

Day Break

Tuesday, 02 January 2018

Economy

Exhibit: Headline inflation

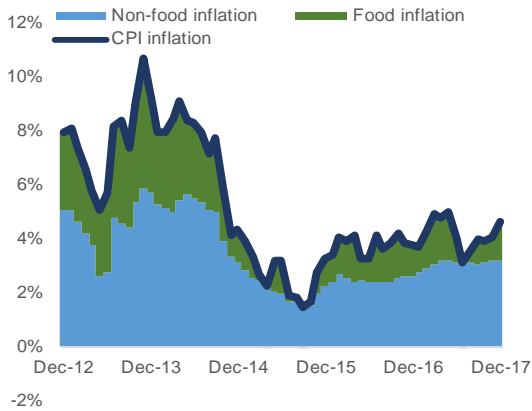


Exhibit: Rising trend in food inflation

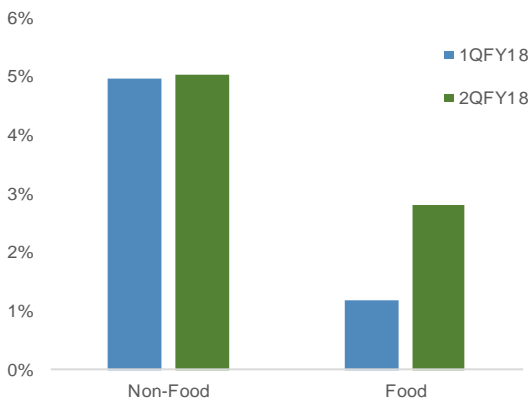
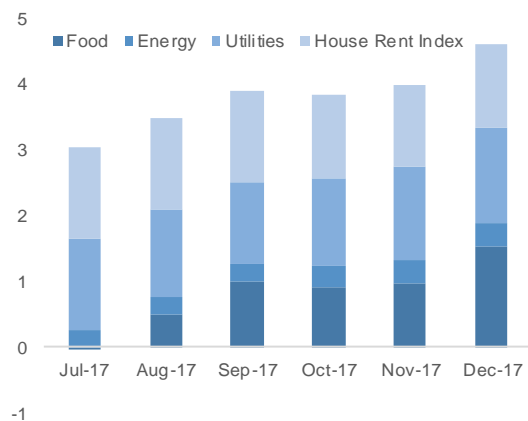


Exhibit: Percentage point impact



Source: SBP, PBS & IGI Research

Syed Daniyal Adil

Research Analyst

daniyal.adil@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 973

Inflation

Food inflation spikes; Non-food prices continue to lead

- As per the latest data published by Pakistan Bureau of Statistics (PBS), Dec-17 headline inflation clocked in at +4.57%YoY (down 0.10%MoM) compared to +3.70%YoY (down 0.68%MoM) in the same period last year
- The non-food basket (up +5.1%YoY in Dec-17) has demonstrated a steady growth in 1HFY18, averaging +5.0%YoY growth
- Food basket inflation remained modest in 1QFY18, averaging +1.2%YoY, but picked up pace in 2QFY18, clocking in at an average of +2.8%YoY on the back of +3.8%YoY rise in food inflation for Dec-17, pulling 1HFY18 average food basket inflation to +2%YoY
- Core inflation recorded a steady growth trend in 1HFY18, posting a figure of +5.45%YoY
- Outlook on inflation, for the remainder of FY18, is dependent upon the demand pull inflationary pressures created by government spending at the end of election cycle as well as the policy of PKR depreciation that is implemented

Dec-17 inflation clocks in at +4.57%YoY

As per the latest data published by Pakistan Bureau of Statistics (PBS), Dec-17 headline inflation clocked in at +4.57%YoY (down 0.10%MoM) compared to +3.70%YoY (down 0.68%MoM) in the same period last year. This translates into 1HFY18 average inflation of +3.76%YoY with growth in Dec-17 price level being the highest in the 6 months of FY18. For the month of Dec-17, non-food index continued its healthy growth (up +5.12%YoY), while food index recorded significant gains (up +3.79%YoY) following weak food inflationary pressure at the start of the fiscal year.

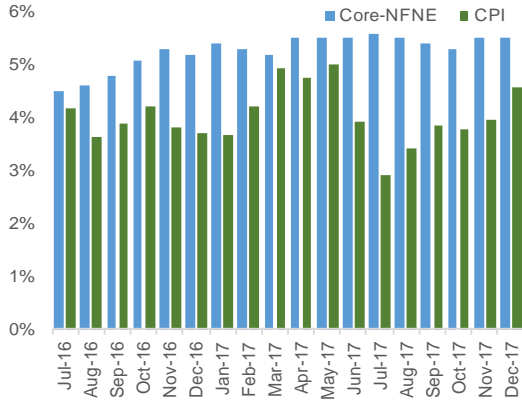
Non-food inflation demonstrated robust growth with steady trend in 1HFY18...

The non-food basket (up +5.1%YoY in Dec-17) has demonstrated a steady growth in 1HFY18, averaging +5.0%YoY growth. For the period of 6 months mentioned, the major factors for the uptick include house rent index (HRI) (up +6.8%YoY), education index (up +11.12%YoY), health index (up +11.45%YoY) and transport index (up +3.66%YoY). We expect this trend to build up further in 2HFY18 as direct impact of PKR depreciation continues to raise prices.

... While food-inflation has exhibited weak growth albeit with a rising trend

Food basket inflation remained modest in 1QFY18, averaging +1.2%YoY, but picked up pace in 2QFY18, clocking in at an average of +2.8%YoY on the back of +3.8%YoY rise in food inflation for Dec-17, pulling 1HFY18 average food basket inflation to +2%YoY. The steep rise in food inflation in the later part of 1HFY18 originates from rise in prices of perishable food items (up ~+19%YoY in 2QFY18 compared to ~+6%YoY in 1QFY18) while cigarette prices continue to be the dampener (down ~17%YoY on average in 1HFY18). We anticipate a further rise in food prices in months to follow as indirect impact of PKR depreciation seeps into the economy.

Exhibit: Core and CPI inflation



1HFY18 witnessed a robust growth in Core inflation

Core inflation recorded a steady growth trend in 1HFY18, posting a figure of +5.45%YoY. Also an indicator of aggregate demand, core inflation is expected to grow faster in 2HFY18 as demand pull inflationary pressures continue to build up. This could undo the subdued headline inflation in the remainder of FY18.

Demand pull inflation as well as external sector vulnerabilities to dictate inflation in 2HFY18

Outlook on inflation, for the remainder of FY18, is dependent upon the demand pull inflationary pressures created by government spending at the end of election cycle as well as the policy of PKR depreciation that is implemented. The expected surge in government spending might lead to a further rise in aggregate demand which could translate into higher price levels. Simultaneously, if the PKR were to be depreciated further, it will lead to rise in inflation through its direct and indirect impact on the economy.

Furthermore, the increase in oil rates in recent months will translate into higher domestic energy prices which will fuel inflationary pressures. However, the administered nature of fuel prices, wherein, the government can reduce the inflationary impact of hike in oil rate by reducing taxes, may lead to a contained increase in general level of prices.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2017 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Tel: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarak Pura, Sialkot.
Tel: (+92-52) 3258437, 3258762