

Banks

Higher taxation but not as bad as initially feared

As per the amendments made to the Budget announced on June 10th, the recurring tax rate for Banks appears to be 43% instead of the 47% being determined earlier. In our [Budget note](#) on June 10th, we had estimated a 10-13% decline in recurring EPS estimates and a commensurate decline in target prices. We now estimate that the decline in recurring earnings estimate may be less than 5% compared to pre-Budget estimates.

Given that the listed banking sector has shed 8.5% since June 10th, we believe banks are in for a rebound. This may take place in early July, once a new quarter begins. Banks themselves were aggressive sellers in other banking sector shares today, and our understanding is this was to reduce the impact of reciprocal cross-holdings on capital adequacy ahead of the reporting period.

While we still await the final FY23 Budget document, a greater amount of clarity on taxation for banks has now come in. Our preference is for margin-sensitive banks with more than 50% ADR (those with less than 50% ADR may face additional taxation). Banks meeting this criteria include MEBL, BAFL and BAHL. Within the large banks, we believe UBL's strong CAR will be able to defend its relatively high cash payout ratio.

CY22 only	Pre-Budget	June 10	Final Budget
Corporate Tax Rate	35%	45%	39%
Super Tax	4%	0%	10%
Poverty Alleviation Tax	0%	2%	0%
Total Taxation on Banks	39%	47%	49%

CY23 & onwards	Pre-Budget	June 10	Final Budget
Corporate Tax Rate	35%	45%	39%
Super Tax	4%	0%	4%
Poverty Alleviation Tax	0%	2%	0%
Total Taxation on Banks	39%	47%	43%

Source: IMS Research

* Super tax applicable if annual income exceeds PKR300mn

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Ratings Guide*	Criteria
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

*Based on 12 month horizon unless stated otherwise in the report.

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.

Risks: not applicable.

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