

ANNUAL BUDGET REVIEW (2024-25)

Harsh for Non-Filers, Promising for the Economy

Thursday, 13 June, 2024

Finance Minister Muhammad Aurangzeb on Wednesday presented his first federal budget with a total outlay of Rs18.9 trillion representing a 30pc increase from the previous year's budget which stood at Rs14.5 trillion.

Tax revenue target has been set at Rs12.97 trillion, 51% higher than the FY24 budget. Non-tax revenue target has been set at Rs3.6 trillion, 21.6% higher than last year.

Total development budget has been set at Rs1.5 trillion out of which Rs1.4 trillion are allocated for PSDP and Rs100 bn under Public Private Partnership. Rs2.1 trillion has been allocated to defense while the target debt servicing would be Rs9.8 trillion. The government has set a target for GDP growth of 3.6% while aiming to keep inflation at 12% for the upcoming fiscal year.

The annual budget presented today aims to widen the tax base by imposing higher taxes on non-filers to encourage them to become part of the formal tax system. Additionally, like last year, this year's budget is widely viewed as being crafted to meet the International Monetary Fund's (IMF) requirements in order to secure a larger and longer-term bailout.

The budget raises concerns for non-filers, as the imposition of heavy Capital Gains Tax (CGT) will likely prompt them to sell their holdings. This is expected to increase selling pressure in the market in the short to mid-term, particularly impacting the Textile and IT sectors.

However, in the long run, the market is expected to see a positive shift. Mutual funds are now being encouraged to invest in equities rather than income funds, which should stimulate market activity and attract new investments. Furthermore, the anticipation of successful IMF negotiations, potential interest rate cuts, decreasing inflation, and rising GDP are all factors that contribute to a more optimistic market outlook. These developments are expected to create a more favorable investment environment, fostering growth and stability in the financial markets.

Main Sectors	Impact
Pharmaceuticals	Positive
Fertilizers	Neutral - Positive
Information Technology	Negative
Textiles	Negative
Construction	Neutral - Negative
Commercial Banks	Neutral - Negative
Autos	Neutral
Overall Market	Neutral

Salient Features	Impact	Sector / SCRIP
Petroleum levy increase by Rs20	Negative	All Sectors
CGT on securities to be maintained at 15% for filers and increased to 45% for non-filers	Negative	All Sectors
Advance Withholding tax at 2.25% from 1% on businesses	Negative	All Sectors
Decision to impose the standard rate of sales tax on multiple items.	Negative	All Sectors
The dividend derived from mutual fund having more than 50% of their profits will be taxed at 25%	Positive	Stock Market
An 18% sales tax will be applied to various categories of mobile phones	Negative	AIRLINK
Allocation of PKR 79Bn for development of IT sector	Positive	Technology
Increase in FED on cement from PKR 2/KG to PKR 3/KG	Negative	Cement
Highest ever federal PSDP allocation of PKR1.4tn	Positive	Cement, Steel
Sales Tax exemption on Iron and Steel scrap	Positive	Steel
Decision to increase the rates of duties on the import of steel	Negative	Steel
Duty on steel and paper to be increased	Negative	Steel, Paper
Decision to end import duty on imported glass products	Negative	Glass
Increased taxation on cars	Negative	Automobile
Decision to end tax exemptions on the import of luxury vehicles	Positive	Automobile
Capital Gain on Real Estate to be 15% for filer and 45% for non-filer	Negative	Real Estate
5% FED to be imposed on new plots, housing and commercial property	Negative	Real Estate
WH Income Tax on transfer of Immoveable property	Negative	Real Estate
Sales tax on Textile and leather to be increased from 15% to standard 18%	Negative	Textile
Exporters to be taxed under normal tax @ 29% .	Negative	Textile, Technology, All Exporters
Allocation of PKR 5Bn for Mark-up and Risk Sharing Scheme for Farm Mechanization	Positive	Fertilizer, Tractors
Zero-rating of petroleum products is being converted into exemption	Positive	Oil & Gas
Exemption of ACD on raw materials relating to pharmaceutical	Positive	Pharmaceutical
Bad debts classified as "substandard" or "doubtful" under various financial regulations cannot be expensed	Negative	Commercial Banks
FED at the rate PKR 15 per KG on supply on sugar to manufacturers	Negative	Food and Sugar
Imposition of FED on acetate at the rate PKR 44,000 proposed	Negative	Tobacco
Exemption of duties on import of inputs for Home Appliances	Negative	PAEL, WAVES
Withdrawal of exemption of RD on import of ground nuts and margarine imported by Food Confectionary.	Negative	FMCG
Increase in customs duty on import of containers for Aerosol Products.	Negative	Paints & Chemicals

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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