



Standard Capital

Securities (Pvt) Ltd

A venture of Naushad Haroon Chamdia, incorporated in 1997

Proposed Budget FY12 - June 6, 2011

scstrade Sector impacts

- **Stock market**.....may initially react in negative given no respite in Capital Gains Tax for retail investors; thin volumes may mar activity
- **Cements**..... Positive – Buy Fauji Cement (TP Rs 8/sh) due to unveiling of the new German line.....
- **Fertilizer**..... Positive – Hold FFC, go long in FATIMA (U/r*)
- **Pharma**..... Positive – Buy ABOT (exp PE 5x)
- **Refineries**..... Positive – Buy NRL (exp PE 5x)
- **Power** sector subsidies reduced..Negative – Hold HUBC (yield 13%), Sell Nishat Power....

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scstrade Sector impacts

- **Autos**.....Positive – Hold INDU (exp PE 8.2x)
- **Banks**.....Positive – Buy MCB (TP Rs 247/sh) & BAHN (TP Rs 35/sh) among small banks SNBL (acquisition target; exp. PE 1.2x as per *scstrade* engine)
- **Oil marketing**.... Negative – Hold PSO (TP Rs 311/sh; exp PE 4x) & Sell APL (High PEG; TP Rs 397/sh)
- **Textiles**.....Neutral

scstrade Capital gains tax

- **Capital Gains Tax (CGT)** for investors to remain at 10% for FY12, if shares sold within 6months and 8% between 6 and 12months.

No major changes in:

- Turnover tax on shares trading and taxes in stock brokers
- CGT paid by banks, insurance firms, mutual funds and other corporate entities
- Quarterly CGT filing deadline for corporate has been extended to 21days from 7days. Corporates usually file quarterly statements as oppose to yearly filing by retail investors

Federal excise duty (FED)

- Change in FED rates for cement has been proposed driving down the existing rate of Rs700per metric ton to a proposed rate of Rs500per metric ton for FY12; with further reduction of Rs500 per metric ton over the next 2years. This reduction is a good sign for the cement sector growth, which will enable cement companies to earn higher profit margins and especially benefit companies enjoying economies of scale such as LUCK. Our models yield FCCL target price of Rs8/sh with LUCK at Rs100.7/sh.
- Federal excise duty has been withdrawn on solvent oil (Rs13 per litre), other fuel oils (Rs185 per metric ton), transformer oil (10% of the retail price or Rs7.15; whichever is higher), carbon black oil including residue carbon oil (Rs7.15). We see positive impact on APL.....
- This FED withdrawal will provide opportunity to OMCs to earn higher revenues. We like PSO (TP Rs 311).

- FED has also been withdrawn on motor cars and other motor vehicles principally designed for transport of people including station wagons and racing cars of cylinder capacity exceeding 850cc; excluding transport vehicles of heading 87.02 (5% ad val.)We like INDU being an efficient player (exp PE 8.2x)
- **Custom duty** on 22 essential items for Pharma industry have been reduced which is a positive news for a few pharmaceutical stocks such as GLAXO (exp. PE 8x; hist. PE 14x), ABOT (exp. PE 5x)

scstrade glaring tax reforms

- **Dividend received by bank** from its asset management companies to be taxed at 20% (previously it was charged at 10%) ...negative for banks
- Tax on income of banks to remain at 35%....positive for banks
We like MCB Bank with a target price of Rs247/sh, target PBV multiple 2.5x; and Bank Al-Habib (BAHL) with a reported target price of Rs35/sh.
- **VAT-** on commercial importers increased to 3% in FY12 from 2% in FY11
- 10% tax credit on BMR & Expansion between FY10-FY15..... is good for Fauji Cement since it is coming out of expansion phase...
- **Sales tax** reduced from 17% to 16% for FY12. This will have a positive impact on consumer purchase power subsequently enhancing economic growth. We think that inflation has actually been fueled by GST and which was also the wrong pretext for discretionary monetary policy

scstrade restructuring

- **Public Sector Enterprises (PSEs):** The finance Minister committed to restructure 8 PSEs including PEPCO, Railways, PIA, TCP, Passco, Steel Mills, NHA and Utility Stores
- **Circular debt:** The circular debt continues to rise in spite of the periodic issuance of Term Finance Certificates (TFCs). However the interest payable on the TFCs has implied higher allocation from Rs40bn earmarked for FY11, however, lower allocation entails negative for energy sector especially new IPPs viz. Nishat Power etc.

scstrade subsidies withdrawn

Subsidies withdrawn- Rs229bn (FY11: 2.19% of GDP; FY12:0.79% of GDP)

- WAPDA/PEPCO subsidy reduced by 58.52% to Rs122.70
- KESC subsidy reduced by 48% to Rs24.58bn
- TCP-reduced by 76.64% to Rs4bn
- Utility stores-reduced by Rs2bn
- 97% decrease in subsidy to Passco
- Rs74mn allocated for mung pulse operation

scstrade subsidies

- FFC Bin Qasim (FFBL) will be extended Rs185mn in FY11 as compared to Rs210mn earmarked last year but revised upward to Rs439mn -
- Oil refineries and Oil Manufacturing Companies (OMCs) subsidy reduced to Rs7.92bn in FY12 (FY11: Rs10.80bn and FY10 Rs15bn though government disbursed only Rs11.224bn during FY10)
- No money proposed for wheat and paddy procurement operations
- The government approved Rs12bn subsidy to TCP for the import of urea fertilizer.
- All subsidies to manufacturers of Phosphatic and Potassic fertilizer and importers of Phosphatic and Potassic fertiliser have been stopped.

scstrade BUDGET HIGHLIGHTS

- Total outlay - Rs2.767trn
- Tax revenue - Rs2.074trn
- FBR taxes- Rs1.952trn
- Non tax revenue- Rs658bn
- Bank borrowings- Rs304bn
- External receipts- Rs414bn
- Fiscal deficit- envisaged 4% of GDP (overall Rs850bn budget deficit) which we feel is highly unlikely given anomalies in tax collection
- Rs125bn cash surplus expected from provinces

scstrade BUDGET HIGHLIGHTS

Expenditure

- Current expenditure- Rs2.315trn
- Development expenditure- Rs425bn
- Defence expense- Rs495bn
- Grants and transfers- Rs295bn
- PSDP- Rs730bn (Rs300bn:federal allocation

Rs430bn:provincial allocation) which is good for overall cement consumption in the country since there is huge need for housing as well as basic infrastructure at the aftermath of floods

Research Team

Institutional Sales

Online Sales

Scstrade Marketing department