

PAKISTAN AUTOPARTS

MARKET VISTA

GTJR: Analyst briefing takeaways

- The General Tyre and Rubber company (GTJR) held its analyst briefing session yesterday to discuss its 1QFY22 results. To recall, the company posted NPAT of PkR131mn (EPS: PkR1.07) as compared to PkR126mn (PkR1.03) in same period last year, up 4%YoY and loss of PkR64mn (LPS: PkR0.52) in previous quarter.
- The gross margin of GTJR has significantly improved in 1QFY22 (GMs: 13% in 1QFY22 vs 7% in 4QFY21) due to the laggard impact of cost pass-on to the OEMs.
- With global commodities well into the bull cycle, we expect the cost side pressures to remain intact at least in the upcoming quarter. The weighted average index, constructed by JP Morgan to track the cost of tires, has swelled ~11%QoQ. With majority of the raw material imported, the local manufacturing costs have followed the suit.
- After incorporating the price hikes, we can expect the topline to swell by 45-50%YoY in FY22 and earnings to increase 18%YoY to ~PkR670mn (EPS: PkR5.55). Even after declining 35%FYTD, we believe that the stock is fairly valued as it is currently trading at a P/E of 9.7x.

Key analyst briefing takeaways: According to the management, the company is operating at almost full capacity (max capacity utilization that can be achieved is ~85-90%). The plant is operating 7 days a week to cater the demand which is on the upper end as we are witnessing the boom in auto industry. In order to operate at full capacity, the company substitutes the gas shortfall with LPG that is relatively costly. GTJR has started to supply its products to the new entrants among which Prince Motors has become a major customer. In addition to this, the company seems optimistic to close the deals with other new entrants. Since there are capacity constraints, the company is planning to expand its capacity as well as increase its efficiency by replacing the machines. The company will start the production of OTR (Off the road) tyres to cater the demand from construction segment which is currently on the rise. Besides, the government's efforts to curb the smuggling activities and increasing prices of imported tyres (not to forget the 100% cash margin requirement for imports) has provided a level playing field for the local players.

Cost side pressures still persist: With global commodities well into the bull cycle, we expect the cost side pressures to remain intact at least in the upcoming quarter. Although the synthetic rubber index has retreated US\$0.76/pound from its peak of US\$0.83/pound in FY21, the synthetic rubber index has inflated 30%QoQ on account of increase in Oil prices over US\$80/barrel. In addition to this, the carbon black index and steel cord index have inflated 5.8%QoQ and 1.7%QoQ respectively. Consequently, the weighted average index, constructed by JP Morgan to track the cost of tires, has swelled ~11%QoQ. With majority of the raw material imported, the local manufacturing costs have followed the suit. On the flipside, the company increased the prices of different product categories ranging from ~7% to ~9% in Oct'21 in order to pass-on the costs. Hence, we expect the margins to sustain the current level and hover in the range of 13-14% in upcoming quarter.

Investment Perspective: We expect the recent price hikes by the company to bring fruitful results for the company since the demand for the autos is on the upper end. The passenger car sales in 4MFY22 have shown a tremendous growth of 71%YoY while the LCVs/Trucks/Tractors sales have increased by 97%/61%/15%YoY. According to our estimates, the auto industry is expected to grow by 32%YoY and expect the volumetric growth in GTJR to stay in the same range. After incorporating the price hikes, we can expect the topline to swell by 45-50% YoY in FY22 and earnings to increase 18%YoY to ~PkR670mn (EPS: PkR5.55). Even after declining 35%FYTD, we believe that the stock is fairly valued as it is currently trading at a P/E of 9.7x.

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KATS Code	GTJR
Bloomberg Code	GTJR.PA
Price PkR	53.9

Market Cap (PkRmn)	6,569.7
Market Cap (US\$m)	37.7
Freefloat Market Cap (mn)	2,299.4
Shares (mn)	121.9
Free Float Shares (mn)	42.6
3M High (PkR)	86.52
3M Low (PkR)	53.88
1Yr High (PkR)	94.90
1Yr Low (PkR)	53.88
3M Avg Turnover '000	107.8
1 Yr Avg Turnover '000	248.2
3M Avg DT Value (PkR'000)	7408.5
3M Avg DT Value (US\$'000)	42.57
1Yr Avg DT Value (PkR'000)	20,370.8
1Yr Avg DT Value (US\$'000)	117.0

GTJR vs KSE100 Index



Source: PSX & AKD Research



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- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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