

INFLATION PREVIEW (May-19)

CPI inflation to clock in at 9.48% YoY whereas, core inflation is expected to stand at 6.84% YoY in May 2019

Thursday, 30 May, 2019

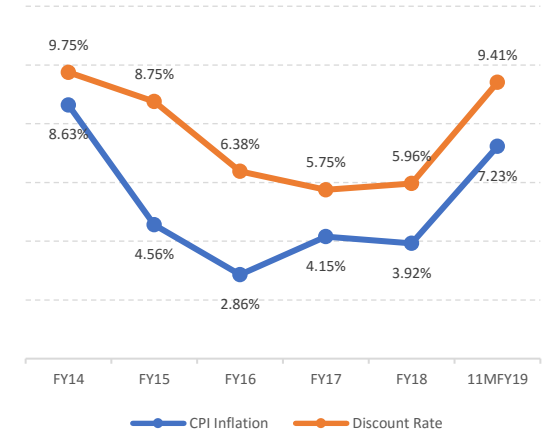
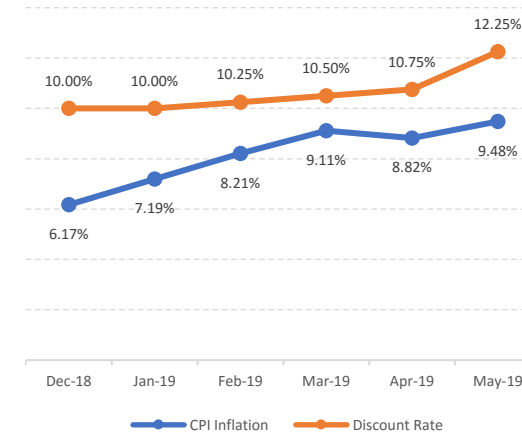
We expect the CPI inflation for May-19 to stand at 9.48% YoY (1.12% MoM) as compared to 8.82% YoY (1.26% MoM) in last month. Furthermore, core inflation measured by non-food, non-energy CPI is expected to increase by 6.84% YoY (0.09% MoM) as compared to 6.95% YoY (0.98% MoM) in last month.

The surge in CPI inflation is caused mainly due to the increase in food index which inflated by around 10.41% YoY during May-19. Particularly, increase in the prices of meat (13.22% YoY), wheat flour (6.90% YoY), fresh milk (3.67% YoY), cooking oil (7.59% YoY), vegetable ghee (7.91% YoY), fresh fruits (34.25% YoY), fresh vegetables (29.80% YoY) and sugar (27.70% 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 (10.7% YoY) also pushed the CPI inflation towards the north. On the flip side, prices of chicken, eggs, gram whole, and betel leaves decreased by 8.25% YoY, 12.93% YoY, 3.97% YoY and 24.79% YoY respectively.

On the other hand, Core inflation (non-food, non-energy) is expected to increase on account of the increase in the prices of cotton cloth, house rent, transportation services and communication apparatus by 7.65% YoY, 6.35% YoY, 12.43% YoY and 7.78% YoY respectively.

In view of the evolving macroeconomic situation and rising inflation, the SBP has already increased the policy rate by 150 bps to 12.25% earlier this month. Going forward, we expect the government to take fiscal measures rather than the monetary measures in order to control the inflationary pressure mounting on the economy. Therefore, we expect the SBP to maintain the discount rate at the current level of 12.25% in upcoming monetary policy, expected to be announced by the end of Jul-19.

Categories	Weight	May-19	Apr-19	MoM	May-18	YoY
Food	35%	259	252	2.85%	234	10.41%
Housing & Utilities	29%	228	228	0.00%	208	9.94%
Clothing	8%	267	265	0.54%	253	5.63%
Transport	7%	216	215	0.51%	189	14.06%
Furnishing & Household	4%	259	259	0.00%	240	8.02%
Education	4%	297	297	0.00%	282	5.46%
Communication	3%	144	144	0.00%	134	7.46%
Miscellaneous	3%	284	284	0.00%	264	7.79%
Health	2%	242	242	0.00%	224	8.05%
Recreation	2%	222	222	0.00%	208	6.75%
Alcohol & Tobacco	1%	356	356	0.02%	315	12.96%
Restaurants	1%	312	309	1.21%	293	6.69%
CPI Inflation	100%	247	244	1.12%	225	9.48%
Core Inflation	54%	126	126	0.09%	118	6.84%



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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

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