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Pakistan Research | Economy

Pre budget notes ~ possible impact on companies

We have extracted notes from print media wherein there have been many proposals from FBR that have been unveiled even before the speech of Finance Minister at the parliament house.

As a whole we find this budget to be inflationary since many taxes would be loaded on final product which companies would pass on to consumers.

Likely measuers in Budget / economy	Likely impact on companies/sector	Positive /negative
Government of Pakistan is finalizing strategy to pay off IPPs in coming weeks. Government decides to charge power consumers an additional 3% for technical losses and interest on power sector. The impact is around Rs2.3/unit on power tariff	This could be a good news for all IPPs alongside OMCs especially PSO ~ Some IPPs to benefit include PKGP and LPL	Positive for IPPs & OMCs
Government plans to generate Rs 248bn through privatization in FY15.	Good for the economy since GoP desparate to meet revenue shortfall in order to carry out big projects in its power base	Neutral to negative since wrong pricing may erode share worth
First batch of privatization is planned for Aug-Sep 2014 to offload OGDC, PPL and UBL shares to mobilize Rs 140bn	We see UBL to re-rate ~ we do not expect PPL to fetch attractive price	Positive for UBL Negative for PPL
2nd batch of privatization is planned for Aug-Sep 2014 to offload HBL and ABL shares to mobilize expected proceeds of Rs 109bn.	**HBL** to re-rate in a big way	Very positive for HBL
APCC has recommended setting next years economic growth target at 5.1% and inflation at 8%	Good for cement dispatches ~ analyst may jack up terminal growth which would increase fair prices of scripts	Very positive
Gas and electricity connections will be linked to NTNs.	Good for economy in longer run but may create uneasiness in short run	Positive for longer run
Federal excise duty ~ to be burden on common man	**FED**	
FED on cement is expected to increase up to Rs100/ton wherein companies would benefit invariably since they would pass on the tax increase onto prices. The impact would be an increase in construction activities.	Cements companies would invariably benefit ~ Overall impact could be of Rs 5/kg which cements companies would pass on to consumers by increasing prices by Rs 10 /bag	Virtually positive impact for cement producers
Government to impose a uniform specific tax of Rs 31.2/pack on cigarettes.	measure may lead to smuggling of various brands Negative for PAKT & PMPK	Negative

However, Government of Pakistan wishes to enhance revenue base (targeting Rs2.8 trillion wherein tax men not hopeful beyond Rs2.7 trillion in FY15).

The overall privatization would be quite eventful for capital markets.

General Sales tax ~ to fuel inflation	GST	
GST on tractors may be slashed from 16% to 10% ~ massive reduction in production as farmers not buying due to high prices and also there is lack of funding from ZTBL	Favorable for tractor sales ~ MTL to benefit	Positive for tractors
GST rate per unit can increase from Rs 4/unit to Rs7/unit in Steel, dairy and pharma	Negative for Dairies ~ EFOODS to feel the pinch	Negative
Textile exporters may face embarrassment since government is levying 5% GST on export proceeds from foreign buyers	Textile exporters may agitate against this measure	Negative for textiles
Pakistan Cotton Ginners seeks ban on import of cotton and cotton yarn from India.	Positve for spinning ~ ELSM, SURC, NAGC are few good companies	Positlve for textiles

Withholding tax at source	WHT	
There is a chance that textile weaving and textile processing would modernize machinery. We expect composite mills to take benefit of tax incentives	Good for textile weaving & processing ~ our focus on NML, GATM, ADMM, PRWM	Positlve for textiles
The WHT on withdrawal from banks will increase from 0.3% to 0.5% (however, those who file IT returns shall give lower rate)	Pass through impact	Neutral
Increase in WHT on interest and cash dividends	Bad for bank account holders ~ shareholders /bad for dividend seekers	Negative for investors
WHT on international air travel to 10% on tickets to passengers traveling abroad. It will 5% for filers of IT returns and 10% for non-filers.	Cost of tickets would increase ~ Little or no impact on PIAA	Neutral
Exemption would continued to be provided Hybrid Electric Vehicles (HEVs) ~ duty to be zero percent on the import of parts on HEVs as per the recommendations of Auto Development Policy (ADP). The present government is against local OEMs	Impact for new perspective manufacturers ~ negative for local OEMs	Negative
The government may also increase taxes on the import of used cars.	Good for local OEMs ~ PSMC to benefit	Positive

Amnesty scheme ending	Amnesty scheme	
June 30, 2014 would be last month for stock market amnesty scheme which was introduced in April 2012. In the amnesty scheme an immunity to question source of investment in stock market was granted. We see some liquidity would come on emergent basis by great number of big investors.	Good impact for the market only for the month of June if liquidity pours in ~ however, in the longer run it would detrimental for market volumes since many undocumented investors would shy away	Neutral to negative

Source: National newspapers and research department
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