DARSON SECURITIES (PVT) LTD
TREC HOLDER: PAKISTAN STOCK EXCHANGE

Economy

darsonResearch

Inflation YoY

| Groups	Index Weight	Mar'18 Index	Mar'19E Index	YoY
General	100%	220.25	239.56	8.8%
Food	34.83%	228.39	242.88	6.3%
Beverages and Tobacco	1.41%	316.60	354.79	12.1%
Clothing & Footwear	7.57%	245.80	264.63	7.7%
Housing	29.41%	202.71	226.02	11.5%
Household Equipment	4.21%	234.67	255.76	9.0%
Health	2.19%	221.26	239.01	8.0%
Transport	7.20%	186.98	211.28	13.0%
Communication	3.22%	133.37	143.64	7.7%
Recreation and culture	2.02%	200.38	215.79	7.7%
Education	3.94%	275.17	298.41	8.4%
Restaurants and hotels	1.23%	287.84	303.57	5.5%
Misc. goods and services	2.76%	256.35	280.40	9.4%

Source: PBS, Darson Research

CPI vs NFNE
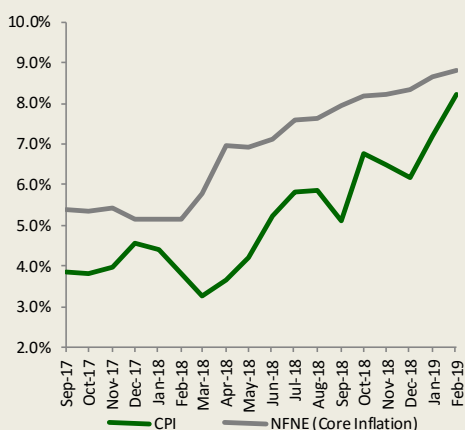
Source: PBS, Darson Research

Policy Rate vs NFNE
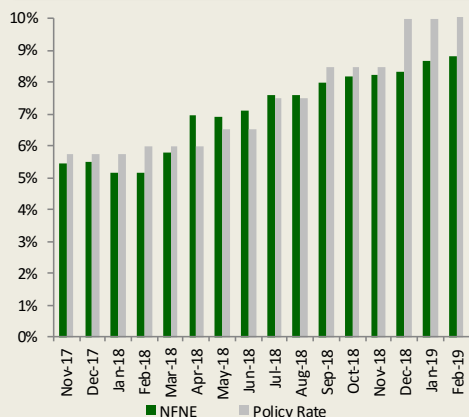
Source: PBS, SBP, Darson Research

Research Analyst – Yousuf Saeed
yousuf.saeed@darsononline.com
+92-21-32467224 Ext: 125

CPI Inflation expected to reach 8.8% in Mar'19

- *We expect Mar'19 inflation to jump to 8.8% YoY as compared to 8.2% YoY in Mar'18. Higher expected CPI inflation is owing to increase in food and transport indexes.*
- *On MoM basis we expect inflation of 0.82% as compared to 0.64% in Feb'19 while Core inflation as measured by non food and non energy (NFNE), is likely to arrive at 8.5% YoY in Mar'19 as compared to 8.7% YoY in Mar'18.*
- *In upcoming monetary policy we expect SBP to further tighten the policy rate by increasing 50-75bps taking the policy rate to 10.75%-11%.*

Mar'19 Inflation likely to reach at 8.8% YoY
We estimate CPI inflation for the month of Mar'19 to reach at 8.8% YoY as compared to 8.2% in Feb'19. Mar'19 higher inflation is expected due to increase in food and petroleum product prices.

Food index is likely to go up by 6.34% YoY in Mar'19. According to WPI data released by PBS major price uptick was witnessed in onion, tomatoes, meat and pulses prices, accreted by 296%, 17.62%, 13.27% and 20% respectively. Hike in prices of petroleum product, electricity and gas tariff are likely to contribute towards higher inflation in Mar'19.

On MoM basis we expect inflation of 0.82% in Mar'19 as compared to 0.64% in Feb'19 mainly due to increase in food index which is expected to go up by 1.37% in current month. On monthly basis major food price increase is witnessed in onion (41%), tomatoes (13.43) and chicken (13%) while major price decline witnessed in eggs and potatoes, down by 7.11% and 4.6% respectively.

Core inflation (NFNE) expected to arrive at 8.5% YoY in Mar'19
Core inflation, as measured by non food and non energy (NFNE), is likely to arrive at 8.5% YoY in Mar'19 as compared to 8.8% YoY in Feb'19.

Inflation and Monetary Outlook
Lagged impact of PKR devaluation and anticipated increase in energy prices are likely to fuel up inflation going forward. We revise our FY19 inflation forecast from 7% to 7.3% on the back of higher food prices.

In the upcoming monetary policy we expect SBP to increase the policy rate by further 50-75bps to 10.75%-11% to maintain the historical buffer of around 2% over real interest rate, deteriorating fiscal position and rising inflationary pressure.

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Important disclosures

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Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices.

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.)

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Darson Research
research@darsononline.com
+92-21-32467224

Karachi Office:
Room # 808, Business & Finance Centre,
I.I. Chundrigar Road, Karachi
UAN: 92-21 111 900 400
Fax: 92-21 32471088

Lahore Office:
102, 1st Floor, Lahore Stock Exchange,
Aiwan-e-Iqbal Road, Lahore
Tel: 92-42 36366655, 36317111
Fax: 92-42 36314293

Email: info@darsononline.com
Website: www.darsononline.com