

INFLATION PREVIEW (Jan-20)

NCPI inflation to clock in at 14.0% YoY as compared to 12.6% YoY in last month

Monday, 27 January, 2020

National		Urban		Rural	
YoY	▲ 14.0%	YoY	▲ 13.2%	YoY	▲ 15.2%
MoM	▲ 1.5%	MoM	▲ 1.5%	MoM	▲ 1.4%

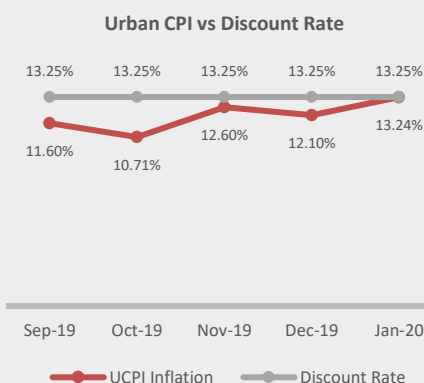
We expect the national CPI inflation (NCPI) for Jan-20 to stand at 14.0% YoY (1.5% MoM) as compared to 12.6% YoY (-0.3% MoM) in last month. Furthermore, urban CPI inflation (UCPI) (60% of NCPI) and rural CPI inflation (RCPI) (40% of NCPI) are expected to increase by 13.2% YoY (1.5% MoM) and 15.2% YoY (1.4 MoM) respectively as compared to 12.0% YoY (-0.4% MoM) and 13.6% YoY (-0.3% MoM) respectively in last month.

The surge in NCPI is caused mainly due to the increase in food index which inflated by around 21.75% YoY during Jan-20. Particularly, increase in the prices of wheat flour (21.82% YoY), rice (5.94% YoY), meat (13.13% YoY), chicken (31.12% YoY), fresh milk (8.61% YoY), cooking oil (16.36% YoY), vegetable ghee (19.11% YoY) fresh fruits (25.82% YoY), fresh vegetables (79.94% YoY), sugar (32.56% YoY) and condiments (16.12% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of house rent (4.72% YoY), cotton cloth (12.40% YoY), electricity charges (14.35% YoY), gas charges (54.84% YoY), motor fuel (25.78% YoY), education (7.45% YoY) and readymade food (9.63% YoY) also pushed the NCPI inflation towards the north. On the flip side, prices of dental services decreased by 1.24% YoY.

After the period of around 6 years, the inflation rate is expected to surpass the discount rate in Jan-20. Therefore, we expect the status quo to be maintained in tomorrow's MPC meeting in order to keep the inflationary pressure in check. Furthermore, we also revisit our stance on the rate cut of around 25-50 bps before Jun-20 as such a high level of inflation wouldn't let the SBP to cut rate during the first half of the current calendar year.

National	Weight	Jan-20	Urban	Weight	Jan-20	Rural	Weight	Jan-20
Food	35%	133	Food	30%	133	Food	41%	134
Utilities	24%	131	Utilities	27%	133	Utilities	18%	128
Clothing	9%	129	Clothing	8%	127	Clothing	9%	132
Restaurant	7%	129	Restaurant	7%	128	Restaurant	6%	131
Transport	6%	145	Transport	6%	147	Transport	6%	143
Misc.	5%	132	Education	5%	145	Misc.	5%	131
Furnishing	4%	131	Misc.	5%	132	Furnishing	4%	130
Education	4%	142	Furnishing	4%	131	Health	4%	136
Health	3%	137	Comm.	2%	108	Education	2%	133
Comm.	2%	107	Health	2%	137	Comm.	2%	105
Recreation	2%	119	Recreation	2%	117	Recreation	1%	122
Tobacco	1%	136	Tobacco	1%	143	Tobacco	1%	129
CPI		132	CPI		133	CPI		132

Key Statistics



Sources: ACPL Research, PBS

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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

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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