

# INFLATION PREVIEW (Jun-19)

CPI inflation to clock in at 9.61% YoY whereas, core inflation is expected to stand at 6.93% YoY in Jun 2019

Thursday, 27 June, 2019

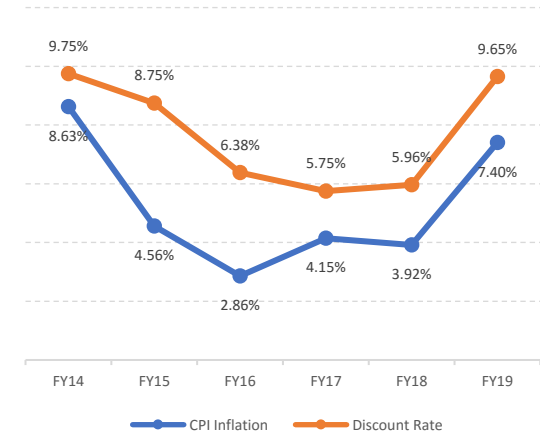
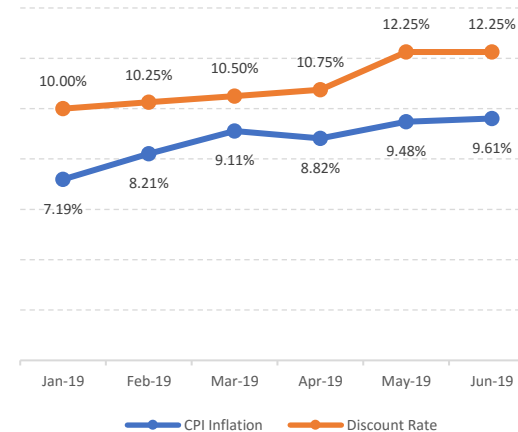
We expect the CPI inflation for Jun-19 to stand at 9.61% YoY (1.03% MoM) as compared to 9.11% YoY (0.78% MoM) in last month. Furthermore, core inflation measured by non-food, non-energy CPI is expected to increase by 6.93% YoY (0.06% MoM) as compared to 7.19% YoY (0.41% MoM) in last month.

The surge in CPI inflation is caused mainly due to the increase in food index which inflated by around 8.94% YoY during Jun-19. Particularly, increase in the prices of wheat flour (10.49% YoY), Rice (6.42% YoY), meat (13.47% YoY), fresh milk (4.78% YoY), cooking oil (8.18% YoY), vegetable ghee (8.24% YoY), fresh vegetables (27.89% YoY) and sugar (32.87% YoY) contributed to 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 (27.11% YoY) also pushed the CPI inflation towards the north. On the flip side, prices of chicken, eggs, gram whole, tomatoes, and betel leaves decreased by 19.81% YoY, 8.58% YoY, 3.95% YoY, 11.18% YoY and 15.96% 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 9.97% YoY, 6.35% YoY, 8.92% YoY and 7.93% 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% in its last meeting. However, the current level of discount rate seems not to be enough to control the forthcoming inflationary pressure. Therefore, we expect the SBP to increase the discount rate by 75 – 100 bps in upcoming monetary policy, expected to be announced by the end of Jul-19.

Categories	Weight	Jun-19	May-19	MoM	Jun-18	YoY
Food	35%	258	255	1.26%	237	8.94%
Housing & Utilities	29%	228	228	0.00%	208	9.93%
Clothing	8%	269	269	0.16%	253	6.28%
Transport	7%	225	221	2.09%	195	15.76%
Furnishing & Household	4%	262	261	0.39%	241	8.92%
Education	4%	297	297	0.00%	282	5.46%
Communication	3%	144	144	0.00%	134	7.61%
Miscellaneous	3%	285	285	0.00%	264	7.99%
Health	2%	243	243	0.00%	224	8.39%
Recreation	2%	223	223	0.00%	208	7.06%
Alcohol & Tobacco	1%	426	357	19.23%	315	35.44%
Restaurants	1%	312	310	0.64%	293	6.45%
<b>CPI Inflation</b>	<b>100%</b>	<b>248</b>	<b>246</b>	<b>1.03%</b>	<b>227</b>	<b>9.61%</b>
<b>Core Inflation</b>	<b>54%</b>	<b>126</b>	<b>126</b>	<b>0.06%</b>	<b>118</b>	<b>6.93%</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

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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