

Inflation

Economy

CPI Likely to Settle at 5.87% YoY in Jan'21

Inflation (YoY)			
Month	CPI	NFNE*	Food
Sep-19	11.4%	8.6%	15.0%
Oct-19	11.0%	8.1%	14.1%
Nov-19	12.7%	7.9%	17.7%
Dec-19	12.6%	7.7%	17.9%
Jan-20	14.6%	8.3%	21.2%
Feb-20	12.4%	8.6%	17.0%
Mar-20	10.2%	8.2%	14.0%
Apr-20	8.5%	7.2%	11.4%
May-20	8.2%	7.1%	11.8%
Jun-20	8.6%	7.4%	13.8%
Jul-20	9.3%	6.3%	16.2%
Aug-20	8.2%	6.4%	12.2%
Sep-20	9.0%	6.4%	14.7%
Oct-20	8.9%	6.4%	16.6%
Nov-20	8.4%	6.3%	15.1%
Dec-20	8.0%	6.4%	13.3%

Source: PBS, AHL Research

* non-food non-energy

Headline inflation expected at 5.87% YoY in Jan'21

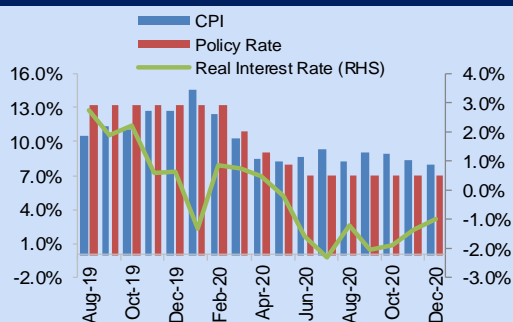
We expect Jan'21 inflation to settle at 5.87% YoY compared to 14.56% in Jan'20 and 7.97% in Dec'20, respectively. This will take the 7MFY21 average inflation to 8.2% compared to 11.6% in 7MFY20. The YoY uptick in CPI will likely be led by Food (7.1 % YoY), Clothing & Footwear (9% YoY), Alcoholic Beverages & Tobacco (5.9% YoY), Housing (3.4% YoY), House Hold Equipment (8% YoY) and Miscellaneous (10.6% YoY).

Exhibit: Consumer Pricing Index Jan'21

	Weight	Jan-21	Jan-20	YoY	Dec-20	MoM
CPI		140.84	133.03	5.87%	140.86	-0.01%
Food	34.6%	144.3	134.8	7.1%	147.7	-2.3%
Alcoholic Beverages, Tobacco	1.0%	144.0	135.9	5.9%	143.6	0.2%
Clothing & Footwear	8.6%	141.5	129.8	9.0%	141.0	0.4%
Housing	23.6%	136.9	132.4	3.4%	134.4	1.9%
Household Equipment	4.1%	136.3	126.3	8.0%	135.4	0.7%
Health	2.8%	148.9	137.4	8.4%	147.6	0.9%
Transport	5.9%	143.7	145.2	-1.0%	138.9	3.5%
Communication	2.2%	107.4	106.9	0.5%	107.5	0.0%
Recreation & Culture	1.6%	124.8	118.9	5.0%	124.0	0.6%
Education	3.8%	143.7	142.0	1.2%	143.7	0.0%
Restaurants & Hotels	6.9%	140.6	128.2	9.7%	138.8	1.3%
Miscellaneous	4.9%	147.6	133.5	10.6%	147.4	0.1%

Source: PBS, AHL Research

CPI, DR & Real Interest Rate

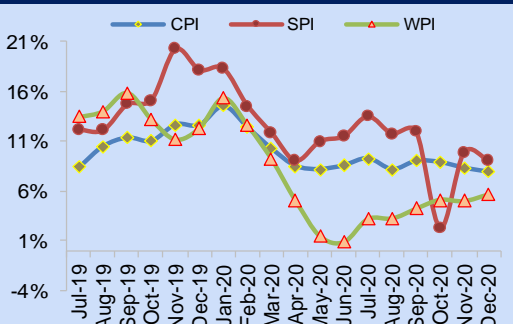


Source: PBS, SBP, AHL Research

Monthly Inflation to remain flat

On a MoM basis, CPI reading is expected to remain unchanged mainly attributable to decline in food index (-2.3% MoM). As per Sensitive Price Index (SPI) data published by the Pakistan Bureau of Statistics (PBS), average prices of Chicken, Potatoes, Tomatoes, Onions, Eggs and Wheat Flour are expected to register a decline of 24%, 32%, 29%, 26%, 11% and 2% MoM, respectively which will keep the food index contained. On the other hand, prices of essential food items like Sugar and Fresh Fruits are expected to increase 10% MoM and 7% MoM, respectively. However, quarterly adjustment in House rent and increase in petroleum products will keep the House index and Transport Index up 1.9% MoM and 3.5% MoM, respectively.

CPI, SPI & WPI (YoY)



Source: PBS, AHL Research

Inflation & Interest Rate Outlook

Inflation has witnessed slowdown recently with supply-side pressures from food showing a decline and core-inflation still under control. However, going forward we expect inflation to remain in check on account of adjustments in electricity price (base tariff hike-which is expected in phased manner), any increase in prices of petroleum products owing to higher international oil prices and surge in prices of perishable and nonperishable food items in the month of Ramadan. We expect average inflation for FY21 to be around 8.2%. On monetary policy front, the SBP kept policy rate unchanged at 7% in its recent (22-Jan-21) Monetary Policy Statement (MPS) as further improvement has been witnessed in the overall domestic recovery. MPC described financial conditions as “appropriately accommodative” with real interest rates slightly negative on a forward looking basis. Taking into consideration expected inflation going forward, we see a rate hike of 50bps in May'21, taking the policy rate to 7.5%.

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Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
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* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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