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## Federal Budget Review FY09

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Research Department

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Securities

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## Budget Highlights

The total outlay of budget FY09 is PKR 2,010bn as compared to PKR 1,549bn, which represents a 30% increase in the fiscal outlay from FY08. Budgetary measures are aimed at restoring fiscal discipline by curtailing subsidies, while safeguarding consumer welfare. The salient features of the budget are as follows:

- The total outlay of budget FY09 is PKR 2,010bn of which the current expenditure is PKR 1,493bn and PSDP at PKR 550bn. Current expenditure shows a decrease of 1.5% over FY08, while PSDP is expected to increase by 20% in FY09.
- Net revenue receipts for FY09 have been estimated at PKR 1,111bn indicating an increase of 23% over FY08.
- The external receipts in FY09 have been estimated at PKR 300bn.
- The provinces have been allocated an amount of PKR 150bn for budget estimates FY09 in their PSDP.
- The government also hopes to cut the current account deficit to 6% of GDP in FY09 as compared to this year's 7.3-7.8%.

Budget at a Glance				(PKR bn)	
	FY09	FY08		FY09	FY08
Tax Revenue	1251.5	1030.5	(a) Current	1493.2	1056.3
Non-Tax Revenue	427.8	337.6	General Public Service	929.5	641.8
Gross Revenue Receipts	1579.2	1368.1	Defence Affairs & Services	296.1	275
Less: Provisional share	568.3	466	Public Order Safety Affairs	26.8	24.5
i. Net Revenue Receipts	1110.9	902.2	Economic Affairs	201.2	78.9
ii. Net Capital Receipts	221.3	58.5	Environment Protection	0.2	0.2
iii. External Receipts	300.2	258.5	Housing and Community	1.4	1.1
iv. Self Financing of PSDP by provinces	124.4	122.7	Health Affairs and Services	5.5	5.2
v. Change in Provincial Cash Balance	78.9	51.8	Recreational, Culture Services	3.2	2.9
vi. Privatization Proceeds	25.1	75	Education Affairs Service	24.6	24.1
vii. Bank Borrowing	149	130.9	Social Protection	4.8	2.4
Total Resources	2009.8	1549.6	(b) Development	516.6	520
			Federal Government	399.7	370
			Provincial Government	150	150
			Est. Operational Shortfall	-77	
			Other Dev. Expenditure	43.9	23.3
			Total Expenditure	2009.8	1549.6

Source: FY09 Budget Document & IGI Research

## Major Ups and Downs

Budgetary Measure		Description	Relevant Sector	Estimated Impact
Duty	Reduction	Reduction of duty on calcium carbide, PTA, PSF, Caustic soda, Printing screens, nickel, and Textile buckram.	Chemicals, Textiles	Positive
	Increase	Duty rates on non-essential & luxury items have been increased.	FMCG	Negative
	Increase	Duty rate increased on sulphonic acid from 10% to 15%.	FMCG	Negative
	Increase	Increase in duty rates on import of cars/jeeps above 1800cc from 90% to 100%. Fixed duty/tax rates on old and used cars/jeeps increased by 10%.	Automobiles	Positive
	Increase	Proposal to increase rate of excise duty on telecommunication services to 21%.	Telecom	Negative
	Increase	Enhancement of rate of FED from 5% to 10% on banking, insurance and franchise services .	Banks, Insurance	Negative
	Increase	Central Excise Duty (CED) increased by PKR 150/MT to PKR 900/MT	Cement	Negative
Subsidy	Increase	Subsidy on DAP increased from 470/bag to PKR 1000/bag	Fertilizer	Positive
Tax	Exemption	Exemption available to capital gain on shares of listed companies upto the tax year ending 30th June 2008 is proposed to be extended to 30th June 2010 without any change in the withholding tax and CVT regime.	Capital Market	Positive
	Exemption	Income shown as unrealized gains in the case of non life insurance companies would be excluded from the taxable income and not charged to tax.	Insurance	Positive
	Exemption	Exemption of sales tax on import and local supply of fertilizers and pesticides.	Fertilizer	Positive
	Levy	Levy of 5% FED on the import and local supply of motorcars.	Automobiles	Negative
	Levy	Profit transferred by a branch of foreign company out of Pakistan are proposed to be treated as dividend and chargeable to tax @ 10% as final tax.	Tax Revenue	Positive
	Levy	Levy of FED on all telecommunication services.	Telecom	Negative
	Enhancement	The rate of sales tax has been increased from 15% to 16%.	Tax Revenue	Positive

Source: IGI Research & FY09 Budget Document

## Economic Survey Overview

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According to the Economic Survey 2007-08, the preceding year has been cumbersome for Pakistan's economy mostly owing to instability on the political front and the inability to address issues in a timely manner. Similarly, rising oil and commodity prices in the international market, supply shortages of essential commodities and the volatile international market also played a vital role in the deteriorating state of the economy.

Several macroeconomic indicators missed their targets by huge margins indicating large slippages in Budget 2007-08. The first and foremost of these targets is the GDP growth, which averaged at 5.8% against a target of 7.2% and a growth of 6.8% last year. This year's growth however, was mainly driven by the services sector that posted a growth of 8.2% as against 7.6% last year, while the agricultural and manufacturing sectors grew by meager 1.5% and 5.4% respectively as against 3.7% and 8.1% in the corresponding period last year.

Other areas of concern include the widening current and trade deficits which have worsened significantly against their set targets. Trade deficit for 10mo FY08 was recorded at USD 17bn as compared to USD 11bn in the corresponding period last year, owing primarily to a 28.3% increase in imports while exports grew by a feeble 10.2%. Whilst, Pakistan's current account deficit was recorded at USD 11.6bn (9.6% of GDP) during 10mo FY08 as against USD 6.6bn (4.6% of GDP) during 10mo FY07 signifying an increase of 75%. If similar trends prevail, trade deficit and current deficit are forecasted to range at around 12.3% and 8% of GDP respectively. Consequently, the total foreign exchange reserves stood at USD 12.3bn as of Apr08 significantly lower than Jun07, when the reserves were recorded at USD 15.6bn.

CPI Inflation averaged at 10.3% during 10mo, vastly surpassing the target of 6.5%, attributed mainly to food inflation which currently stands at 15%, while non-food inflation is recorded at 6.8%. The year witnessed a supply shortfall of key consumer items i.e. wheat, rice and edible consequently leading to a surge in prices coupled with soaring energy and commodity prices in the international market.

Despite the challenges faced by the economy during FY08, there are certain landmark achievements that still reflect the pliability of the economy. Construction and banking and insurance posted a growth of 15.2% and 17% respectively, while Pakistan's per capita per income increased by 17.2% to record USD 1,085. Although the political front remained unstable, the FDI for 10mo amounted to USD 3.5bn, with an additional USD 680mn in May08 as a result of the Maybank acquisition of MCB, and a USD 100mn investment by Barclays Bank, indicating that foreign investor interest in Pakistan prevails despite the unfavourable economic conditions faced by the country during the preceding year.

## From the Sales Desk

### Budgetary Impact on the Stock Market

As expected no major surprises in the 2008-09 federal budget. No major budgetary impact on the stock market was expected given that the primary burning issues had been announced before the budget. These mainly included decisions with respect to capital gains tax and the presumptive taxes. Contrary to general concerns, the budget proposes no significant measure that could adversely affect the profitability of any particular sector. No change in the corporate tax rate for banks has been announced and neither is there any modification in the earnings or margins formula for OMCs/refineries.

The budget mentions increase in the excise duty on cement and raise in tax on telecom and banking services. Nonetheless, sector dynamics are likely to remain unaltered as the incremental taxation is to be passed on. Tariffs on cars have been increased, though, no major impact as this was already expected. The Polyester Staple Fibre (PSF) manufacturers, mainly Ibrahim Fibres to benefit as the effective tariff protection available to the industry has increased. The fertilizer sector to benefit as sales tax has been abolished and increase in subsidies has been announced. The budget defines 'insider trading' and mentions its prohibitions and penalties – undoubtedly a good move. Nonetheless, enforcement would be the key. There are also amendments in the listed companies' takeover laws.

Capital gains tax exemption	As announced by the government earlier, the budget mentions that capital gains tax exemption has been extended till June 2010.
Presumptive taxes	No change in CVT and other presumptive taxes. However, the budget mentions that the tax collected from the members of the stock exchange on sale as well as purchase of shares in lieu of commission income and trading of shares is proposed to be made a minimum tax on income of such brokers.
Demutualization	The Finance Bill 2008 mentions several provisions and modalities pertaining to the demutualization and corporatization of the stock exchange.

The budget states that inter corporate dividend in respect of companies entitled to group relief currently exempt from tax is proposed to be extended to the companies eligible for group taxation. This seems to be a move to rationalize the tax regime. An announcement pertaining to non-life insurance companies is that their unrealized gains would be excluded from the taxable income and not charged to tax. As broadly expected the rates of return on National Saving Schemes (NSS) have been raised by 200bps. This may serve to marginally divert funds from the banking sector and force a further increase in bank deposit rates (already raised by the SBP). The budget does not seem to mention much about providing incentives for listing on the stock exchange. While the corporate tax rate has remained unchanged at 35%, no increase in the tax rate for unlisted companies has been announced. The budget mentions depreciation allowance with certain conditions and specifies tax allowances for amalgamation of financial institutions (other than banks).

Thus the overall theme of the FY09 budget is pro-investment. Given that in the pre-budget sessions the OMCs, refineries and banks to some extent were battered on unfavorable regulatory concerns. Nonetheless, with the budget on these counts depicting a neutral picture, share values in these sectors could sharply recover.

Moreover, with regulatory overhangs seeming to be out of the way, equities going forward should be driven by company and sector developments and the overall trend with respect to interest rates and the economic direction. Currently, with market valuations extremely competitive (FY09 PE at 9.4x), we suggest that exposure in energy and fertilizer should be the priority given their respective partial inflation and devaluation hedges and fortunes linked to the agriculture sector (the government's key priority). Over the medium-term the prospects of firming interest rates and volatility and lingering signs of instability on the political front are to keep a lid on equity valuations with the KSE-100 index peaking to at most the 14000 point level.

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## Automobile Manufacturing Companies

### Honda Atlas Cars (PKR'000)

	FY08A	FY09E	FY10E
Sales	14,715,495	15,886,758	17,093,343
Cost of Good Sold	14,088,001	15,158,536	15,919,599
Gross Profit	627,494	728,222	1,173,743
	4.26%	4.58%	6.87%
Net Profit / Loss	75,010	212,602	537,398
	0.51%	1.34%	3.14%
EPS	0.55	1.49	3.76

**Target Price : 51**

Source: Company Reports & IGI Research

### Pak Suzuki (PKR'000)

	FY07A	FY08E	FY09E
Sales	50,844,632	51,274,993	52,828,918
Cost of Good Sold	46,084,400	48,652,031	50,152,861
Gross Profit	4,760,232	2,622,962	2,676,056
	9.36%	5.12%	5.07%
Net Profit / Loss	2,774,532	1,284,123	1,491,726
	5.46%	2.50%	2.82%
EPS	33.71	15.60	18.13

**Target Price : 202**

Source: Company Reports & IGI Research

### Indus Motor Company (PKR'000)

	FY07A	FY08E	FY09E
Sales	39,061,226	40,574,366	43,150,866
Cost of Good Sold	34,621,205	36,819,106	39,567,759
Gross Profit	4,440,021	3,755,260	3,583,107
	11.37%	9.26%	8.30%
Net Profit / Loss	2,745,128	2,321,915	2,252,703
	7.03%	5.72%	5.22%
EPS	34.93	29.54	28.66

**Target Price : 284**

Source: Company Reports & IGI Research

### Budgetary Measures

- The government has lifted the 2.5% withholding tax (WHT) relief on sale of locally produced cars. The automobile industry would now be levied WHT at 5% on sale of domestically produced cars.
- The maximum allowable age for (passenger car) imports has been maintained at 3 years.
- The custom duties on components for assembly/manufacture of vehicles have been raised to 50-75% depending upon engine displacement.
- Sales tax on sale of all products, including passenger cars, has been raised by 100bps to 16%.
- Customs duty on import of luxury vehicles (1800cc and higher) has been increased to 100%, up from 90%. Fixed duty/tax rates on old and used cars/jeeps increased by 10%.

### Budgetary Impact: Neutral to Negative

- As the WHT relief of 2.5% has now been withdrawn, this would increase the consumer prices of locally produced cars and may cause the automobile sales to decline further. Additionally, the 100bps increase in sales tax would also contribute in raising the local automobile prices and crunching its demand. The automobile manufacturers are already struggling to maintain their gross margins that have depleted significantly as sharp depreciation of PKR and soaring steel prices have greatly increased their manufacturing costs. The industry was currently relying on upward price revisions to pass-through their increased cost of production, however, the extended levy has reduced the companies' margins for further price revisions without compromising significantly on automobile sales. (Negative: PSMC, HCAR, IMC)
- The increase in custom duties on import of manufacturing part of vehicles would further increase the import and manufacturing cost of domestic vehicles and hence deplete their respective profitability margins further. (Negative: PSMC, HCAR)
- The government has maintained age limit on import of used passenger cars at 3 years. The automobile manufacturers were requesting the government to consider further tightening of the age-limit restriction, however, the government has not heeded to their request. From a different perspective, the government hasn't extended the maximum age-limit of imports to seven years either, which was being requested by the automobile importers. The overall impact of the decision is neutral, i.e. it would neither increase nor decrease the competition in the local industry.
- Increase in custom duties on import of vehicles by 10% would help make local brands more price-competitive than imports in all segments, particularly the luxury cars' segment (1800+cc). (Positive: HCAR, IMC)

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## Independent Power Production (IPP) Companies

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### **Budgetary Measures**

- PKR 62bn investment planned in budget09 for power projects.
- 2,200 MW electricity supply planned to be added to the national grid by the end of 2008.

### **Budgetary Impact: Neutral**

- No impact on the IPP sector's earnings/dividends.

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## Pakistan Banks

Banking Sector	(PKR bn)		
	FY07	FY08	%chng
Net Advances	2,351	2,781	18%
Deposits	3,461	3,696	7%
Investments	1,116	976	-13%
Equity	484	551	14%
Total Assets	4,702	4,986	6%

Source: IGI Research

### Enhancement of excise duty from 5% to 10% on banking services

In budget FY09, the existing levy @ 5% on non-fund banking services has been increased to 10%. This includes all non-interest based services by banks or NBFIs against a consideration in the form of the fee. Moreover, withholding tax on cash withdrawals of PKR 25K or more has been increased from 0.2% to 0.3%. These measures will not have much of an impact on earnings as these costs are eventually passed on to the customer.

### Government borrowing target of PKR 149bn

For FY09 government budgetary borrowing target has been set at PKR 149bn as compared to PKR 130bn earlier. The unprecedented rise in commodity prices leading to fiscal imbalances coupled with slowdown in foreign inflows has led the government to exceed the target and borrowing stood at PKR 334.8bn as at May-08. Going forward, keeping in view the rising cost pressures and deteriorating economic indicators it is likely that budgetary borrowing will exceed the target.

### NSS rates revised upwards by 200bps

In budget FY09, inline with expectations government announced upward revision in NSS rates by 200bps to bring them in line with PIB yield. Furthermore, government plans to float short-term bonds during FY09 for budgetary support. This is likely to put pressure on deposit costs and margins due to liquidity shortage from the system.

### Carry forward of accumulated loss

To encourage amalgamation of banking companies and other financial institutions carry forward of 'accumulated loss' is proposed to be allowed for a period of six years. This is expected to bode well for the consolidation and merger activity in the sector.

### Sector Outlook: NEUTRAL

The budget is expected to have a neutral impact on the banking sector. However, the rapidly deteriorating economic variables and recent policy measures announced by the SBP is likely to have an adverse impact on the banking sector. The uptrend in SBP's policy rate in the last 3 yrs is likely to push KIBOR to more than 5% over CY04 levels and the benchmark 6 month rate is likely to stabilize at 13% level. This bodes well in terms of higher yields, however higher lending rates is likely to result in moderate lag credit off-take and could trigger a deterioration in asset quality. After withdrawal of FSV benefit this move is likely to compound pressure of increased provisioning on banking sector net earnings.

The minimum rate of 5% on PLS savings deposits effective from June 1st, 08 will increase the average deposit rate by estimated 1-1.5%; squeezing spreads especially for Tier 1 banks. Moreover, amidst inflationary pressures operational expenses are on the rise and the withdrawal of FSV benefit is likely to compound pressure of increased provisioning on sector's net earnings. Against this backdrop, bottom-line growth is expected to slowdown and the sector ROE is likely to decline to 20% in CY08 as compared to 25% earlier.

In view of recent developments we expect significant pressure on banking sector stocks. We have factored in the impact of higher risk-free rate, rising funding costs, asset quality risk and downward revised our price objectives and earning forecasts. We maintain a 'Neutral' recommendation on the sector.

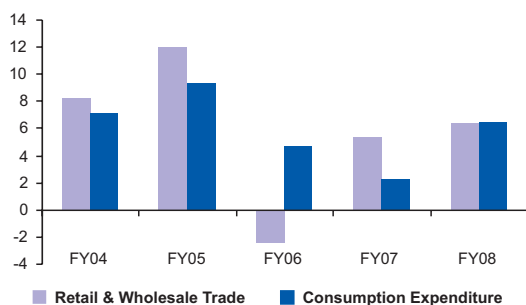
Revised Estimates				(PKR)		
	Price Objective			EPS		
	Previous	Revised	chng	Previous	Revised	chng
NBP	255	205	-20%	23.9	22.1	-8%
HBL	296	210	-29%	19.2	18.5	-4%
MCB	400	290	-28%	28.3	25.7	-9%
UBL	190	145	-24%	12.7	11.2	-12%
ABL	121	90	-26%	9.4	8.6	-9%

Source: IGI Research

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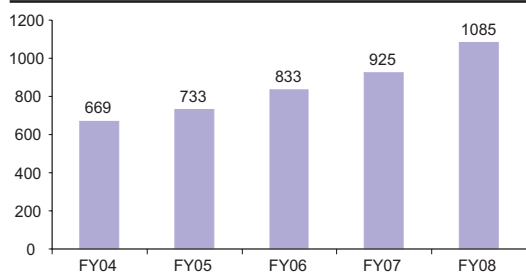
## FMCG Sector

### Key Growth Indicators (%)



Source: SBP, IGI Research

### GNP Per Capita (USD) (%)



Source: SBP, IGI Research

### ULEVER

	2007A	2008E	2009E
EPS (PKR)	127	145	159
DPS (PKR)	123	140	155
Price / Earnings (x)	18.9	16.6	15.1
Dividend Yield (%)	5%	6%	6%

Source: IGI Research

### Relevant Budgetary Measures

#### Increase in GST and Duties

In budget FY09, the rate of sales tax has been increased from 15% to 16% to meet revenue requirements. Moreover, as per our expectations duty rates on non-essential and luxury items have been increased from 20-25% to 35%. The hike in tax levy is expected to have a marginal negative impact on demand, hence resulting in reduced sales volume and profitability.

#### Increase in minimum wage level

The government decided to increase the minimum wage to PKR 6,000 a month from PKR 4,600, and increased the salaries of government servants and members of the armed forces by 20%. The unprecedented surge in inflation and declining consumer purchasing power are expected to offset any gains in real terms.

#### Indirect Impact on FMCG sector

This year PSDP has been announced at PKR 550bn as compared to PKR 520bn earlier. In terms of indirect impact, the growth in PSDP spend will have an overall positive impact on GDP growth, urbanization, and employment. Consequently, this will lead to a growth in retail and wholesale trade. Moreover, the expected incentives to promote agricultural growth bode well for the sector. The under penetrated rural market offers tremendous potential as rural population constitutes 60% of total population. Favorable structural changes including rising rural incomes and changing lifestyles has resulted in increased demand for fmcg products.

#### Sector Outlook: NEUTRAL

Despite the current macroeconomic challenges faced in the country, we expect fmcg sector to post moderate revenue growth. However, we expect profitability to remain subdued and margins under pressure as companies continue to battle surging input costs and struggle to safeguard market share amidst intense competition from both organized and un-organized players. Ever rising inflation has heightened the risk of losing market share to under-invoiced smuggled and counterfeit products.

Going forward, we expect Unilever to post top-line growth of 12% and profit margin of 7%-7.5% in CY08-CY12E. The HPC segment is expected to drive overall growth momentum. The high margin segment constitutes over 50% of the top-line and is the key focus of company's growth strategy. At current levels, the scrip is trading at 10% premium to our PO at 2008E PE multiple of 16.2x. We maintain a 'Neutral' recommendation on Unilever.

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## Refinery

### BOSI - Estimates

	FY07	FY08E	FY09E
Net income (PKR mn)	(681.27)	364.18	562.62
Dividend per share (PKR)	-	-	0.6
Earnings per share (PKR)	(1.7)	0.9	1.4
Book value per share (PKR)	9.2	13.9	15.3
Price-to-book	1.9	1.0	0.9
Price-to-earnings	-	15.2	9.8
Dividend Yield	-	-	4.1%

Source: Company Reports & IGI Research

### Relevant Budgetary Measures

#### 10% deemed duty remains intact

The much scrutinized oil pricing formula remained unchanged in Budget FY09 keeping in view the economic feasibility of the same. As per our expectations, the 10% deemed duty on HSD remained intact maintaining the profitability of the refineries which were highly dependant on the deemed duty. Overall, 29% of the total production of the refineries in Pakistan is HSD, prices for which have soared by 60% in the international market. The maintenance of 10% deemed duty on HSD will bode well for refinery profitability and will ensure sustainability in cash reserves set aside for up gradation and expansion projects. However, JP4 & JP8 have been exempted from import duty while duty rate on base oil for lubricating oils was reduced from 20% to 10%.

#### Estimated Impact: Neutral to Positive

Investor interest had declined in the refinery sector due to the uncertainty regarding the changes in the oil pricing system and consequently, refinery profitability. However, post Budget FY09, the outlook seems positive in terms of investor confidence as the bottom line of refineries is expected to remain stable. If the duty had been removed, BOSI would have been subjected to bottom line erosion of 23% at current levels.

#### Sector Outlook: Neutral to Positive

The sector's profitability will continue to improve as product prices increases continue to trail crude price hikes. Although margins of naphtha and FO have declined by 8% and 9% respectively, HSD and kerosene margins have improved by 12% to offset the impact of a drastic decrease in margins. Additionally, the refinery sector attracts a massive chunk of the foreign direct investment. 10mo FY08 alone witnessed FDI of USD 61.7mn in the petroleum refining sector. With 29% of the margins insulated by the 10% deemed duty, further prospects of FDI seem likely in the foreseeable future.

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## Cement

### MLCF - Estimates

	FY07	FY08E	FY09E
Net income (PKR '000)	42,047	(506,727)	4,019
Earnings per share (PKR)	0.11	(1.36)	0.01
Book value per share (PKR)	24.2	22.7	22.5
Price/Book	0.9	0.6	0.6
Price/Earning	-	-	1,292.0
Dividend yield	0.0%	0.0%	0.0%

Source: Company Reports & IGI Research

### LUCK - Estimates

	FY07	FY08E	FY09E
Net income (PKR '000)	2,547,292	2,485,548	3,225,818
Dividend per share (PKR)	1.0	1.2	1.8
Earnings per share (PKR)	9.7	7.7	10.0
Book value per share (PKR)	35.5	57.7	65.9
Price/Book	2.7	1.9	1.7
Price/Earning	9.9	14.5	11.2
Dividend yield	1.0%	1.1%	1.6%

Source: Company Reports & IGI Research

### FCCL - Estimates

	FY07	FY08E	FY09E
Net income (PKR '000)	646,323	107,590	167,431
Dividend per share (PKR)	(0.0)	(0.0)	(0.0)
Earnings per share (PKR)	1.7	0.2	0.2
Book value per share (PKR)	10.1	13.1	13.4
Price/Book	1.9	0.8	0.8
Price/Earning	10.8	71.8	46.2
Dividend yield	-0.1%	-0.1%	-0.1%

Source: Company Reports & IGI Research

### Relevant Budgetary Measures

#### PSDP allocation recorded at PKR 549.7bn

PSDP allocation for FY09 amounted to PKR 549.7bn (4.5% of GDP), exceeding our conservative estimate of PKR 490bn by 12% and last year's allocation of PKR 520bn by 5.7%. Out of the total allocation, PKR 399.7bn was allocated for federal expenditure while the remaining PKR 150bn were allocated towards the provincial government. PKR 281bn of the total PSDP has been targeted towards infrastructure development versus PKR 274bn last year, while the remainder is allocated towards development and support expenditures. In addition to that, construction of 1,000,000 houses was announced as part of the low cost housing program, for which PKR 2bn have been reserved, independent of the PSDP.

#### Central Excise Duty, Sales Tax increased

The Central Excise Duty (CED) which previously stood at PKR 750/MT has been increased by 20% to PKR 900/MT, while sales tax has increased by 1% to 16%, squeezing the retention rates for manufacturers.

#### Estimated Impact: Neutral to Negative

The increase in PSDP allocation towards infrastructure development will bode well for the cement manufacturers as demand and consequently, sales volume increases. However, the increase in CED and sales tax will negatively impact the manufacturers as retention rates may decline by PKR 150/MT on account of the CED hike and by 1% due to the increase in sales tax if the impact is not passed on to the consumer.

#### Sector Outlook: Neutral to Negative

It seems unlikely for the manufacturers to pass on the entire impact of the CED and sales tax increase onto the consumer, however another price hike of around PKR 7/bag is likely in the foreseeable future. Local demand is expected to grow by 30%YoY during FY08, to reach 30.6mn MT, as infrastructure development programs including housing and dam constructions are expected to boost cement dispatches. Similarly, export growth is also expected to grow as 10mo FY8 alone has seen export dispatches increasing by a massive 142% as compared to the corresponding period last year. The drawback of duty of PKR 25.08/MT on exports is also expected to foster well for manufacturers as inclination towards higher margin exports is likely to rise till FY10-FY11. After incorporating the effects of an expected price hike following the CED and sales tax increase in our financial models, along with adjustments for the increase in interest rates, we recommend a BUY on FCCL with a fair price of PKR 16, while LUCK and MLCF remain NEUTRAL at fair values of PKR 113 and PKR 16.

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## Analyst Certification

We, Ahmed Raza Khan, Sarah Junejo & Muhammad Ashar Khaliq hereby certify that the views expressed in this research report accurately reflect our personal views about the subject, securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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