



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
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### Today's Daily

#### ■ PSMC: Punjab Budget brings "good things"

Heading into an election year, the Punjab Government has chosen to stick to what is old and allocate funds to concessionary automotive schemes. News reports leading up to the allocation have been on point, with publicly available sources pointing to an Orange Cab scheme (Pkr35 allocated for 50,000 units) under a continuation of the Apna Rozgar Scheme. Drawing conclusions and benchmarking shorter delivery lead times to the CY14-16 Green Cab Rozgar Scheme, we believe a 1-2% discount over list price is likely. With approximately 20,000 units being delivered, our model highlights that NPAT for CY17E can be raised by Pkr576mn (Pkr7.0/sh) higher by 16% from our base case sales estimate (122K unit sales forecast and Weighted Average sales price growth of 4.1%YoY). We await clarification from PSMC management, not raising our estimates at this time. Our FCFF based TP of Pkr800/sh implies a Neutral stance to last close, where upsides from payout raising measures in the Federal Budget may add value.

#### KSE100 - Index

Current 48,555.30  
Previous 48,780.81  
Chg. -0.46%

#### Mkt Cap. (PkrBn/US\$bn)

Current 9,697 / 92.47  
Previous 9,757 / 93.05  
Chg. -0.62%

#### Daily Turnover (mn)

Current 221.76  
Previous 403.94  
Chg. -45.1%

#### Value Traded (PkrMn/US\$m)

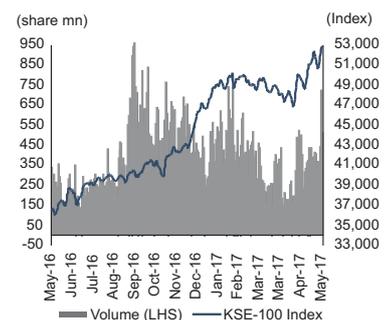
Current 15,780 / 150.48  
Previous 27,497 / 262.23  
Chg. -42.6%

**AKD Daily**

Monday, Jun 05, 2017

### News and Views

- Oil marketing companies (OMCs) posted a 12% increase in sales in the first 11 months of the current fiscal year to 23.8mn tn. Furnace oil sales for 11MFY17, stood 10% higher, followed by 12% jump in diesel sales, while petrol sales went up by 17%. Diesel sales were down 3%YoY whereas petrol and furnace oil (FO) sales were up 9% and 1%.
- Federal Board of Revenue informed the Senate's Standing Committee on Finance Customs that the duty on the import of new cars will not be reduced this year as the Cabinet has deferred the proposal. The proposal, included in the Finance Bill 2017-18, was to cut the duty to 40% on new imported cars with engine capacity of 800 to 1,800 (cc).
- Domestic consumption of cement increased 11% to 37.589mn tn in 11MFY17. According to data released by the All Pakistan Cement Manufacturers Association (APCMA), cement exports in 11 months declined 21.27% to 4.319mn tn.



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## PSMC: Punjab Budget brings "good things"

Heading into an election year, the Punjab Government has chosen to stick to what is old and allocate funds to concessionary automotive schemes. News reports leading up to the allocation have been on point, with publicly available sources pointing to an Orange Cab scheme (Pkr35 allocated for 50,000 units) under a continuation of the Apna Rozgar Scheme. Drawing conclusions and benchmarking shorter delivery lead times to the CY14-16 Green Cab Rozgar Scheme, we believe a 1-2% discount over list price is likely. With approximately 20,000 units being delivered, our model highlights that NPAT for CY17E can be raised by Pkr576mn (Pkr7.0/sh) higher by 16% from our base case sales estimate (122K unit sales forecast and Weighted Average sales price growth of 4.1%YoY). We await clarification from PSMC management, not raising our estimates at this time. Our FCFF based TP of Pkr800/sh implies a Neutral stance to last close, where upsides from payout raising measures in the Federal Budget may add value.

**Shortened timeline likely:** In continuation of previous commentary on the matter we upgrade our sensitivity analysis of the earnings impact of such a scheme, forecasting a lagged delivery cycle for the current scheme.

Benchmarking delivery lead times to the CY14-16 Green Cab Rozgar Scheme, we believe a shorter timeframe between signing of agreement and first deliveries is likely (within a quarter vs. 5 months previously).

**Shifting sensitivities:** Depending on the variants being sold under the scheme, we believe a 0.75-1.5% discount over list price for the vehicles delivered is likely, with approximately 20,000 units being delivered by year end. Based on our model, we posit NPAT for CY17E can be raised by Pkr576mn (Pkr7.0/sh) higher by 16% from our base case sales estimate (122K unit sales forecast and Weighted Average sales price growth of 4.1%YoY). However, we await clarification from PSMC management, and so are not raising our estimates at this time.

**Investment Perspective:** PSMC has had a bullish spell (1.17x FYTD and 35.4%CYTD) the stock trades at CY17/18F P/E of 18.4/14.4x (on our base case EPS estimates of Pkr44.98/57.3/sh) where the expectation of a Rozgar scheme led sales bump and the launch of the new Cultus have played out as catalysts for multiple inflation. Our FCFF based TP of Pkr800/sh implies a Neutral stance to last close. Price performance may be fueled further from terms in the Federal Finance Bill, seeking higher payout provisions (must be at least 40% of earnings) for listed companies having undistributed reserves in excess of 100% of paid up capital. As PSMC meets those criteria, but with a five year average payout ratio of 20%, the OEM may be liable to raise payouts (CY17/18F D/Y currently expected at 1.1/1.3%), or pay an additional 10% tax levy on profits. We await the final version of the approved Finance Bill FY18 and associated judgments from any legal hurdles that such a measure is sure to face to raise payout estimates.

### Earnings Sensitivity to Rozgar Scheme Sales

Increase in unit sales under scheme		15,000	20,000	25,000	30,000
Discount on list price	0.75%	9.4	14.0	18.5	23.1
	1.0%	7.0	12.0	16.4	20.9
	1.3%	4.3	9.7	14.4	18.8
	1.5%	1.6	7.0	12.0	16.6

Source: AKD Research

### Rozgar Scheme CY14-16 Timeline

Date	Event
Jul-14	July 28th notice by PSMC, stating agreement with Punjab Government to deliver 50,000 vehicles
Mar-15	7,727 cars recorded sold under the scheme during the quarter
Jun-15	PSMC reports 19,893 units being sold under the scheme as of June 30th
Sep-15	Total units sold under the scheme are at 32,041 units (12,148 units in 3QCY15)
Dec-15	PSMC reports CY15 Rozgar Scheme sales of 45,410 units (13,369 units in 4QCY15)
Mar-16	Deliveries completed as scheduled by February 2016

Source: Punjab Government, News Reports, PSX



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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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