

INFLATION PREVIEW (Aug-20)

NCPI inflation to clock in at 7.9% YoY as compared to 9.3% YoY in last month

Monday, 31 August, 2020

National		Urban		Rural	
YoY	▲ 7.9%	YoY	▲ 6.6%	YoY	▲ 9.7%
MoM	▲ 0.3%	MoM	▲ 0.3%	MoM	▲ 0.2%

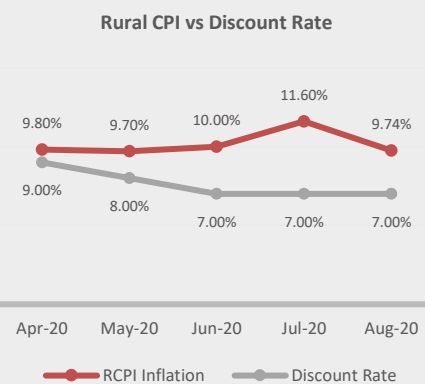
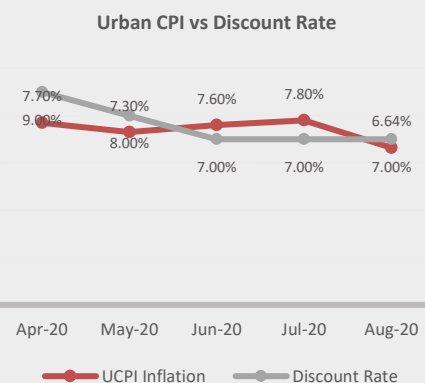
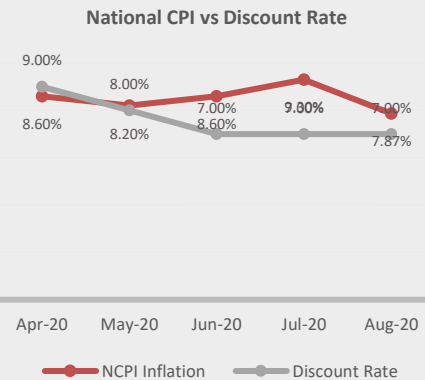
We expect the national CPI inflation (NCPI) for Aug-20 to stand at 7.9% YoY (0.3% MoM) as compared to 9.3% YoY (2.5% MoM) in last month. Furthermore, urban CPI inflation (UCPI) (60% of NCPI) and rural CPI inflation (RCPI) (40% of NCPI) are expected to increase by 6.6% YoY (0.3% MoM) and 9.7% YoY (0.2% MoM) respectively as compared to 7.8% YoY (2.2% MoM) and 11.6% YoY (3% MoM) respectively in last month.

The surge in NCPI is caused mainly due to the increase in food index which inflated by around 12.95% YoY during Aug-20. Particularly, increase in the prices of wheat flour (16.10% YoY), rice (8.90% YoY), meat (13.40% YoY), fresh milk (13.73% YoY), cooking oil (11.24% YoY), vegetable ghee (16.54% YoY), sugar (28.1% YoY) and condiments (38.31% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of house rent (4.29% YoY), cotton cloth (11.06% YoY), education (0.95% YoY) and readymade food (7.54% YoY) also pushed the NCPI inflation towards the north. On the flip side, prices of chicken, electricity, motor fuel, and transport services, decreased by 34.89% YoY, 0.19% YoY, 9.27% YoY, and 2.22% YoY respectively.

After reducing the policy rate by 100 bps to 7% in its emergency MPC meeting, the SBP had cancelled the regular MPC meeting of July-20 in order to observe the impact of expansionary policy for further two months. Going forward, considering the inflation outlook and negative real interest rate, we expect the SBP to increase the policy rate by 100 bps to 8% in its next MPC meeting scheduled to be held in September-20.

National	Weight	Aug-20	Urban	Weight	Aug-20	Rural	Weight	Aug-20
Food	35%	140	Food	30%	139	Food	41%	142
Utilities	24%	130	Utilities	27%	132	Utilities	18%	126
Clothing	9%	138	Clothing	8%	134	Clothing	9%	143
Restaurant	7%	134	Restaurant	7%	132	Restaurant	6%	137
Transport	6%	138	Transport	6%	138	Transport	6%	137
Misc.	5%	141	Education	5%	145	Misc.	5%	142
Furnishing	4%	131	Misc.	5%	140	Furnishing	4%	132
Education	4%	142	Furnishing	4%	131	Health	4%	143
Health	3%	142	Comm.	2%	108	Education	2%	133
Comm.	2%	107	Health	2%	142	Comm.	2%	105
Recreation	2%	121	Recreation	2%	119	Recreation	1%	125
Tobacco	1%	140	Tobacco	1%	148	Tobacco	1%	132
CPI		136	CPI		135	CPI		137

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

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

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SELL	Less than and equal to -5%

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