September 19, 2018

PAKISTAN STRATEGY

REP-019

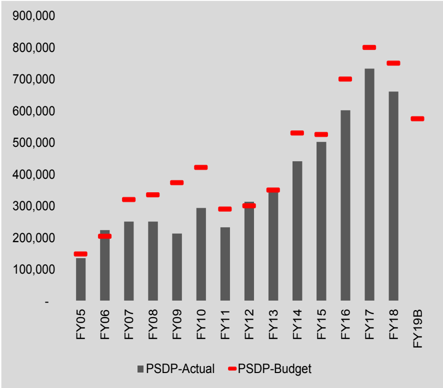
MARKET VISTA

Revised FY19 budget — a balancing act

AKD Research
research@akdsecurities.net
111-253-111 Ext:639

- **While falling short of the 'breathing fire' Budget largely expected earlier, the PTI government announced its Supplementary Finance Bill 2018 that aims to balance populism with pragmatism.**
- **Rationalization of FBR's tax revenues, petroleum development levy (PkR200bn vs. PkR300bn earlier), PSDP (PkR575bn vs. PkR800bn earlier) and fertilizer subsidy have brought numbers in line with consensus estimates and should be market neutral.**
- **Removal of restriction on non-filers for purchase of property and cars is a clear surprise and, combined with the increased duty on +1,800cc auto imports, should lead to interest in the Auto sector. Reduced custom duties (CD) on primarily textile RMs was largely expected.**
- **In tandem with gas price hikes announced a day earlier, the GoP's recent focus has clearly been on fiscal consolidation. Revised Budget'19 is positive for Autos and Textiles while slightly negative for Cements. Overall, we believe revised Budget'19 may lead to positive sentiment in the short term where long term prospects remain contingent on the country's external financing arrangement (IMF, Bilateral et al).**

PSDP allocation vs. utilization (PkRbn)



Source: MoF & AKD Research

*FY19 PSDP shows amount that is funded from budget

Supplementary Budget'19 – Key highlights: Rationalizing budgetary measures announced by the previous government, the amendments have targeted balancing of populist measures with pragmatism. Deliverability remains a key question mark, particularly as increased revenue through technology utilization remains open ended. Key steps announced in the budget include:

- Revenue measures to raise an additional PkR183bn revenue with PkR92bn from administrative measures while rest would be primarily earned through RD on imports.
- PSDP allocation of PkR725bn (down 9% from Budget'19 allocation)
- Withdrawal of duty RD on inputs for export oriented industries.
- Removal of restriction on non-filers on purchase of cars and property
- Petroleum development levy collection reverted to PkR200bn from previously budgeted PkR300bn.
- PkR6-7bn subsidy on urea (production as well as imports)
- Rate of WHT on non-filers for banking transactions has been once again reinstated at 0.6% (previously 0.4%).
- Insurance cover of PkR540k per family via Sehat Insaf Card to people in FATA and Islamabad territories.
- Release of PkR4.5bn for the completion of housing schemes for underprivileged.
- Minimum pension increased by 10% for EOBI pensioners.
- Increased tax on cigarettes, import of luxury items and cell phones.
- Duty doubled on import of +1800cc cars
- Salary tax rates maintained on salary of PkR200k/month or below

GoP revises fiscal targets

Amount in PkRbn	AKD est.	Gov't target Revised	Gov't target Previous
Fiscal deficit % of GDP	-5.40%	-5.10%	-4.90%
Fiscal deficit	(2,065)	(1,958)	(1,890)
FBR tax collection	4,161	4,390	4,435
PSDP*	-	575	800

*PSDP excludes off-balance sheet financing

Source: MoF & AKD Research

The Verdict – Happy days for Textiles & Autos: From an economic standpoint, removal of restrictions on purchase of property & autos and re-implementation of 0.6% WHT on banking transaction are filer regressive and may lead to negative fallbacks. At the same time, better FBR management and utilization of technology for increasing tax base (currently standing at <1%), while positive from a longer term perspective, may not immediately depict results. As such, we do not rule out the possibility of further budgetary adjustments moving ahead. That said, the former decision certainly has positive connotations for Auto sector where numbers dwindling recently (down 5.8%FYTD). The step should ideally lead to a trend reversal where we continue to pitch INDU (TP: PkR2,191.48/sh) as our top pick. At the same time, reduced CDs on Textile spe-

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cific RMs in tandem with flat gas rates announced a day earlier should 'ideally' aid sector particularly on the export front. PSDP cut at PkR575bn (PkR725bn including off balance sheet funding) versus PkR661bn Federal PSDP utilization in FY18 is negative for cements and may further slow down demand.

Investment Perspective: From the market's vantage, revised Budget'19 should result in a brief relief rally given participants had priced in a much harsher budgetary measure. Recent budgetary developments including roll-back of tax brackets for upper class in tandem with the gas tariff hikes announced earlier do appear to set the stage for an external financing arrangement where long term market direction will likely take cue from the terms of such an arrangement.

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