

# INFLATION PREVIEW (Jul-19)

CPI inflation to clock in at 10.33% YoY whereas, core inflation is expected to stand at 6.84% YoY in Jul 2019

Tuesday, 30 July, 2019

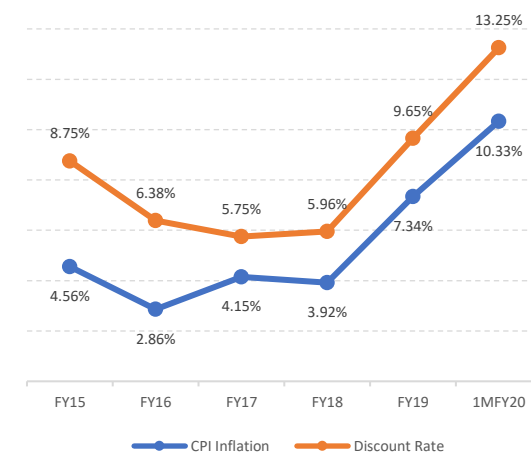
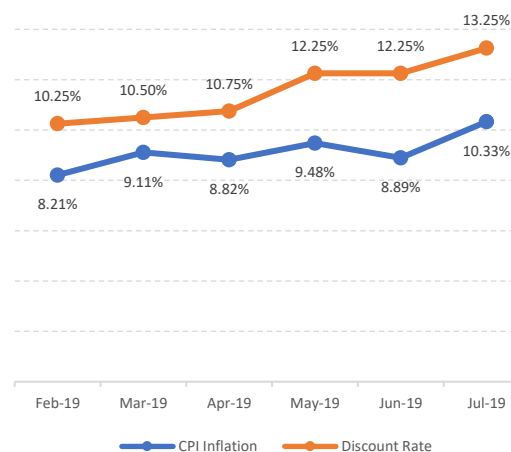
The Governing Council of Pakistan Bureau of Statistics (PBS) has approved the new inflation rebasing mechanism for mapping the consumption of arrival of new products in urban and rural areas of the country. The ECC has directed PBS to publish price statistics with new base 2015-16 from July 2019. However, the price statistics with old base 2007-08 will also be published for one year for comparative purposes. In this regard, it should be noted that our calculation of the expected inflation in Jul-19 is based on the previous methodology with base 2007-08.

We expect the CPI inflation for Jul-19 to stand at 10.33% YoY (2.27% MoM) as compared to 8.89% YoY (0.36% MoM) in last month. Furthermore, core inflation measured by non-food, non-energy CPI is expected to increase by 6.84% YoY (0.87% MoM) as compared to 7.13% YoY (0.25% MoM) in last month.

The surge in CPI inflation is caused mainly due to the increase in food index which inflated by around 7.52% YoY during Jul-19. Particularly, increase in the prices of wheat flour (7.59% YoY), Rice (8.17% YoY), meat (12.15% YoY), fresh milk (5.78% YoY), cooking oil (9.96% YoY), vegetable ghee (10.41% YoY), fresh vegetables (4.42% YoY) and sugar (33.02% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of Gas (214.59% YoY), Electricity (8.48% YoY) and Motor Fuel (18.88% YoY) also pushed the CPI inflation towards the north. On the flip side, prices of eggs, gram whole, tomatoes, and betel leaves decreased by 6.51% YoY, 3.57% YoY, 20.22% YoY, and 9.68% 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 11.20% YoY, 5.98% YoY, 3.76% YoY and 7.97% 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. However, in our view, unanticipated increase in inflation may lead to further modest monetary tightening.

Categories	Weight	Jul-19	Jun-19	MoM	Jul-18	YoY
Food	35%	256	254	0.64%	238	7.52%
Housing & Utilities	29%	242	228	5.95%	211	14.84%
Clothing	8%	272	269	1.12%	254	7.14%
Transport	7%	224	224	0.00%	203	10.38%
Furnishing & Household	4%	265	263	0.77%	241	9.79%
Education	4%	297	297	0.00%	282	5.46%
Communication	3%	145	145	0.00%	134	8.79%
Miscellaneous	3%	290	290	0.00%	265	9.10%
Health	2%	244	244	0.00%	225	8.44%
Recreation	2%	223	223	0.00%	209	6.94%
Alcohol & Tobacco	1%	427	384	11.29%	314	36.29%
Restaurants	1%	321	312	2.95%	293	9.52%
<b>CPI Inflation</b>	<b>100%</b>	<b>252</b>	<b>247</b>	<b>2.27%</b>	<b>229</b>	<b>10.33%</b>
<b>Core Inflation</b>	<b>54%</b>	<b>128</b>	<b>126</b>	<b>0.87%</b>	<b>119</b>	<b>6.84%</b>



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### DEFINITION OF TERMS

<b>TP</b>	Target Price	<b>DDM</b>	Dividend Discount Model	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>JPB</b>	Justified Price to Book

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### 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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