

INFLATION PREVIEW (Apr-19)

CPI inflation to clock in at 8.71% YoY whereas, core inflation is expected to stand at 7.03% YoY in April 2019

Tuesday, 30 April, 2019

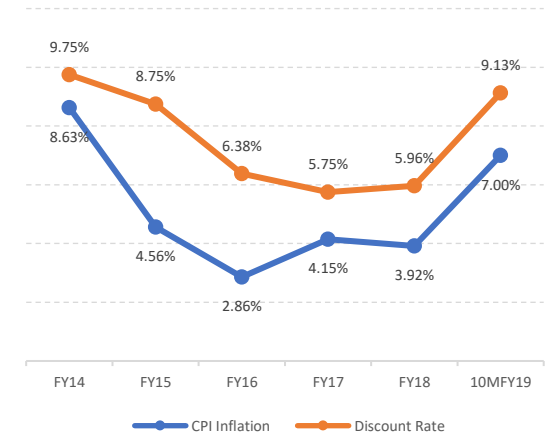
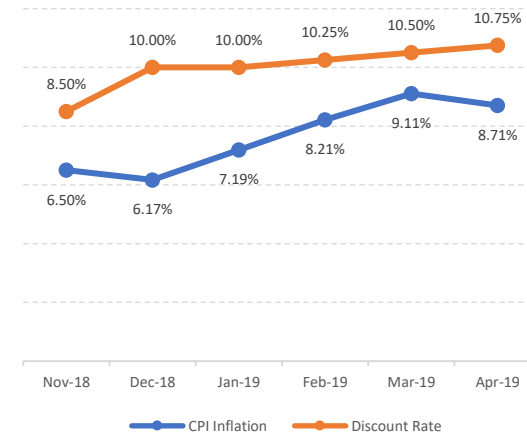
We expect the CPI inflation for Apr-19 to stand at 8.71% YoY (1.16% MoM) as compared to 9.42% YoY (1.42% MoM) in last month. Furthermore, core inflation measured by non-food, non-energy CPI is expected to increase by 7.03% YoY (1.05% MoM) as compared to 8.50% YoY (0.48% MoM) in last month.

The surge in CPI inflation is caused mainly due to the increase in food index which inflated by around 8.67% YoY during Apr-19. Particularly, increase in the prices of Meat (12.81% YoY), Chicken (5.33% YoY), Fresh Milk (4.19% YoY), Cooking Oil (7.41% YoY), Vegetable Ghee (8.17% YoY), Fresh Vegetables (21.8% YoY), Tomatoes (134.10% YoY) and Sugar (22.67% YoY) contributed in the upsurge of food index. Other than food prices, an increase in the prices of Gas (85.31% YoY), Electricity (8.48% YoY) and Motor Fuel (9.20% YoY) also pushed the CPI inflation towards the north. On the flip side, prices of eggs, pulse gram, potatoes, and betel leaves decreased by 4.45% YoY, 3.88% YoY, 6.84% YoY and 38.32% YoY respectively.

On the other hand, Core inflation (non-food, non-energy) is expected to increase on account of increase in the prices of cotton cloth, house rent, transportation services and communication apparatus by 13.24% YoY, 7.08% YoY, 13.63% YoY and 7.78% YoY respectively.

Rising inflation is a serious concern for our economy nowadays. That's why we have been currently passing through the phase of monetary tightening. As far as fiscal tightening is concerned, it is deferred till next budget (FY20). However, we expect the SBP to maintain the discount rate at the current level of 10.75% in upcoming monetary policy, expected to be announced by the end of May-19.

Categories	Weight	Mar-19	Feb-19	MoM	Mar-18	YoY
Food	35%	252	247	1.96%	232	8.67%
Housing & Utilities	29%	229	226	1.39%	207	10.57%
Clothing	8%	269	264	1.93%	252	6.57%
Transport	7%	208	211	-1.80%	187	10.69%
Furnishing & Household	4%	257	257	0.02%	239	7.42%
Education	4%	292	292	0.00%	282	3.71%
Communication	3%	144	144	0.00%	134	7.46%
Miscellaneous	3%	282	282	0.00%	264	7.16%
Health	2%	239	239	0.00%	223	7.19%
Recreation	2%	220	220	0.00%	208	5.68%
Alcohol & Tobacco	1%	356	356	0.00%	318	11.90%
Restaurants	1%	312	306	1.91%	291	7.31%
CPI Inflation	100%	244	241	1.16%	224	8.71%
Core Inflation	54%	126	124	1.05%	117	7.03%



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DEFINITION OF TERMS

TP	Target Price	DDM	Dividend Discount Model	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	JPB	Justified Price to Book

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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Stock Rating	Expected Total Return
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

PREPARED BY

M. Fawad Naveed
Phone: (+92) 42 38302028
Ext: 117
Email: fawad@abbasiandcompany.com

RESEARCH DEPARTMENT

6 - Shadman, Lahore
Phone: (+92) 42 38302028; Ext: 116, 117
Email: research@abbasiandcompany.com
web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore
Phone: (+92) 42 38302028
Email: support@abbasiandcompany.com
web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore
Phone: (+92) 42 37320707
Email: support@abbasiandcompany.com
web: www.abbasiandcompany.com