

Federal Budget FY22

Serious push on growth

Executive Summary

The FY22 Budget by the PTI government is the most pro-growth budget in the past five years, with Finance Minister Shaukat Tarin delivering on his promises. There are incentives for several sectors - notably Construction, Agriculture, Textile, Refineries, Pharmaceutical and IT - and relief for vulnerable segments of the population, with an increase in the minimum wage and increased allocations for poverty alleviation programs. Overall, we think the Budget is decisive in what it wants to achieve, but execution is key and it is important that the IMF program continues as the growth push can impinge on the twin deficits.

The GDP growth target of 4.8% (3.9% in FY21 and 3.5% in the last ten years) will be achieved by the extension of stimulus measures (in place since the onset of Covid-19) and a substantial increase in development spending (highest in three years). The fiscal deficit target of 6.3% of GDP seems ambitious at first glance (compared with 7.0% estimated for FY21), but it can be broadly achievable insofar as GDP growth exceeds 4% and there are no major slippages on the expenditure side. Notably, the expected growth in revenues (up 20% yoy) is majorly driven by an increase in Indirect taxes – largely Sales Tax (up c.30% yoy) – where we think that the government is counting on strong economic growth (c.80% of GDP is Consumption) and a reduction in the sale of smuggled goods (retailers will now be required to provide evidence that goods have been legally imported).

The government has explicitly stated its desire to continue the IMF program and has removed several tax exemptions, in line with suggested policy prescriptions. That said, it appears that the government does not intend to increase power tariffs in FY22, a key IMF demand. As a result, ongoing talks with the IMF take on added importance. We think it is possible that some of the incentives in the Budget may be moderated before it is passed, but this will not detract from the clear shift from macroeconomic stabilization towards growth.

From the market's perspective, we think that the Budget will be well received. The KSE-100 depicted a pre-Budget rally but it has legs to extend the bull run towards all-time highs in the balance of 2021, in our view. Valuations remain attractive where FY22f P/E stands at 5.8x vs. the long-term mean of 9.0x.

Key sectors we like are **Cement, Textiles, Autos** and **Banks**. Our top picks are **LUCK, KOHC, UBL, BAFL, PSMC, SYS, GATM, NML and MTL**.

Key Highlights

Budget Steps	Impact	Comments
Reduction of CGT from 15% to 12.5%	Positive	This is a welcome move, to boost savings and raise participation in the stock market. The government also guided that CGT may progressively decline in the coming years. Simultaneously, there is a general increase in CGT on real estate beyond a certain threshold.
Reduction of Turnover tax by 0.25ppt	Positive	The increased rate was overly punitive for sectors which had thin PBT margins, including downstream energy companies and auto-assemblers (PSMC). It has been reduced for non-energy companies and oil refineries. The rate is likely to be further reduced in future.
Reduction or removal of import duties on raw materials	Positive	This is a significant boost to margins of Textile, Pharmaceutical and Steel sectors in particular where the aim is to boost export competitiveness and local consumption.
Removal of FED on <850cc cars	Positive	Another positive for Autos (PSMC in particular), where this can lead to a sizeable increase in the demand of locally produced cars.
Measures from the Refinery Policy	Positive	The two major measures from the new Refinery policy are included: (i) the profits of a new refinery or from a BMR project by an existing refinery will be tax exempt (ii) CD of 10% levied on Mogas and HSD.
FED on services of Telcos (on calls, messages and data)	Negative	This is negative for the cellular operators as it will impact data consumption and possibly eat into ARPUs. However, Hammad Azhar tweeted after the Budget announcement that FED on data will be omitted.

Our Perspective

The Budget is overall positive for the equity market. A number of sectors will see their profitability improve considerably. Meanwhile investors (filers) will also benefit from lower CGT which will lift market volumes further from the record levels seen recently. The latter is complemented with reduced taxes for brokers. These triggers are good enough to push the KSE-100 Index to new all-time high levels until end-2021, in our view.

Pakistan Market

Good news for the stock market

Reduction of CGT from 15% to 12.5%: CGT has been reduced from 15% to 12.5%. Note that CGT rate is likely to be further reduced further in coming years, as per the Finance Minister.

Analyst Comments

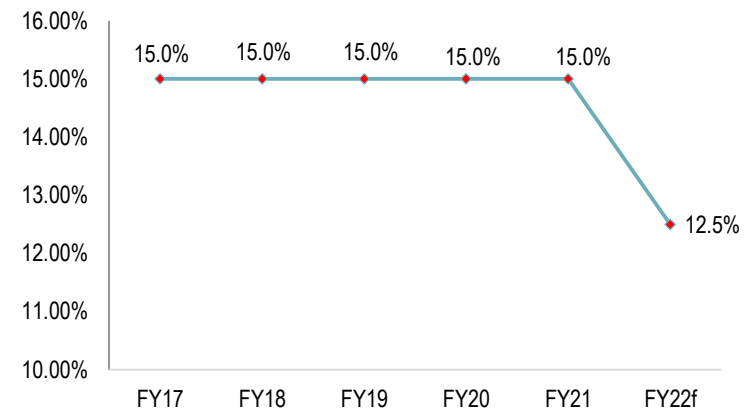
While the PSX has recovered handsomely from its Covid-19 inflicted lows in March 2020, we think the government is aiming to elevate people's wealth and savings ahead of the next general elections in 2023. Simultaneously, the Budget also proposes increase in CGT on real estate investment beyond certain thresholds – also improving the outlook for liquidity on the PSX, in our view.

Reduction of Turnover tax by 0.25ppt: Turnover tax for non-energy companies has been reduced from 1.5% to 1.25% and for refineries, from 0.75% to 0.5%. The rate for OMCs and gas utilities remains 0.75%. The rate was last revised up by 0.25ppt in the FY20 Budget.

Analyst Comments

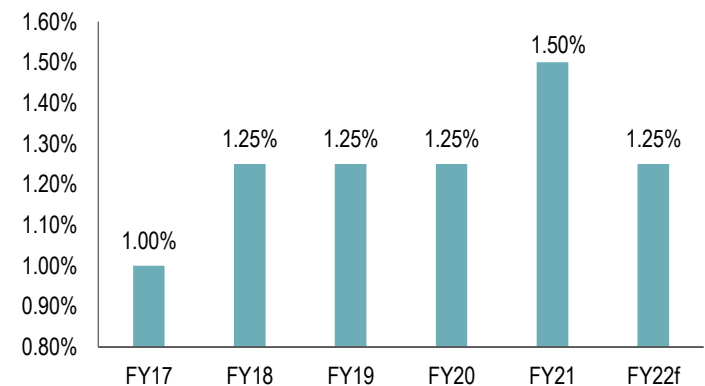
This was highly anticipated and omitted in the Budget FY21. The tax was overly punitive for companies and sectors already beset with low PBT margins and was clearly counterproductive – dissuading capex by the affected companies, which were also afflicted by high leverage. Omitting OMCs from the revision could be justified by recent measures to reduce their earnings volatility (such as biweekly pricing).

Capital Gain Tax falls for the first time in 5yrs



Source: MoF

Turnover tax is rationalized and likely to reduce further in future



Source: MoF

Measures to promote exports and import substitution

Reduction or removal of import duties on raw materials and machinery:

Beneficiary sectors include Textile, Pharmaceutical and certain Chemicals. Items under 589 PCT codes are exempted from custom duties, while 350 APIs have been exempted from ACD and CDs.

Analyst Comments

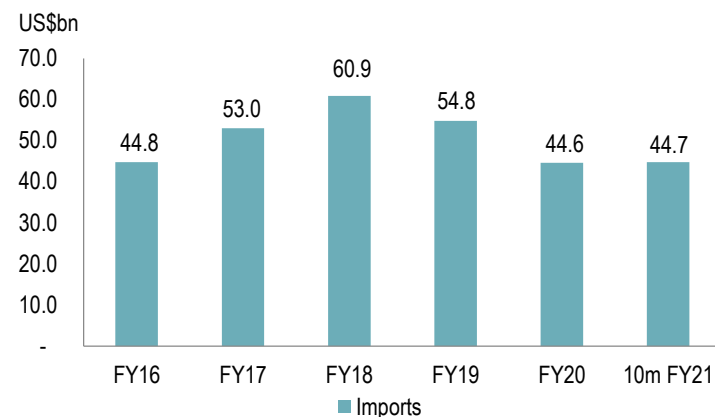
For the Textile industry, this can mean improved competitiveness and margins. In case of Pharmaceutical industry, we think the measure aims to make the industry a substantial exporter in the future. The measure can lead to greater capital expenditure in the two industries.

Key measures of the new Refinery Policy included: (i) Profits of a new deep conversion refinery and from a BMR project of an existing refinery will not be taxed for 10 years since the commencement of commercial production. (ii) 10% CD of HSD and Mogas.

Analyst Comments

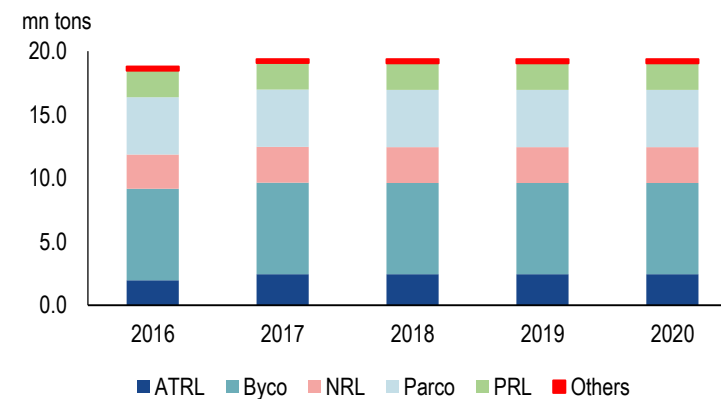
The market was expecting the Budget to include measures from the proposed refinery policy. This makes it more likely that they will commit to an upgrade project before the Dec 2021 deadline. The Policy will aid greater import substitution for long-term BoP stability.

Rising imports allows reducing duties on essential items



Source: PBS

Total installed capacity of refineries has not grown recently



Source: MoF

Friendly Budget for Agriculture and Autos

Removal of FED on <850cc cars: This is only applicable for local assemblers not imported vehicles (CBUs)

Analyst Comments

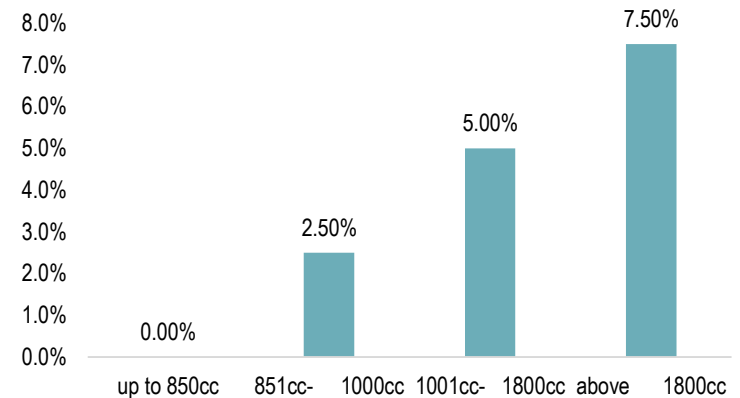
One of the goals of this Budget is to protect the poor and middle class – important because the elections are due in two years and the PTI government has recently faced criticism for high inflation. The removal of FED for small cars is to enable the middle class to buy or borrow for a car (given lower for longer interest rates as well). This measure predominantly benefits PSMC – the sole listed producer of small cars.

Agriculture Transformation Plan: Under this plan, support will be provided for availability of water, seeds, fertilizer, agri-credit, tractors and machinery, commodity warehousing, cold storage, and food processing industry.

Analyst Comment

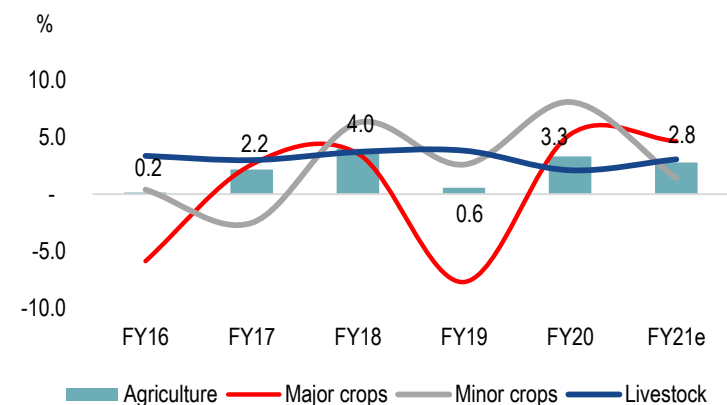
Details of the plan were limited in the Budget documents, but this plan is one of the major highlights. Execution of the plan will be important to achieve the target GDP growth. We also think the emphasis on Agriculture will last until the end of the PTI government's term (not fiscally cumbersome either).

FED on small cars reduced; likely to rejuvenate sales



Source: MoF

Strong outlook for Agriculture lifts GDP growth estimate to 5yr high



Source: Pakistan Economic Survey 2021

Pakistan Economy

Highest growth target in five years

Pakistan's GDP growth rebounded strongly in FY21e

- ❑ The GDP growth of 3.9% in FY21 vs. -0.4% in FY20 was led by strong agricultural produce amid surging global commodity prices and government stimulus measures. Double-digit growth in all major crops except cotton contributed to the growth.
- ❑ Meanwhile, the Industrial sector grew 3.6% thanks to 9% growth in LSM (9MFY21), which was broad-based.
- ❑ Services sector (skewed towards retail & wholesale) rebounded by 4.4%, led by the growth in the above sectors and imports.

Government aiming for highest GDP growth in 5yrs for FY22

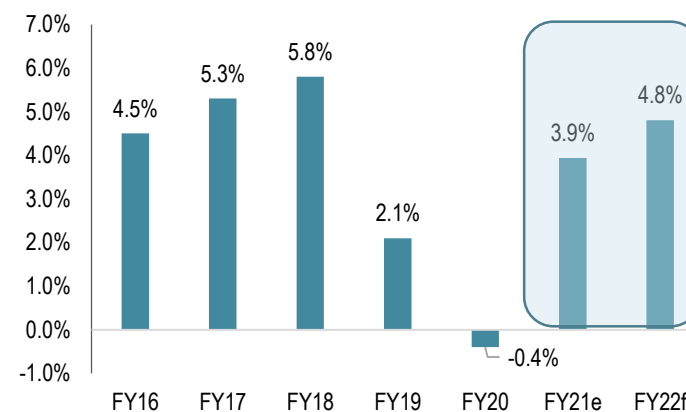
- ❑ To achieve the GDP growth target of 4.8%, the government has instated several measures to lift farmer income further by reducing taxes and duties of key inputs for Agriculture. At the same time, stimulus measures in place since the onset of Covid-19 have been extended
- ❑ Import duties on machinery and industrial raw materials reduced further. This will also help continue investment in fixed assets
- ❑ To boost consumption, the government did not introduce new income tax measures on individuals and reduced GST on many essential consumer items
- ❑ Government also increased PSDP allocation by c.40% to spur greater construction activity and lift investment to GDP.

Key macro indicators

	FY19	FY20	FY21e	FY22f
GDP growth	2.1	-0.5	3.9	4.8
- Agriculture	0.6	3.3	2.8	-
- Industry	-1.6	-3.8	3.6	-
- Services	-0.5	-0.3	4.4	-
CPI (yoy)	6.8	10.9	9.0	7.8
Tax to GDP	11.7	11.4	12.1	10.8
Fiscal deficit to GDP	9.0	8.1	7.0	6.3
Primary balance to GDP	-3.6	-1.8	-0.5	-0.7
Revenues to GDP	12.9	15.1	15.9	14.7
Expenditures to GDP	21.9	23.2	22.9	15.8
Development exp to GDP	3.1	2.8	2.9	3.7
Total Debt to GDP	85.9	87.6	79.7	-

Source: Economic Survey FY21, Budget documents, IMS Research

Government targeting highest GDP growth in 5yrs



Source: MoF

Fiscal targets assume strong rebound and few slippages

Resources: Big jump in Sales tax expected

- ❑ The Revenue targets are optimistic where the government is expecting more than 20% yoy growth in almost all tax heads. Most notable is the c.30% increase in Sales tax, meaning the higher expected GDP growth is assumed to play a big role.
- ❑ Custom duties will rise 12% yoy backed by the uptrend in imports, while this Budget exempts or reduces duties on a number of imports (raw materials and capital goods) moderating the expected contribution from CD.
- ❑ Note that the government has assumed PKR250bn of privatization proceeds, which is ambitious given the challenges around the enlisted targets.

Expenditures: Significant discipline assumed

- ❑ The government is assuming single digit growth in debt servicing, despite a growing economy and the prospects of higher interest rates in FY22.
- ❑ PSDP allocation, though up 40% yoy, is still below the PKR1.0tn which was a regular feature during the PML-N government. Public private partnerships and extending the Amnesty for builders can complement the PSDP allocation.
- ❑ Notably, Subsidies are up 60% yoy which suggests that the government is not planning to increase the power tariffs committed to the IMF earlier under the previous Finance Minister.

Resources (PKRbn)	FY21B	FY21R	FY22B	yoy
Tax revenue	4,963	4,691	5,829	24%
<i>Direct tax</i>	2,043	1,789	2,182	22%
Income tax	2,033	1,780	2,172	22%
<i>Indirect tax</i>	2,920	2,902	3,647	26%
Custom duties	640	700	785	12%
Sales tax	1,919	1,927	2,506	30%
FED	361	275	356	29%
Non-tax revenue	1,610	1,704	2,080	22%
Gross revenue	6,573	6,573	7,909	20%
Provincial surplus	242	242	570	136%
Capital receipts	1,326	1,701	681	-60%
Privatization proceeds	100	-	252	nm

Expenditures (PKRbn)	FY21B	FY21R	FY22B	yoy
Defense	1,292	1,299	1,373	6%
Debt Servicing	2,946	2,851	3,060	7%
Others	2,104	2,411	3,091	28%
Current Expenditures	6,343	6,561	7,523	15%
Development Exp	886	780	964	24%
PSDP	650	630	900	43%
Total Expenditures	8,238	7,341	8,487	16%
Subsidies	209	430	682	59%
Power	140	366	596	63%

Source: Ministry of Finance, IMS Research

Sectors Outlook



Sector Outlook: Summary

Sectors	Outlook	Top Picks
Cement	Positive	LUCK, KOHC, FCCL
Steel	Positive	MUGHAL, ASTL, ISL, ASL*
Technology & Telecom	Positive	SYS
Pharmaceuticals	Positive	AGP, GLAXO*, HINOON*
Autos, Parts & Tractors	Neutral to Positive	PSMC, INDU, MTL
Textile	Neutral to Positive	GATM, NML, NCL
Fertilizer	Neutral to Positive	FFC, FFBL
Oil & Gas	Neutral to Positive	OGDC, POL, PSO, ATRL*
Banks	Neutral	UBL, BAFL, MEBL
Power	Neutral	HUBC
Consumer	Neutral to Positive	GSKCH*
Miscellaneous	Neutral	CPPL*

* Not in active coverage

Cement

Budget Impact: **Positive**

Key measures

- National PSDP allocation increased to PKR2.1tn vs. PKR1.3tn announced in FY20. Federal PSDP is up c.40% yoy to PKR900bn. About PKR100bn will be allocated for construction of dams and PKR98bn has been approved for the Karachi Transformation Plan (total size is PKR739bn).
- About PKR33bn (PKR300,000/house) has been proposed for low cost housing scheme – likely to start in earnest.
- Extension in the completion of projects started under amnesty provided to builders and developers. The duration of amnesty has also been extended.
- Loans of c.PKR2.0mn each will be provided to low-income families at significantly concessionary interest rates for financing houses.

Analyst Comments

Increase in PSDP along with focus on construction of mega dams will propel overall demand of the cement and allied industries. This will be further supported by private sector demand, as the government is providing multiple reliefs and extension in construction amnesty also. Therefore, we believe that the local dispatches will continue to post double-digit growth over the next few years. This will in turn elevate cement industry pricing power and profit margins.

Cements - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
DGKC	126	Buy	185	46.7	8.37	17.78	15.1	7.1	0.8	0.7	5.3%	10.3%	0.0%	2.8%
LUCK	912	Buy	1,300	42.6	68.84	126.24	13.2	7.2	2.7	2.5	21.4%	35.8%	1.5%	3.2%
MLCF	47	Buy	60	28.1	7.46	6.10	6.3	7.7	1.4	1.2	23.6%	16.5%	0.0%	0.0%
CHCC	187	Buy	225	20.5	16.73	27.56	11.2	6.8	2.7	1.9	27.7%	33.3%	1.7%	2.7%
FCCL	24	Buy	38	58.1	2.75	3.77	8.7	6.4	1.5	1.4	18.1%	22.3%	8.3%	8.3%
KOHC	210	Buy	315	49.8	19.60	32.45	10.7	6.5	1.9	1.7	19.2%	27.3%	1.0%	7.7%
PIOC	132	Buy	190	43.8	10.80	20.20	12.2	6.5	2.3	1.8	21.0%	30.7%	1.7%	3.0%

Steel

Budget Impact: **Positive**

Key measures

- Federal PSDP allocation of PKR900bn, up from PKR630bn last year. This should mean additional impetus to construction activity – already buoyed by surging private demand.
- Abolishment of CD (3%) on the import of steel billets, ingot, ship plates and other long re-rolled profiles.
- Abolishment of custom duties on hot-rolled coils (HRC).
- Reduction in turnover tax to 1.25% from 1.5% previously.
- Various infrastructure projects such as the Karachi Transformation Plan and the construction of dams.

Analyst Comments

Reduction in customs duty on HRC will be positive for flat steel producers (ISL, ASL). The various infrastructure projects announced, such as the construction of dams, ML-1 project, Karachi Transformation Plan, and extension of the construction amnesty scheme (among others) is likely to maintain strong demand for long steel products (positive for MUGHAL, ASTL, ITTEFAQ). We believe that the expected improvement in rural income (through the various Agriculture measures), will further strengthen demand, thereby improving profitability.

Steel - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
ASTL	46	Buy	60	30.7	4.64	6.13	9.9	7.5	1.1	1.0	11.8%	14.2%	2.2%	3.8%
ISL	91	Buy	109	19.1	14.65	10.26	6.2	8.9	2.2	2.0	43.5%	23.5%	0.0%	5.6%
MUGHAL	115	Buy	142	23.1	12.36	16.60	9.3	6.9	2.9	2.5	36.7%	39.1%	4.9%	4.3%

Technology & Telecom

Budget Impact: **Positive**

Key measures

- Exports of IT services are proposed to be zero rated, provided that 80% of total revenues should remit back to Pakistan. Companies eligible for this incentive will benefit from tax credits until 2025 (same as in the previous Budget).
- The government has proposed that the import of plant and equipment for special economic zones will be sales tax exempted. IT based companies included in the SEZs will avail exemption from income tax for 10 years.
- FED on telecommunication is proposed to be reduced to 16% from 17%.
- Inclusion of telecommunication services (operating under PTA license) in the definition of industrial undertaking.
- Implementation of FED on SMS (PKR0.1/SMS), phone call (PKR1/call exceeding 3 minutes) and usage of mobile internet data (PKR5 per 1 GB usage). However, Hammad Azhar has tweeted that FED on data usage will not be included in the final Budget document.

Analyst Comments

Incentives like removal of sales tax on imported machinery and equipment, and zero rating regime is positive for the IT sector, as the sector will focus more on growing its exports. The introduction of FED on SMS and phone call is negative for the Telecom sector, as their ARPUs will likely fall, amid already high competition among the cellular operators. However, inclusion into industrial undertaking and reduction in FED on telecommunication is favorable for the sector.

Tech - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
SYS	506	Buy	685	35.3	22.26	30.54	22.7	16.6	6.6	5.0	33.0%	34.3%	0.9%	1.2%

Pharmaceuticals

Budget Impact: **Positive**

Key measures

- Blanket cut in customs duty on import of 350 APIs from c. 5% to 0%.
- Removal of CD on excipients, chemicals, diagnostic kits and equipment to 0% from c. 5% previously.
- Exemption of CD & ACD on six life-saving drugs and 6mth extension in exemption from CD on import of Covid-19 related items
- CD exempted on raw materials of auto disable syringe manufacturing industry
- Allocation of US\$1.1bn for import of Covid-19 vaccines

Analyst Comments

Out of +420 APIs in the National Essential Medicines List, 350 have been granted blanket CD exemption, in addition to excipients/kits and equipment. This is a big positive for the sector and should have a broad-based c. 5% impact on net revenues for most pharmaceuticals.

Pharma - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
AGP	103	Neutral	115	12.2	6.20	7.18	16.5	14.3	3.2	2.8	20.1%	21.0%	2.9%	3.9%

Sym	Price (PKR)	EPS (PKR)		PE (x)		PB (x)		P/S (x)		ROE (%)		DY (%)	
		19A	20A	19A	20A	19A	20A	19A	20A	19A	20A	19A	20A
ABOT	775	13.28	46.33	58.4	16.7	5.7	4.9	2.5	2.2	9.8%	31.3%	1.0%	5.2%
GLAXO	164	9.55	10.60	17.2	15.5	3.2	3.0	1.4	1.5	19.3%	20.1%	3.7%	4.0%
GSKCH	264	10.74	10.78	24.6	24.5	6.9	6.0	1.9	1.6	30.2%	26.1%	1.9%	1.9%
HINOON	614	25.50	37.31	24.1	16.5	6.8	5.2	2.6	2.2	30.8%	35.8%	1.7%	2.2%
FEROZ	365	6.93	10.92	52.6	33.4	2.7	2.3	2.5	2.4	5.1%	7.5%	1.4%	0.9%
IBLHL	118	2.24	4.07	52.6	29.0	5.1	4.5	4.0	2.4	9.9%	16.4%	0.8%	1.7%

Autos, Parts & Tractors

Budget Impact: **Neutral to Positive**

Key measures

- Abolishment of FED (2.5%) and value added tax on locally assembled cars of up to 850cc
- Reduction in GST from 17% to 12.5% on locally assembled cars of up to 850cc
- Change on the minimum tax regime (turnover tax rate reduced to 1.25% from 1.5% previously).
- Import of CKD EVs for cars up to 50kWh battery pack and 150kWh for LCVs to be duty free. Sales tax will be levied at 1%. For hybrids of up to 1,800cc, sales tax will be levied at 8.5% and 12.75% from hybrids of up to 2,500cc.
- Various measures announced for the Agriculture sector such as subsidy on fertilizer, silos and warehousing, and interest free loans for tractors.
- Tax on "on" money ranging from PKR50,000-200,000 depending on engine displacement

Analyst Comments

Overall positive for the Economy segment cars, where PSMC will be the main beneficiary. We estimate prices for the Alto, Bolan and Ravi to decline by almost c.PKR100,000. The decline in prices is likely to improve sales volumes for PSMC, thereby increasing overall margins and profitability (avg. c.6% rise in our base-case CY21/22f EPS). The Auto parts sector will also benefit (PSMC has high localization levels). The reduction to 1.25% turnover tax is positive, especially for PSMC. For the tractors sector, the various measures announced to improve both crop yields and livestock, is likely to keep tractor demand healthy, in our view.

Autos & Tractors - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
PSMC	333	Buy	450	35.3	58.54	70.75	5.7	4.7	0.9	0.8	18.0%	18.2%	0.0%	4.2%
INDU	1,318	Buy	1,625	23.3	135.65	149.38	9.7	8.8	2.2	2.1	24.3%	24.7%	4.3%	7.7%
HCAR	377	Buy	460	21.9	12.56	32.48	30.1	11.6	3.0	2.5	10.3%	23.5%	1.3%	2.9%
MTL	1,123	Buy	1,460	30.0	113.58	135.37	9.9	8.3	10.3	8.9	108.4%	115.3%	9.8%	10.7%
AGTL	374	Buy	490	31.2	44.30	53.37	8.4	7.0	8.7	7.9	107.4%	118.2%	10.9%	13.1%

Textile

Budget Impact: **Neutral to Positive**

Key measures

- The Textile sector has not reverted to zero-rating status.
- Reduction in duties (CD/RD/ACD) on various textile raw materials such as cotton and yarn (among others).
- Continuation of duty-free imports of textile machinery.
- Allocation of PKR20bn for DLTL drawback (from PKR10bn last year), is likely to improve both margins and cash flows for the sector.
- Abolishment of sales tax on potassium chlorate (c.PKR90/kg in addition to 17% standard rate).

Analyst Comments

The reduction in duties on various raw materials for the textile sector such as on cotton and yarn, is likely to benefit the value-added segment, in our view. The continuation of duty-free imports of machinery will continue to spur BMR and expansion projects for the sector. The allocation of the DLTL (doubling yoy) will flow to the sector in the form of improved cash flows and ultimately better margins.

Textiles - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
NML	101	Buy	140	38.5	12.87	15.69	7.9	6.4	0.5	0.5	6.2%	7.3%	4.9%	5.9%
NCL	52	Buy	70	35.0	16.99	13.48	3.1	3.8	0.8	0.7	27.1%	18.3%	9.6%	7.7%
GATM	47	Buy	63	33.7	8.31	8.89	5.6	5.3	1.3	1.2	25.0%	23.9%	8.6%	8.6%
ILP	70	Buy	90	28.6	6.79	8.40	10.3	8.3	3.2	2.6	33.2%	34.4%	4.6%	5.7%

Fertilizer

Budget Impact: **Neutral to Positive**

Key measures

- The government has allocated PKR12bn for Agriculture Emergency Program. This will comprise of measures for enhancing productivity, olive cultivation, water resources and locust emergency and food security projects.
- Government has intended to maintain advance tax of 0.25% (as compare to 0.7% previously) on fertilizer dealers and wholesalers.
- PKR6bn has been allocated for subsidized gas for RLNG based plants (same as last year).

Analyst Comments

Government focus on food security and clampdown on locust attack will increase crop yield and farm economics. Apart from this, the water resource development will maintain water availability at healthy levels. Hence will help farmers to improve the crop production by applying more fertilizer. Overall higher purchasing power of farmer will increase the offtake of fertilizer products, in our view.

Fertilizers - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
FFC	107	Buy	136	27.6	13.94	14.56	7.7	7.3	3.1	2.9	42.8%	41.1%	11.2%	11.0%
FFBL	28	Buy	35	25.5	4.54	3.23	6.1	8.6	1.9	1.7	35.3%	20.4%	0.0%	4.7%
ENGRO	306	Buy	380	24.3	46.21	42.92	6.6	7.1	0.7	0.6	11.2%	9.4%	10.5%	10.8%
EFERT	72	Neutral	75	4.1	10.08	7.36	7.1	9.8	2.0	2.0	28.6%	20.7%	13.5%	9.7%
FATIMA	29	Neutral	30	2.9	4.32	3.99	6.7	7.3	0.7	0.7	10.8%	9.2%	4.3%	3.4%

Oil & Gas

Budget Impact: **Neutral to Positive**

Key measures

- Tax exemption for 10 years on profits of a new deep conversion refinery or from a BMR (up-gradation project) by an existing oil refinery. For the latter, the refinery must avail approval for the project before 31 December 2021
- Custom duty of 10% to be imposed on Mogas and HSD
- Zero-rating of crude oil and import of plant and machinery related to Petroleum sectors have been discontinued
- The government has increased power subsidy allocation for the Power sector. This can be positive for the system's cash-flows if the government settles the tariff differential in an efficient manner. Conversely, it may lead to continued buildup of the circular debt and thus negatively impact cash-flows and payouts of the Energy chain companies – especially, PSO and E&Ps.

Analyst Comments

The measures of the Refinery policy were highly anticipated ahead of the Budget; The two major measures appear here, which will significantly increase profitability of the sector while it deploys large capex in upgradation and other BMR projects. The projects also ensure longevity for the local refineries, as their product mix will become more aligned with the country's demands.

E&Ps - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
OGDC	93	Buy	159	71.5	22.39	26.00	4.1	3.6	0.5	0.5	13.4%	14.3%	9.7%	10.8%
PPL	90	Buy	148	64.3	16.55	24.95	5.4	3.6	0.6	0.6	12.5%	16.9%	4.4%	7.8%
POL	380	Buy	500	31.6	61.45	67.33	6.2	5.6	2.5	2.4	42.1%	43.4%	13.9%	15.3%

OMCs - Valuation metrics

PSO	233	Buy	300	28.9	40.07	42.00	5.8	5.5	0.8	0.8	15.3%	14.1%	3.0%	4.3%
APL	329	Buy	400	21.7	38.36	46.26	8.6	7.1	1.7	1.6	20.2%	23.2%	5.5%	9.7%
SHEL	179	Sell	108	(40.0)	6.30	8.35	28.4	21.5	6.4	5.7	23.3%	28.0%	4.5%	5.6%

Banks

Budget Impact: **Neutral**

Key measures

- It has been proposed to extend the 4% Super tax for the tax year 2021 and onwards (in our models, we have assumed Super tax for banks in perpetuity).
- Removal of 0.6% WHT on branchless banking transactions > PKR50,000/day (other than through cash)
- Withdrawal of FED on Merchant Discount Rate (MDR) charged on POS by banks

Analyst Comments

Extension of 4% Super tax is a non-event as we have already incorporated it in our estimates. Removal of WHT on banking transactions may reduce currency in circulation and boost banking sector deposits. Tax credit on installation of point of sale machines should facilitate banks which are focused on increasing their digital footprint.

Banks - Valuation Metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
ABL	71	Buy	110	54.9	14.21	16.26	5.0	4.4	0.6	0.6	12.4%	14.0%	11.3%	11.3%
BAFL	32	Buy	45	38.7	6.30	7.00	5.2	4.6	0.6	0.6	11.8%	12.4%	9.2%	9.2%
MCB	165	Buy	220	33.4	25.05	25.95	6.6	6.4	1.1	1.0	15.8%	16.3%	10.9%	10.9%
MEBL	113	Buy	140	24.0	15.75	17.25	7.2	6.5	1.8	1.6	28.1%	24.9%	5.3%	5.8%
BAHL	73	Buy	89	22.1	15.05	15.31	4.8	4.8	0.9	0.8	19.5%	17.7%	5.5%	5.5%
UBL	131	Buy	160	21.7	21.30	24.78	6.2	5.3	0.8	0.8	13.1%	14.7%	9.9%	9.9%
HBL	135	Buy	160	18.4	22.97	24.82	5.9	5.4	0.7	0.7	12.5%	12.5%	4.4%	4.8%

Power

Budget Impact: **Neutral**

Key measures

- Power tariffs have not been raised despite being a sticking point for the IMF program
- Allocation for subsidy to WAPDA/PEPCO and KEL has been increased by 63% yoy to PKR596bn, the bulk of which has been earmarked for IPP payments.
- PKR57bn allocated for Dasu Hydro Project and PKR118bn allocation for the distribution network with a focus on Suki Kinari, Dasu, Mahal and Kohala hydro projects in addition to the secondary transmission lines of Hyderabad and Sukkur
- Profit on debt (penal income) derived by Hub Power Co. (HUBC) on project operations will be no longer be tax exempt.
- The government has assumed c.PKR250bn from privatization proceeds for FY22. We do not think that this means a stake sale of the state owned E&Ps, but the RLNG based IPPs and some stake sale in the SOEs (PIA, PSM or the Power Discos).

Analyst Comments

The payment of overdues to IPPs will significantly improve cash-flow cycles and lower the future capacity payment burden for the GoP. Power tariffs have not been raised which may cause circular debt buildup. Profit on debt derived by HUBC is no longer tax exempt; however, given overdue receivables of the plant are due to be cleared in 2021, this would have little to no impact on the company.

Power - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
HUBC	78	Buy	125	59.3	24.87	31.59	3.2	2.5	0.8	0.7	31.5%	29.6%	5.1%	12.7%

Consumer

Budget Impact: **Neutral to Positive**

Key measures

- Vaccines for the veterinary medicines have been exempted from customs duties
- Removal of CD on bovine semen vs. 3% previously
- Reduction of RD on import of cocoa paste, butter and powder being industrial input goods.
- Sales tax exemptions are withdrawn on fruit juices, milk and cream, flavored milk, yoghurt, whey, butter, cheese and fat filled milk for the informal sector. However, exemption on local supply continue
- Reduction in sales tax on Soya bean meal and exemption of CD & ACD on feed additives used as inputs for poultry industry.

Analyst Comments

Removal of CD on bovine semen and veterinary medicines is positive for FCEPL. Reduction of RD on imported products for industrial use would benefit ISIL and its confectioners segment. The sales tax exemption on the informal sector would prove to be inflationary but is unlikely to affect the listed sector.

Consumer - Valuation metrics

Sym	Price (PKR)	Rating	TP (PKR)	Upside (%)	EPS (PKR)		PE (x)		PB (x)		ROE (%)		DY (%)	
					21f	22f	21f	22f	21f	22f	21f	22f	21f	22f
FCEPL	86	Sell	78	(9.0)	2.15	3.81	39.8	22.5	6.9	5.8	18.2%	28.0%	0.0%	0.0%

Sym	Price (PKR)	EPS (PKR)		PE (x)		PB (x)		P/S (x)		ROE (%)		DY (%)	
		19A	20A	19A	20A	19A	20A	19A	20A	19A	20A	19A	20A
UPFL	16,800	385.08	602.43	43.6	27.9	46.4	38.9	8.1	6.9	117.1%	151.9%	2.3%	3.6%
NESTLE	5,800	162.17	195.91	35.8	29.6	80.8	62.8	2.3	2.2	202.2%	238.6%	2.6%	3.3%
NATF	223	5.85	5.92	38.2	37.7	9.6	8.5	2.5	2.2	27.4%	23.9%	0.0%	0.0%
ASC	19	0.64	0.58	29.4	32.5	1.2	1.1	1.3	1.4	4.2%	3.5%	0.0%	0.0%
PAKT	1,286	50.45	6.46	25.5	199.2	18.0	16.8	6.3	5.4	71.5%	8.7%	3.8%	5.4%
ISIL	400	14.57	14.04	27.5	28.5	3.6	2.7	0.9	0.8	13.2%	10.8%	0.0%	0.0%

Miscellaneous

Budget Impact: **Neutral**

Key measures

- **Miscellaneous:** Dividend income derived by a company is no longer tax exempt, if the company is eligible for group relief under Section 59B
- Income Tax on Specie dividend has been removed
- **Paper and Board:** Reduction in customs duty and exemption in ACD on import of waste paper for packaging companies, (ii) CD & ACD are proposed to be reduced on uncoated paper and paperboard for graphic art and printing.
- **Chemicals:** Reduction in CD on prepared paint or varnish removers.
- **Tobacco:** Electronically heated tobacco products are also proposed to be brought into the tax net

Analyst Comments

Removal of tax exemption of dividend income for companies under group relief would impact conglomerates which have a loss making subsidiary. Removal of income tax on specie dividends is unlikely to have any far reaching benefits for listed players. Reduction in ACD on waste paper and CD and ACD on paperboard printing would benefit packaging companies.



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As of June 11, 2021						EPS (PKR)			PER (x)		EPS Growth (%)		PBV (x)		DY (%)		ROE (%)		EV/EBITDA (x)
Mkt Cap (US\$Bn)	Price (PKR)	TP (PKR)	Upside (%)	Stance		2021F	2022F	2023f	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F
E&P									4.7	3.8	-4%	25%	0.6	0.6	9%	10%	14%	15%	1.6
OGDC	2.6	93	159	71	Buy	22.39	26.00	27.10	4.1	3.6	-4%	16%	0.5	0.5	10%	11%	13%	14%	1.3
PPL	1.6	90	148	64	Buy	16.55	24.95	19.71	5.4	3.6	-9%	51%	0.6	0.6	4%	8%	13%	17%	2.2
POL	0.7	380	500	32	Buy	61.45	67.33	63.59	6.2	5.6	7%	10%	2.5	2.4	14%	15%	42%	43%	2.1
Banks									6.0	5.5	3%	9%	0.9	0.8	8%	8%	15%	15%	n.a
ABL	0.5	71	110	55	Buy	14.21	16.26	18.43	5.0	4.4	-11%	14%	0.6	0.6	11%	11%	12%	14%	n.a
MCB	1.3	165	220	33	Buy	25.05	25.95	28.53	6.6	6.4	1%	4%	1.1	1.0	11%	11%	16%	16%	n.a
HBL	1.3	135	160	18	Buy	22.97	24.82	30.19	5.9	5.4	9%	8%	0.7	0.7	4%	5%	12%	13%	n.a
UBL	1.0	131	160	22	Buy	21.30	24.78	28.20	6.2	5.3	25%	16%	0.8	0.8	10%	10%	13%	15%	n.a
BAFL	0.4	32	45	39	Buy	6.30	7.00	8.16	5.2	4.6	3%	11%	0.6	0.6	9%	9%	12%	12%	n.a
MEBL	1.0	113	140	24	Buy	15.75	17.25	19.99	7.2	6.5	-1%	10%	1.8	1.6	5%	6%	28%	25%	n.a
BAHL	0.5	73	89	22	Buy	15.05	15.31	16.79	4.8	4.8	-7%	2%	0.9	0.8	5%	5%	20%	18%	n.a
Cement									11.4	7.1	n.m	62%	1.9	1.7	2%	3%	16%	24%	7.7
DGKC	0.4	126	185	47	Buy	8.37	17.78	22.00	15.1	7.1	n.m	112%	0.8	0.7	0%	3%	5%	10%	8.7
LUCK	1.9	912	1,300	43	Buy	68.84	126.24	145.48	13.2	7.2	263%	83%	2.7	2.5	1%	3%	21%	36%	10.7
MLCF	0.3	47	60	28	Buy	7.46	6.10	6.71	6.3	7.7	n.m	-18%	1.4	1.2	0%	0%	24%	17%	4.9
CHCC	0.2	187	225	20	Buy	16.73	27.56	34.17	11.2	6.8	n.m	65%	2.7	1.9	2%	3%	28%	33%	6.5
FCCL	0.2	24	38	58	Buy	2.75	3.77	4.33	8.7	6.4	n.m	37%	1.5	1.4	8%	8%	18%	22%	4.4
KOHC	0.3	210	315	50	Buy	19.60	32.45	33.07	10.7	6.5	n.m	66%	1.9	1.7	1%	8%	19%	27%	5.6
PIOC	0.2	132	190	44	Buy	10.80	20.20	28.75	12.2	6.5	n.m	87%	2.3	1.8	2%	3%	21%	31%	9.7
Fertilizer									6.9	7.7	-8%	-10%	1.1	1.0	10%	9%	16%	14%	3.6
FFC	0.9	107	136	28	Buy	13.94	14.56	14.81	7.7	7.3	-15%	4%	3.1	2.9	11.2%	11%	43%	41%	4.0
EFERT	0.6	72	75	4	Neutral	10.08	7.36	7.33	7.1	9.8	-26%	-27%	2.0	2.0	13.5%	10%	29%	21%	3.5
FFBL	0.2	28	35	25	Buy	4.54	3.23	3.25	6.1	8.6	205%	-29%	1.9	1.7	0.0%	5%	35%	20%	5.0
FATIMA	0.4	29	30	3	Neutral	4.32	3.99	3.83	6.7	7.3	-32%	-8%	0.7	0.7	4.3%	3%	11%	9%	5.5
ENGRO	1.1	306	380	24	Buy	46.21	42.92	44.67	6.6	7.1	6%	-7%	0.7	0.6	10.5%	11%	11%	9%	2.8
OMCs									7.5	6.9	n.m	9%	1.1	1.0	4%	6%	15%	15%	5.2
PSO	0.7	233	300	29	Buy	40.07	42.00	45.03	5.8	5.5	n.m	5%	0.8	0.8	3%	4%	15%	14%	4.6
APL	0.2	329	400	22	Buy	38.36	46.26	53.73	8.6	7.1	279%	21%	1.7	1.6	5%	10%	20%	23%	5.2
SHEL	0.2	179	108	(40)	Sell	6.30	8.35	11.66	28.4	21.5	-128%	33%	6.4	5.7	4%	6%	23%	28%	8.7

IMS Universe

As of June 11, 2021						EPS (PKR)			PER (x)		EPS Growth (%)		PBV (x)		DY (%)		ROE (%)		EV/EBITDA (x)
	Mkt Cap (US\$Bn)	Price (PKR)	TP (PKR)	Upside (%)	Stance	2021F	2022F	2023f	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F	2021F
Steel									7.7	7.8	n.m	-2%	2.1	1.9	2%	5%	27%	24%	6.0
ASTL	0.1	46	60	31	Buy	4.64	6.13	8.76	9.9	7.5	n.m	32%	1.1	1.0	2%	4%	12%	14%	8.3
MUGHAL	0.2	115	142	23	Buy	12.36	16.60	20.50	9.3	6.9	508%	34%	2.9	2.5	5%	4%	37%	39%	7.6
ISL	0.3	91	109	19	Buy	14.65	10.26	11.28	6.2	8.9	1188%	-30%	2.2	2.0	0%	6%	43%	24%	4.3
Power																			
HUBC	0.7	78	125	59	Buy	24.87	31.59	35.27	3.2	2.5	29%	27%	0.8	0.7	5%	13%	32%	30%	10.1
Autos									10.7	8.3	314%	29%	2.0	1.8	3%	6%	18%	21%	5.0
PSMC	0.2	333	450	35	Buy	58.54	70.75	87.13	5.7	4.7	-403%	21%	0.9	0.8	0%	4%	18%	18%	2.0
HCAR	0.3	377	460	22	Buy	12.56	32.48	41.48	30.1	11.6	163%	159%	3.0	2.5	1%	3%	10%	24%	10.3
INDU	0.7	1,318	1,625	23	Buy	135.65	149.38	191.25	9.7	8.8	110%	10%	2.2	2.1	4%	8%	24%	25%	5.4
Tractors									9.5	7.9	170%	20%	9.8	8.6	10%	11%	104%	109%	6.1
MTL	0.4	,123	1,460	30	Buy	113.58	135.37	146.37	9.9	8.3	224%	19%	10.3	8.9	10%	11%	108%	115%	6.3
AGTL	0.1	374	490	31	Buy	44.30	53.37	55.16	8.4	7.0	90%	20%	8.7	7.9	11%	13%	107%	118%	5.6
Pharma									18.8	15.3	17%	23%	3.9	3.5	3%	4%	20%	23%	11.2
AGP	0.2	103	115	12	Neutral	6.20	7.18	8.11	16.5	14.3	9%	16%	3.2	2.8	3%	4%	20%	21%	11.6
Tech																			
SYS	0.4	506	685	35	Buy	22.26	30.54	39.75	22.7	16.6	41%	37%	6.6	5.0	1%	1%	33%	34%	21.0
Chemical									7.9	12.3	86%	-36%	2.0	1.8	2%	3%	25%	15%	5.1
ICI	0.5	906	900	(1)	Neutral	38.36	39.93	44.12	23.6	22.7	40%	4%	3.7	3.4	2%	2%	16%	16%	10.7
LOTCEM	0.2	16	18	10	Neutral	1.94	1.85	1.88	8.5	8.9	38%	-5%	1.3	1.2	2%	3%	16%	14%	5.7
EPCL	0.3	48	62	30	Buy	14.06	6.50	6.63	3.4	7.3	124%	-54%	1.3	1.1	3%	3%	42%	16%	2.2
Textiles									7.1	6.4	340%	10%	1.0	1.0	6%	6%	15%	15%	7.2
NML	0.2	101	140	38	Buy	12.87	15.69	15.72	7.9	6.4	29%	22%	0.5	0.5	5%	6%	6%	7%	6.5
GATM	0.2	47	63	34	Buy	8.31	8.89	10.49	5.6	5.3	n.m	7%	1.3	1.2	9%	9%	25%	24%	7.3
NCL	0.1	52	70	35	Buy	16.99	13.48	13.75	3.1	3.8	n.m	-21%	0.8	0.7	10%	8%	27%	18%	5.2
ILP	0.4	70	90	29	Buy	6.79	8.40	9.92	10.3	8.3	426%	24%	3.2	2.6	4.6%	5.7%	33%	34%	9.4
Consumers																			
FCEPL	0.4	86	78	-9	Sell	2.15	3.81	5.41	39.8	22.5	832%	77%	6.9	5.8	0%	0%	18%	28%	n.m
IMS-Universe									6.7	5.8	32%	16%	1.1	1.0	6%	7%	16%	17%	5.5

Disclaimer

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Ratings Guide*	Upside
Buy	Total return expectation of \geq 15% or expected to outperform the KSE-100 index
Neutral	Total return expectation of $>$ -5% or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.