Pakistan Economy

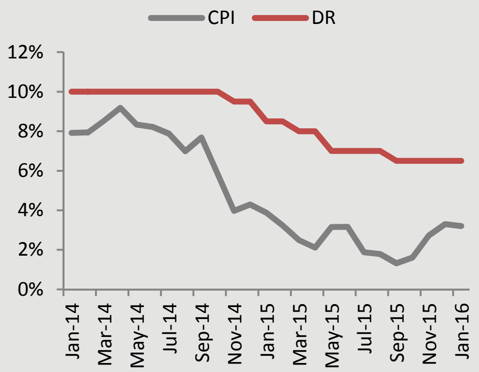
Research Entity Number: REK-09

Feb'16 CPI expected at 4.1%YoY

Friday February 26, 2016

Select Economic Indicators		
CPI Inflation	Jan-16 YoY	3.3%
CAD	7MFY16	USD(2.0bn)
Trade Balance	7MFY16	USD(10.8bn)
Remittances	7MFY16	USD11.2bn
Reserves	12-Feb-16	USD20.4bn
6 Month KIBOR	25-Feb-16	6.4%
10 Year PKRV	25-Feb-16	8.7%
Policy Rate		6.0%

DR vs. CPI



Source: SBP, BMA Research

We expect Feb'16 CPI to clock in at 4.1%YoY compared to 3.3%YoY and 3.2%YoY in Jan'16 and Feb'15, respectively. On a sequential basis, inflationary pressure is expected to recede by 0.2%MoM compared to 7MFY16 average of +0.2%MoM. The muted trend in CPI can be attributed to i) continued deflation in food basket by ~0.4%MoM (weight: 34.8%) and ii) an expected ~3%MoM attrition in transport basket. During Feb-16, 6%MoM-7%MoM downward revision in petrol and diesel prices will likely form the basis for a downtick in transport basket. Cumulatively, average CPI in 8MFY16 will remain contained at 2.5%YoY compared to 5.5%YoY in the corresponding period last year. Sharp decline in the price of global commodities and high base factor remained the major reasons behind soft inflationary pressure during 8MFY16. For full year FY16, we foresee CPI to remain in the vicinity of 2.8%-3.0%. We expect State Bank of Pakistan (SBP) to keep the interest rate unchanged at current level (policy rate: 6.0%) throughout CY16 where we expect CPI to average at 3.5%-4.0%. Rebound in oil prices leading to probable deterioration in external account and uptick in CPI will remain a risk to our base case policy rate assumption of 6.0% in CY16. Given the possible conclusion of monetary easing phase in Pakistan, the upcoming CPI number will likely remain a non-event for the market. We continue to recommend stocks with attractive valuations and strong fundamental outlook with PSO, KOHC, FCCL, DGKC, UBL, HBL and OGDC being our top picks.

Feb'16 CPI expected at 4.1%YoY: We expect inflation in the country to inch above 4.0% mark for the first time in past 13 months to clock in at 4.1% in Feb'16 compared to Jan'16 and 7MFY16 average of 3.3% and 2.3%, respectively. However, MoM trend in CPI will remain muted at -0.2%MoM compared to +0.2%MoM in both Jan'16 and 7MFY16 average. The dull trend in CPI can be attributed to a 0.4%MoM and 3%MoM decline in food and transport baskets (cumulative weight: 42%), respectively. The notable decline in transport basket will likely be due to 6%-7% downtick in petrol and diesel prices in the country. Thus, the uptick in CPI change will merely be a factor of low base affect (Feb'15 MoM CPI: -0.9%) rather than any material uptick in prices. Cumulatively, CPI during 8MFY16 is expected to average at 2.5%YoY compared to 5.5%YoY in the corresponding period last year.

2HFY16 average CPI to remain contained at 3.5%: Given soft trend in global commodity prices and relatively stable exchange rate, we foresee inflationary pressure to remain muted in 2HFY16 and average at 3.5%. We expect average oil price in 2HFY16 to stay lower by ~33% compared to 1HFY16 average oil price. At the same time, we expect CPI to average at 3.5%-4.0% in full year CY16. Thus, with real interest rate expected to remain above 200bps, we expect SBP to maintain interest rate at 6.0% in CY16. Rebound in oil prices leading to possible weakness in current account and uptick in CPI will remain key downside risk to our base case policy rate assumption of 6.0% in CY16.

Investment Perspective: Given broad based expectations of a status quo in Mar'16 MPS, we believe the upcoming CPI number will fail to create any excitement in the market. In near term, continued foreign selling and volatile domestic politics will continue to contain any rally in the market while absence of any major trigger will likely keep the sentiment dampened. The long term direction of both the economy and market will remain heavily dependent on the smooth implementation of the CPEC program. Based on attractive valuations and strong fundamentals, we maintain our long term conviction on PSO, KOHC, FCCL, DGKC, UBL, HBL and OGDC.

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Al Shaheer Corporation Limited (ASC)

1HFY16 EPS expected at PKR1.42, up 52%YoY

Research Entity Number: REK-09

ASC - BUY

Target Price: PKR 104

Current Price: PKR 45

ASC Performance

	1M	3M	Todate
Absolute %	-15%	-34%	-32%
Relative to KSE %	-15%	-26%	-25%

Bloomberg	ASC.PA
Reuters	ASC.KA
MCAP (USD mn)	53
12M ADT (USD mn)	1.2
Shares Outstanding (mn)	124

Source: PSX, BMA Research

Al Shaheer Corporation Limited (ASC): 1HFY16 EPS projected at PKR1.42

The Board of Directors of Al Shaheer Corporation Limited (ASC) is expected to meet on 29th Feb'16 to consider financial results for 1HFY16. We expect the company to post earnings of PKR175mn (EPS: PKR1.42) in 1HFY16 compared to PKR115mn (EPS: PKR0.93) in 1HFY15, up 52%YoY. The growth in earnings is attributable to an expected 64%YoY increase in sales revenue owing to the company's increasing retail footprint and new export as well as B2B clients. On sequential basis, 2QFY16 earnings are estimated at PKR99mn (EPS: PKR0.80) compared to PKR76mn (EPS: PKR0.61) during 1QFY16. The 30%QoQ jump in earnings witnessed during the period can be attributed to recovery in gross margins after 1QFY16. Gross margins were lower during 1QFY16 in tandem with the company's business model whereby livestock (raw material) costs are higher during the Ramadan and Eid-ul-Adha seasons. We have a favorable stance on the scrip with our blended method TP of PKR103.5/sh. We believe valuations have further opened up since the underperformance of the scrip by ~21%CYTD against KSE100. At last closing, the scrip was trading at undemanding (compared to Consumer sector) FY16F and FY17F P/E multiples of 12.4x and 8.1x, respectively.

Financial Summary

PKRmn	2QFY16	1QFY16	▲	1HFY16	1HFY15	▲
Sales	1,772	1,935	-8%	3,707	2,267	64%
GP	254	196	30%	450	360	25%
PBT	123	82	51%	205	97	111%
Tax	24	6	332%	30	(18)	-264%
PAT	99	76	30%	175	115	52%
EPS	0.80	0.61	30%	1.42	0.93	52%

Source: PSX, BMA Research, Company Reports

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Rating definitions

Buy	>20% upside potential
Accumulate	>=5% to <=20% upside potential
Hold	<5% to >5% potential
Reduce	<=-5% to >=-20% downside potential
Sell	<-20% downside potential

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

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