

INFLATION PREVIEW (Dec-21)

NCPI inflation to clock in at 12.5% YoY as compared to 11.53 % YoY in last month

Friday, 24 December, 2021

| National | |
|----------|---------|
| YoY | ▲ 12.5% |
| MoM | ▲ 0.2% |

| Urban | |
|-------|---------|
| YoY | ▲ 12.8% |
| MoM | ▲ 0.4% |

| Rural | |
|-------|---------|
| YoY | ▲ 12.1% |
| MoM | ▼ -0.1% |

We expect the national CPI inflation (NCPI) for Dec-21 to stand at 12.52% YoY (0.2% MoM) as compared to 11.53% YoY (3.0% MoM) in last month. Furthermore, urban CPI inflation (UCPI) (60% of NCPI) and rural CPI inflation (RCPI) (40% of NCPI) are expected to increase by 12.8% YoY (0.4% MoM) and 12.1% YoY (-0.1% MoM) respectively as compared to 12.0% YoY (2.9% MoM) and 10.9% YoY (3.1% MoM) respectively in last month.

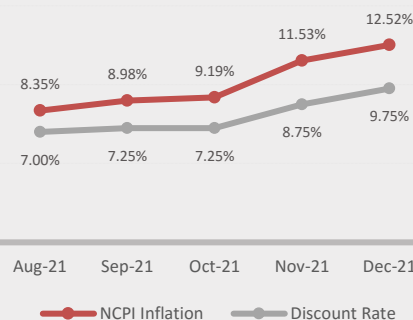
The surge in NCPI is caused mainly due to the increase in the food index which inflated by around 14.24% YoY during Dec-21. Particularly, increase in the prices of wheat flour (14.86% YoY), rice (10.54% YoY), meat (19.84% YoY), butter (3.82% YoY), fresh milk (12.69% YoY), cooking oil (61.17% YoY), vegetable ghee (61.80% YoY) and mustard oil (60.80% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of Motor Fuel (37.0% YoY), cotton cloth (8.58% YoY), education (2.18% YoY), electricity charges (55.18% YoY) and readymade food (12.61% YoY) also pushed the NCPI inflation towards the north. On the flip side, prices of Potatoes, Tomatoes, Onions, and Pulse Moong decreased by 23.75% YoY, 20.20% YoY, 25.77% YoY, and 22.87% YoY, respectively.

The SBP has recently raised the policy rate to 9.75% (up by 100bps) in its MPC meeting scheduled at 14-Dec-21. Considering the inflation forecast of around 11% in FY22, the MPC feels that the end goal of mildly positive real interest rates on a forward-looking basis is now close to being achieved. Going forward, we expect the interest rate to be in double digits from Mar-22. However, the raise wouldn't be more than 100 bps in our view assuming that the inflation would start tapering off by the start of the next fiscal year.

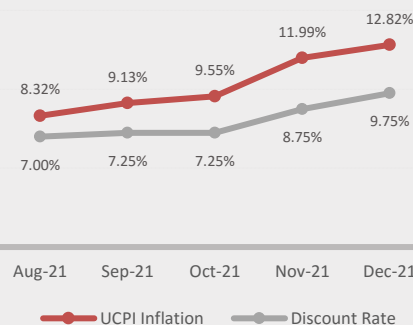
| National | Weight | Dec-21 | Urban | Weight | Dec-21 | Rural | Weight | Dec-21 |
|------------|--------|--------|------------|--------|--------|------------|--------|--------|
| Food | 35% | 167 | Food | 30% | 167 | Food | 41% | 167 |
| Utilities | 24% | 156 | Utilities | 27% | 155 | Utilities | 18% | 157 |
| Clothing | 9% | 154 | Clothing | 8% | 150 | Clothing | 9% | 159 |
| Restaurant | 7% | 154 | Restaurant | 7% | 154 | Restaurant | 6% | 156 |
| Transport | 6% | 168 | Transport | 6% | 170 | Transport | 6% | 164 |
| Misc. | 5% | 162 | Education | 5% | 149 | Misc. | 5% | 164 |
| Furnishing | 4% | 154 | Misc. | 5% | 160 | Furnishing | 4% | 157 |
| Education | 4% | 144 | Furnishing | 4% | 152 | Health | 4% | 158 |
| Health | 3% | 159 | Comm. | 2% | 112 | Education | 2% | 140 |
| Comm. | 2% | 109 | Health | 2% | 160 | Comm. | 2% | 106 |
| Recreation | 2% | 133 | Recreation | 2% | 130 | Recreation | 1% | 138 |
| Tobacco | 1% | 146 | Tobacco | 1% | 155 | Tobacco | 1% | 137 |
| CPI | | 158 | CPI | | 158 | CPI | | 160 |

Key Statistics

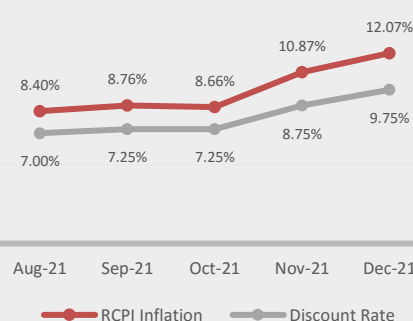
National CPI vs Discount Rate



Urban CPI vs Discount Rate



Rural CPI vs Discount Rate



Sources: ACPL Research, PBS

Muhammad Nauman Naem
Phone: (+92) 42 38302028; Ext: 116
Email: nauman@abbasiandcompany.com

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| | | | | | |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| TP | Target Price | CAGR | Compound Annual Growth Rate | 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 | LDCP | Last Day Closing Price |

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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|--------------|----------------------------|
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| HOLD | Between -5% to 15% |
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| Sector Rating | Sector Outlook |
|---------------|----------------|
| Overweight | Positive |
| Market Weight | Neutral |
| Underweight | Negative |

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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: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com