



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ PSMC: LCV demand to the rescue

PSMC is scheduled to release earnings for 2QCY18 in the backdrop of drastic moves in input costs (Pkr vs. US\$ -10.0%, Pkr/JpY -11.9% till June'18), and slower sales (total sales for PSMC -3%QoQ) from seasonal swings. We expect the OEM to report 2QCY18E earnings of Pkr614mn (EPS:Pkr7.45/sh.) recording a slide of 10%YoY, taking cumulative 1HCY18 NPAT to Pkr1.52bn (EPS:Pkr18.45/sh), marking a decline of 31.2%YoY. Clouds dissenting over the stock follow from the absence of any new model launches and external pressures to input costs keeping margins under pressure, while longer term questions over demand persisting in the face of price hikes (~7%CYTD following three price hikes). These may be overblown, where the core demand base for LCVs (transporters, commercial users, movers) remains in place (Bolan/Ravi sales for 1HCY18 up 17/19%YoY) to support sales numbers. Currently trading at PE's of 7.9x/5.9x for CY18F/19F, we have a BUY stance on the stock with TP of 610/sh.

KSE100 - Index

Current 41,221.75
Previous 41,795.59
Chg. -1.37%

Mkt Cap. (Pkrbn/US\$bn)

Current 8,476 / 65.97
Previous 8,569 / 66.69
Chg. -1.09%

Daily Turnover (mn)

Current 222.68
Previous 337.09
Chg. -33.9%

Value Traded (Pkrmn/US\$m)

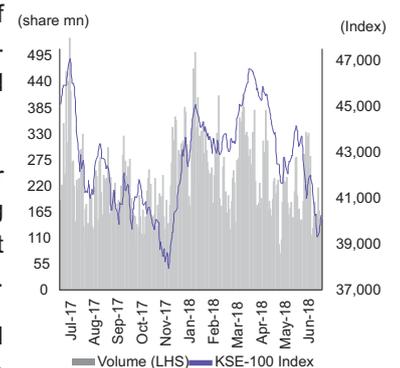
Current 8,775 / 68.30
Previous 13,090 / 101.87
Chg. -33.0%

AKD Daily

Tuesday, Jul 24, 2018

News and Views

- Pakistan's exports of non-textile products posted a robust growth of nearly 22%YoY in FY18 to US\$9.69bn. The impressive increase in non-textile products outpaced the traditional export basket of textile and clothing which went up 8.67%YoY to US\$13.53bn in FY18.
- FBR has decided to take action against those who do not declare their hidden local as foreign assets after the expiry of the scheme on Aug 01'18. FBR official further added that it depends on the next government to decide, whether to give further extension to the scheme or not.
- The Caretaker Government. has failed to secure Pkr50bn in commercial financing for reducing the debt of energy companies as banks are reluctant to extend further credit because of heavy loans taken by previous government.



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PSMC: LCV demand to the rescue

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PSMC 2QFY17 earnings preview: PSMC is slated to release 2QCY18E earnings today (July 24th) where we expect them to post NPAT of Pkr614mn (EPS:Pkr7.45/sh.) recording a slide of 10%YoY. +32%YoY/-4%QoQ. Move in net revenues (expected at Pkr30.25bn for 2QCY18E) is a factor of seasonal slowdown in sales (36,776 units sold during 2QCY18 vs. 38,070 units sold during 1QCY18), as older variants in the passenger car segment failed to garner demand. Despite this, offtake for the Wagon R (sales for 2QCY18 up 27.3%YoY) and LCV offerings (Ravi/Bolan sales -4.3/-5.3%QoQ for the quarter) remained intact, while price increase (~7%CYTD weighted average price increase of only 3%CYTD for Wagon R) ease margin pressures.

PSMC Quarterly Sales by Variants

Quarter	Mehran	Wagon R	Cultus	Swift	Bolan	Ravi	Total
3QCY17	10,516	5,789	5,181	1,044	4,811	5,436	32,777
4QCY17	11,703	8,352	4,320	1,097	5,673	5,302	36,447
1QCY18	12,583	6,630	6,123	1,452	5,779	5,503	38,070
2QCY18	11,419	8,435	4,859	1,323	5,475	5,265	36,776

Source: PAMA & AKD Research

Bears are circling: Dampeners to earnings growth arise in the form of 4.5xYoY hike in financial charges, and 78%YoY uptick in taxation. Cumulative 1HCY18E earnings should reach Pkr1.52bn (EPS:Pkr18.45/sh) falling 31.2%YoY. Absence of any public sector programs (Orange Cab Scheme for Punjab announced but never enacted) are dampeners supporting bearishness. Furthermore, risks emerge in the form of lower localization levels for recent offerings, which may raise exposure to FX swings, while resilience of CBU demand (particularly for the Vitara) remains to be seen.

PSMC: Income Statement

(PkrMn)	2QCY18E	1QCY18	QoQ	2QCY17	YoY%
Net Sales	30,250	31,511	-4%	22,938	32%
COGS	28,027	28,894	-3%	21,017	33%
Gross Profit	2,223	2,617	-15%	1,921	16%
Operating Exp	1,367	1,302	5%	1,091	25%
Operating Profit	856	1,315	-35%	830	3%
Other Income	195	176	11%	260	-25%
Other Charges	82	98	-16%	74	11%
Financial Charges	(73)	(73)	0%	(13)	454%
NPBT	895	1,320	-32%	1,002	-11%
Taxation	282	415	-32%	317	-11%
NPAT	614	905	-32%	685	-10%
EPS (Pkr)	7.45	10.99	-	8.33	-

Source: Company Report & AKD Research



Investment Perspective: Currently trading at PE's of 7.9x/5.9x for CY18F/19F, we have a BUY stance on the stock with TP of 610/sh. Longer term questions over demand persist in the face of price hikes (~7%CYTD following three price hikes), as a weakening external position inhibits pricing power of domestic assemblers. These may be overblown, in our view, where the core demand base for LCVs (transporters, commercial users, movers) remains in place to support sales. Additionally, we believe any crystallization of new model launches, with management guidance for the same, could drive performance over the medium term.



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



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