BUDGET FY16 ANTICS

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Finance bill FY16 *Negative for stock market in short term*

- Capital Gains Tax (CGT) increase on trading could hit market volumes, index performance; investors are rightly worried.
- This phenomenon of bearish spell would not last long given positives related to various developments could bring euphoria in 2016.

Incidence of Capital Gains Tax

Holding period	Old	New
Upto 1year	12.5%	15%
1year - 2years	10%	12.5%
2years - 4years	0%	7.50%
After 4years		Exemption

- Uniform Tax of 35% on all sources of **banking income** could instigate banks to sell securities in market ~ not good for market sentiments for short term

- Tax on dividend increased to 12.5% from 10% (for non-filer it would be 17.5% from 15%)

Some sweeteners include....

- Finance bill encourages new listings at KSE;
  - tax credit on listing increased from 15% to 20% in year of enlistment; this is to encourage investment in new shares
  - tax credit limit on investment in new listed companies increased by 50% to Rs1.5mn
  - tax on mutual funds maintained at 10%

Hot Picks

Finance bill FY16 – *Our picks FFBL, MUGHAL, PTC, FCCL – enjoy !*

- Meat companies which have obtained Halal Food Certification before Dec 2016 will be exempted from Income tax for four year, which is beneficial for
  - **new arrival Al Shaheer Corp. (MeatOne) &**
  - **Fauji Meat Limited ~ subsidiary of Fauji Bin Qasim (FFBL)**

- No Imposition of duties on steel products ^ As under FTA companies import at cheaper rates, beneficial for steel makers ~ the idea is to supplement construction, roadmaking, motoways etc
  - **Mughal Steel and rest of players viz. International Steel (ISL)**

- Pakistan Telecom (PTC) ^ After withdrawal of International Clearing House (ICH) ~ LDI minutes have increased by 3x which were earlier around 350mn/month now have crossed 1bn.
  - **Slow but steady growth in PTC after ICH rationalization**

- The rate of tax for non-banking companies is being reduced from 33% to 32%;
  - **Sectors to benefit include cements, power etc**
  - **We prefer coverage companies FCCL, DGKC, LUCK, PIOC, CHCC, FFBL, FATIMA, PTC, MUGHAL, ISL, INIL, EFOODS, GHGL, PAEL, SPEL etc**

- Allocations for China-Pak Corridor (CPEC), Karachi-Lahore Motorway, Gawadar-Ratodero, BD dam etc is good / anti dumping duty on imported cements is also good for cements
  - **FCCL (good for road quality)**
  - **DGKC, LUCK (for dams)**

Snapshot

Finance bill FY16 – Increased outlay, increased revenue etc ...

- The federal outlay is likely to be Rs 4,451 bn;
- The gross revenue estimated at Rs3,103 bn for FY16 (increase of 16%)

~Dir.tax Rs1,347.9bn ~ Sales.tax Rs1,250bn ~ FED Rs 206.4bn ~ Cust.duty Rs299.1bn

- Federal deficit projected to be 4.3% (Rs1,303 bn);
- The defense expenditure is expected to increase i.e. Rs 781bn in the wake of Zarb-e-Azab against miscreants ~ though the main phase of the war has been won by Pak Army

Net Revenue Receipts		Current Expenditures	
Tax revenue	3,418	Interest payments	1280
Non tax revenue	895	Defense	781
Gross revenue share	**4,313**	Grants & transfers	410
Provincial share	1,849	Running of civil govt.	326
		Foreign loans repayments	316
		Pensions	231
		Subsidies	138
Rs bn			

source: BR

Standard Capital
Securities (Pvt) Ltd
A venture of Naushad Haroon Chamdia, incorporated in 1997

Snapshot

Finance bill FY16 ***BUDGET FOR Hydropower & dams | roads***

- Development budget of Rs1.514 tr ~ Federal Rs700bn | Provincial Rs814bn
- Large hydro power projects announcements to overcome 'power shortfall'
  - Rs 52bn for Dasu Hydro Power
  - Rs 21bn for land acquisition of Diamer Bhasha Dam (hydropower 4500MW)
  - Rs 11bn for Nelum-Jehlumn (hydropower 969MW)
  - Rs 11bn for Tarbela 4 (hydropower 1410MW)
  - Rs 5bn for GuddoPower (747MW highly economical power)
  - also Karachi Nuclear Coastal (2200MW), Chashma Civil Nuclear (600MW), Golan Gol (hydro 106MW)
- Rs 185bn allocated for roads, highways, bridges (65% increase in allocation)
  - **TOP PRIORITY Karachi – Lahore Motorway of 1152 km**
  - **Green Bus line from Surjani – Saddar 23 km**
  - **Gawadar – Ratodero Road 200 km**

1. **Positive for cement sector (picks DGKC, LUCK)**
2. **Positive for refineries non-energy segment (ATRL)**
3. **Steel makers to be delighted (MUGHAL, ISL etc)**

Finance bill FY16 – *China Pakistan Economic Corridor (CPEC)*

▪ CPEC is government's best card for economic stability and to rebuild territorial friendship. The time is ripe for converting this all-weather friendship into economic prosperity and that too at some of the country's impoverished locations. This relationship between China & Pak revolves around a great vision

~linking Kashghar to the port of Gawadar.

▪ The leaders of both the nations signed agreements worth US$46bn encompassing building of roads, railway network, telecommunication, development of Gawadar Port, coal based project at Port Qasim (2 * 660MW), coal mining at Thar (SECMC), Multan-Sukkar section of Karachi-Lahore Motorway, Korakoram Highway (Raikot to Islamabad), jetty infrastructure at Gaddani etc.

~ As per our discussion with economic leaders, Pakistani companies may take benefit of these gigantic projects to the extent of 30% whereas most of the raw material will likely to come from China;
~ we still feel this is a great opportunity for Pakistani producers of cements, steel, fiber optic etc.

Sectors

Salient features.........Positive | meat producers | cements

- **Meat** The exemption for 4 year Halal Meat Production companies that could set up 'halal' meat production plant & obtain 'halal' certification by 31st December 2016

~ **Its good for FFBL's FML plant & Al Shaheer (MeatOne)**

- **Cement producers to enjoy**

~ greater allocations from PSDP i.e. Rs700bn federal
~ provinces share is even greater
~ reduction in corporate tax to 32%
~ facility provided to builders on suspension of min.tax
~ also reduction in Custom Duty on import of construction machinery to 10%
~ supply of bricks & stone crushed given exemption from Sales Tax for up to 3years (2018)

~ **our picks remained FCCL (for roads) & DGKC, LUCK (for dams)**

Sectors

Salient features **Positives | Engineering | Telecom**

- **Engineering**

~ Exemption for 10years in Income Tax to electricity transmission projects provided that the project is set up by June, 2018.

~ **This could be beneficial for Pak Elektron (PAEL) stations in new housing schemes**

- **Telecom**

~ dismantled ICH (not a budgetary measure) proved beneficial for PTC where number of LDI minutes tripled per month;

~ **we like PTC given rejuvenating LDI revenue**

- **Steel**

~ higher infrastructure development will boost the demand for steel products along with no hike in duties make the sector more attractive

~ **MUGHAL & ISL could be performers**

Sectors

Salient features **Neutral | Textiles**

- **Textile** sector is already facing lot of pressures; some reprieve is given in shape of lowering Export Refinance Scheme (ERF) revolving credit markups

~ 6M revolving ERF rate reduced to 4.5% (Feb 6%)

~ long-term LTFF rate reduced to 6% (Feb 7.5%)

~ **our pick in textile composite is NML, NCL, ADMM & GATM**

~ impact of lower mark up would not be huge

~ stuck up ST refunds of textile units could be given back before Sept 30, 2015

~ companies like SAIF Tex (indirect exporter) & Gadoon Textile (direct lycra yarn exporter) could attain benefits alongside others

Negative…

~ government has also imposed 3% ST on fabrics/yarn & 5% ST on finished goods **(negative for all textile chain) e.g. Quetta & Samin Tex could collect ST before selling weaved cloth to NML**

Sectors

Salient features Neutral | Dairy | Fertilizers

- **Dairy products**

~ The government has imposed 10% sales tax on dairy products which include flavored milk, butter, yogurt, desi ghee, cheese, cream etc (BR report)

~ **This will have a direct bearing on EFOODS but given the practice the company will pass on the impact onto consumers**

~ Restricting zero-rating on dairy products to milk (only baby formula)

~ This could be helpful for Lucky group owned - ICI's new investment i.e. Morinaga

- **Fertilizers**

~ fertilizer prices remain unchanged for local market and no duties have been imposed on imported fertilizer (government may be ready to subsidize the urea)

~ **we are focusing growth in EFERT given utilization of greater capacity in CY15**

Sectors

Salient features **Negative | Banks**

- **Banking sector**

~ In order to encourage banks to take exposure in private sector and kick start growth in various sectors,
~ a corporate income tax of 35% is imposed which is extendable to all income heads e.g. dividend & capital gains
~ also profitable banks have been 'targeted' with a one off taxation i.e. (banks earning more than Rs500mn will be taxed @4%)
~ big 2 banks mainly HBL & ABL earnings could be slashed by 10%
~ MCB & UBL EPS could be slashed by 7%
~ our universe also include 2nd tier banks FABL, BAFL, AKBL where earnings could reduce by Re0.30/sh

Direction

Incumbent government – Time is ripe for 'growth' policies...

FY14 Saving Default...........
FY15 Attaining Macro Stability
FY16E Growth targeting 5.5%....

Medium term goals....

- GDP to grow by 5.5% in FY16,
  - 6.0% in FY17 &
  - 7.0% in FY18;
- Inflation to be contained at 6%;
- Foreign exchange reserves to increase to US$20 bn by FY18;(Curr. US$17bn)
- Tax-GDP ratio to be increased to 13% & then 15% in subsequent years;
- Foreign direct investment (FDI) to be increased to over US$ 5 bn

(JETRO considers Pakistan as second most attractive destination for FDIs);

- export target could be US$ 25.5bn (its on lower side given precarious energy shortage)

SCS Universe

S.No	Symbol	EPS FY13	EPS FY14	EPS FY15E	EPS FY16E	DPS FY13	DPS FY14	DPS FY15E	DPS FY16E	PE FY13	PE FY14	PE FY15E	PE FY16E	Dividend Yield FY13	Dividend Yield FY14	Dividend Yield FY15E	Dividend Yield FY16E	Earnings growth	PBV exp.	Enterprise Value
CEMENT																				
1	LUCK	30.04	35.08	38.05	45.0	8.00	9.0	10.5	11.0	15.7	13.4	12.4	10.5	2%	2%	2%	2%	8%	2.4	472.0
2	FCCL	1.42	1.97	2.78	3.6	1.25	1.5	2.5	3.0	22.7	16.4	11.6	8.9	4%	5%	8%	9%	41%	2.6	39.3
3	PIOC	6.76	7.79	10.50	12.0	4.00	4.3	5.0	5.8	11.4	9.9	7.3	6.4	5%	6%	7%	8%	35%	2.2	89.7
4	DGKC	12.56	13.62	15.75	16.5	3.00	3.5	4.0	4.5	10.2	9.4	8.1	7.8	2%	3%	3%	4%	16%	0.8	144.0
5	CHCC	11.64	12.52	7.90	8.7	2.50	3.0	4.0	4.5	6.1	5.7	9.0	8.2	4%	4%	6%	6%	-37%	1.2	80.3
6	MLCF	6.11	5.36	6.11	6.8	-	-	2.0	2.5	9.9	11.3	9.9	8.9	0%	0%	3%	4%	14%	1.8	84.3
PETROLEUM																				
7	OGDC	21.11	28.81	23.05	25.5	8.25	9.3	10.0	11.0	8.9	6.5	8.2	7.4	4%	5%	5%	6%	-20%	1.7	200.1
8	PPL	21.28	26.08	21.50	23.3	10.50	12.5	12.0	13.0	8.0	6.5	7.9	7.3	6%	7%	7%	8%	-18%	1.4	187.8
9	POL	45.78	54.48	35.05	43.5	45.00	52.5	30.0	40.0	8.5	7.2	11.1	9.0	12%	13%	8%	10%	-36%	2.2	413.7
10	PSO	50.8	80.31	29.80	49.5	5.00	8.0	5.0	5.0	7.5	4.7	12.8	7.7	1%	2%	1%	1%	-63%	1.0	383.2
STEEL/GLASS																				
11	ISL	0.84	1.59	1.90	3.5	0.00	1.0	1.0	2.0	34.3	18.1	15.2	8.2	0%	3%	3%	7%	19%	2.3	36.6
12	CSAP	13.13	5.80	7.30	11.6	3.50	2.5	4.0	6.0	3.7	8.3	6.6	4.1	7%	5%	8%	13%	26%	0.7	53.9
13	MUGHAL	1.56	4.77	6.90	8.1	0.00	-	2.0	3.0	30.8	10.1	7.0	5.9	0%	0%	4%	6%	45%	4.0	n/a
14	GHGL	7.07	7.44	10.65	12.3	0.00	-	4.0	4.5	11.0	10.5	7.3	6.3	0%	0%	5%	6%	43%	1.3	92.9
OTHERS																				
15	SEARL	8.55	8.77	14.3	16.2	2.00	40%B	4.0	4.0	31.8	31.0	19.0	16.8	1%	40%	1%	1%	63%	3.7	277.5
16	GHNL	0.85	3.86	5.45	8.0	-	2.0	3.0	3.5	108.2	23.8	16.9	11.5	0%	2%	3%	4%	41%	2.0	90.9
17	KEL	0.27	0.47	0.71	1.1	0.00	-	-	-	30.7	17.7	11.7	7.3	0%	0%	0%	0%	51%	2.4	9.8
18	SPEL	0.78	1.58	3.50	6.0	0.00	-	1.0	2.0	60.3	29.7	13.4	7.8	0%	0%	2%	4%	122%	3.3	60.0
	Symbol	EPS CY13	EPS CY14	EPS CY15E	EPS CY16E	DPS CY13	DPS CY14	DPS CY15E	DPS CY16E	PE CY13	PE CY14	PE CY15E	PE CY16E	Dividend Yield CY13	Dividend Yield CY14	Dividend Yield CY15E	Dividend Yield CY16E	Earnings growth	'BV exp	EV per share
BANKS																				
19	UBL	15.21	17.91	18.10	21.0	10.00	11.5	12.0	13.0	11.2	9.5	9.4	8.1	6%	7%	7%	8%	1%	1.9	-
20	HBL	14.94	21.21	22.05	24.2	8.00	12.0	10.5	12.0	14.1	9.9	9.5	8.7	4%	6%	5%	6%	4%	2.0	-
21	BAFL	3.47	3.55	4.75	7.1	2.00	2.0	3.0	3.5	7.7	7.5	5.6	3.7	8%	8%	11%	13%	34%	1.0	-
22	BAHL	4.64	5.71	6.78	8.0	2.00	3.0	3.3	4.0	9.2	7.5	6.3	5.3	5%	7%	8%	9%	19%	1.4	-
23	FABL	1.77	2.06	2.48	3.1	0.00	15%B	0.5	1.0	9.5	8.1	6.8	5.5	0%	n/a	3%	6%	20%	0.7	-
24	AKBL	-4.35	3.19	3.90	5.1	0.00	2.0	3.0	3.5	-4.7	6.4	5.3	4.1	0%	10%	15%	17%	22%	1.1	-
FERTILIZER																				
25	FATIMA	3.82	4.15	4.50	5.3	2.50	2.5	3.0	3.5	10.3	9.5	8.7	7.4	6%	6%	8%	9%	8%	2.2	51.4
26	FFBL	6.01	4.30	5.67	6.5	5.00	4.0	5.0	6.0	8.2	11.5	8.7		10%	8%	10%	12%	32%	2.8	57.2
27	FFC	15.83	14.28	15.39	17.0	15.35	13.7	15.0	16.5	9.0	10.0	9.3	8.4	11%	10%	10%	12%	8%	4.3	146.7
28	EFERT	4.5	6.32	12.02	13.7	0.00	3.0	4.0	4.5	19.4	13.8	7.3	6.4	0%	3%	5%	5%	90%	2.8	115.6
29	ENGRO	16.01	14.89	25.60	27.9	0.00	6.0	8.0	10.0	18.5	19.9	11.6	10.7	0%	2%	3%	3%	72%	2.1	387.6
30	EFOODS	0.28	1.16	4.80	6.0	0.00	-	1.0	-	500.0	120.7	29.2	23.3	0%	0%	1%	0%	314%	2.8	140.6
AUTOMOBILE/ TELECOM																				
31	PSMC	22.47	23.35	32.15	40.0	4.00	5.0	5.5	6.5	19.6	18.9	13.7	11.0	1%	1%	1%	1%	38%	1.8	379.1
32	PTC	2.49	1.02	2.05	3.2	2.00	2.5	2.0	2.5	8.3	20.3	10.1	6.6	10%	12%	10%	12%	101%	2.0	28.6
	Universe							FY		23.3	13.3	9.0	7.8	2.7%	5.4%	4.9%	5.5%		2.0	
								CY		45.7	19.5	9.4	7.9	4.3%	6.1%	6.3%	7.2%		2.1	

Standard Capital
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A venture of Naushad Haroon Chamdia, incorporated in 1997

Thank You

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