

## Pakistan Economy

### Feb'24 CPI likely to clock in at 23.41%

Headline inflation is expected to clock in at ~23.4% in Feb'24 compared to ~21.5% in SPLY & ~28.3% in preceding month. On MoM basis, inflation is likely to inch up by ~0.3%. The slowdown in monthly inflation which average ~1.9% in 7MFY24, is mainly attributable to ~1.5% MoM decline in food index, primarily led by sharp decline in egg & vegetable prices. However, higher housing index could spoil the mood as FCA and ~10% MoM increase in gas index are poised to elevate the housing index by ~2% MoM. This will take average CPI for 8MFY24 to ~28.1% compared to ~26.1% in SPLY.

Within the SPI basket, items that recorded significant increase in prices during the period under review are as follows, Electricity charges (5.1%↑), Fresh Fruits (4.5%↑), Motor Fuel (1.8%↑), Pulse Moong (1.7%↑) & Solid Fuel (1.3%↑). On the flip side, prices of following items eased off during the month, Eggs (↓34.0%), Tomatoes (↓30.0%), Onions (↓11.7%), Potatoes (↓3.6%) & Tea (↓2.4%).

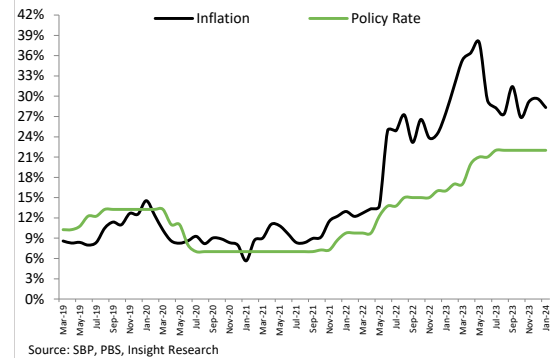
Headline inflation in Feb'24 will finally witness a notable decline on the back of the high base effect. We believe that this trend will continue in the coming months, as the headline CPI is expected to fall below 20% mark in the upcoming months as the base effect becomes more pronounced. As per our estimates, headline inflation is likely to average ~25.2% in FY24 compared to ~29.0% in FY23. However, currency devaluation and hike in food basket amid lapses in administrative monitoring pose an upside risk to our inflation estimates. Based on the 12-month forward CPI projections and the current policy rate, real interest rates are currently in a positive range. On spot basis, at the current policy rate, real interest rates are projected to enter positive territory by Mar'24, with the CPI expected to reach ~21%. Hence, we anticipate the central bank to adopt a cautious strategy and commence monetary easing post Mar'24.

#### Inflation Feb'24

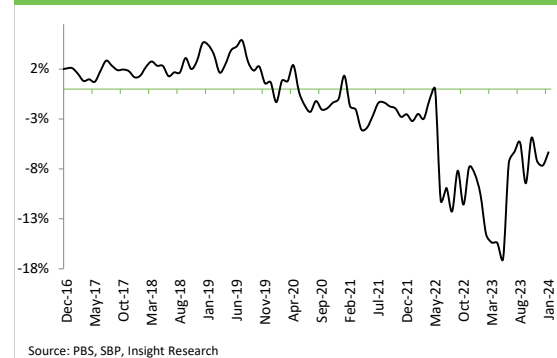
Item and Specification	Weight	Feb-24	Feb-23	YoY Δ	Jan-24	MoM Δ
<b>General</b>	<b>100.0%</b>	<b>260.76</b>	<b>211.29</b>	<b>23.4%</b>	<b>259.94</b>	<b>0.3%</b>
Food	34.6%	285.4	241.3	18.3%	289.8	-1.5%
Alcoholic Bev & Tobacco	1.0%	365.5	219.4	66.6%	365.1	0.1%
Clothing and footwear	8.6%	224.5	186.7	20.3%	223.3	0.6%
Housing and other	23.6%	241.3	176.8	36.5%	236.4	2.1%
Furnishing and household	4.1%	266.8	209.5	27.3%	261.8	1.9%
Health	2.8%	237.4	197.3	20.4%	234.6	1.2%
Transport	5.9%	311.2	271.2	14.7%	305.5	1.9%
Communication	2.2%	134.7	114.4	17.8%	134.7	0.0%
Recreation and culture	1.6%	258.4	199.7	29.4%	256.4	0.8%
Education	3.8%	186.5	164.8	13.1%	186.2	0.2%
Restaurants and hotels	6.9%	266.5	215.8	23.5%	263.4	1.2%
Misc. goods and services	4.9%	276.7	221.4	25.0%	272.5	1.5%

Source : PBS, Insight Research

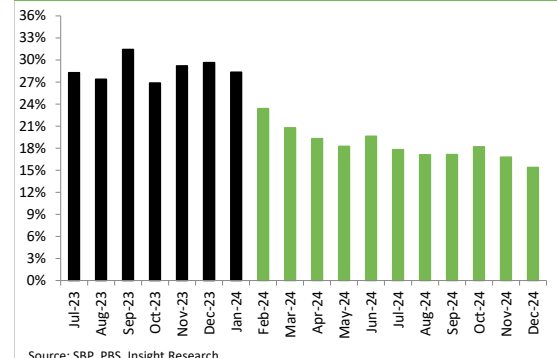
Economy: Policy rate vs. Inflation



Economy: Real Interest rate (%)



Economy: Inflation Expectation (YoY)



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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

### Frequently Used Acronyms

<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

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