

INFLATION PREVIEW (Aug-19)

CPI inflation to clock in at 11.92% YoY whereas, core inflation is expected to stand at 7.89% YoY in Aug 2019

Tuesday, 27 August, 2019

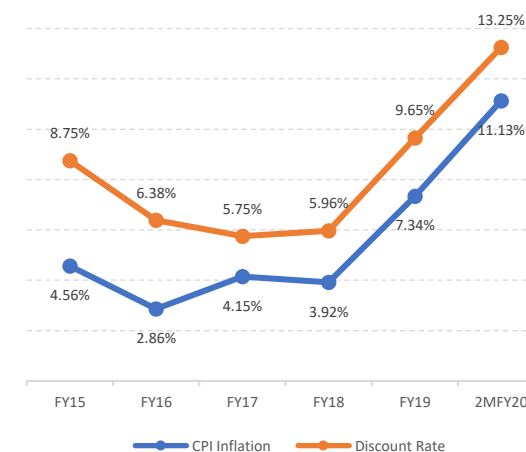
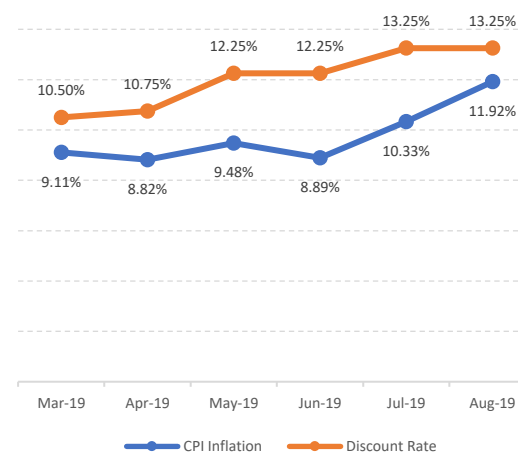
We expect the CPI inflation for Aug-19 to stand at 11.92% YoY (1.64% MoM) as compared to 10.34% YoY (2.28% MoM) in last month. Furthermore, core inflation measured by non-food, non-energy CPI is expected to increase by 7.89% YoY (0.28% MoM) as compared to 7.76% YoY (1.73% MoM) in last month.

The surge in CPI inflation is caused mainly due to the increase in food index which inflated by around 10.93% YoY during Aug-19. Particularly, increase in the prices of wheat flour (8.45% YoY), Rice (5.49% YoY), meat (10.56% YoY), Chicken (66.64% YoY), fresh milk (6.12% YoY), cooking oil (13.83% YoY), vegetable ghee (15.10% YoY), fresh vegetables (14.13% YoY) and sugar (35.47% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of Gas (170.34% YoY), Electricity (11.33% YoY) and Motor Fuel (26.39% YoY) also pushed the CPI inflation towards the north. On the flip side, prices of eggs, fresh fruits, gram whole, tomatoes, and betel leaves decreased by 3.42% YoY, 3.90% YoY, 2.67% YoY, 31.09 and 5.95% 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 15.38% YoY, 6.20% YoY, 7.57% YoY and 7.86% YoY respectively.

In view of the evolving macroeconomic situation and rising inflation, the SBP has already increased the policy rate by 100 bps to 13.25% in its last MPC meeting. The MPC expects average inflation of 11-12 percent in FY20, higher than previously projected, and has already adjusted the policy rate according to its inflation estimates. Therefore, we expect the SBP to keep the policy rate unchanged in its upcoming monetary policy expected to be announced by the end of Sep-19.

Categories	Weight	Aug-19	Jul-19	MoM	Aug-18	YoY
Food	35%	265	257	3.04%	239	10.93%
Housing & Utilities	29%	240	238	0.99%	211	13.81%
Clothing	8%	277	273	1.49%	255	8.77%
Transport	7%	237	232	1.81%	205	15.59%
Furnishing & Household	4%	267	266	0.46%	242	10.21%
Education	4%	301	301	0.00%	282	6.91%
Communication	3%	145	145	0.00%	134	8.68%
Miscellaneous	3%	296	296	0.00%	264	12.00%
Health	2%	245	245	0.00%	225	8.71%
Recreation	2%	225	225	0.00%	210	7.04%
Alcohol & Tobacco	1%	427	426	0.39%	313	36.35%
Restaurants	1%	320	316	1.15%	295	8.45%
CPI Inflation	100%	257	252	1.64%	229	11.92%
Core Inflation	54%	129	129	0.28%	120	7.89%



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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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