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Today's Daily

Autos: July numbers a blessed dawn for the Auto OEMs

July'17 total automotive industry sales grew to 20,369 units (+25.9%MoM/+17.9%YoY) making sure 7M CY17 total industry offtake gallops to 140,703 units (+13%YoY). Major constituents of total industry sales moved +19.8%/+12.1%/+8.2%/+15.2%YoY for Passenger Cars/LCV & Pick-ups/Trucks/Tractors while buses lagged (-12.6%YoY). Cumulative 7M CY17 total industry sales grew 13%YoY with LCV & Pickups/Trucks/Passenger car segments contributed +15.4/24.3/+12.3%YoY. Over the period 1000CC/1300cc plus segment grew +45.6/+8.0%YoY and the 800cc and below inched up by +3.0%YoY lacking a new model jump witnessed in the other segments. On the production front, OEMs cemented their capacity factors over 7M CY17 with PSMC/INDU/HCAR producing at 67/112/83% of annual double shift capacity (vs. 64/119/55% during 7M CY16). Citing catalysts for strong demand growth and mechanisms for controlling costs (particularly from FX swings) we continue to advocate building positions in INDU. We have an FCFE based TP of PkR2,068/sh, where the stock trades at FY18/19F P/E of 9.85/9.48x, accompanied by FY18/19F D/Y 6/6%.

KSE100 - Index

Current 45,634.02
Previous 45,998.81
Chg. -0.79%

Mkt Cap. (PkRbn/US\$bn)

Current 9,478 / 89.93
Previous 9,543 / 90.55
Chg. -0.68%

Daily Turnover (mn)

Current 175.27
Previous 213.72
Chg. -18.0%

Value Traded (PkRmn/US\$m)

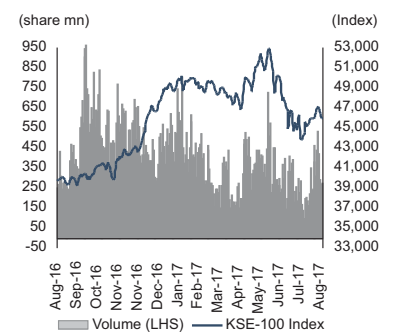
Current 9,350 / 88.72
Previous 13,763 / 130.59
Chg. -32.1%

AKD Daily

Friday, Aug 11, 2017

News and Views

- As per recent data released by PBS, country's trade deficit widened by 56%YoY to US\$3.2bn in Jul'18, where imports went up 37%YoY to US\$4.84bn, while exports continued to recover by registering 10.5%YoY growth to stand at US\$1.63bn.
- As per recent data released by SBP, workers' remittance inflows during Jul'18 grew by 16.2%YoY to US\$1.54bn (though down 16%MoM). Remittances from US, UK and Saudi Arabia recorded increase of 14%, 38%YoY and 8%YoY, respectively.
- Pakistan's foreign exchange reserves fell US\$283mn to US\$20.0bn during the week ended Aug 04'17, where SBP reserves declined US\$299mn to stand at US\$14.399bn, while commercial banks reserves increased to US\$5.584bn.



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INDU: July sales were up by +28.3%MoM, yet softened -15.2%YoY mainly due to Corolla sales resting at 3,875 units +28.8%MoM/-4.1%YoY for the three year old variant. The booking of a newer facelift option (starting Aug'17) is a dampener for demand through to 1HFY17, where customers tend to hold back on ordering the current variant. This can be evidenced from the launch of the previous variant as well, where demand for the previous offering reached a crest approximately 1Q before the launch on Aug'14. Additionally for recent variant launches witnessed weak sales in the initial months of launch, a normal occurrence, with production hurdles and softer delivery targets expected to prolong the order book for the facelift as well. Hilux/Fortuner SUV sales continued to ascend growing +34.8/+13.0%MoM and -64.2%YoY/+2.21xYoY, where both variants have pushed INDU's share in the 4x4 and LCV market to 28% in 7MCY17 vs. 26% in 7MCY16.

PSMC: PSMC sales jumped along with the industry players (+16.1%MoM/+14.1%YoY) underpinned by demand pickup for nearly all variants with +7.1%/+16.3%/+6.8%/+31.3%/+44.9%MoM increase in Cultus/Wagon R/Mehran/Ravi. Relatively nascent offerings of the Wagon R/Cultus continued growing +58.8/18.4%YoY beating Mehran/Swift sales of +1.8/-24.6%YoY.

HCAR: Sales growth showed an upsurge of +57.5%MoM/+134.2%YoY. The Civic is seen to continue driving sales as demand accelerates from positive reviews and consumer satisfaction. For the recently launched BR-V, July'17 sales were at 690 units for the month below the average for the last quarter (720 units sold monthly), its first quarter of full sales. Weaker monthly sales going forward may indicate a relatively soft reception for the variant, highlighting the limitations of brand power and competitive pricing relative to features and design in the domestic passenger car segment.



Investment Perspective: Auto sector has declined 13.7% FYTD where continued fears of currency devaluation, lower consumer confidence (165.43 for July'17, -1.7%MoM) and a general deterioration in the political environment prolonging 'risk-off' sentiment. That said, we believe the sell-off has reached a bottom where valuations are looking buoyant. Retaining our bullish thesis on INDU citing broad based composite of growth from healthy order books (delivery in 4-5months) of the recently launched Fortuner & Revo, and the Corolla facelift order book commencing from August'17, reviving demand for the OEMs flagship offering (contributes 82.7% to gross sales). From the costs side, sustained margins from increased prices (Pkr 30,000-160,000 on Corolla variants) and low sensitivity to Pkr/US\$ depreciation (every 5% move in the currency lowers NPAT by ~1%). We have a FCFE based TP of Pkr2,068/sh, where the stock trades at FY18/19F P/E of 9.85/9.48x, accompanied by FY18/19F D/Y 6/6%.

Jul'17: Auto Industry Sales

| (Units) | Jul-17 | Jun-17 | MoM | YoY | 7MCY17 | 7MCY16 | YoY |
|---------------------------|--------|--------|--------|--------|---------|---------|--------|
| Ind. Perform. | | | | | | | |
| Total Industry Sales | 20,369 | 16,184 | 25.9% | 17.9% | 140,703 | 124,513 | 13.0% |
| Cars | 16,338 | 12,870 | 26.9% | 19.8% | 116,218 | 103,468 | 12.3% |
| LCVs & Pickups | 3,239 | 2,592 | 25.0% | 12.1% | 18,945 | 16,423 | 15.4% |
| Trucks | 702 | 645 | 8.8% | 8.2% | 4,897 | 3,939 | 24.3% |
| Buses | 90 | 77 | 16.9% | -12.6% | 643 | 683 | -5.9% |
| Tractors | 4,619 | 4,446 | 3.9% | 15.2% | 39,478 | 23,684 | 66.7% |
| Company Wise | | | | | | | |
| PSMC | 10,448 | 8,999 | 16.1% | 14.1% | 72,037 | 64,936 | 10.9% |
| INDU | 4,618 | 3,599 | 28.3% | -15.2% | 36,023 | 37,674 | -4.4% |
| HCAR | 4,511 | 2,864 | 57.5% | 134.2% | 27,103 | 17,237 | 57.2% |
| MTL | 3,101 | 2,900 | 6.9% | 6.8% | 25,351 | 14,026 | 80.7% |
| AGTL | 1,505 | 1,516 | -0.7% | 36.6% | 13,867 | 9,345 | 48.4% |
| Segment-Wise Sales | | | | | | | |
| 1300cc & above | 7,984 | 5,491 | 45.4% | 25.7% | 57,457 | 53,201 | 8.0% |
| 1000cc | 3,830 | 3,433 | 11.6% | 35.9% | 23,839 | 16,371 | 45.6% |
| 800cc & below | 4,524 | 3,946 | 14.6% | 1.2% | 34,922 | 33,896 | 3.0% |
| Passenger Cars | 16,338 | 12,870 | 26.9% | 19.8% | 116,218 | 103,468 | 12.3% |
| PSMC | | | | | | | |
| Swift | 288 | 374 | -23.0% | -24.6% | 2,420 | 2,515 | -3.8% |
| Cultus | 1,894 | 1,768 | 7.1% | 18.4% | 11,797 | 9,630 | 22.5% |
| Wagon R | 1,936 | 1,665 | 16.3% | 58.8% | 12,042 | 6,737 | 78.7% |
| Mehran | 2,863 | 2,681 | 6.8% | 1.8% | 23,629 | 22,076 | 7.0% |
| Bolan | 1,661 | 1,265 | 31.3% | 0.3% | 11,293 | 11,820 | -4.5% |
| Ravi | 1,806 | 1,246 | 44.9% | 21.5% | 10,856 | 12,158 | -10.7% |
| INDU | | | | | | | |
| Corolla | 3,875 | 3,009 | 28.8% | -4.1% | 3,875 | 33,449 | -88.4% |
| Fortuner | 270 | 239 | 13.0% | 221.4% | 1,440 | 362 | 297.8% |
| Hilux | 473 | 351 | 34.8% | -64.2% | 3,800 | 3,863 | -1.6% |
| HCAR | | | | | | | |
| Civic & City | 3,821 | 2,108 | 81.3% | 80.2% | 12,705 | 17,237 | -26.3% |
| B-RV | 690 | 756 | -8.7% | 100.0% | 2,849 | - | 100.0% |

Source: PAMA & AKD Research



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| | |
|------------|------------------------------------|
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| Accumulate | > 5% to < 20% upside potential |
| Neutral | ≤ 5% to ≥ -5% potential |
| Reduce | < -5% to > -20% downside potential |
| Sell | ≤ -20% downside potential |



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