

ECONOMY

Inflation Preview

Economy: Inflation to drop sharply in May due to lower food prices

A significant drop in food prices, attributed to improved domestic supplies, is expected to ease headline inflation for May-24 to 14.0% YoY from 17.4% YoY last month. The drop in wheat prices, owing to a bumper wheat crop, explains the majority of the fall in food prices. Additionally, easing in Housing & Utilities, and Transportation segments, amid high base effect, would further support the downward trajectory.

We expect inflation to continue its descent to a lower plane in FY25, driven by improved domestic supplies and a stable exchange rate. However, revenue measures in the upcoming budget, increase in energy prices, and any currency slippage pose upside risk to our call.

Food & Beverages segment to decline the most

The Food & Beverages segment is expected to exhibit a decrease of 4.2% MoM in May-24 compared to a drop of 2.4% MoM last month, due to a reduction in the prices of both non-perishable and perishable items, driven by an improved domestic supply. The drop in prices of staple food like wheat (-23% MoM) contributed the majority of the decline in the food segment, thanks to an improved domestic supply on the back of a bumper crop.

Moreover, prices of perishable food items dropped during the month, including onions (-37.1% MoM) and tomatoes (-17.1% MoM). Prices of poultry-related items such as chicken (-26.4% MoM) and eggs (-6.1% MoM) declined due to a weather-related contraction in demand and lower poultry feed prices. Meanwhile, dairy product prices experienced a slight uptick due to constrained supply and increased demand.

Lower FCA to ease Housing & Utilities Index

The Housing segment is set to decelerate with MoM deflation estimated at 1.4% in May-24 versus a negative reading of 0.4% MoM last month. The decrease is attributed to a notable decline in FCA increase for May-24 to PKR 2.84/kWh from PKR 4.92/kWh last month. Moreover, a drop in construction material and liquid hydrocarbon prices has provided further respite to the index. Notably, average cement and LPG prices declined by 1.3% MoM and 10.6% MoM in May-24.

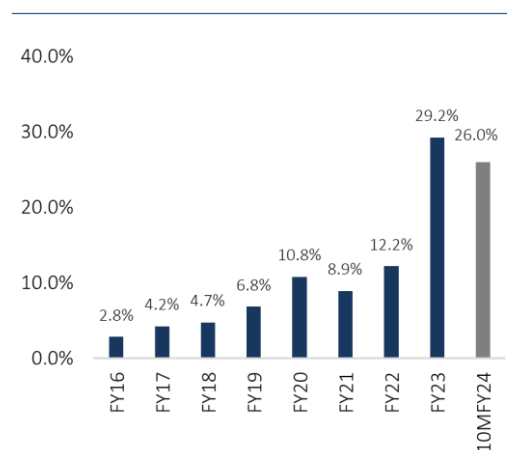
Transportation costs to drop slightly due to lower fuel prices

Transportation segment is expected to decline by 0.1% MoM in May-24 against a positive reading of 0.2% MoM last month. The deceleration mainly comes from lower motor fuel prices, which decreased by 0.2% MoM in May-24. Notably, average HSD and petrol prices registered at PKR 283.0/liter and PKR 289.6/liter in May-24.

Outlook – Budget and energy tariff rationalization to define inflation trajectory

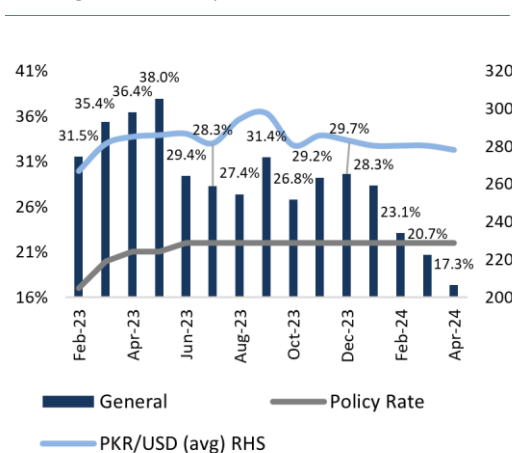
We expect inflation to average at 23.8% for FY24, with further transition towards a lower plane in FY25 on the back of high base effect and improved supply. However, (i) new tax measures to bridge the fiscal gap in line with the IMF targets, (ii) rationalization of energy prices, (iii) lower buffer to weather commodity shock, and (iv) higher external financing, exerting pressure on the PKR/USD, are key upside risks to our projections.

Inflation expected to average 23.8% in FY24



Source: PBS, Akseer Research

Exchange rate stability eases CPI



Source: SBP, PBS, Akseer Research

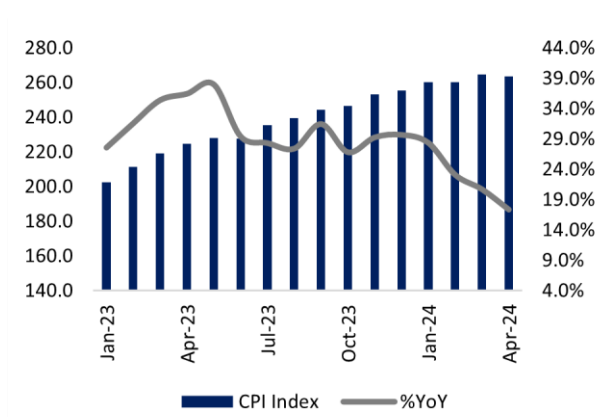
May-24 MoM National CPI Inflation Breakdown

Segment	Weight in CPI	% MoM	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.6%	-4.2%	-1.4%
-- Non-Perishable	29.6%		
-- Perishable	5.0%		
Housing, Water, Electricity, Gas & Fuel	23.6%	-1.4%	-0.3%
Clothing & Footwear	8.6%	1.8%	0.2%
Transport	5.9%	-0.1%	0.0%
Restaurants & Hotels	6.9%	2.4%	0.2%
Others	20.4%	0.5%	0.1%
MoM change in CPI			-1.4%
YoY Change in CPI			14.0%

Source: PBS, Akseer Research

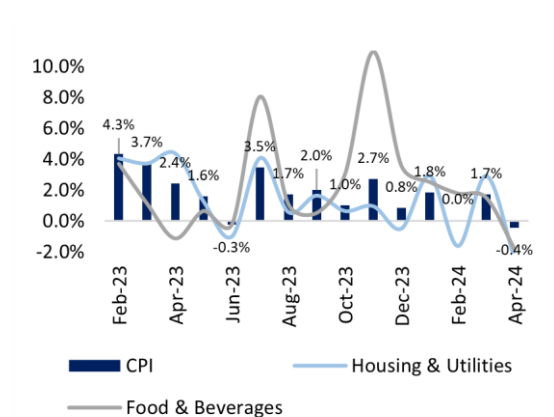
Muhammad Awais Ashraf, CFA
awais.ashraf@akseerresearch.com

Inflation to drop as high base effect comes into play



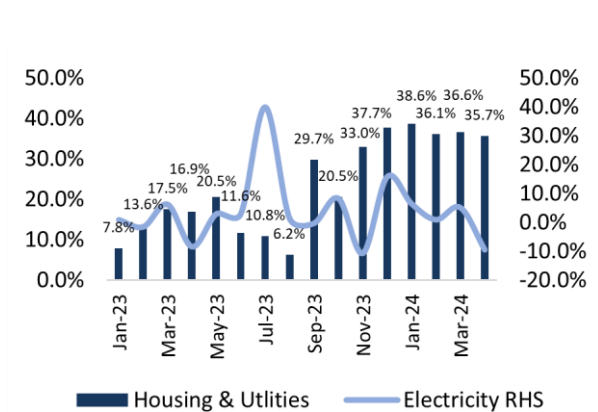
Source: PBS, Akseer Research

Improved domestic supplies to drop food prices



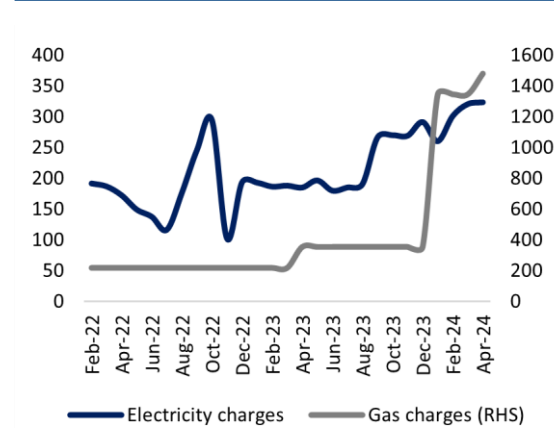
Source: PBS, Akseer Research

Revision in energy tariffs to keep Housing & Utilities elevated



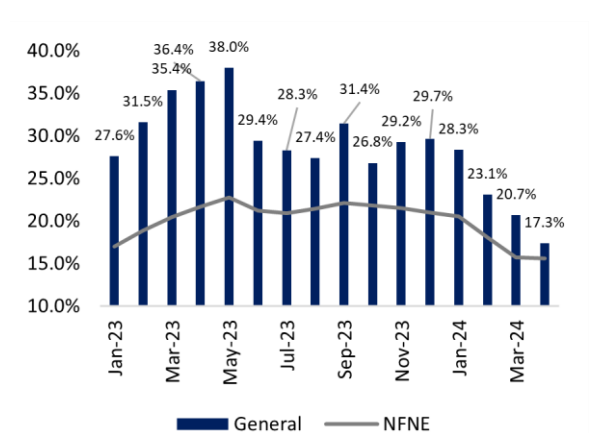
Source: PBS, Akseer Research

IMF warranted energy price adjustments to pressurise CPI



Source: PBS, Akseer Research

Core inflation represented 90% of headline inflation during Apr'24



Source: PBS, Akseer Research

Slowdown in M2 to ease inflationary pressures



Source: SBP, PBS, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alphacapital.com.pk