

## PAKISTAN ECONOMY

# MARKET VISTA

## Strong tax collection helps contain fiscal deficit.

- Country fiscal deficit for the 1QFY22 came out at 0.81% of GDP as opposed to 1.1% of GDP recorded in 1QFY21 and 3.7% of GDP during 4QFY21. The improvement was mainly driven by growth in revenue collection, up by 0.11%YoY in 1QFY22.
- Total tax collection reported a growth of 37%YoY to PkR1.5trn on the back of strong performance from FBR tax collection. However, non-tax revenues reported a decline of 23% YoY on the back of lower collection of petroleum levy as GoP decided not to put added burden general public amid higher international oil prices.
- Total expenditures on the other hand reportedly declined by 0.14%YoY on the back of 16%YoY decline in debt servicing cost. However, 17%YoY growth in defense related expenditures contained the headline decline in current expenditures.
- Development expenditures at the same time grew by 23%YoY on the back of 53%YoY growth in federal PSDP which grew to PkR108bn as opposed to PkR71bn during SPLY.
- We expect FY22 to close with a headline fiscal deficit of 6.8% of GDP while the primary deficit likely clocking in at 0.8% of GDP. Risks to our macro forecasts come from higher than anticipated jump in debt servicing costs where we expect a cumulative jump of 125bps during remainder of FY22.

**Positive start to FY22:** FY22 started off on a positive note as country's budget deficit narrowed to 0.8% of GDP in 1QFY22 from 1.1% of GDP during SPLY on the back of robust growth in tax collection of 37%YoY. The growth under the head of tax collection came primarily from indirect sources like sales taxes and duties. To this end, direction tax collection reportedly grew by 35% YoY to PkR481bn whereas the indirect tax collection grew by a whopping 51%YoY to PkR917bn. Non-tax revenues however contracted by a massive 23%YoY to PkR276bn amid a massive decline in collection of petroleum levy as average PL collected during 1QFY22 stood at PkR1.28/ltr and PkR3.3/ltr for MOGAS and HSD respectively. Consequently, the total revenues grew by 22% YoY to PkR1.8trn during 1QFY22.

**Debt servicing cost easing off on the back of lower DR:** Public finances clearly benefited from a decline in benchmark interest rates with debt servicing cost coming off by 16%YoY to PkR623bn. However, growth in other current expenditures such as defense expenditures (up 17%YoY) and pension cost (up 13%YoY) neutralized the benefit of lower DR and the total current expenditures grew by 9%YoY to PkR1.9trn. PSDP spending also jumped by a significant 63%YoY from last year to PkR262bn which resulted in an overall jump in expenditures of 14%YoY to PkR2.2trn. As a result, overall fiscal deficit during the quarter improved to 0.8% of GDP from 1.1% of GDP during the same period last year while the primary surplus clocked in at 0.3% of GDP against 0.5% of GDP during SPLY.

**Investment Perspective:** FY22 started off on a positive note as the country's fiscal deficit improved to 0.3% of GDP. We expect the FY22 to close with a headline deficit number of ~6.8% of GDP whereas the primary deficit during the same period to clock in 0.8% of GDP. With country's economic team locked in a dialogue with IMF over revival of support plan, we may see GoP agreeing on increasing tax collection under petroleum levy which has greatly underperformed so far as GoP decided not to burden consumer with additional taxes amid high international crude oil prices. However, GoP may finally give in to IMF's demands and collect additional revenue under petroleum levy and we may see PL increasing to PkR14/ltr – PkR15/ltr in the coming months assuming PL collection of PkR355bn. A hit to public account may come from the payment of 2nd trache to IPP where we may see another PkR200bn – PkR300bn getting reflected in one off expenses in the public accounts. From the vantage of stock market, better than expected 1QFY22 fiscal deficit announcement will likely be a non-event where the investor focus will remain on the developments happening with regard to the negotiations between authorities and the fund.

Jehanzaib Zafar, CFA  
Jehanzaib.zafar@akdsecurities.net  
111-253-111 Ext:685

### Fiscal Math

Description (PKRbn)	FY20	FY21	FY22P	FY23F
Total Revenue (a+b)	6,272	6,903	7,918	9,061
(a) Tax Revenue	4,748	5,273	5,818	6,993
(b) Non-Tax	1,524	1,631	2,047	2,007
Total Expenditure (a+b+c)	9,648	10,307	8,511	8,878
(a) Current Expenditure	8,532	9,084	7,541	7,784
(b) PSDP	1,204	1,316	970	1,095
Overall Budget Balance	(3,376)	(3,403)	(3,394)	(3,223)

Source: MOF & AKD Research



AKD Securities Limited

## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

## Stock Ratings

Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10yr PIB) plus risk premium.

## Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

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

## Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

## Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

## Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.

### New Rating Definitions

Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



**AKD Securities Limited**  
602, Continental Trade Centre,  
Clifton Block 8, Karachi, Pakistan.  
research@akdsecurities.net