

## Budget FY23: Key Amendments

- National Assembly on Wednesday approved the passage of the Finance Bill 2022-23 where key amendments were made which are discussed below:
- Super tax on specified sectors:** The amended finance bill has proposed imposition of a one time super tax of 10% for specified sectors with earnings in excess of Rs300mn for tax year 2022 (FY22). The 15 specified sectors that will be subject to a one time super tax of 10% includes Airlines, Automobiles, Beverages, Cement, Chemicals, Cigarette & Tobacco, Fertilizer, Iron and Steel, LNG terminal, Oil Marketing, Oil Refining, Petroleum & gas exploration and production, Pharmaceuticals, Sugar and Textiles. This will result in a one time earnings impact of 14% on FY22 earnings but will not impact FY23 earnings of companies.
- Tax rates of 0%-4% under section 4C:** The amended bill has proposed slab wise tax rates for companies under section 4C of income tax ordinance and has now been renamed as 'Super tax'. Earnings exceeding Rs300mn will be subject to 4% income tax whereas earnings below Rs300mn will be taxed as per the following table from tax year 2022 onwards.

### Super-Tax Amendments in Finance Bill

Income Under Section 4C	Rate of Tax (% of income)
Rs0 to Rs150mn	0%
Exceeding Rs150mn but does not exceed Rs200mn	1%
Exceeding Rs200mn but does not exceed Rs250 mn	2%
Exceeding Rs250mn but does not exceed Rs300 mn	3%
Exceeding Rs300mn	4%

Source: Finance Bill, Topline Research

- Capital Gain Tax on Securities:** Government had rationalized tax rates on capital gains on securities in budget where CGT rates were reduced to zero where holding period exceeded six years encouraging long term investment. In the amended finance bill, no change in rates have been proposed however clarification is inserted that the reduced rates will apply only to securities acquired after July 01, 2022. For securities acquired on or before 30<sup>th</sup> June, 2022, rate of tax shall be 12.5%. Furthermore, rate of tax for companies in case of Debt will be subject to 29% tax.
- Tax credit available on Section 63:** Tax credit available under Section 63 for Voluntary Pension scheme was initially removed from Budget document which is now been restored.

## Taxation measures for sectors

- **Sales tax on APIs reduced to 1%:** The government has reduced sales tax to 1% from existing 17% on the import of active pharmaceutical ingredients (APIs). This will be positive for Pharmaceutical industry.
- **Minimum Turnover Tax for OMC reduced to 0.5% from 0.75%:** Minimum Turnover tax on OMCs has been reduced from 0.75% to 0.50% for OMCs which will be positive for the sector.
- **CVT on automobiles reduced to 1% from 2%:** The government has reduced Capital Value Tax (CVT) from 2% to 1% on automobiles in an amendment to the Finance Bill 2022. They have also changed taxable limit of Rs5mn value of the car to all cars of 1,300cc and above. This will be negative for sector.
- **Tax Rates on Banking Sector:** Though we wait for more clarity on taxation on banking sector but as per our understanding amended finance bill has levied a one time super tax of 10% for tax year 2023 (CY2022) for banking sector. As per the bill, the corporate tax rate on banks has been set at 39% instead of the initially proposed 45% taking total effective tax rate in CY2022 to 49% (39%+10%). For tax year 2024 (CY2023), corporate tax rate of 39% and super tax of 4% will be levied taking CY2023 effective tax rate to 43%. There was no change in taxes pertaining to interest income of government securities for banks with certain ADR as per the amended bill. For banks with ADR of less than 50%, effective tax rate could be higher and their earnings impact will be much greater. We believe that despite higher taxation banks are likely to post earnings growth of around 5% in 2022 due to rising asset yields and will likely witness 20-25% growth amid lower taxation in 2023. Despite all odds, banks trade at attractive PE of 4.3x and PBV of 0.6x as the negatives are priced in.

Topline Banking Universe Earnings Per Share				
Rs/share	Before Budget		After Budget	
	2022	2023	2022	2023
MCB	32.60	36.60	23.80	31.11
HBL	31.20	34.20	26.21	30.78
UBL	31.90	35.20	23.29	29.92
MEBL	25.60	27.90	21.50	25.11
NBP	15.20	17.00	12.77	15.30
BAHL	21.10	23.40	17.72	21.06
BAFL	10.70	11.80	8.99	10.62
BOP	4.60	5.00	3.86	4.50

Source: Topline Research

# Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

## Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

## Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

## Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

## Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

**All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.**