

Pakistan Economy

Oct'24 CPI likely to clock in at 7.2%

Headline inflation is expected to clock in at ~7.2% in Oct'24, compared to 6.9% in preceding month and 26.9% in SPLY. On MoM basis, CPI is likely to inch up by ~1.4%, primarily led by housing and food basket. The increase in housing index is primarily due to end of subsidy for consumers using up to 200 units, which had shielded them from base tariff hike in Jul'24. This will likely to push housing index by ~3.5% MoM. Food index is likely to inch up by ~1.3% MoM, led by increase in prices of wheat, chicken, tomatoes, etc. On the flip side, some respite is expected from transport index, which is estimated to fell by ~1.2% MoM, amid decline in motor fuel price.

Within the SPI basket, items that recorded significant increase in prices during the period are as follows, Tomatoes (24.5%↑), Pulse moong (8.5%↑), Pulse gram (7.2%↑), Wheat flour (6.9%↑) & Chicken (5.6%↑). On the flip side, prices of following items eased off during the month, Fresh fruits (8.0%↓), Sugar (5.0%↓), Pulse mash (4.6%↓), Motor fuel (3.0%↓) & Potatoes (1.6%↓).

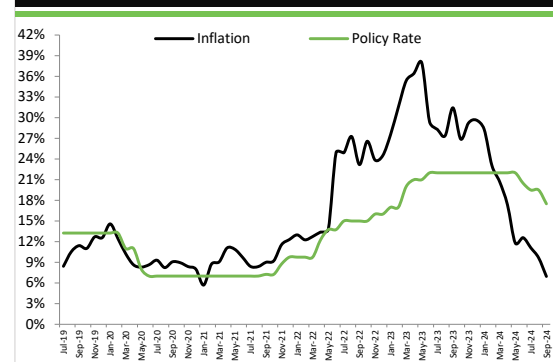
Given the continued softening in headline inflation and expectation of further decline, we believe that central bank will reduce benchmark rate by further 200bps in upcoming MPC scheduled on 4th Nov'24. We believe that headline inflation will further decline, reaching its lowest point between Jan'25-Mar'25 within a range of 4%-5%, before rising again post 1QCY25 due to the low base effect. We estimate headline inflation to average ~7.5% in FY25 and expect the policy rate to drop to 14.0% by the end of CY25. The improvement in the external account and the easing of commodity prices have led to a faster and greater than expected slowdown in inflation. We opine that the approval of the IMF's US\$7bn program and contained external accounts provide policymakers some room to steer the economy back towards a sustainable growth path. However, prudent fiscal management and the gradual implementation of reforms are necessary ingredient of long-term economic growth.

Inflation Oct'24

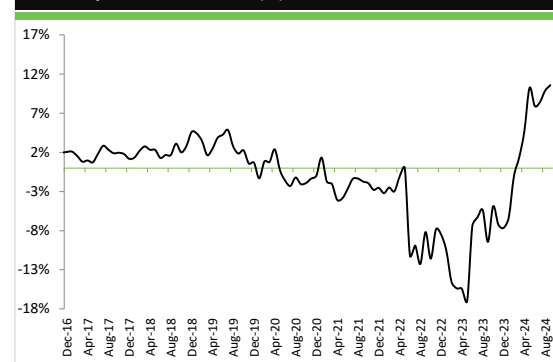
Item and Specification	Weight	Oct-24	Oct-23	YoY Δ	Sep-24	MoM Δ
General	100.0%	264.59	246.71	7.2%	260.98	1.4%
Food	34.6%	280.5	280.3	0.1%	276.8	1.3%
Alcoholic Bev & Tobacco	1.0%	385.2	362.2	6.3%	385.2	0.0%
Clothing and footwear	8.6%	246.9	215.3	14.7%	246.1	0.3%
Housing and other	23.6%	243.8	200.7	21.5%	235.5	3.5%
Furnishing and household	4.1%	270.2	255.8	5.6%	269.4	0.3%
Health	2.8%	255.5	228.4	11.9%	252.7	1.1%
Transport	5.9%	300.7	322.3	-6.7%	304.3	-1.2%
Communication	2.2%	134.8	120.1	12.3%	134.8	0.0%
Recreation and culture	1.6%	276.5	255.8	8.1%	273.8	1.0%
Education	3.8%	203.5	183.7	10.7%	201.8	0.8%
Restaurants and hotels	6.9%	278.5	256.5	8.6%	275.5	1.1%
Misc. goods and services	4.9%	296.9	263.0	12.9%	295.0	0.7%

Source : PBS, Insight Research

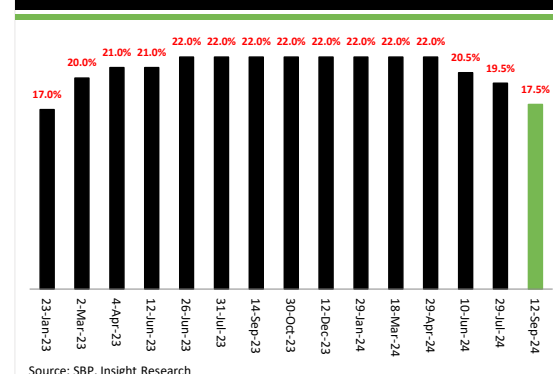
Economy: Policy rate vs. Inflation



Economy: Real Interest rate (%)



Recent MPC decisions



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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

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

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