

## PAKISTAN



## Companies meeting sick units criteria

Company	Share price (Rs/sh)	3 years accumulated LPS
PIAA	3.9	(24.8)
HASCOL	5.2	(61.2)
SSGC	9.3	(42.5)
SMBL	2.5	(6.8)
DFML	5.5	(5.2)
KOSM	4.1	(4.4)
MDTL	2.3	(2.6)
QUET	9.8	(111.6)
OBOY	19.9	(1.0)
ADOS	21.3	(17.3)
CWSM	2.1	(1.3)
BAPL	10.7	(16.0)

Source: Company Acc, Foundation Research, March 2022

# Pakistan Strategy

## Government aims to reinvigorate investment climate

### Event

▪ Government has promulgated changes to income tax ordinance through presidential order to give incentives for investment in new and existing industrial undertakings, revival of sick units and attracting investment in industries by non-resident Pakistanis and resident Pakistani individuals having declared foreign assets.

### Impact

▪ **Amnesty for industrial investment:** In recent incentives announced by the Government to encourage investment in the formal economy, Gov't is offering an amnesty scheme. Furthermore, under the scheme incentives have been offered at 5% of the amount invested for any investment (1) in a newly formed company for purchase/import of plant & machinery or for construction of building/structure or (2) in an existing industrial company for purchase/import of plant & machinery including IT hardware or software and IT services or for construction of its building/structure which has not been declared up to FY21.

▪ **Tax credit for foreign investors:** In order to support FX reserves, Gov't has also announced that if a non-resident Pakistani taxpayer or resident individual taxpayer having declared foreign assets invests in a company incorporated on or after Mar'1, 2022, sets up an industrial undertaking in Pakistan with equity of at least Rs50mn shall be entitled to a one-time tax credit equal to 100% of investment against tax liability for the tax year in which commercial production commences which can be carried forward for 5 years.

▪ **Acquisition of sick industrial units:** Government has also given incentive for revival of sick industrial units as an area of focus to support economic activity. Government has announced that If a company acquires the majority share capital of a sick industrial unit, the acquiring company can adjust loss for the latest tax year and brought forward assessed business losses for a period of three years subject to (1) continued ownership for five years starting from the Jun'30, 2023 and there is no change in share capital of the acquiring company, (2) the assets of the acquired company shall not be sold up to Jun'30, 2026 and (3) the acquired company continues the same business till Jun'30, 2026.

▪ Where a sick industrial unit is defined as (1) having accumulated losses for 3 continuous years prior to the Jul'1, 2022, equal to or exceeding its entire capital and reserves or (2) has defaulted on debts for 3 consecutive years immediately before acquisition or (3) has been declared sick by the Government.

▪ Furthermore, there are 12 companies listed at PSX eligible as sick units, but there are number of other potential companies that may meet this criteria till Jul'1 2022. To highlight, FFBL subsidiary Fauji Meat Limited is also meeting this criteria.

### Outlook

▪ We believe these measures would help to (1) attract investment into Pakistan, (2) increase the size of the formal economy and (3) inject new life into the industrial sector. Aforementioned measures would uplift tax revenues, aid in the Gov't's privatization efforts and increase employment. Thus, help in achieving the economic growth target and provide boost to FX reserves of the country.

### Analyst

Foundation Research      research@fs.com.pk  
+92 213 5612290      Ext 338

Foundation Securities (Pvt) Ltd  
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Fig 1: Companies listed at PSX meeting sick units criteria

Company	Sector	Number of shares	Free Float	Market price	Market Capitalization	Accumulated last three years loss	Accumulated loss per share	Updated published equity
		mn sh	mn sh	Rs/sh	Rs mn	Rs mn	LPS	Rs mn
PIAA	Transport	5,234	189	3.9	20,412	(129,960)	(24.8)	(491,393)
HASCOL	Oil & Gas Marketing	999	599	5.2	5,235	(61,144)	(61.2)	(47,423)
SSGC	Oil & Gas Marketing	881	325	9.3	8,219	(37,429)	(42.5)	(27,223)
SMBL	Commercial Banks	2,638	923	2.5	6,490	(17,990)	(6.8)	(13,009)
DFML	Automobile Assembler	139	55	5.5	769	(726)	(5.2)	(2,900)
KOSM	Textile Spinning	216	97	4.1	880	(954)	(4.4)	(1,341)
MDTL	Technology & Communication	179	116	2.3	411	(469)	(2.6)	(984)
QUET	Textile Composite	13	8	9.8	127	(1,451)	(111.6)	(321)
OBOY	Engineering	10	10	19.9	199	(10)	(1.0)	(64)
ADOS	Engineering	7	1	21.3	140	(114)	(17.3)	(55)
CWSM	Textile Spinning	122	27	2.1	259	(152)	(1.3)	(15)
BAPL	Chemical	8	5	10.7	80	(120)	(16.0)	(5)

Source: Company Accounts, Foundation Research, March 2022

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.