

CPI expected to reach 9.45% YoY in June'19

- We expect Jun'19 inflation to reach to 9.45% YoY as compared to 9.1% YoY in May'19. This take the FY19E avg. inflation to 7.37%.
- On MoM basis we expect inflation of 0.88% as compared to 0.78% in May'19 while core inflation as measured by non food and non energy (NFNE), is likely to arrive at 7.1% YoY in Jun'19 as compared to 7.2% YoY in May'19.
- Devaluation of PKR, increase in gas and electricity prices from next month we expect FY20E inflation to reach at double digit level.

Jun'19 inflation likely to reach at 9.45% YoY

We estimate CPI inflation for the month of Jun'19 to reach at 9.45% YoY as compared to 9.1% in May'19. Jun'19 higher inflation is expected due to increase in food and transport indexes.

Food index is likely to go up by 8.84% YoY in Jun'19. According to WPI data released by PBS, major price uptick was witnessed in potatoes, sugar and pulses which accreted by 19%, 6% and 6% respectively. Hike in prices of petroleum product, electricity and gas tariff are also likely to contribute towards higher inflation in Jun'19.

On MoM basis we expect inflation of 0.88% in Jun'19 as compared to 0.78% in May'19 mainly due to increase in food index which is expected to go up by 1.17% in current month. On monthly basis major food price increase is witnessed in sugar (6.3%) and pulses (6.2%) while major price decline witnessed in tomatoes and chicken, down by 10% and 7% respectively.

Core inflation (NFNE) expected to arrive at 7.1% YoY in Jun'19

Core inflation, as measured by non food and non energy (NFNE), is likely to arrive at 7.1% YoY in Jun'19 as compared to 7.2% YoY in May'19.

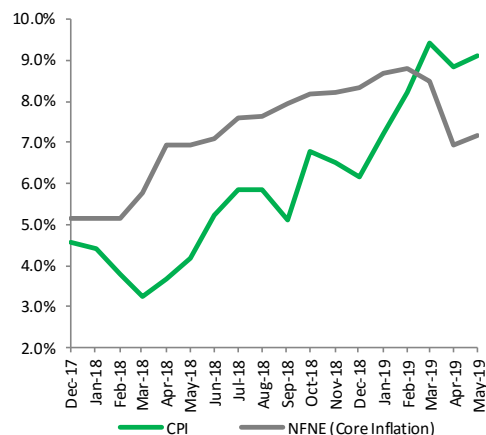
Inflation and Monetary Outlook

Further devaluation of PKR and increase in gas and electricity prices from next month, we expect FY20E inflation to reach at double digit level creating room for further hike in policy rate by 100bps.

Groups	Index Weight	Jun'18 Index	Jun'19E Index	YoY
General	100%	226.68	248.10	9.45%
Food	34.83%	236.58	257.50	8.84%
Beverages and Tobacco	1.41%	314.62	393.77	25.16%
Clothing & Footwear	7.57%	253.49	270.55	6.73%
Housing	29.41%	207.63	228.29	9.95%
Household Equipment	4.21%	240.51	261.57	8.76%
Health	2.19%	224.36	243.54	8.55%
Transport	7.20%	194.64	226.85	16.55%
Communication	3.22%	133.61	143.79	7.62%
Recreation and culture	2.02%	208.37	223.07	7.06%
Education	3.94%	281.89	297.27	5.46%
Restaurants and hotels	1.23%	292.90	309.79	5.77%
Misc. goods and services	2.76%	264.25	285.37	7.99%

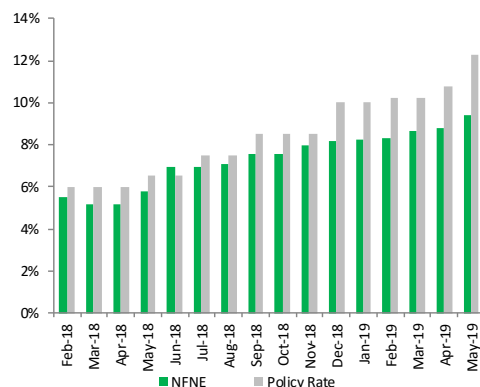
Source: PBS, Darson Research

CPI vs NFNE



Source: PBS, Darson Research

Policy Rate vs NFNE



Source: PBS, SBP, Darson Research

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Important disclosures

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Rating System:

If;

- | | |
|---|---------------------|
| • Expected return >15% | - Buy Call |
| • Expected Return is in between 0% to 15% | - Neutral/Hold Call |
| • Expected Return <0% | - Sell Call |

Valuation Methodology

To arrive at our period end target prices, DSL uses different valuation methodologies including:

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: www.JamaPunji.pk

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