

Day Break

Tuesday, 31 July 2018

Economy

Exhibit: CPI inflation (%YoY)

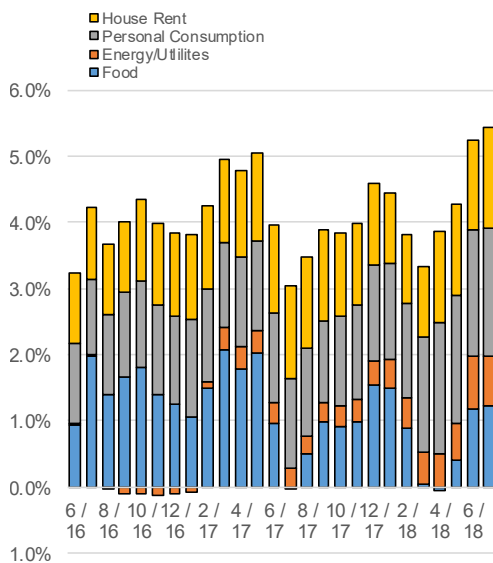
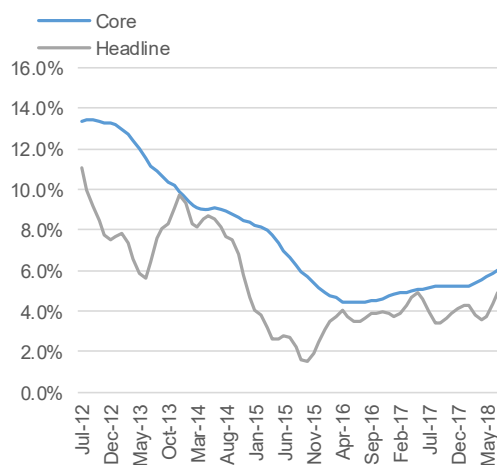


Exhibit: Core and Headline CPI inflation



Source: SBP, PBS, IGI Research

Analyst

Saad Khan

saad.khan@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

Inflation

FY19 to start with bullish inflation trend; Jul-18 CPI to print +5.4%YoY

- For the month of Jul-18, we expect monthly headline CPI inflation to print +5.4%YoY or +0.5%MoM growth.
- On a monthly basis, inflation is estimated to go down by 0.6%MoM compared to +0.55%MoM rise in Jun-18. Keeping up with the trend, quarterly price adjusted in house rental index (HRI) is estimated to go up by +1.9%MoM adding roughly 1.5ppt to overall CPI basket.
- Domestic fuel prices increased initially by PKR 7.5/ltr (+7.5%MoM) on 1st Jul-18, but was later revised down to PKR 95.24/ltr (4.0%MoM) on 8th Jul-18 owing to adjustments in GST rates as recommended by apex court.
- On inflation we expect headline inflation to settle slightly higher at 8.0% during FY19 compared to SBP initial target of 6.0-7.0%.

FY19 to start with bullish inflation trend; Jul-18 CPI to print +5.4%YoY

For the month of Jul-18, we expect monthly headline CPI inflation to print +5.4%YoY or +0.5%MoM growth. We base this on a) quarterly revision in house rental index, b) ~3.5%MoM effective change in domestic POL prices and, c) steady trend in food price basket.

Exhibit:

Inflation Estimates

%YoY	Food	Energy/Utilities	Personal Consumption	House Rent	CPI Headline	Core (NFNE)
31-Mar-18	+0.09	+3.17	+6.92	+5.43	+3.25	+6.44
30-Apr-18	-0.13	+3.24	+7.85	+7.03	+3.69	+7.3
31-May-18	+1	+3.71	+7.67	+7.03	+4.19	+7.14
30-Jun-18	+2.99	+5.03	+7.62	+7.03	+5.21	+7.09
31-Jul-18	+3.1	+4.86	+7.73	+7.68	+5.39	+7.19

Source: PBS, SBP, IGI Research

Quarterly revision in House Rental Index and Fuel Prices to be key driver

On a monthly basis, inflation is estimated to go up by +0.5%MoM compared to +0.57%MoM rise in Jun-18. Keeping up with the trend, quarterly price adjusted in house rental index (HRI) is estimated to go up by +1.9%MoM adding roughly 1.5% ppt to overall CPI basket. Moreover, during the month, domestic fuel prices increased initially by PKR 7.5/ltr (+7.5%MoM) on 1st Jul-18, but was later revised down to PKR 95.24/ltr (4.0%MoM) on 8th Jul-18 owing to adjustments in GST rates as recommended by apex court. Similarly, Diesel prices were also reduced by PKR 6.37/ltr to PKR 112.94/ltr. As a result, effective change in domestic POL comes to ~3.5% which is less pronounced than initially estimated. Nevertheless, based on higher domestic POL prices, transport index is expected to lift Energy/Utility index higher.

Food inflation down, but not dead yet

In the recent monetary policy statement issued, SBP cited higher underlying pressure as denoted by core inflation which for the outgoing year FY18, recorded a +5.8% growth and in FY19 is expected to record >7.0% growth. As a result, headline inflation is expected to stay in downward sticky. Key cost push drivers such as rising oil prices along with sharper

exchange rate movements seems a worrisome factor, seeping into broader inflation basket, with no consolation in sight from food index as water shortage is expected to affect overall agricultural production in coming years (SBP: “food inflation reverting to its normal behavior”).

Exhibit:
Yearly food Inflation index (%YoY)

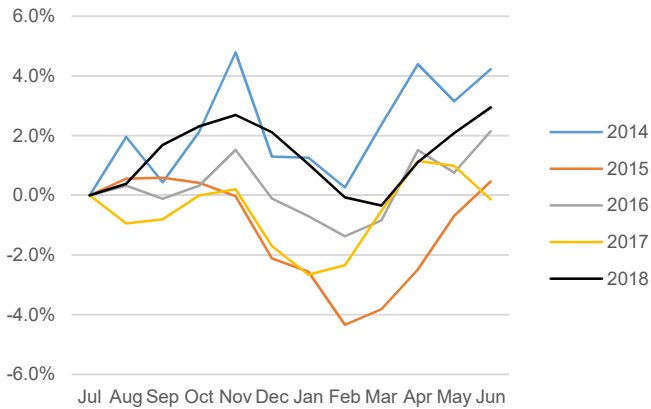
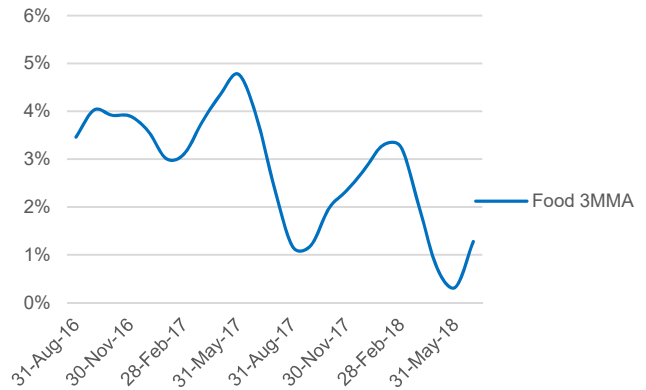


Exhibit:
Food Inflation - 3MMA (2019)



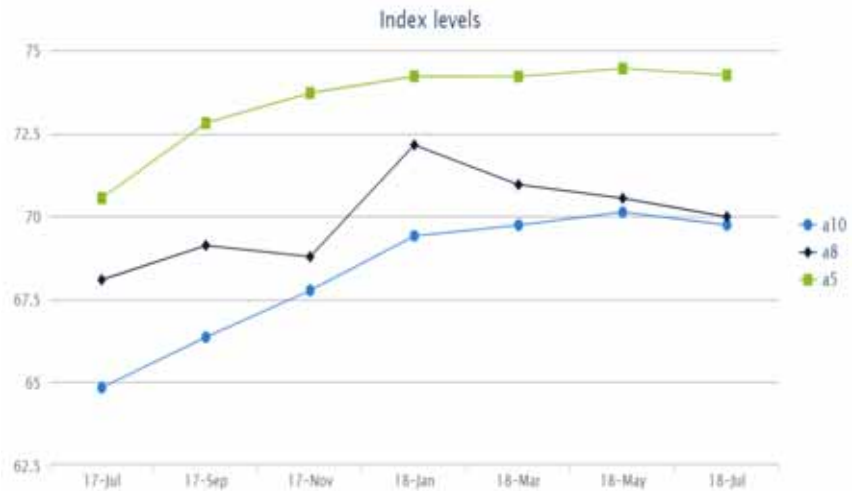
Source: PBS, SBP, IGI Research

Outlook

On the outlook we view SBP’s proactive monetary contraction decision along with additional policies such as reintroduction of import tariffs is likely to herd down multiple of demand pressure in economy, starting from private sector credit growth and cut down in non-essential import bill. However, curtailing fiscal deficit is what we think will be crucial in anchoring down overall demand pressure and subsequently inflation expectations. On inflation we expect headline inflation to settle slightly higher at 8.0% during FY19 compared to SBP initial target of 6.0-7.0%.

Exhibit:
Consumer inflation expectation

(a10= Energy Inflation Expectations, a8= Food Inflation Expectations, a5= Overall Inflation Expectations)



Source: PBS, SBP/IBA survey, IGI Research

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, and 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, Last Closing: Latest closing price, Market Cap.: Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. EPS: Earnings per Share. DPS: Dividend per Share. 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. CY/FY: Calendar/Fiscal/Financial Year. YoY/ QoQ/ MoM: Year-on-Year, Quarter-on-Quarter, Month-on-Month. Th /Mn /Bn /Tr: Thousands/Million/Billion/Trillion.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2018 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
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
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
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@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	mahtab.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

Lahore Office

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

Islamabad Office

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

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

Faisalabad Office

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

Rahim Yar Khan Office

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

Multan Office

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

Abbottabad Office

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

Stock Exchange Office

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

Peshawar Office

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

Sialkot Office

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