



Budget FY19 *sweeteners for market*

Impact on stock market – key demand is met

-stock market investors – Extremely positive
- Tax on bonus shares REMOVED from 5% to 0%
 - Good for corporate appetite to resume bonus issue (reserves of companies have increased manifold & now we expect bonus issues) - very good for investors - receipt of bonus shares has been ousted from the definition of income under the Income Tax Ordinance, 2001
 - List of the companies include [ICI LUCK POL APL NRL ACPL ARPL ABOT SCL FERROZ](#)
- Dividend payout was previously set at 40% now it has been reduced to 20% which will reduce cash payout
 - the condition of distributing 40% of after tax profits is being reduced to 20% and the applicable tax rate on accounting profit in case of failure to distribute such dividend is being reduced from 7.5% to 5% - good for profit retention and future investments of corporate sector
- Mutual funds have now been exempted from withholding tax on issuance of bonus shares

Bonus euphoria

.....Bonus issue candidates

Symbols	Authorized Capital	Issued Shares	Bonus Share Capacity
	<i>mn</i>	<i>mn</i>	(%)
ICI	1,500	92.36	1524%
INDU	500	78.6	536%
ATBA	50	17.4	187%
GHNI	50	21.3	135%
EXIDE	18	7.77	132%
MARI	250	110.25	127%
POL	500	236.55	111%
AGTL	120	57.96	107%
ABOT	200	97.9	104%
PSMC	150	82.3	82%
APL	150	82.94	81%
ATRL	150	85.29	76%
ACPL	200	114.52	75%
PKGS	150	89.38	68%
FEROZ	50	30.19	66%
IGIHL	200	122.69	63%
HINO	20	12.4	61%

Symbols	Authorized Capital	Issued Shares	Bonus Share Capacity
COLG	75	47.95	56%
LUCK	500	323.38	55%
ARPL	50	34.12	47%
ATLH	150	103.41	45%
SHEL	150	107.01	40%
HCAR	200	142.8	40%
AGIL	40	28.8	39%
BATA	10	7.56	32%
GTYR	75	59.77	25%
NRL	100	79.97	25%
SCL	15	4	275%
HASCOL	150	144.82	4%
SEARL	140	153.93	-9%
MTL	50	44.29	13%
HINOON	25	25.54	-2%
PCAL	30	28.46	5%
ENGRO	550	523.78	5%

Impact on stock market – eluded happiness may come back

-stock market investors – Extremely positive
- Corporate tax reduced to 1% every year for 5 years to reach 25% by 2023
- Simultaneously super tax reduced by 1% per year as per n-1 formula
- Applicable on companies having profits of Rs500mn
 - Profit after tax shall increase by 2% of each companies facing super tax
- Tax (Advance tax /PTR) on stock brokers would be now adjustable
 - 0.02% was final tax before – now its adjustable
 - Previously PTR was considered as final tax to be paid i.e. (un-adjustable) and now brokers can file a tax return (adjustable)
- Tax on cash dividend decreased to 5% – positive perception

	New	Old
Corporate tax	29%	30%
Super tax		
Banks	3%	4%
Non banking	2%	3%
Tax will be eliminated in n-1 formula		

Cement – very positive supply side measures

- Stock market.....*Picks post finance bill*
- Supply side measures i.e. Rs1.03 trillion PSDP earmarked for motorways, hydroelectric & dams | continuation of incumbent government policy on development
- Cements... FED on cement is being increased from 1.25/kg to Rs1.50/kg – producers will pass on price to end users
- Staggering amount allocated for housing & water resources
 - Mostly Positive – Fauji Cement, road-quality cement producer, (est. EPS Rs 2.7/sh) given resumption of ‘own’ Line 2 in FY18
 - DGKC – (est. EPS Rs 17/sh); post expansion EPS in FY19 is Rs32/sh
 - Corporate tax reduction +
 - Custom duty reduced on Coal imports from 5% to 3% as per Salient features - very positive for northern zone players viz. FCCL DGKC CHCC

Fertilizer sector - sweeteners for Fauji's

- Stock market.....*Picks post finance bill*
- Agriculture credit continuation is good for more fertilizer offtake
- Reduced rate of sales tax @ 3% on all fertilizers across the board
- Sales tax on natural gas, if supplied to fertilizer plants for use of feed stock in manufacturing of fertilizer reduced to 5% from 10%
- Sales tax on LNG used as a feedstock reduced to 0% from 5% ~ inevitably support fertilizer plants
- Corporate tax reduction is key
 - Very positive for FFC EFERT AGL etc
 - Our pick EFERT that can report Rs7.5/sh EPS for CY18

Miscellaneous | Positives for LOTCHEM PAEL SING GTYR

- Stock market.....*Picks post finance bill*
- Chemical.....Withdrawal of CD on two catalysts for use by PTA industry i.e. Hydrogen Bromide (11%) and Palladium-on-carbon (3%)
 - LOTCHEM is only manufacturer of PTA ~ We foresee Re1.1/sh EPS in CY18 given improvement PTA-Px margins above \$150/ton
- Appliances.....Reduction of concessionary rate of CD from 10% to 5% on silicon electrical steel sheets for manufacturing transformers
 - 10% RD levied on CKD/SKD kits of specified Home Appliance
 - positive for PAEL & SING
- Tyres....To protect domestic manufacturers, increase of Custom Duty on rickshaw tyres from 11% to 20%
 - main beneficiary is GTYR SRVI

Miscellaneous sectors

- Stock market.....*Picks post finance bill*
- Battery.....Reduction of Custom Duty on Lithium iron phosphate battery (LiFePO₄) from 11% to 8%
 - TREET is producing Lead Acid / dried battery i.e. Daewoo brand – **negative**
- **Cigarettes....** The rate of FED on locally produced cigarettes is being enhanced
 - PAKT PMPK KHTC cigarettes will be **negative**
- Sales tax reduced to 5% from 7% on agriculture related machinery
 - AGTL is one of the listed producers of agri machinery – positive
- REIT Scheme.... In order to promote REIT schemes in Pakistan the rate of withholding tax on payment of dividend by a rental REIT Scheme to a filer has been reduced from 12.5% to 7.5%
 - Dolmen City Reit (DCR) is one such company - positive

- Stock market.....*Picks post finance bill*
- To support dairy sector, Custom Duty exempted on bovine semen
- Preparations for making animal feed reduced from 10% to 5%
- Exemption from sales tax is being granted to Bovine Semen which is being currently chargeable to sales tax at 17%
 - **EFOODS** (Royal Friesland Campina) own biological assets will be main beneficiary
- Increase in Custom Duty on import of Soybean oil
 - UNITY Foods is a new emergent player

Textiles – refund issues | positive

- Stock market.....*Picks post finance bill*
- Export refinance rate is already at 3% wherein rate on LTFF is their at 5% -6%
- Exporters face issues on Sales tax refunds – government will try to refund in phased wise manner
- Government allocated Rs 80bn for export package
 - Major beneficiary include NML NCL GATM ANL

- Stock market.....*Picks post finance bill*
- Concessionary import of vintage or classic cars and jeeps at fix duty/taxes of US\$ 5,000 ~
 - to favor assemblers INDU HCAR etc
- Reduction of Custom Duty from 50% to 25% and Exemption of 15% RD on Electric Vehicles and Custom Duty on kits of electric vehicle reduced from 50% to 10%

Media & entertainment – positive developments

- Stock market.....*Picks post finance bill*
- Film & Drama – Custom duty reduced to 3% on import of film & drama production equipment
- Rebate of 50% on Income Tax on companies in investing in film projects will be awarded for 5-years
- Sales tax reduced to 5% for 5 years
 - Beneficial to listed Hum Network (HUMNL)

LNG | lots of development

.....LNG

- Sales tax on RLNG abolished to 0% from 5%
- Removal of 3% tax on LNG imports
- To provide reduced rate of sales tax from 17% to 12% on import of LNG by
 - PSO on supply of RLNG to SNGP - positive for SNGP

SCS Universe – FY18 PE of 9.4x & dividend yield of 6%

.....SCS Universe

Oil	FY16 EPS	FY17 EPS	FY18E EPS	FY16 DPS	FY17 DPS	FY18E DPS	FY16 PE	FY17 PE	FY18E PE	FY16 DY	FY17 DY	FY18E DY
OGDC	13.2	14.8	18.7	5.0	6.0	7.75	12.8	11.4	9.0	3%	4%	5%
PPL	8.7	18.1	22.1	5.8	9.0	15.0	24.5	11.8	9.7	3%	4%	7%
MARI	54.9	82.9	155.3	5.1	5.2	8.0	27.6	18.3	9.8	0%	0%	1%
POL	30.6	40.9	57.0	35.0	40.0	50.0	21.7	16.3	11.7	5%	6%	8%
SHEL	63.2	29.7	52.0	34.0	24.0	30.0	5.6	11.9	6.8	10%	7%	5%
Cements	FY16 EPS	FY17 EPS	FY18E EPS	FY16 DPS	FY17 DPS	FY18E DPS	FY16 PE	FY17 PE	FY18E PE	FY16 DY	FY17 DY	FY18E DY
LUCK	41.2	42.3	45.0	10.0	12.0	12.0	16.0	15.6	14.6	2%	2%	2%
DGKC	20.6	19.7	19.0	6.0	6.0	6.0	6.9	7.2	7.5	4%	4%	4%
FCCL	4.2	3.1	2.9	2.8	1.0	2.75	6.6	8.9	9.6	10%	4%	10%
ACPL	25.2	26.49	29.0	12.5	13.5	14.75	7.1	6.7	6.2	7%	8%	8%
CHCC	7.96	11.08	15.2	3.3	4.5	5.0	15.8	11.4	8.3	3%	4%	4%
CPPL	31.02	20.9	19.9	10.0	9.5	10.0	5.6	8.4	8.8	6%	5%	6%
Fertilizers	CY16 EPS	CY17 EPS	CY18E EPS	CY16 DPS	CY17E DPS	CY18E DPS	CY16 PE	CY17 PE	CY18E PE	CY16 DY	CY17 DY	CY18E DY
FFC	13.2	8.4	10.0	11.9	7.0	9.0	7.6	11.8	10.0	12%	7%	9%
EFERT	6.8	6.2	7.0	7	6.0	7.0	10.8	11.8	10.5	10%	8%	10%
Banks	CY16 EPS	CY17 EPS	CY18E EPS	CY16 DPS	CY17E DPS	CY18E DPS	CY16 PE	CY17 PE	CY18E PE	CY16 DY	CY17 DY	CY18E DY
MCB	19.7	19.0	23.2	16	16.0	18.0	10.8	11.2	9.1	8%	8%	8%
UBL	22.7	20.8	20.0	13	13.0	13.0	8.8	9.6	10.0	7%	7%	7%
BAFL	4.97	5.2	6.4	0	1.5	2.0	10.7	10.2	8.3	0%	3%	4%
Universe multiple									9.4			6%

SCS Universe of miscellaneous companies

.....SCS Universe

Pharma	CY16	CY17	CY18E	CY16	CY17E	CY18E	CY16	CY17	CY18E	CY16	CY17	CY18E
	EPS	EPS	EPS	DPS	DPS	DPS	PE	PE	PE	DY	DY	DY
GSKCH	5.71	7.4	10.9	N/A	5.0	3.0	83.7	64.6	44.0	N/A	1%	1%
Auto	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E
	EPS	EPS	EPS	DPS	DPS	DPS	PE	PE	PE	DY	DY	DY
HCAR	24.9	43.0	49.0	7.0	13	15.0	19.4	11.2	9.8	1%	3%	3%
INDU	152.6	165.4	170.0	100.0	115	120	12.4	11.5	11.1	5%	6%	6%
LOADS	2.2	2.5	3.3	1.0	1	1.0	17.7	15.3	11.8	3%	3%	3%
Steel	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E
	EPS	EPS	EPS	DPS	DPS	DPS	PE	PE	PE	DY	DY	DY
INIL	6.56	15.37	21.8	5	9	11.0	42.1	18.0	12.6	2%	3%	4%
ASTL	4.3	3.6	7.5	2	2	3.0	19.3	23.1	11.1	2%	2%	4%
MUGHAL	3.55	3.94	5.6	3	2.6	3.0	19.5	17.5	12.4	4%	4%	4%
ISL	2.7	7.0	11.5	1.25	3.5	5.5	42.6	16.5	10.0	1%	3%	5%
ASL	-1.35	1.7	1.7	N/m	N/A	N/A	N/m	11.2	11.5	N/A	N/A	N/A
ITTEFAQ	0.86	1.6	2.9	N/A	N/A	N/A	22.2	12.3	6.5	N/A	N/A	N/A
Gas distribu.	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E	FY16	FY17	FY18E
	EPS	EPS	EPS	DPS	DPS	DPS	PE	PE	PE	DY	DY	DY
SNGP	0.2	13.6	23.0	N/A	6	8.0	N/m	8.4	5.0	N/A	5%	7%
SSGC	-6.94	N/A	4.7	N/A	N/A	2.0	(5.4)	N/A	8.0	N/A	N/A	5%

SCS Research

Budget glimpse – government should be credited for increase in outlay in 5-years

- Total outlay: Rs5.5 trillion
- Total expenditure: Rs5.246trillion
- Development budget: Rs800 bn
- Defense budget: 1,200 bn
- Recommendation to allocate Rs1,401 bn for interest payments on loans
- Transport & communications allocated Rs400bn
- Housing development: Rs5.43bn
- Proposal to allocate Rs221bn for subsidies
- GDP growth in upcoming fiscal year: 5.8%
- Inflation [CPI]: 3.8%

Economic indicators bit murky

- **Forex Reserves:** \$17.13bn (April 20, 2018)
- **CPI:** 3.8% YoY April 2018
- **Remittances:** \$16.37bn July-April FY18 (Growth of 4.62%)
- **Exports:** \$17.08bn July-March FY18
- **Trade Balance:** \$-27.3bn July-March FY18
- **Annual 2015/2016 GDP:** Rs 31.862 tn
- **Fiscal Deficit:** Rs796.3 bn (Feb 2,2018)
- **FDI:** \$1.94bn (July-Feb FY18)

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