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# BUDGET REVIEW 2013-14



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## Budget Overview

After the historic transfer of democratic government through parliamentary elections recently held, the new government has announced the much awaited budget for the fiscal year 2013-14. The PML-N government has made enormous efforts in a short span of time to introduce a balanced budget by taking some tough measures and also providing some relief measures in order to revive the ailing economy while keeping the less privileged class aside from the impact of these tough measures.

Budgetary measures have been introduced to increase the revenue base by introducing new income tax slabs and increasing indirect taxes. Stance to eliminate untargeted subsidies, restructuring of loss making public organizations and investment in infrastructure clearly addresses the most urgent needs of the masses. Measures towards the sustainable power supply are welcomed by the business community as well as all the people facing energy shortage problems.

Increased allocation of funds for academic scholarships especially for the young students from less privileged areas bode well for the better earning potential for the beneficiaries. Increase in funds and restructuring of income support program along with soft loans will help poor people to get sustainable earning opportunities. Overall Budget has targeted the welfare of every stakeholder be it public, business community and government it self.

Growth Indicators (% YoY)	Cont: in GDP (%)	FY12	FY13E	FY14B
Real GDP	-	4.4	3.6	4.4
Agriculture	21.4	3.5	3.3	3.8
Services	57.7	5.3	3.7	4.6
Manufacturing	20.7	2.7	3.5	4.5

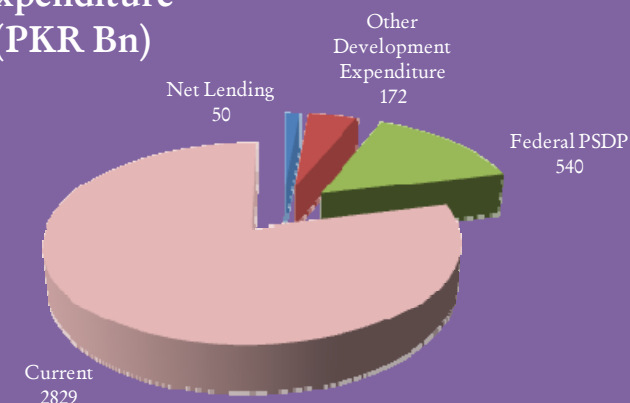
Economic Indicators (% YoY)	FY12	FY13E	FY14B
CPI (10M Average)	10.9	7.5	8.0
Discount Rate	12.0	9.5	9.0
Fiscal Deficit (% of GDP)	6.8	4.7	6.8

Demographics	2012	2013
Population (Mn)	180.71	184.35
Pop Growth rate (%)	2.03	2.00
Per Capita Income (USD)	1323	1368

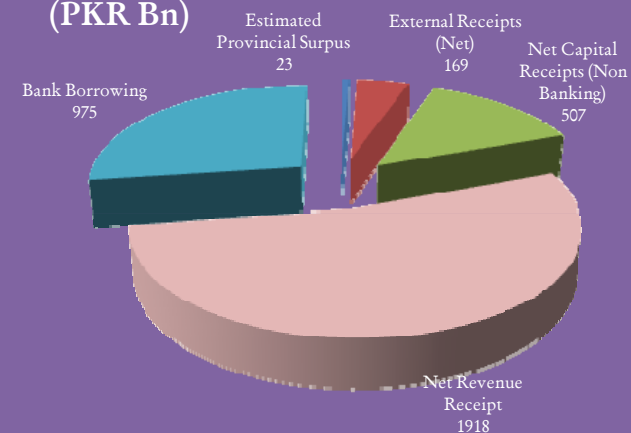
(USD Bn)	FY12	FY13E	FY14B
FDI	0.8	0.8	1.1
Remittances	13.2	12.76	15
Forex Reserves	15.3	11.46	12.5

<b>Fiscal Summary (PKR Bn)</b>	<b>FY13B</b>	<b>FY13E</b>	<b>FY14B</b>
Tax Revenue	2,503.6	2,124.6	2,598.1
FBR Revenue	2,381.0	2,007.0	2,475.0
Other taxes	122.6	117.6	123.1
Non-Tax Revenue	733.3	712.0	821.9
Gross Revenue Receipts	3,236.8	2,836.6	3,420.0
Less: Provincial Transfers	(1,458.9)	(1,221.0)	(1,502.3)
Net Revenue Receipts	1,777.9	1,615.5	1,917.7
Current Expenditure	2,396.0	2,719.8	2,829.3
Debt Servicing	925.8	1,028.7	1,153.5
Defense	545.4	570.4	627.2
Subsidies	208.6	367.5	240.4
Others	716.2	753.2	808.0
PSDP-Federal(Net)	360.0	388.4	540.0
Net PSDP	873.0	851.4	1,155.0
Less: Provincial	513.0	463.0	615.0
Other Development Expenditure	154.2	107.4	171.8
Net lending	50.1	36.5	50.3
Provinces	45.3	43.4	42.8
Disbursement	76.8	75.5	77.6
Repayments	(31.5)	(32.1)	(34.8)
Others	4.8	318.1	7.5
Total Expenditure	2,960.3	3,577.1	3,591.4
Federal Fiscal Deficit	(1,182.4)	(1,961.6)	(1,673.7)
Provincial Balance	79.5	(62.2)	23.1
Net Fiscal Deficit	(1,102.8)	(2,023.7)	(1,650.6)
Financing of Fiscal Deficit	(1,120.8)	(2,023.7)	(1,650.6)
External Borrowing	22.9	(10.9)	59.8
Grants	34.7	29.0	29.8
Domestic bank borrowing	483.8	1,575.5	975.0
Domestic non-bank borrowing	384.0	243.5	576.4
Privatization	74.4	-	79.2

### Expenditure (PKR Bn)



### Revenue (PKR Bn)



### Key Features- Budget Outlay

- The total budget outlay for the year FY14 is PKR 3.5tn, 0.4% higher than the revised estimated outlay of FY13.
- Out of the total outlay, 78.7% i.e. PKR 2.83tn has been allocated for current expenditure, 4% higher as compared to allocation in the revised budget estimates for FY13.
- PKR 540bn is allocated to development budget.
- The net revenue receipts for FY14 have been estimated at 1.92tn, 7.9% higher than the receipts of FY13.
- The net capital receipts are estimated to be PKR 507bn.
- The net external receipts are estimated to be PKR 169bn.
- The budget deficit is estimated PKR 1.65tn for the year FY14, which is 6.3% of GDP, down 2.5% from FY13, which has grown to 8.8% of the GDP.
- The provincial share of the total revenue receipts is estimated at 1.5tn, 3% higher than the budget estimates of FY13.
- Total size of PSDP for the year FY14 is set at PKR 1.15tn, out of which PKR 615 has been allocated to provinces and PKR 540bn has been allocated to federal PSDP.

### Key Macro Economic Targets for FY14 and Medium Term (FY14-FY16)

- GDP Growth is targeted at 4.4% for upcoming year and it will gradually attain the target of 7% by the year FY16.
- Tax to GDP ratio has been set 10.3% of GDP for the year FY14 and it is targeted to 15% of the GDP by the end of FY16.
- Inflation target is set to be 8% for upcoming year, and the medium term target for inflation is set to be in single digit.
- Forex Reserves will be increased to USD 20bn by the year FY16.
- Fiscal Deficit is targeted at 6.3% of GDP for FY14 and it will be reduced to 4% of the GDP by the year FY16.

### Key Features- Relief Measures

- Funds for Income support fund have been increased to PKR 75bn, as compared to PKR 40bn, with 20% increase in monthly allowance of the beneficiaries.
- Increase in pension of retired government officials by 10%, and minimum pension increased from PKR 3,000 per month to PKR 5,000 per month.
- Reduction on customs duty on office & school supplies from 25% to 20%.
- Loan scheme for small businesses at markup rate of 8% and microfinance scheme of PKR 5bn at zero markup rates.
- Youth training program and laptop scheme introduced for young graduates and students of higher education.
- Fee re imburement schemes introduced for students of less privileged areas.
- Housing Schemes to be introduced for deserving people.

### Key Features- Income Tax

- Corporate tax rate for the non banking companies is reduced from 35% to 34% and it will be gradually reduced to 30% over five years.
- For banks, dividend income and income from money market funds will be taxed at 25%.
- The rate of minimum tax is being increased from 0.5% of the turnover to 1%.
- Tax slabs of salaried and non-salaried individuals are revised and tax rates are increased for higher income tax slabs.
- The transactions of margin financing, trading financing and lending will be subject to 10% withholding tax applicable on profit earned, which will be collected by NCCPL.
- Property tax slabs are revised from previous three slabs to current six slabs.
- Imposition of minimum tax of PKR 25/Sq ft of the constructed area sold and PKE 50/Sq ft of the developed land sold.

### Key Features- Indirect Taxes

- General sales tax in being increased by 1% from 16% to 17%.
- Non-registered Commercial and industrial users of electricity and gas, exceeding the monthly bill of PKR 15,000, will pay 5% extra tax in addition to 17% GST.
- Zero rated items will be taxed up to 17% GST.
- Duties and FED on Hybrid fuel vehicles reduced by 25-100% in engine size.
- 2% additional tax will be levied on supplies to unregistered businesses.
- Tax rate has been increased from 0.2% to 0.3% on withdrawal of cash from banks.
- WHT of 10% will be imposed on interest earned by brokers from margin trading.
- 10% WHT (adjustable) will be imposed on Hotels, clubs, marriage halls & restaurants.
- 5% advance WHT (adjustable) will be imposed on educational institutes where fees exceed PKR 200,000 per annum.

### Key Development Measures

- PKR 31bn are allocated for the restructuring of Pakistan Railways.
- Circular railway system in Karachi to be revamped by the technical assistant of Japan.
- Circular debt issue prevailing in the supply chain of energy sector will be resolved within 60 Days.
- Investment in completion of DAMs will be insured in order to bring sustainability in the power supply.
- Usage of alternate fuels for the energy sector encouraged.
- Public sector development program funds increased to improve overall infrastructure in the country.

## Taxation Measures for Non-Salaried Class

S.No	Non Salaried Tax Payers	Rate
1	Upto PKR 400,000	Nil
2	400,001 to 750,000	10% of the amount exceeding PKR 400,000
3	750,001 to 1,500,000	35,000 + 15% of the amount exceeding 750,000
4	1,500,001 to 2,500,000	PKR 147,500 + 20% of the excess over 1,500,000
5	2,500,001 to 4,000,000	PKR 347,500 + 25% of the excess over 2,500,000
6	4,000,001 to 6,000,000	PKR 722,500 + 30% of the excess over 4,000,000
7	Over 6,000,000	PKR 1,322,500 + 35% of the excess over 6,000,000

## Taxation Measures for Salaried Class

S.No	Salaried Tax Payers	Rate
1	Upto PKR 400,000	Nil
2	400,001 to 500,000	5% of the amount exceeding PKR 400,000
3	500,001 to 800,000	5,000 + 7.5% of the amount exceeding 500,000
4	800,001 to 1,300,000	PKR 27,500 + 10% of the excess over 800,000
5	1,300,001 to 1,800,000	PKR 77,500 + 12.5% of the excess over 1,300,000
6	1,800,001 to 2,200,000	PKR 140,000 + 15% of the excess over 1,800,000
7	2,200,001 to 2,600,000	PKR 200,000 + 17.5% of the excess over 2,200,000
8	2,600,001 to 3,000,000	PKR 270,000 + 20% of the excess over 2,600,000
9	3,000,001 to 3,500,000	PKR 350,000 + 22.5% of the excess over 3,000,000
10	3,500,001 to 4,000,000	PKR 462,500 + 25% of the excess over 3,500,000
11	4,000,001 to 7,000,000	PKR 587,500 + 27.5% of the excess over 4,000,000
12	Over 7,000,000	PKR 1,412,500 + 30% of the excess over 7,000,000

Taxable income per annum	Tax Payable
400,000	-
450,000	5,000
600,000	20,000
700,000	30,000
750,000	35,000
1,000,000	72,500
1,500,000	147,500
2,000,000	247,500
3,000,000	472,500
3,500,000	597,500
5,000,000	1,022,500
6,000,000	1,322,500
7,000,000	1,672,500

Salary per annum	Tax payable
400,000	-
450,000	2,500
500,000	5,000
600,000	12,500
800,000	27,500
1,000,000	47,500
1,800,000	140,000
2,000,000	170,000
2,600,000	270,000
3,000,000	350,000
4,000,000	587,500
6,000,000	1,137,500
7,000,000	1,412,500
8,000,000	1,712,500



## Budgetary Measures

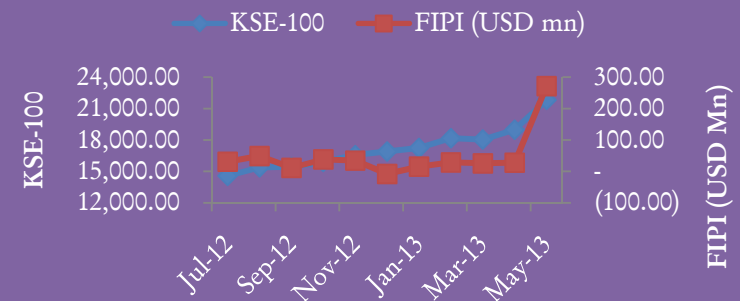
- Reduction of 1% in corporate tax rate from 35% to 34% imposed on non banking companies and it will be gradually reduced to 30% over the span of five year.
- Increase in PSDP allocation encompassing investment in dams, housing schemes and power plants.
- Investment in new power sector, in order to resolve circular debt issue and bring sustainability in power supply and measures to be introduced to improve collection of bills and remove leakages.
- Imposition of 10% WHT on margin financing and trade financing on brokers to be collected by NCCPL.
- Capital gain tax and FED on brokerage commission will remain same for the next fiscal year.

## Impact

- Reduction in Corporate tax is a positive move for the profitability of the companies and hence performance of the stock market.
- Cement sector will show improved profitability owing to increment in developmental budget, which will also add to the performance of stock market.
- Investments in power sector will add production capacity as well as revenue collection measures will improve the profitability and dividend paying ability of the power companies and will cast a positive impact on stock market performance.
- Imposition of 10% WHT on interest earned on margin financing will have a neutral impact on stock market performance.

## Capital Market

Budget Impact: Positive



### Asia Pacific Region

Indices	FYTD Return (%)
KSE100	60.92
N225	47.86
NZ50	31.29
PCOMP	24.97
VN INDEX	23.58
JKSE	16.54
KLSE	11.28
TWII	11.24
STI	10.14
Hang sang	9.84
BSE	9.83
KS11	3.60
SSEC	(0.65)

### Budgetary Measures

- Exemption of FED on services rendered by Asset management companies has been withdrawn and 16% FED is imposed.
- Tax on dividend income and income earned by money market funds for banks remained intact at 25%, against hopes of increment to 35%.

### Impact

- Imposition of FED will negatively impact the income of the asset management companies.
- Tax on earnings of banks from mutual funds being same, will increase the investments from banks and increase the AUMs of the funds.

## Sector: Mutual Funds

Budget Impact: Neutral

Categories	Fund size (PKR Mn)	Weightage (%)
Open End Funds	311,261.90	90.90
Close End Funds	27,053.14	7.90
Pension Funds	4,117.03	1.20
<b>Total</b>	<b>342,432.08</b>	<b>100.00</b>

Categories	Fund Size (PKR Mn)	Weightage (%)
Open End Funds		
Cash/MM Funds	116,007.94	37.27
Equity Fund	54,616.38	17.55
Income Funds	43,800.66	14.07
Government Securities	39,680.92	12.75
Islamic Income	14,657.24	4.71
Islamic Equity	12,620.34	4.05
Aggressive Fixed Income	8,514.77	2.74
Others	21,364.00	6.86
<b>Total</b>	<b>311,262.00</b>	<b>100.00</b>

### Budgetary Measures

- PSDP allocation of PKR 1.15trn has been announced in this budget.
- Construction of low-cost housing units and housing colonies has been announced in the budget.
- Low mark-up rate of 8% on housing loan.
- Increase in GST by 1% to 17%.
- Reduction in the corporate tax by 1% to 34% and it will be gradually reduced to 30% over five years.

### Impact (Positive)

- Announcement of PKR 1.15trn PSDP in the budget will increase the demand for cement.
- Different housing projects by government will also increase the demand of cement.
- Low mark-up on housing loan will also increase the construction of housing and will ultimately increase the demand of cement in the near future.
- Increased GST on the cement will increase the price of cement by around PKR 4/bag & will be pass-through to the end consumers.
- Reduction in the corporate tax will increase the net income of the companies.

## Sector: Cement

Budget Impact: Positive

Sector Stance: Overweight

### PSDP size (PKR bn)

Classification	FY13B	FY13R	FY14B	YoY (%)
Federal	360	388	540	39
Provinces	513	463	615	33
Total	873	851	1,155	36

### Cement Sector

P/E(x)	5.42
P/BV(x)	1.15
Div Yield (%)	4.29
ROE (%)	22.18

**Budgetary Measures**

- Auction of 3G license will be conducted this year and it will raise PKR 120bn.
- Expectation of receivable of PKR 79bn from Etisalat due to privatization of PTCL.
- Import duty on cell phones, SIM activation tax and increase in GST by 1%.
- Reduction of corporate tax by 1% to 34% and it will be gradually reduced to 30% over five years.

**Impact (Neutral)**

- 3G technology will enhance the performance of services, which will be favorable for the telecom sector.
- Payment from Etisalat will boost the cash flow position of PTCL.
- Duty on import of cell phones, SIM activation tax & GST increment will be borne by the end user.
- Reduction in corporate tax will increase the bottom line of the companies.

**Sector: Telecom**

Budget Impact: Neutral

Sector Stance: Overweight

Major Inflows	PKR (in Bn)
3G Auction	120.00
Etisalat	79.00

Telecom	
P/E(x)	3.06
P/BV(x)	0.69
Div Yield (%)	10.00
ROE (%)	8.73

**Budgetary Measures**

- Dividend income from mutual funds has been kept intact at 25%.
- Reduction in corporate tax (Non Banking Companies) by 1% to 34%.
- Tax on cash withdrawals has been increased by 0.1% to 0.3% on every withdrawals of PKR 50,000.
- To improve the monitoring of monetary transactions, credit card payments exceeding PKR 100,000 will be traced

**Impact (Negative)**

- Unchanged tax rate on dividend will be favorable for the banking sector.
- Banking sector will be influence negatively by the stable tax rate, while the corporate tax has been reduced by 1% on Non-banking companies.
- No such impact of tax increment on cash withdrawals on the sector. While it may reduce the cash withdrawals and improve the liquidity position of the banking companies.

**Sector: Banking**

Budget Impact: Negative

Sector Stance: Underweight

**Banking Sector**

P/E(x)	6.20
P/BV(x)	1.11
Div Yield (%)	10.69
ROE (%)	16.25

### Budgetary Measures

- Urea import subsidy has been allocated PKR 30bn.
- Increase in GST by 1% to 17%.
- Reduction in corporate tax from 35% to 34% and it will be gradually reduced to 30% over five years.

### Impact (Neutral)

- Subsidy on the import of urea may harm the domestic producers.
- Increase in GST will increase the retail price of the urea per bag by around PKR 15, which will pass through to the consumers. This may likely to hurt the demand for urea.
- 1% reduction in corporate tax will favor the companies by increasing net income.

## Sector: Fertilizer

Budget Impact: Neutral

Sector Stance: Market weight

### Fertilizer Sector

P/E(x)	7.48
P/BV(x)	3.13
Div Yield(%)	9.53
ROE(%)	43.82

### Budgetary Measures

- Announced power subsidy of PKR 220bn for FY14 against the subsidy of PKR 349bn in FY13.
- Circular debt will be resolved in 60 days.
- Corporate tax reduction by 1% to 34% and it will be gradually reduced to 30% over five years.
- Increase in GST by 1% to 17%.

### Impact (Neutral)

- Reduction in subsidy by 37% to PKR 220bn will increase the cost of electricity to the end consumer. But it will improve the cash flow position of these companies.
- Government is likely to issue T-bills for the circular debt resolution.
- Since power sector has exemptions from corporate tax, while KAPCO is subject to corporate tax and decrease in 1% corporate tax will increase the net income by 1.5% of the company.
- 1% increase in GST will have no impact on power companies; it will pass on to the end consumers.
- Resolution of circular debt will change the dynamics of this sector and will help to boost capital market.

## Sector: Power

Budget Impact: Neutral

Sector Stance: Market weight

### Power Sector

P/E(x)	6.19
P/BV(x)	2.07
Div Yield (%)	10.45
ROE (%)	30.50

**Budgetary Measures**

- GST has been raised to the level of 17% from 16%.
- Reduction in corporate tax rate by 1% is not applicable on E&Ps.
- Minimum tax on E&P sector has been increased from 0.5% to 1% of turnover.
- Petroleum levy amount has been raised to PKR 120bn from PKR 115bn against last year.

**Impact (Positive)**

- Hike in GST by 1% will be transfer to the customers.
- E&Ps will not be able to enjoy higher earnings as corporate tax is intact at 35% for this sector.
- Companies having lower profit margins will have to face negative impact in their earnings.
- Resolution of circular debt will improve cash flows for this sector, as the payout ratio of these companies will increase.

**Sector: E&P**

Budget Impact: Negative

Sector Stance: Underweight

**E&P**

P/E(x)	9.32
P/BV(x)	3.22
Div Yield (%)	6.90
ROE (%)	37.85



### Budgetary Measures

- GST has been raised to the level of 17% from 16%.
- Progressive petroleum policies have been devised by the government to combat the energy crisis and particularly gas shortage in country.
- No change has been made to price mechanism of oil and marketing companies.
- There is no change in deemed duty for refineries and has been kept constant at 7.5%.
- Government has announced policy to resolve circular debt with by issuing government paper worth PKR 500bn.
- No amendment has been made to structure of turnover tax.
- Petroleum levy amount has been raised to PKR 120bn from PKR 115bn against last year.
- Corporate Tax has been reduced to 34% from 35% it will to be gradually reduced to 30% over next five years.

### Impact (Positive)

- Impact of GST hike will be passed on.
- Resolution of circular debt will improve cash flows for this sector, as the payout ratio of these companies will increase.
- Reduction in corporate tax is expected to improve the bottom line of the companies.

## Sector: OMCs

Budget Impact: Positive

Sector Stance: Overweight

### OMCs

P/E(x)	6.93
P/BV(x)	2.25
Div Yield (%)	6.45
ROE (%)	26.25

**Budgetary Measures:**

- Precautionary measures have been taken by government to ease power shortfall problems faced by textile sector.
- Corporate Tax has been reduced to 34% from 35% it will be gradually reduced to 30% over next five years.
- GST has been increased by 2% to 17% for domestically sold retail products.
- Export oriented finished goods which were subject to 2% GST earlier are now exempted from the tax net.
- The sector was paying turnover tax at 1%, which has been kept the same.

**Impact (Neutral):**

- Improvement in energy crisis and shortfall and resolution of circular debt are expected to be beneficial for textile factor, as this has been adversely affected by the ongoing energy crisis.
- Corporate tax has been reduced by 1% which is like to affect positively textile sector.
- The effect of increase in GST is expected to be neutral for textile sector, as it will be passed on to the customers.
- Exemption of export goods from the GST will encourage export of this sector.

**Sector: Textile**

Budget Impact: Neutral

Sector Stance: Overweight

**Textile Sector**

P/E(x)	4.22
P/BV(x)	0.64
Div Yield (%)	3.80
ROE (%)	15.06

### Budgetary Measures

- GST has been increased by 1% to 17%
- Advance tax has been increased by 30%-200% on purchase of locally assembled vehicles.
- Turnover Tax has been raised to the level of 1% from 0.5%.
- Cooperate Tax has been reduced to 34% from 35% and it will be gradually reduced to 30% over next five years.
- FED of 10% has been imposed on new 1800cc or above engine capacity
- Tax relief of 100% has been planned on import of import of fuel efficient hybrid vehicles with engine capacity less than 1200cc.

### Impact (Negative)

- Increase in level of FED and GST is expected to be passing on to buyers, which will not only add to buyer cost but also hurt the seller pricing power.
- Increase in level of turnover tax and advance tax is also expected to impact negatively the final consumers as well as manufacturers.
- Tax relief on import of fuel efficient hybrid a vehicle is expected to effect adversely to local car assemblers.

## Sector: Automobile

Budget Impact: Negative

Sector Stance: Underweight

### Automobile: Tax structure

Engine capacity	Amount of tax (in PKR)
Up to 850cc	10,000
851cc to 1000cc	20,000
1001cc to 1300cc	30,000
1301cc to 1600cc	50,000
1601cc to 1800cc	75,000
1801cc to 2000cc	100,000
Above 2000cc	150,000

### Auto Sector

P/E(x)	9.66
P/BV(x)	1.14
Div Yield (%)	5.60
ROE(%)	17.10

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