ARIF HABIB LIMITED

REP-300

PAKISTAN BUDGET **FY25**

12th June 2024

INITIAL **IMPRESSION**

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ASIAMONEY
Best Securities House: 2023
Best Investment Bank: 2023

FinanceAsia
Best Investment Bank: 2022

Global Business Outlook
Best Equity House: 2022

Asset Asian Awards Triple A
Best Equity Advisor: 2021

CFA Society Pakistan
Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
Best Equity Sales Person (Runner up): 2023

PSX Pakistan Stock Exchange Limited
Top 25 Companies
(2019, 2018 & 2017)

Central Depository Company
Excellence Award
Leading Brokerage House for RDA 2021

Financial Markets Association of Pakistan -FMA-
Best Money Market Broker
(Islamic) 2021

BUDGET FY25

Budget Snapshot

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Budget Outlay
FY25b: PKR 18.9trn
FY24b: PKR 14.5trn
YoY: 30%

Current Exp.
FY25b: PKR 17.2trn
FY24b: PKR 13.3trn
YoY: 29%

Federal PSDP
FY25b: PKR 1.4trn
FY24b: PKR 0.95trn
YoY: 47%

FBR Tax Revenue
FY25b: PKR 13trn
FY24b: PKR 9.4trn
YoY: 38%

Non-Tax Revenue
FY25b: PKR 3.6trn
FY24b: PKR 3trn
YoY: 20%

Budget Deficit
FY25b: PKR 8.6trn
FY24b: PKR 7.5trn
YoY: 14%

Domestic Borrowing
FY25b: PKR 7.8trn
FY24b: PKR 4.8trn
YoY: 62.5%

External Borrowing
FY25b: PKR 0.7trn
FY24b: 2.7trn
YoY: 74%

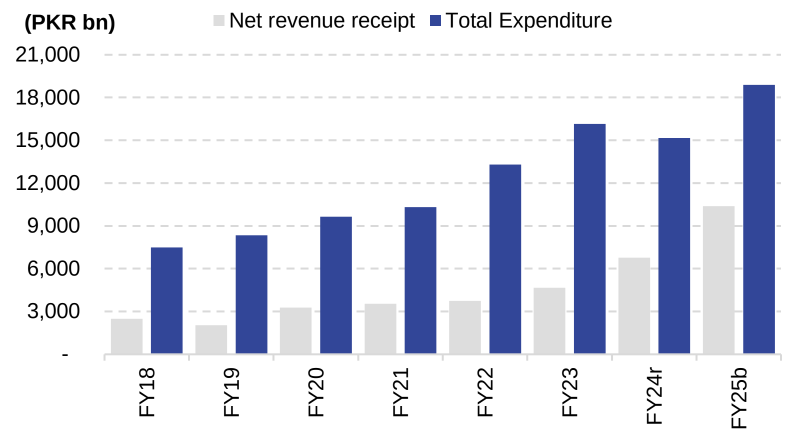
Gross Domestic Product
FY25b: 3.6%
FY24b: 3.5%

Inflation
FY25b: 12%

Budget Snapshot

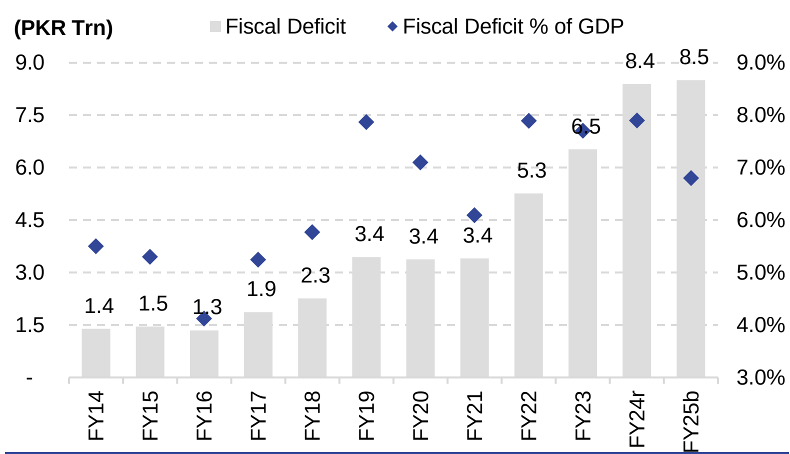
- The Federal Government earlier today announced the Budget for the next fiscal year FY25, with a total budgeted outlay of PKR 18.9trn (up 30% compared to the budgeted outlay of FY24).
- **Revenue:** Gross Revenue receipts are expected at PKR 17.8trn a jump of 46% YoY from FY24 revised estimates, contributed primarily by a 47.1% YoY jump in FBR taxes from FY23R which are budgeted at PKR 13trn. Non-tax Revenue is envisaged at PKR 4.8trn which is 64.4% higher YoY from FY24R.
- **Expenditure:** The government has allocated PKR 18.9trn for current expenditure (predominantly mark-up payments which are expected to be 18.5% YoY higher than the FY24 target), and is up 24.5% YoY compared to FY24 revised estimates. Defence Budget is targeted at PKR 2.1trn (+14.5% YoY from FY24r). Subsidies to different sectors would be PKR 1.4trn, +27.3% YoY higher than FY24's revised estimate of PKR 1.1trn. The Federal PSDP is budgeted at PKR 1,400bn (154.5% YoY higher than the FY24b of PKR 550bn).
- **Fiscal Deficit:** The fiscal deficit is budgeted at PKR 8.5trn, which forms 6.8% of GDP as compared to 7.9% for FY24 revised estimates. The government aims to finance the budget majorly through domestic financing of PKR 7.8trn (+64% higher than FY24's budgeted number) while net external loans are budgeted to be PKR 0.7trn (76% lower than FY24's budgeted number). The bulk of the domestic financing is expected from Bank financing which is budgeted at PKR 5.1trn (+80% higher YoY from FY24's budgeted PKR 2.9trn). Mark-up payments are budgeted to be 36% higher next year, on domestic loans while external loan mark-up payments are expected 19% higher YoY.
- **Social Relief:** Gov't has announced some relief measures for lower income strata which include (but are not limited to): Increase in the allocation of BISP from PKR 466bn to PKR 592bn, subsidy allocation of PKR 65bn for utility stores corporation, PKR 10bn kept for Ramzan package.
- **GDP:** The government has set a GDP growth target of 3.6% for FY25 as compared to 2.4% in FY24r.
- **Inflation:** Government is expecting inflation for FY25b to be around 12%.

Exhibit: Receipt verses expenditure



Source (s): MOF, AHL Research

Exhibit: Historical fiscal deficit trend



Source (s): MOF, AHL Research

Budget Snapshot

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Exhibit: Budget snapshot

PKR bn	FY24b	FY24r	FY25b	Change
Net Revenue Receipts	**6,979**	**6,772**	**10,377**	**53.2%**
FBR Taxes	9,415	9,252	12,970	40.2%
Direct Taxes	4,255	3,721	5,512	48.1%
Indirect Taxes	5,160	5,531	7,458	34.8%
Non-Tax Revenue	**2,963**	**2,947**	**4,845**	**64.4%**
Less: Provincial Share	5,399	5,427	7,438	37.1%
Total Expenditure	**14,485**	**15,160**	**18,877**	**24.5%**
Current Expenditure	13,344	14,232	17,203	20.9%
Mark-up Payments	7,303	8,251	9,775	18.5%
Domestic Debt	6,430	7,211	8,736	21.2%
Foreign Debt	872	1,040	1,039	-0.1%
Defence	1,804	1,854	2,122	14.5%
Federal PSDP	950	550	1,400	154.5%
Budget Deficit	**7,506**	**8,388**	**8,500**	**1.3%**
Primary Balance	**397**	**402**	**2,492**	**519.9%**
% of GDP				
FBR Revenue	8.9	8.7	10.4	
Non-Tax Revenue	2.8	2.8	3.9	
Total Expenditure	13.7	14.3	15.2	
Current Expenditure	12.6	13.4	13.9	
Budget deficit	7.1	7.9	6.8	

Source (s): MoF, AHL Research *Federal only

Relief and Revenue measures

Relief measures

- Pension to be increased by 15%
- Government employees salaries to be increased by 25%
- Duty on imported glass products to be exempted
- Sales Tax exemption on Iron and Steel scrap
- Concessions on the import of solar panels and its related raw materials and equipment.

Revenue measures

- FED on Cement to be increased from PKR 2/kg to PKR 3/kg
- Sales tax exemption and concessionary rates to be eliminated
- Sales tax on major commodities to be standardized
- 18% sales tax to be imposed on mobile phones of different categories
- Withholding tax to be imposed on bronze, coal, paper and plastic scrap
- Tax exemption on imported luxury cars to be finished
- Tax exemption on imported car worth USD 500,000 to be removed
- Duty on steel and paper to be increased
- CGT on securities to be increase to 15% for filers and 45% for non filers
- Capital Gain on Real Estate to be 15% for filer and 45% for non-filer
- WH Income Tax on transfer of Immoveable property (separate tax rates for timely filer of return, delayed filer and non-filer)
- Income Tax on registration of Motor Vehicles to be shifted from Engine Capacity to Value
- Sales tax on Textile and leather to be increased from 15% to standard 18%
- Exemption of custom duty on hybrid cars to be abolished

BUDGET FY25

Revenue measures

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- Exemption of custom duty on hybrid cars to be abolished
- Exemption on import of luxury electric vehicles eliminated
- Exemption on FATA/PATA to be finished
- Advance Income Tax to be collected from Non-filer Distributor, Wholesaler, Dealer and Retailer to be increased from 1% to 2.25%
- Exporters to be taxed under normal tax @ 29% (as against fixed tax @ 1%)
- Default Surcharge rate to be changed from 12% to KIBOR+3%
- 5% FED to be imposed on new plots, housing and commercial property
- Acetate tow cigarette filter to have PKR 44,000/kg FED imposed

Overall take – Positive

Market

- The capital gains tax (CGT) rate for securities is set at 15% for filers, regardless of their holding period. Also, there's a recommendation to raise it by 15% to 45% for non-filers. We believe that the change in the CGT rate was one of the major uncertainties and caused panic in the market. Maintaining the current CGT rates for filers would positively impact the market.

Commercial Banks:

- Commercial Banks will not be able to classify "substandard" or "doubtful" bad debts nor can they treat provisions for advances, off-balance sheet items, or other financial assets classified in stages 1, II, or III as expenses under any accounting standard, including IFRS 9, which will have a negative impact on the sector.

Oil Marketing Companies:

- The government is increasing petroleum development levy (PDL) limit to PKR 80/ltr from PKR 60/ltr (which will result in additional PKR 383bn non-tax revenue for the government). With an incremental PKR 20/ltr imposed, the petroleum prices will increase, resulting in expected decline in demand.

Power:

- The government has allocated PKR 253bn for development of energy sector, which includes installation of asset performance management system on distribution transformers, development of 1,200 MW coal power plant at Jamshoro, and upgradation of NTDC systems, Moreover, the government plans to privatize 9 DISCOs and GENCOs

Exhibit: Budget Impact on Different Sectors

Sector	Impact
Market	Positive
Banks	Neutral to Negative
Cement	Neutral
Fertilizer	Neutral
Power	Neutral
Autos	Neutral to Positive
Textile	Negative
Steel	Positive
Chemicals	Neutral
E&P and OMCs	Neutral
IT	Negative

Source (s): AHL Research

Autos

- The upcoming changes in tax policies for automobile assemblers are set to significantly impact the industry. Firstly, the removal of custom duty exemptions on CBU hybrid vehicles is expected to raise demand for locally assembled CKD hybrid vehicles. Secondly, the shift to basing advance tax on the value of cars rather than their engine capacity could alter pricing strategies. Additionally, removing tax exemptions on luxury electric vehicles may prompt affluent buyers to opt for domestic purchases over imported ones.

Technology

- Mobile phones will be subject to a standard tax rate of 18%, except for those valued over $500, which will continue to be taxed at the existing rate of 25%.

Textile

- The textile sector is expected to face significant challenges due to increased taxes on export-oriented companies, as they will now be included under the Normal Tax Regime. This shift is likely to adversely affect the profitability of the sector. Additionally, the sales tax rate for point-of-sale (POS) retailers dealing in leather and textile products has been increased from 15% to 18%, further impacting the industry.

Steel

- The GST exemption granted to the FATA/PATA region will be removed. However, residents of FATA/PATA will continue to enjoy an income tax exemption for one more year.

Cement

- The government has announced a federal Public Sector Development Programme (PSDP) budget of PKR 1.4trn for FY25, marking a substantial 155% increase from FY24. Additionally, an extra federal excise duty (FED) of PKR 1,000 per ton has been imposed on cement, bringing the total FED to PKR 3,000 per ton of cement dispatched.

Historical market performance

Exhibit: KSE100 Performance

Budget Year	30-Days	60-Days	90-Days
Before Budget			
FY25	-1.4%	3.5%	11.9%
FY24	2.0%	5.2%	0.3%
FY23	-2.0%	-9.0%	-3.8%
FY22	6.9%	7.4%	10.3%
FY21	2.7%	11.5%	-4.0%
FY20	-0.2%	-7.2%	-11.0%
FY19	0.8%	6.1%	2.2%
FY18	5.6%	8.1%	7.4%
FY17	5.4%	10.1%	14.7%
FY16	0.5%	7.1%	2.3%
FY15	2.0%	3.9%	11.2%
FY14	10.3%	19.3%	25.8%
Average	**2.7%**	**5.5%**	**5.6%**
After Budget			
FY24	5.5%	13.2%	9.2%
FY23	-1.6%	0.2%	-0.5%
FY22	-1.5%	-2.4%	-3.5%
FY21	4.6%	17.2%	23.2%
FY20	-2.3%	-15.1%	-12.1%
FY19	-7.6%	-9.4%	-7.6%
FY18	-12.0%	-12.8%	-19.7%
FY17	1.5%	6.9%	6.8%
FY16	4.2%	5.6%	1.1%
FY15	0.7%	2.7%	-3.4%
FY14	3.2%	4.1%	3.0%
FY13	-1.9%	1.6%	6.0%
FY12	4.8%	3.1%	2.0%
FY13	-0.5%	-2.4%	1.0%
FY12	2.0%	7.0%	5.1%
Average	**-0.1%**	**1.3%**	**0.7%**

Source: PSX, AHL Research

While reviewing the market performance since FY14, we have observed a positive momentum on average being displayed by the KSE-100 index in anticipation of the budget. 30, 60 and 90 days prior to the announcement of the budget, the KSE-100 generated an average return of 2.7%, 5.5% and 5.6%, respectively. However, the post budget data depicted a mixed trend during FY18 and FY19 foreign outflows and uncertainty on the political front suppressed market performance, while post Budget FY23, the market performance dampened due to high inflation owed to revision of energy prices. Meanwhile, post FY24 budget the market witnessed 5.5%, 13.2% and 9.2% growth over 30, 60, and 90 days given the government successfully secured SBA program of USD 3bn from IMF followed by significant rollovers/inflows from allied nations and anticipation of approval of refinery policy.

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2024 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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In order to avoid any conflict of interest, we hereby disclosed that; Arif Habib Limited (AHL) has shareholding in NBP, BOP, MLCF and FCCL.