

PAKISTAN MARKET

MARKET VISTA

Oct'21 Inflation and HUBC preview

- Oct'21 inflation is expected at 8.94%YoY vs. 8.98%YoY in the previous month whereas monthly inflation is likely to stand at 1.66% - recording 4th consecutive positive reading on a monthly basis.
- In our base case, we have revised up our FY22 oil assumption to US\$70/bbl and our monthly food inflation forecast to 93bps from 68bps previously, pushing up our FY22 forecast to 9.5%YoY from 8.6%YoY previously. However, our inflation outlook is subject to great uncertainty given lack of prints on the IMF program.
- We still believe real interest rates likely to remain negative in the near term, with the Central Bank putting more weight on External Account. In this regard, we expect monetary course to continue despite unlocking of dollar flows easing pressure on rupee with authorities targeting a more sustainable External Account going forward. We expect a 50bps hike in interest rates in the upcoming monetary policy meeting in Nov'21, taking policy rate to 7.75% by CY21-end.
- Apart from inflation today's reading includes 1QFY22 earnings preview of HUBC. We forecast the company to post a consolidated NPAT of 1QFY22 of PKR8.6bn (EPS: PkR6.6) as opposed to NPAT of PKR8.1bn (EPS: PKR6.3) during 1QFY21. Along with the result, we expect the company to announce an interim cash dividend of PkR2.5/sh.

Oct'21 CPI to be recorded at 8.94%YoY: Oct'21 inflation is expected at 8.94%YoY vs. 8.98%YoY in the previous month whereas monthly inflation is likely to stand at 1.66% - recording 4th consecutive positive reading on a monthly basis. The sequential uptick in inflation is governed by a persistent increase in food inflation (+1.66%MoM) - driven by stronger wheat prices, electricity tariff adjustments (+8.5%MoM), and lastly, upward revision in end consumer petroleum prices (+4.6%MoM). The increase in electricity tariff is attributable to recently notified Quarterly Tariff Adjustment (QTA) of PkR1.65/unit for 4QFY20/1Q-3QFY21 and Fuel price adjustment of PkR1.95/unit for Aug'21. Urban and Rural inflation is expected to clock in at 9.66%YoY and 7.89%YoY during Oct'21 whereas 4MFY22 inflation shall stand at 8.7%YoY compared to 8.9%YoY in the same period last year.

FY22 inflation forecast at 9.5%YoY—lack of prints on IMF clouding outlook: The widening statistical differentials between WPI and CPI suggests price increases are yet to be passed on to end consumers, in our view, which together with second round impacts of steep devaluation and petroleum price hikes could toss inflation into double digits in the near term. In our base case, we have revised up our FY22 oil assumption to US\$70/bbl and our monthly food inflation forecast to 93bps from 68bps previously, pushing up our FY22 forecast to 9.5%YoY from 8.6%YoY previously. However, our inflation outlook is subject to great uncertainty given lack of prints on the IMF program which potentially could result in an upward revision in our forecasts. We still believe real interest rates likely to remain negative in the near term, with the Central Bank putting more weight on External Account. In this regard, we expect monetary course to persist despite recent Saudi-flows and potential Sukuk issuance of US\$0.5-1bn, and even most likely IMF flows easing pressure on rupee, with Central Bank targeting to put External Account on a sustainable level. Hence, we expect a 50bps hike in interest rates in the upcoming monetary policy meeting in Nov'21.

HUBCO – Earnings expected at PkR6.6/sh: The board of directors of Hub Power Company Limited (HUBC) is scheduled to meet today to announce its 1QFY22 financial results. We forecast the company to post a consolidated NPAT of 1QFY22 of PKR8.6bn (EPS: PkR6.6) as opposed to NPAT of PKR8.1bn (EPS: PKR6.3) during 1QFY21. Along with the result, we expect the company to announce an interim cash dividend of PkR2.5/sh. During 1QFY22, sales are expected to increase by 51%YoY on the back of higher dispatches. The load factors of individual plants improved by 30% - 55% amid higher demand from NTDC whereas the PkR also depreciated by ~5.8% during the quarter. A fall in finance cost (by 10%YoY) and increase in share of profits from subsidiary (up 15%YoY) also supported the earnings. We have a buy call on the scrip with a TP of 168/sh.

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HUBC: Income Statement

| (PkRmn) | 1QFY22F | 1QFY21A | YoY | 4QFY21A | QoQ |
|--------------|---------|---------|--------|---------|--------|
| Sales | 23,784 | 15,794 | 51.0% | 15,825 | 50.0% |
| Gross Profit | 8,758 | 8,139 | 8.0% | 8,852 | -1.0% |
| Net Profit | 8,550 | 8,144 | 5.0% | 8,770 | -3.0% |
| EPS (PkR) | 6.59 | 6.28 | 5.0% | 6.76 | -3.0% |
| DPS (PkR) | 2.5 | 4.0 | -38.0% | 5.0 | -50.0% |

Source: Company Reports & AKD Research



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Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

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

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| | |
|---------|---|
| Buy | > 14.5% expected total return (Rf: 8.5% + Rp: 6%) |
| Neutral | > 8.5% to < 14.5% expected total return |
| Sell | < 8.5% expected total return (Rf: 8.5%) |



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