

PAKISTAN AUTOS

MARKET VISTA

1,300CC Ban removal is ‘the talk of the town’

- Following on from persistent industry criticism, translating into appeals for removal, the GoP has somewhat lessened the impact of the non-filer sales ban last week, whereby the Amended Supplementary Finance Bill 2019, removed restriction on sales of vehicles up to the 1,300CC mark.
- Continuation of the ban on higher displacement variants would discourage local production, or new variant launches where the first test would be the launch of the Vios (slated for 3QCY19) where any delays would be negatively received by investors and consumers.
- For PSMC, the ban allows for some clarity on the demand front for its newly launched and older passenger vehicles, while endowing room for strong new-model effect related sales bump (launch of Alto by March’19).

Ali Asghar Poonawala
ali.poonawala@akdsecurities.net
11-253-111 Ext:646

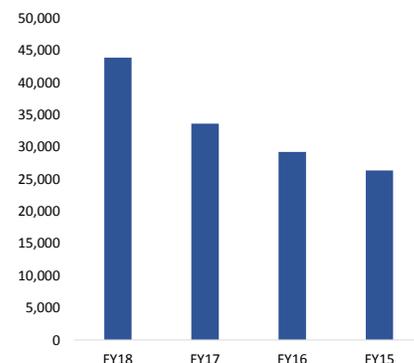
Increases in WHT for non filer

Segment	Old WHT	New WHT
upto 850CC	10000	15000
851CC-1000CC	25000	37500
1001CC-1300CC	45000	60000

Source: MoF & AKD Research

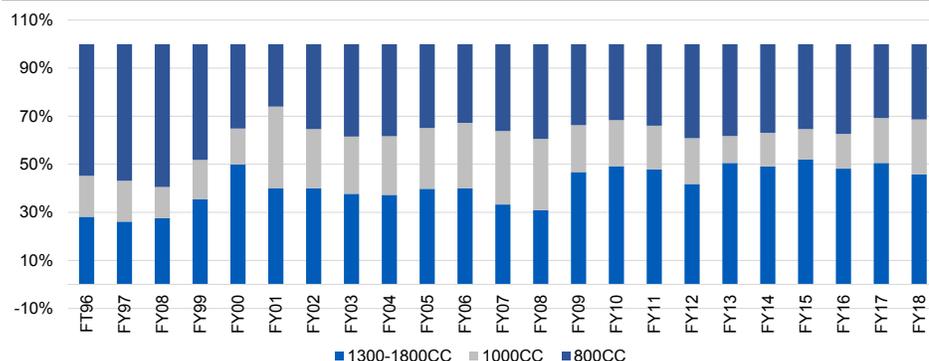
Government resorting to tax collection from non-filers: At the fore are concerns over the viability of the non-filer sales ban on remaining segments, where its removal on the largest segment by vehicles, raises questions over its viability for remaining segments, or even if it can serve its original purpose. While raising the levy to be paid by non-filers (withholding tax on registration) by 33-50%, effectively placing greater value on collections from non-filers, while allowing them to transact in a consumer durable market, driven by discretionary demand. This harkens back to the previous PML-N government’s policy of driving revenues through raising taxes on non-filers, having little impact on the numbers of non-filers in the country, furthering this policy of short term gain over no tangible behavior altering policy when it comes to increasing the tax net. Additionally, citing the same long term phenomenon, the continuation of the non-filer sales ban on other segments may be increasingly difficult to defend, where political motives for keeping the ban in place are further eroded.

Below 1300cc imports



Source: PBS & AKD Research

Annual CKD sales by segment



Source: PAMA & AKD Research

Imposition and subsequent removal of ban poses uncertainty on demand outlook: The imposition of the sales ban, followed by its rushed removal (only after ~7 months of being imposed) pose numerous uncertainties regarding the functioning of industry dynamics in the sector’s largest segment (10YR average share of 48% share in number of CKD sold). Firstly, the impact on domestic players was yet to be properly witnessed as the period covered too brief a time span, marred with additional external factors (significant cost escalations, devaluation of import currency, election year and commensurate impact on consumer confidence). Delineating the impact of sales from any of the factors mentioned above, from the sales ban itself becomes more



arduous, as major OEMs adopted a tapered price hike strategy, delaying hikes at the tail-end of the year, to encourage buyers. Moreover, the GoP's moves to tighten import of vehicles through dubious schemes or grey channels and a clear hold on used vehicle imports can be argued to have a greater knock-on effect on CKD vehicle sales, a factor yet to fully play its part in supporting sales and could inflate our current estimates for vehicle sales going forward.

Continuation of non-filer ban on other segments – impact yet to be accessed: A more long term factor playing its part reaming new entrants, where the field seems crowded in the passenger vehicle segment, with a tilt towards medium to premium segment sedans. This may be shifting to favor the small and low displacement segment, where the continuation of the ban on higher displacement variants would discourage local production, or new variant launches. We are yet to see the impact of the ban ploy on new variant launches amongst existing OEMs, where the first test would be the launch of the Vios (slated for 3QCY19) where any delays would be negatively received by investors and consumers.

Potential competition in lower segment: From a policy frame, the removal of the sales ban on one segment of the market sends mixed signals, while going against the crux of the GoP's core tenet of raising the tax base. Additionally, as of FY18, 43,980 out of ~80,000 vehicles imported during FY18 belonged to this segment, where curtailed imports and policies to cut used vehicle imports would garner greater benefits for domestic OEMs, if it included smaller displacement vehicles. For PSMC, the ban allows for some clarity on the demand front for its newly launched and older passenger vehicles, while endowing room for strong new-model effect related sales bump (launch of Alto by March'19). In the long term, if the ban on higher displacement vehicles remains, new entrants would be forced to focus on smaller segment variants, possible raising their priority in the launch schemes, lessening pricing power for PSMC, if it fails to upgrade its vehicle slate

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell (new rating system effective Sep 10'18) with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10yr PIB) plus risk premium.

New Rating Definitions

Buy	> 19% expected total return (Rf: 13% + Rp: 6%)
Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

Old Rating Definitions (Discontinued)

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

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.)

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.