

PAKISTAN AUTOS

MARKET VISTA

Earning growth falls by the way-side

- **INDU is scheduled to announce earning for 1HFY19 on 25th Feb, where we expect the company to post NPAT of Pkr6.98bn (EPS: Pkr88.89) vs. Pkr7.36bn (EPS: Pkr93.67) in 1HFY18 flattening by 5%YoY as a weak Pkr depletes gross margins (14.7% for 1HFY19 vs. 17.0% for 1HFY18), despite significant topling growth.**
- **For PSMC, we expect the company to post CY18E NPAT of Pkr1.83bn (EPS: Pkr22.24) vs. NPAT of Pkr3.68bn in CY17; down 50%YoY. The 17%YoY climb in sales, owing to organic sales growth based on strong fleet sales, and significant uptick in sales of recently launched product offerings, despite the higher price tag associated with these offerings.**
- **We maintain a preference for INDU, where the pipeline for new model/variant launches and competitive 'moats' present for incumbents, amidst likely extensions to the Corolla brand, keep us bullish on the OEM. With a TP of Pkr1,465/sh the stock offers 23.6% upside, inclusive of 9.35% D/Y for FY19, implying a buy call.**

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1HFY18E EPS of Pkr88.89 marks fall of 5%YoY: INDU is scheduled to announce earning for 1HFY19 on 25th Feb, where we expect the company to post NPAT of Pkr6.98bn (EPS: Pkr88.89) vs. Pkr7.36bn (EPS: Pkr93.67) in 1HFY18 flattening by 5%YoY. This earning decline is on the back of: 1) depleting GMs as the spate of Pkr devaluations (14.3% against the US\$ during 1HFY19) significantly dampen gross margins (14.7% vs. 17.0% in 1HFY18), 2) rising administrative & distribution expenses to sales (total operating expenses rise 5%YoY) and 3) increased other income to Pkr2.19bn (up 24%YoY) earned through proper cash management and improving yields on short term investments. On a quarterly basis, INDU earnings are expected to clock in at Pkr3.48bn (EPS:44.26) vs. NPAT of Pkr3.74bn (EPS: 47.53) for 2QFY18. Along with the result, we expect a cash dividend of Pkr32.5/sh translating into a ~73% payout ratio which remains unhindered from the relatively minor burdens imposed from planned CAPEX outlays.

INDU : 1HFY19 Income Statement

(Pkrmn)	1HFY19E	1HFY18	YoY%	2QFY19E	2QFY18	YoY%	QoQ%
Net Sales	69,755	63,318	10%	34,763	32,099	8%	-1%
Cost of sales	59,515	52,185	14%	29,584	26,408	12%	-1%
Gross profit	10,239	11,133	-8%	5,180	5,690	-9%	2%
Distribution expenses	666	581	15%	347	270	28%	9%
Administrative expenses	661	683	-3%	372	404	-8%	28%
Total operating expenses	1,327	1,265	5%	718	675	6%	18%
Operating profit	8,912	9,868	-10%	4,462	5,016	-11%	0%
Other operating expenses	872	852	2%	489	464	5%	28%
Other operating income	2,191	1,770	24%	1,137	913	25%	8%
EBIT	10,231	10,786	-5%	5,110	5,465	-6%	0%
Finance costs	233	273	-14%	132	120	10%	30%
NPBT	9,998	10,513	-5%	4,978	5,345	-7%	-1%
Taxation	3,011	3,149	-4%	1,499	1,609	-7%	-1%
NPAT	6,987	7,364	-5%	3,479	3,735	-7%	-1%
EPS (Pkr)	88.89	93.69	-	44.26	47.53	-	-

Source: Company Report & AKD Research

CY18E EPS of Pkr22.24 shows earnings halving: For CY18E, we expect the company to post NPAT of Pkr1.83bn (EPS: Pkr22.24) vs. NPAT of Pkr3.68bn in CY17; falling 50%YoY. Expected key highlights of CY18 results are: 1) 17%YoY climb in sales owing to organic sales growth (+5.5% YoY to 138,003 units for CY18 vs. 130,813 for CY17) and sales prices hikes (11-21% increase for existing offerings during CY18), 2) 258bpsYoY weakening in gross margins settling at 6.9% for CY18E, 3) decline in operating profits with rising operating expenses to sales ratio for the current year (2.7% vs. 5.2% for CY17) and 4) decrease in other operating income/rise in finance cost (-29%/+17%YoY). On quarterly basis, 4QCY18E NPAT of Pkr438mn (EPS:Pkr5.32) marks a decline of 24%YoY, driven lower by depleted GM's and hefty taxations expense. Payout accompanying



AKD Securities Limited

the result could stand at Pkr8.5/sh, near 40% payout seen last year, where underperformance on payouts could disappoint, as the OEM undergoes a significant uptick in CAPEX ahead of the launch of the Alto to replace the flagship Mehran.

PSMC : CY18 Income Statement

(Pkrmn)	CY18E	CY17	YoY%	4QCY18E	4QCY17	YoY%	QoQ%
Net Sales	119,215	101,812	17%	30,197	29,009	4%	13%
COGS	110,985	92,159	20%	28,023	26,747	5%	12%
Gross Profit	8,230	9,653	-15%	2,174	2,262	-4%	29%
Operating Exp	5,021	4,404	14%	1,287	1,312	-2%	1%
Operating Profit	3,209	5,249	-39%	887	950	-7%	112%
Other Income	612	865	-29%	133	201	-34%	48%
Other Charges	252	426	-41%	66	79	-17%	95%
Financial Charges	257	219	17%	131	79	67%	307%
NPBT	3,313	5,468	-39%	823	993	-17%	86%
Taxation	1,483	1,793	-17%	385	416	-7%	11%
NPAT	1,830	3,675	-50%	438	578	-24%	362%
EPS (Pkr)	22.24	44.65	-	5.32	7.02	-	-

Source: Company Report & AKD Research

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Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

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Buy	> 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	< 5% to > -5% potential
Reduce	< -5% to > -20% downside potential
Sell	< -20% downside potential
Not Rated	No investment opinion or recommendation

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