

Pakistan Economy

Going with populist move

Prime Minister Imran Khan addressed the nation on Monday evening where he announced multiple incentives and policy actions to provide relief to the masses. PM's decision to reduce electricity and petrol prices is the most important aspect of this said relief package as decision regarding reduction in energy prices came at a time when international commodity prices are sky rocketing, which will put significant pressure on both fiscal and external side. We opine that the possible reasoning behind the reduction in petrol and electricity price is to get political mileage as the rising inflation has dampened the sentiments of masses and opposition parties are mulling for 'no-confidence vote' & blaming against the govt. The decision to reduce energy prices at this point seems like a shot in dark, as Gov't is still expecting a slowdown in global commodity prices at a time when the world is surrounded with uncertainty.

In addition to this, PM also announced multiple incentives for the IT sector coupled with subsidized loans for farmers and youth. One interesting development, announcement of incentives for industries, where no question will be asked for industrial investment coupled with tax benefit on revival of sick units.

As per media reports and ministers, IMF has given green light on the said measures and Gov't will fund these subsidies through dividends from SOEs, leftover of COVID & Ehsaas program funds and PSDP curtailment.

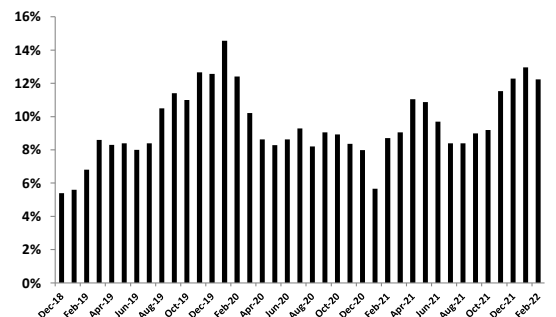
From equity market perspective, we believe that E&P companies mainly PPL and OGDC will remain in investor's radar due to possible resolution of gas circular debt and dividend announcement. Furthermore, financing of the said relief measures will put further pressure on already shrinking fiscal space. This might cause T-bills yields to go up in next auction which might keep equity investors on the sideline. Overall this sudden populist move will help PTI Gov't to get some political ground but in an uncertain environment like this, this moves seems like a risky bet.

Reduction in MS & HSD prices by PKR10/Ltr

As per the announcement, government will reduce the petrol and diesel prices by PKR10/ltr and there will be no change in price till the next budget. The difference in price will be funded by government via subsidy. Country's average monthly demand for Petrol & Diesel currently stands at 991mn liters & 710mn liters, as per our back of the envelope working this will likely have an impact of ~PKR130bn on gov't's revenue in next four months. Contrary, this will have a positive impact on CPI by ~25bps.

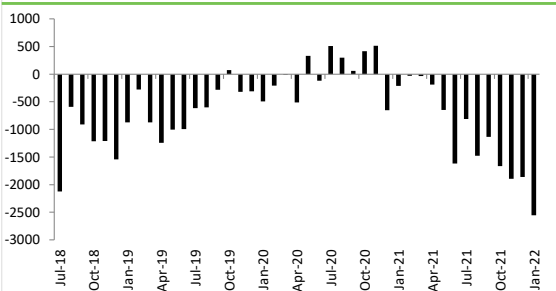
However, it is worth citing that if MS & HSD prices inch-up further, it will result in price differential for importers which will likely be subsidize by the government. Any delays in disbursement of subsidy will pile up receivables on OMC's book.

Economy: Inflation (YoY)



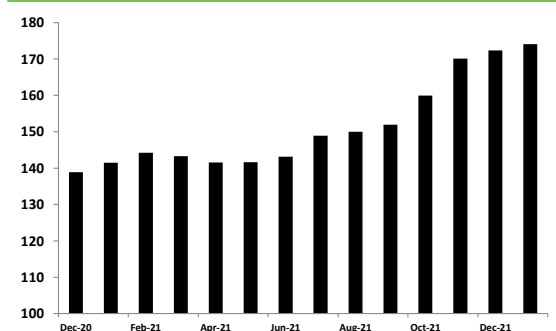
Source: SBP, Insight Research

Economy : Monthly CAB (\$mn)



Source: SBP, Insight Research

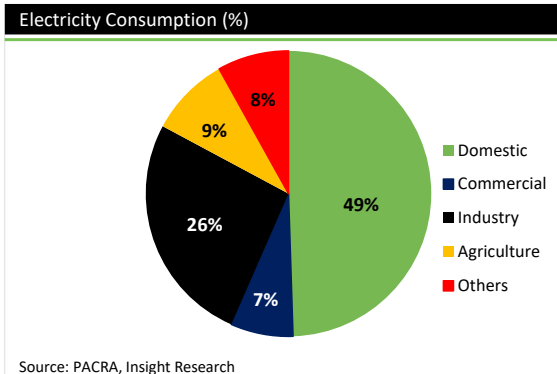
Economy: CPI - Transportation Index



Source: PBS, Insight Research

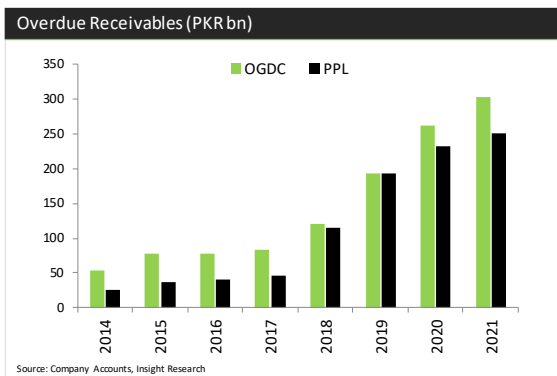
Power tariff slashed down by PKR5/kwh

As per the announcement, reduction in power tariff by PKR5/kwh on fuel adjustment will only be applicable to residential and commercial users, which accounts for 49% and 7% of total electricity consumption, respectively. This will add-up ~PKR95bn to the subsidy. However, it is worth mentioning that previously, the government had waived-off fuel adjustment (FCA) charge as Covid relief. Later, under the direction of IMF, the government decided to recover the said FCA from consumers. This reduction in power tariff will likely have a positive effect on the inflation side, as per our estimates, said adjustment will reduce CPI by 70bps.



Possible dividend from E&Ps

For budgetary reallocation, Govt. intends to increase its non-tax revenue through dividend from its state-owned entities (SOEs). However, its not possible without clearing SOEs overdue receivables. If govt. impose or implement policy which requires to payout at least 50% of their profits then it would be negative for the SOEs as two major entities OGDC & PPL have trade debt of PKR407bn & PKR319bn on their balance sheet.



So, in order to achieve such targets, it is a pre requisite for the Govt. to resolve liquidity management through resolving circular debt. In this case, it is positive for both E&Ps companies i.e. OGDC & PPL and Govt.

Multiple incentives for IT/ITES sector

IT sector remained the key focus of the PTI Gov't as they believe the sector has the potential to turn the tables for our economy. In a bid to support industry, PM Imran Khan announced multiple incentives for the sector in his latest speech. The key incentives are given are as follows: i) 100% tax exemption for ITES companies and freelancers, ii) Retention of 100% remittances on transactions through proper banking channels and iii) Exemption from CGT on tech startups. We opine that the implementation of the said measures will boost the investment in IT sector and will also attract international venture capitals firms. Exception from CGT on tech based startups is a good omen for Systems Limited as they incorporated Systems Ventures to tap on to the nascent startup industry of Pakistan.

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Frequently Used Acronyms

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|-------------|---------------------------|-------------|-------------------------|-------------|-------------------------------|
| TP | Target Price | DCF | Discounted Cash Flows | FCF | Free Cash Flows |
| FCFE | Free Cash Flows to Equity | FCFF | Free Cash Flows to Firm | DDM | Dividend Discount Model |
| SOTP | Sum of the Parts | P/E | Price to Earnings ratio | P/Bv | Price to Book ratio |
| P/S | Price to Sales | EVA | Economic Valued Added | BVPS | Book Value per Share |
| EPS | Earnings per Share | DPS | Dividend per Share | DY | Dividend Yield |
| ROE | Return on Equity | ROA | Return on Assets | CAGR | Compounded Annual Growth Rate |

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