



## Today's Daily

### ■ Autos: Takeaways from Pakistan Auto Expo 2017

We visited the Pakistan Auto Expo 2017 in Karachi over the weekend, the annual agglomeration of the automotive industry and parts cluster. This year emphasis from exhibitors and participants could be seen surrounding: 1) new entrants, where parts and materials manufacturers were present to exhibit relevant product profiles, 2) exuberance surrounding new model launches for incumbents, where HCAR's relatively low priced BRV CBU garnered interest, and 3) robust demand growth of the present industry upcycle (in its third year now) continuing in the short run. Local exhibitors expressed some degree of resentment over the absence of incentives for incumbent OEMs in the AIDP-II, however, optimism over new entrants particularly from parts and materials manufacturers was evident.

#### KSE100 - Index

Current 49,623.81  
Previous 49,696.08  
Chg. -0.15%

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

Current 9,815 / 93.61  
Previous 9,825 / 93.70  
Chg. -0.09%

#### Daily Turnover (mn)

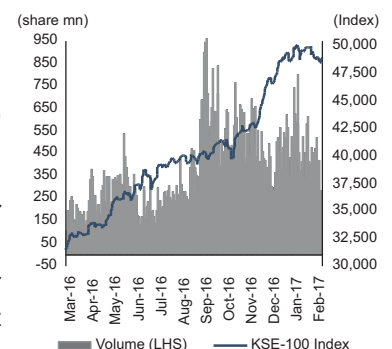
Current 392.03  
Previous 398.53  
Chg. -1.6%

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

Current 17,272 / 164.73  
Previous 17,747 / 169.26  
Chg. -2.7%

## News and Views

- PM Nawaz Sharif has invited the China Shipbuilding Company to invest in collaborative projects with PNSC and Karachi Shipyard and take advantage of the liberal economic policies of the country.
- The inaugural ceremony of the Front and Engineering Design (FEED) was held to start work on the TAPI gas pipeline project on 3rd Mar'17
- As Pakistan's trade deficit continues to swell, Moody's has called for emergency measures to curtail increasing import bill. Moody's extols SBP measures of imposing 100% cash margin on various consumer items but fears an increase in illegal movement of these items as result of this measure.
- Assets in Islamic Banking doubled between 2012 and 2016; jumping from PkR837bn to PkR1.6trn, and now account for 11.7% of the total banking assets.



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**Diversified parts producers are key:** Listed parts manufacturers exhibiting their wares included those involved in Heating Ventilation and Air Conditioning (HVAC), electrical systems (battery & wire harnesses), powertrain, specialized sheet metal components and interiors. Larger players with diversified businesses were upbeat about landing orders with new entrants, as many made parts on par with imported parts from Japan, Korea and the EU.

**BRV introduction may be material:** HCAR's long awaited foray in the, relatively lower displacement, 7-seater market has strong basis to attract customer orders. Firstly, based on price, the PKR2.3mn price tag is appealing, particularly when compared to its direct competitors in the segment. The price tag makes the offering attractive in the 5-seater segment as well, where HCAR's HRV offering has similar size engine (1.5L) but carries a higher price tag (PKR3.7mn).

**Current growth cycle is seen to continue:** Since FY15, car sales are on an uptrend, invigorated by the concessionary loan scheme (Punjab Rozgar Scheme). Growth in sales for FY16 was a spillover of macro-stability from the successful implementation of reforms under the IMF program and weakness in the JpY. Introduction of new models (11th Gen Corolla introduced) furthered 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 11%FYTD vs. US\$), and sustained growth in auto lending (at 10yrs high of PKR130bn as of Jan'17 and growing at robust pace of 33%YoY), as clear catalysts.

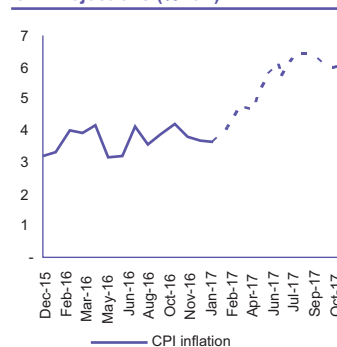
**Used CBU sales remain a threat:** 1HFY17 used CBU sales amounted to 24,256 units, an increase of 6.6%YoY, a trend that continued through to beginning of CY17. Recently launched CBUs are expected to dent this number going forward, where the sales numbers for cost effective CBUs are to be monitored closely. As cost effective imported offerings may lack features, i.e. in the case of the BRV, four wheel drive and higher engine displacement are lacking. Any surge in sales of the BRV may answer the age-old dilemma of OEMs, are features more important to consumers than cost.

### OEM's new offerings

OEM	Model	Engine	Seating Capacity	Price (PkR mn)
HCAR	BRV (IVTEC)	1.5L	7	2.24
HCAR	HRV	1.5L	5	3.71
HCAR	CRV	2.4L	5	8.22
INDU	Avanza	1.5L	7	3.00
INDU	Fortuner	2.7L	7	5.25
PSMC	Vitara	1.6L	5	3.49

Source: AKD Research

### CPI Projections (%YoY)



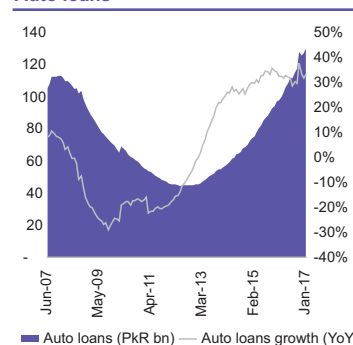
Source: PBS & AKD Research

### JPY/US\$



Source: Bloomberg & AKD Research

### Auto loans



Source: SBP & AKD Research



**Outlook:** Auto parts and materials industry is gearing up for growth. Introducing new technology, and utilizing modern building solutions (hot dip galvanized steel, innovative coating solutions) to cater to indigenous OEMs. While current players focus on increasing localization and implement deletion programs to use interchangeable parts between variants, the automotive industry cluster eagerly awaits new entrants. Finally, the presence of Chinese parts manufacturers was unavoidable, while heavy vehicle manufacturer FAW (in collaboration with Al-Haj Motors) and Sinotruk had numerous categories of vehicles on show, highlighting the threat to local industry from cheap imports.

#### Autos sales growth

	Total Cars	YoY	LCV + Cars	Total Industry Sales YoY%
FY02	42,078	6%	45,291	8%
FY03	65,125	55%	69,696	54%
FY04	101,669	56%	106,155	52%
FY05	133,996	32%	140,671	33%
FY06	162,792	21%	184,230	31%
FY07	180,834	11%	204,308	11%
FY08	164,650	-9%	187,319	-8%
FY09	82,844	-50%	99,269	-47%
FY10	123,957	50%	141,636	43%
FY11	127,944	3%	146,497	3%
FY12	157,134	23%	178,948	22%
FY13	118,830	-24%	135,311	-24%
FY14	118,102	-1%	136,888	1%
FY15	151,134	28%	179,953	31%
FY16	180,220	19%	216,709	20%

Source: PAMA & AKD Research



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