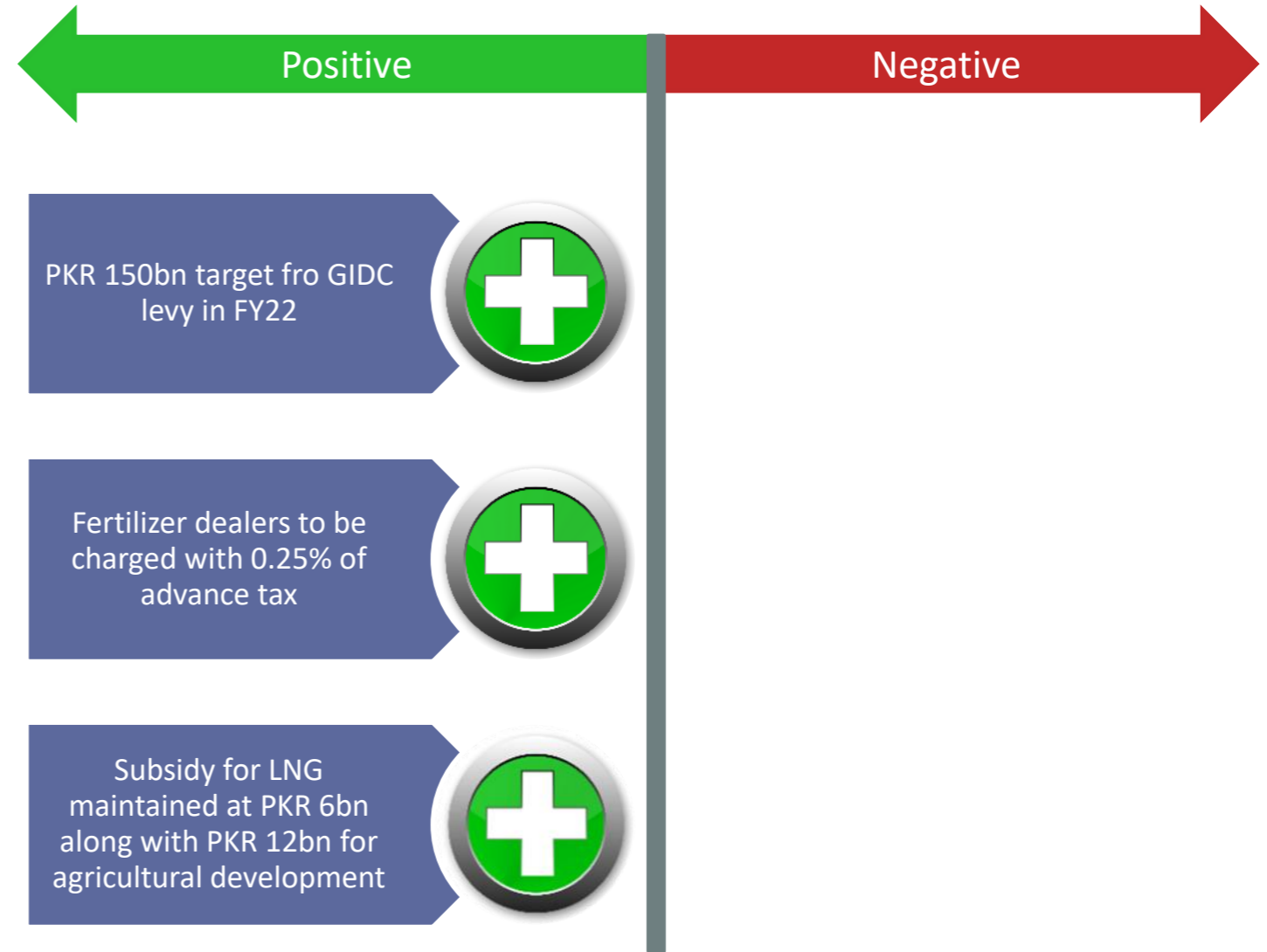




Fertilizer

IMPACT – Neutral

- PKR 150bn is targeted to be collected as GIDC levy
- Dealers of fertilizers to be charged with an advance tax of 0.25% if they appear on active tax payer list
- Subsidy for LNG maintained at PKR 6bn
- Allocation of PKR 12bn for agricultural development

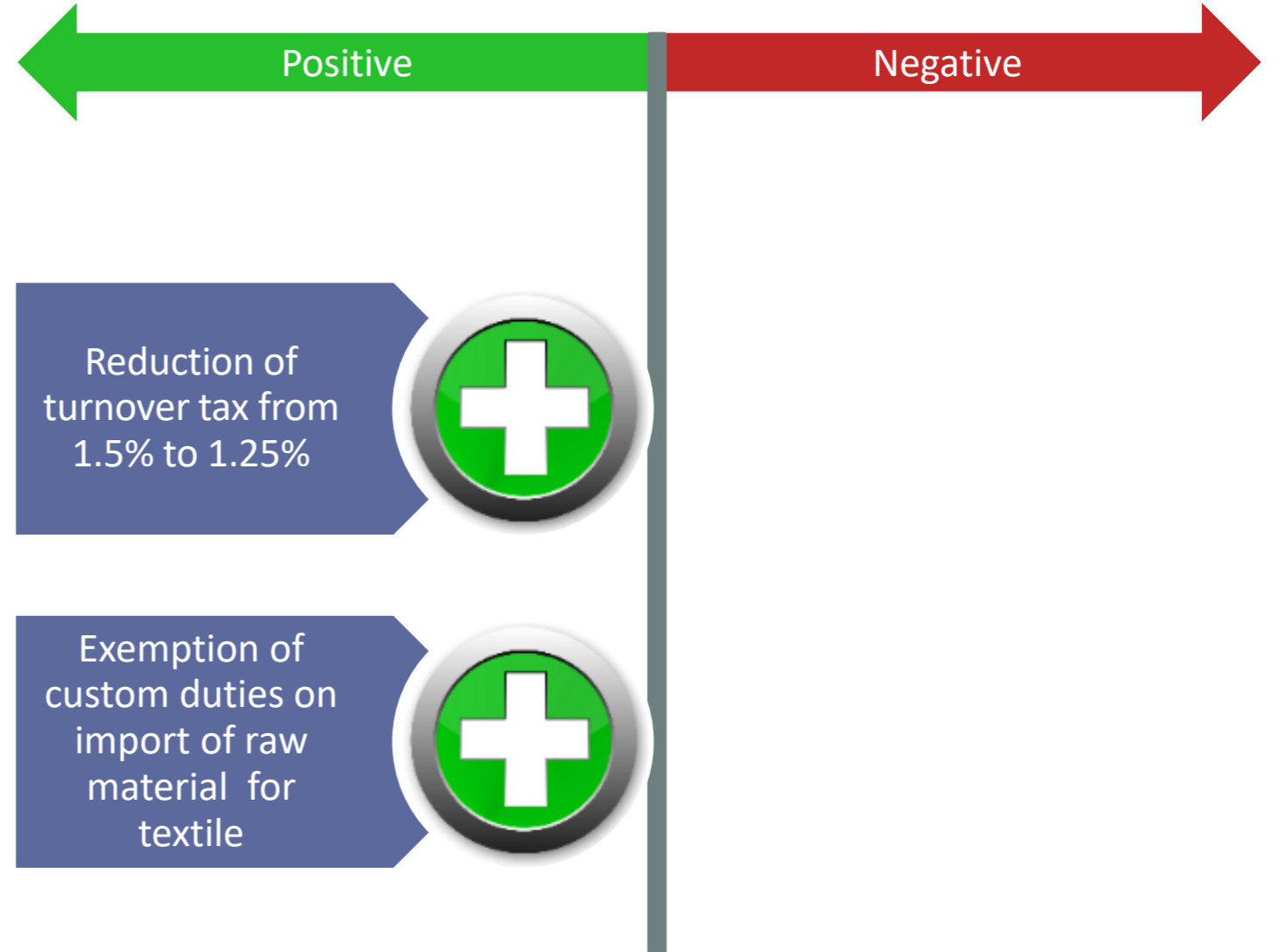




Textile

IMPACT – Positive

- Reduction/exemption of CD, ACD and RD on the import of goods for the textile industry.
- Reduction of turnover tax from 1.5% to 1.25%

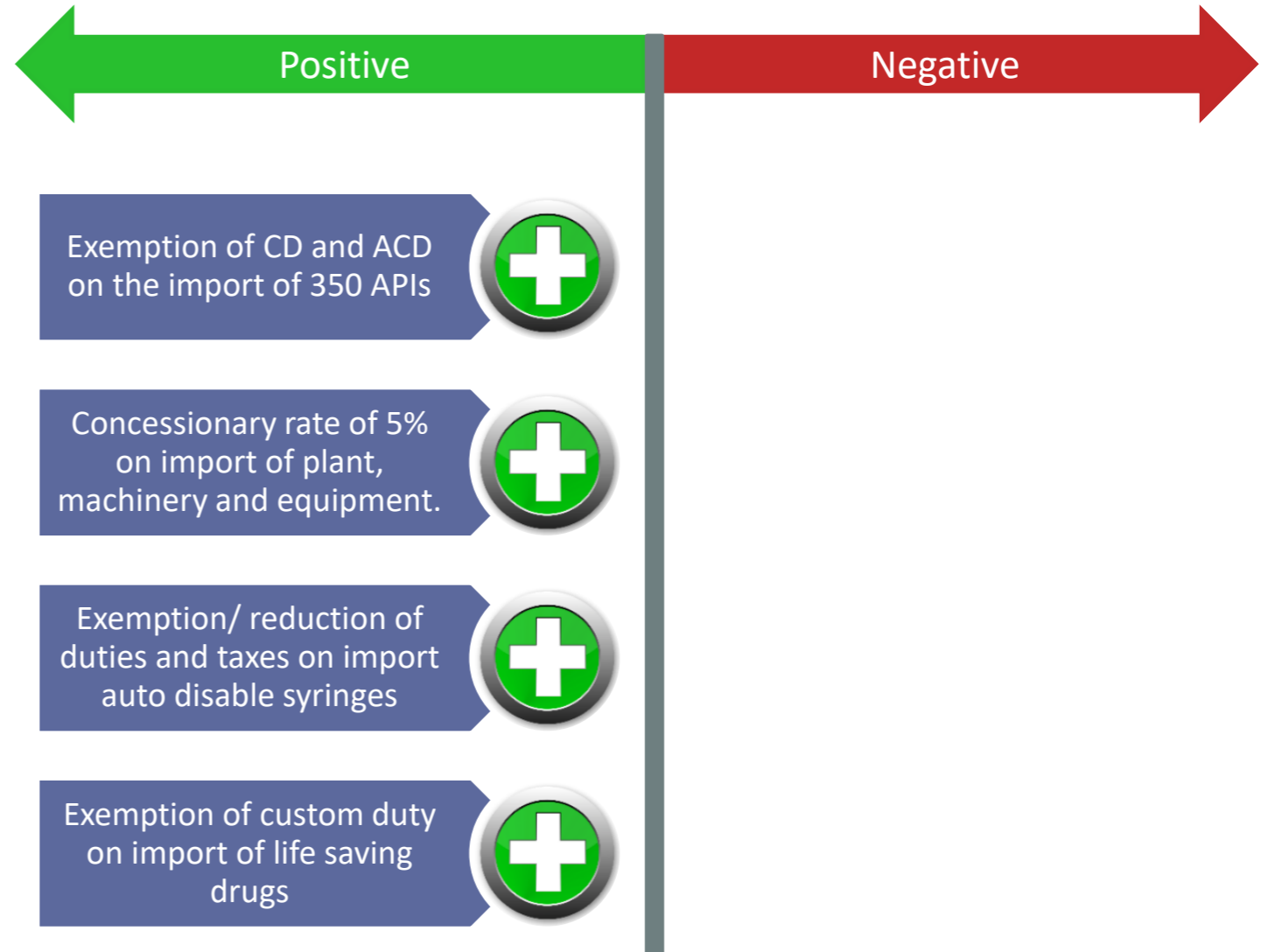


Pharma Industry



IMPACT – Positive

- The exemption of duties on APIs to support pharmaceutical industry's margins, positive for CPL, SEARL, GLAXO, FERROZ
- Exemption of custom duty on import of raw material of auto disable syringes. We believe it will be positive for OTSU
- Exemption of all duties on import of life saving drugs



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To arrive at our 12-months Price Target, ABA Ali Habib Research uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology. In this report, our PT is founded on FCFE based DCF methodology.

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