

# INFLATION PREVIEW (Mar-21)

NCPI inflation to clock in at 11.5% YoY as compared to 8.7% YoY in last month

Thursday, 25 March, 2021

| National |         | Urban |         | Rural |         |
|----------|---------|-------|---------|-------|---------|
| YoY      | ▲ 11.5% | YoY   | ▲ 11.5% | YoY   | ▲ 11.5% |
| MoM      | ▲ 2.6%  | MoM   | ▲ 2.8%  | MoM   | ▲ 2.4%  |

We expect the national CPI inflation (NCPI) for Mar-21 to stand at 11.5% YoY (2.6% MoM) as compared to 8.7% YoY (1.8% 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 11.5% YoY (2.8% MoM) and 11.5% YoY (2.4% MoM) respectively as compared to 8.6% YoY (2.3 % MoM) and 8.9% YoY (1.1% MoM) respectively in last month.

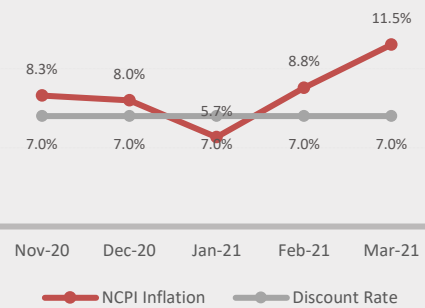
The surge in NCPI is caused mainly due to the increase in the food index which inflated by around 13.06% YoY during Mar-21. Particularly, increase in the prices of wheat flour (17.52% YoY), rice (8.38% YoY), meat (10.05% YoY), chicken (36.36% YoY), fresh milk (15.62% YoY), cooking oil (16.82% YoY), vegetable ghee (19.50% YoY), sugar (24.72% YoY) and condiments (35.12% YoY) contributed to the upsurge of food index. Other than food prices, an increase in the prices of house rent (16.49% YoY), cotton cloth (21.05% YoY), education (0.88% YoY), and readymade food (9.73% YoY) also pushed the NCPI inflation towards the north. On the flip side, prices of fresh vegetables decreased by 29.85% YoY respectively.

The SBP in its recent MPC meeting decided to keep the policy rate unchanged at 7%. However, the SBP believe the recent increase in inflation is from supply side and also the output gap is still estimated to be negative. Given this underlying inflation trajectory, the MPC felt that the existing accommodative stance of monetary policy remained appropriate to support the recovery while keeping inflation expectations well-anchored and maintaining financial stability. As we expect the inflation to average out between 8-9% during FY21. Therefore, our expectation of a rate hike of around 50-100 bps before Jun-21 is actually in line with the policy of SBP of achieving mildly positive real interest rates.

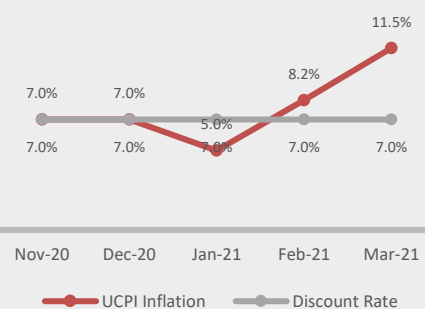
| National   | Weight | Mar-21 | Urban      | Weight | Mar-21 | Rural      | Weight | Mar-21 |
|------------|--------|--------|------------|--------|--------|------------|--------|--------|
| Food       | 35%    | 148    | Food       | 30%    | 148    | Food       | 41%    | 149    |
| Utilities  | 24%    | 152    | Utilities  | 27%    | 152    | Utilities  | 18%    | 151    |
| Clothing   | 9%     | 150    | Clothing   | 8%     | 148    | Clothing   | 9%     | 152    |
| Restaurant | 7%     | 141    | Restaurant | 7%     | 140    | Restaurant | 6%     | 143    |
| Transport  | 6%     | 145    | Transport  | 6%     | 146    | Transport  | 6%     | 143    |
| Misc.      | 5%     | 151    | Education  | 5%     | 146    | Misc.      | 5%     | 152    |
| Furnishing | 4%     | 139    | Misc.      | 5%     | 150    | Furnishing | 4%     | 141    |
| Education  | 4%     | 144    | Furnishing | 4%     | 138    | Health     | 4%     | 151    |
| Health     | 3%     | 151    | Comm.      | 2%     | 109    | Education  | 2%     | 135    |
| Comm.      | 2%     | 108    | Health     | 2%     | 150    | Comm.      | 2%     | 105    |
| Recreation | 2%     | 125    | Recreation | 2%     | 122    | Recreation | 1%     | 131    |
| Tobacco    | 1%     | 144    | Tobacco    | 1%     | 153    | Tobacco    | 1%     | 136    |
| CPI        |        | 147    | CPI        |        | 147    | CPI        |        | 147    |

## Key Statistics

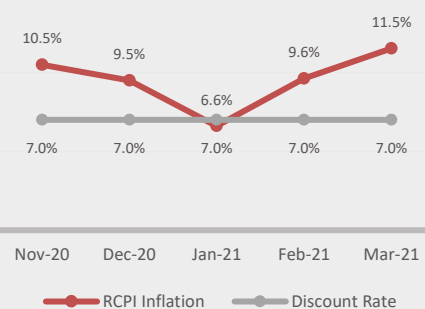
### National CPI vs Discount Rate



### Urban CPI vs Discount Rate



### Rural CPI vs Discount Rate



Sources: ACPL Research, PBS

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|             |                           |             |                             |             |                        |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| <b>TP</b>   | Target Price              | <b>CAGR</b> | Compound Annual Growth Rate | <b>FCF</b>  | Free Cash Flows        |
| <b>FCFE</b> | Free Cash Flows to Equity | <b>FCFF</b> | Free Cash Flows to Firm     | <b>DCF</b>  | Discounted Cash Flows  |
| <b>PE</b>   | Price to Earnings Ratio   | <b>PB</b>   | Price to Book Ratio         | <b>BVPS</b> | Book Value Per Share   |
| <b>EPS</b>  | Earnings Per Share        | <b>DPS</b>  | Dividend Per Share          | <b>ROE</b>  | Return of Equity       |
| <b>ROA</b>  | Return on Assets          | <b>SOTP</b> | Sum of the Parts            | <b>LDCP</b> | Last Day Closing Price |

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- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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|--------------|----------------------------|
| BUY          | Greater than 15%           |
| HOLD         | Between -5% to 15%         |
| SELL         | Less than and equal to -5% |

| Sector Rating | Sector Outlook |
|---------------|----------------|
| Overweight    | Positive       |
| Market Weight | Neutral        |
| Underweight   | Negative       |

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