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Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ PSMC: New model effect may not hold for CBU's

Autos have outperformed the market, returning 11.5%CYTD (vs. 2.5% for the KSE-100), based on : 1) expectations of new variants (mostly CBU's) being met with sales growth due to the 'new model effect', 2) stable industry sales growth (ex-Rozgar at 26%YoY for 7MFY17) and 3) macro indicators holding firm, particularly the PkR vs JpY (3.4%CYTD appreciation in PkR) being favorable for assemblers. We analyze the launch of new CKD variants over the past 20yrs in the passenger and jeeps categories arriving at an average first year sales figure of 2,426/584 for new cars/jeeps undergoing average annual growth of 76/46%YoY in the second year of sales. Despite drawbacks of this analysis, the persistence of sales growth for new passenger and jeeps models post-launch cannot be ruled out. On the back of macro catalysts and recent launch of Ciaz and Vitara variants (where clarity on order books is awaited), we reiterate our TP of PkR644/sh for PSMC, implying a NEUTRAL stance.

KSE100 - Index

Current 49,015.09
Previous 48,929.12
Chg. 0.18%

Mkt Cap. (PkRbn/US\$bn)

Current 9,727 / 92.77
Previous 9,730 / 92.80
Chg. -0.03%

Daily Turnover (mn)

Current 343.12
Previous 344.29
Chg. -0.3%

Value Traded (PkRmn/US\$m)

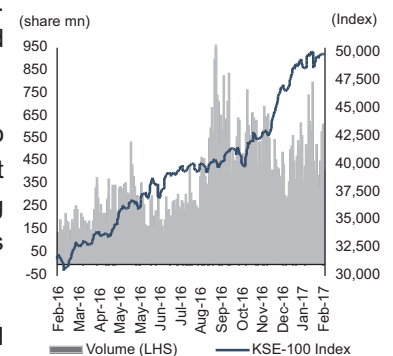
Current 13,921 / 132.77
Previous 14,742 / 140.60
Chg. -5.6%

AKD Daily

Wednesday, Feb 22, 2017

News and Views

- SBP has been quoted as saying that allocation for Urea export, i.e. quotas, will be allocated on first come first serve basis, ex-subsidy, and exporter will be required to export within 45 days of approval.
- News reports reveal that OGRA and the oil lobby (OCAC), has come to an agreement over duties and levies. The oil industry has proposed that fee and duties should be divided into fixed and variable portions, favoring larger players with diverse product segments. Details of these agreements are yet to be finalized and disclosed for comment by stake holders.
- Under the inclusion of textiles in the zero rates regime, FBR notified three energy companies to supply oil and coal at zero-rate sales tax to five export-oriented sectors. It directed two companies, namely Hascol Petroleum Limited and Byco Petroleum Limited to supply diesel and Awan Trading Company (Pvt) Limited for coal supply to the export sectors.



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PSMC: New model effect may not hold for CBUs

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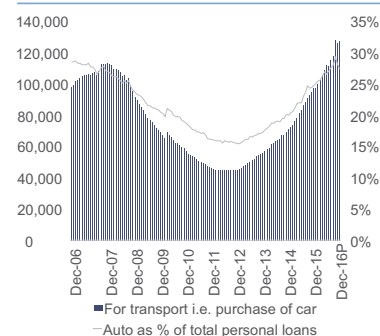
New model effect still in play: Looking ahead, we analyze the launch of new variants over the past 20yrs, highlighting the acceleration (or in some cases stasis) in annual sales, one, two and three years post launch. Focusing on new CKD variant launches in the passenger and jeeps categories (see table below), we arrive at an average first year sales figure of 2,426/584 for new cars/jeeps, undergoing average annual growth of 76/46%YoY in the second year. Markedly, this growth tapers to 26/22%YoY for cars/jeeps in the third year and craters to a decline of 15/12%YoY in the fourth year. Lack of stationary data (different launch years with different macro backdrops) and idiosyncratic operational performance of OEMs (production constraints) are major drawbacks of this analysis. That said, we believe the current macroeconomic sweetspot makes the persistence of sales growth for new passenger and jeeps models highly likely.

Passenger Cars

Model	Launch Year	Sales in first year	YoY Growth in Second Year	YoY Growth in Third Year	YoY Growth in Fourth Year
Suzuki Baleno 1300CC	FY99	2,045	41.0%	-48.5%	-19.9%
Diahatsu Cuore 800CC	FY00	1,382	121%	4%	44%
Kia Spectra 1300CC+	FY00	825	67%	66%	-81%
Suzuki Alto 1000CC	FY01	4,187	-27%	53%	52%
Suzuki Liana 1300CC	FY06	4,571	33%	-51%	-71%
Suzuki Swift 1300CC	FY10	2,353	73%	73%	-13%
Suzuki Wagon R 1000CC	FY14	1,621	224%	85%	NA
Average		2,426	75.9%	25.9%	-14.9%
Jeeps					
Suzuki Potohar 1000CC	FY99	615	-25%	-7%	17%
Kia Sportage 2200CC	FY02	503	62%	-14%	-39%
Sigma Defender 2200CC	FY05	407	200%	26%	-8%
Toyota Fortuner 2700CC	FY13	812	-52%	85%	-17%
Average		584	46%	22%	-12%

Source: PAMA & AKD Research

Auto Financing on an uptick



Source: SBP & AKD Research



Recent sales growth has legs: Since FY15, invigorated by the concessionary loan scheme (Punjab Rozgar Scheme), macro-stability from the successful implementation of reforms under the IMF program, weakness in the JpY and introduction of new models (11th Gen Corolla introduced) improved sector margins (sector GM average of 12% for FY14-16). Sector ROE peaked at 33.7% for FY15, with players benefitting from the confluence of 28%YoY hike in total car sales, and external macro-stability. We highlight the continuation of macro stability (FY17E CPI at 4.3%), weakness in the JpY (falling 3%CYTD vs. US\$), and sustained growth in auto lending (at PkR127.6bn as of Dec'16 its highest in 10yrs and 27% of total personal loan offtake), as clear catalysts.

Investment Perspective: PSMC remains exciting on the back of model launches, however from an earnings perspective: 1) they are CBUs, sales data for which are not disclosed by PAMA, 2) selling at higher prices pushed by high custom duties and 3) CBU led sales growth raises foreign currency exposure as the vehicle's entire cost is incurred in foreign currency. However, perceived quality benefits of foreign assembled vehicles, lower expected delivery times (particularly in passenger cars) and after sales service provided by established OEMs are expected to attract demand. Awaiting clarity from dealers regarding order books for the newly launched Ciaz and Vitara to incorporate potential earnings impacts from the CBUs, we reiterate our TP of PkR644/sh for PSMC, implying a NEUTRAL stance.



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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