

PAKISTAN AUTOS

MARKET VISTA

REP-019

Slow and steady is the new norm

- Monthly automobile industry sales data is out, with a total of 19,934 units being sold (+8%MoM/+2%YoY) of which 16,957 cars (+10%MoM/+8%YoY), 2,388 LCVs (+5%MoM/-24%YoY), 539 Trucks (-12%MoM/-28%YoY) and 5,818 tractors (+44%MoM/-2%YoY) made up total offtake.
- In the passenger car segment, total sales of 16,957 (+10%MoM/+8%YoY) consist of 3,539, 800CC & below segment (0%MoM/-33%YoY), 4,455 1,000CC segment (+16%MoM/+41%YoY) and 8,963 1300CC & above segment (+12%MoM/+25%YoY) sales respectively.
- Cumulative 9MCY18 total industry sales of 200,234 units (+9.3%YoY) pushed by passenger car sales growth of 9.3%YoY (164,575 units sold), where HCAR (40,168 vehicles sold up 14.1%YoY), PSMC (104,324 vehicles up 10.6%YoY), INDU (48,353 units sold up 4.0%YoY) are below 5YR historic CAGRs (HCAR/PSMC/INDU 9MFY13-18 CAGR of 16/12/9%) signifying a general slowdown vs. long term growth rates
- Citing wider industry headwinds including the flat-lining of sales growth in the price-sensitive 800cc & below segment coupled with recent PkR weakness against the Greenback (~7% in Oct'18) nudging OEMs for a further round of price hikes (4th round this year with prices rising 7-11% CYTD already), we highlight the demand outlook to be on a contractionary path.
- Re-iterating our cautionary outlook on the sector, the recent sell-off in the space has opened up valuations (FY19/20 P/Es of 5.4/5.7x) where INDU remains our top pick in the coverage universe with attractive D/Ys (FY19/20 D/Ys of 11.0/10.6%) and an unencumbered balance sheet (cash and short term investments of PkR57.2bn or PkR786/sh) underpinning our BUY call on the stock.

Wagon R is a saving grace: Selling 9,900 units (+14%MoM/-5%YoY) in Sep'18, PSMC's consolidated basis 9MCY18 sales clocked in at 104,324 units, marking a rise of 10.6%YoY. Elevated cumulative sales for the ongoing period (near levels seen during the Rozgar scheme years: 2015-16), is broadly triggered by spectacular offtake for the Wagon R (+44.4%YoY). The recently launched Cultus underwent less than impressive growth (+4.8%YoY), while Swift sales underwent a revival (+28.1%YoY) during 9MCY18, illustrating possible cannibalization at play between the much older and recently launched variants from different segments (Cultus VXL/AGS are 1/3% cheaper than Swift DLX/Auto). From a long term angle, plans for ending the production run for the Mehran and replacing it with a new model (new flow suggests the new Alto) may face delays due to the dampened macro outlook, where we await guidance and monitor CAPEX outlays for indications of the same.

Premium segment holding strong: Sep'18 sales reached 4,933 units (-2%MoM/0%YoY) for INDU, reflecting tepid Corolla sales growth (4,426 units sold +5%MoM/+8%YoY) remaining above 9MCY18 monthly average of ~4,300 units. Moreover, on a consolidated basis, 9MCY18 sales for the OEM are at 48,353 units, depicting a climb of 4.0%YoY, with Corolla sales slipping (39,283 units sold -1%YoY). While INDU remains the operationally efficient "workhorse" of the local assemblers, lackluster outlook for the Corolla, and softening demand for Fortuner (Sept'18 sales -11%MoM/-29%YoY) constrain topline growth.

Niche demand base has its benefits: Despite the well-received Civic entering its third year of production, HCAR offtake numbers treaded upwards, with Sept'18 sales of 4,512 units, +14% MoM/+32%YoY. BRV sales remained lackluster, while cumulative 9MCY18 total sales growth of 14.1%YoY keeps capacity utilization levels above the 100% mark.

Outlook: While headwinds remain prominent, symptoms we highlight for further scrutiny include: i) CAPEX outlays by players where any shrinkage could extend the horizon for new model launches, ii) LCV and industrial fleet sales outlook, and iii) degree of cost pass-through OEMs allow, specially when the non-filer ban is enforced with possible punitive actions enforced.

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Pakistan Automotive Industry Sales Snapshot

(Units)	Sep-18	Aug-18	MoM	YoY	9MCY18	9MCY17	YoY
Ind. Perform.							
Total Industry Sales	19,934	18,384	8%	2%	200,234	183,249	9.3%
Cars	16,957	15,389	10%	8%	164,575	150,520	9.3%
LCVs & Pickups	2,388	2,273	5%	-24%	28,270	25,535	10.7%
Trucks	539	615	-12%	-28%	6,688	6,425	4.1%
Buses	50	107	-53%	22%	701	769	-8.8%
Tractors	5,818	4,041	44%	-2%	52,308	49,769	5.1%
Company Wise							
PSMC	9,900	8,683	14%	-5%	104,324	94,366	10.6%
INDU	4,933	5,018	-2%	0%	48,353	46,492	4.0%
HCAR	4,512	3,961	14%	32%	40,168	35,197	14.1%
MTL	4,028	2,980	35%	10%	32,567	31,450	3.6%
AGTL	1,737	1,051	65%	-23%	19,380	18,034	7.5%
Segment-Wise Sales							
1300cc & above	8,963	8,028	12%	25%	78,701	73,816	6.6%
1000cc	4,455	3,830	16%	41%	38,765	30,979	25.1%
800cc & below	3,539	3,531	0%	-33%	47,109	45,725	3.0%
Passenger Cars	16,957	15,389	10%	8%	164,575	150,520	9.3%
PSMC							
Swift	454	355	28%	41%	4,068	3,176	28.1%
Cultus	1,788	1,380	30%	18%	15,811	15,084	4.8%
Wagon R	2,667	2,450	9%	61%	22,954	15,895	44.4%
Mehran	2,320	2,318	0%	-37%	32,077	31,282	2.5%
Bolan	1,219	1,213	0%	-23%	15,032	14,443	4.1%
Ravi	1,452	967	50%	-14%	14,382	14,486	-0.7%
INDU							
Corolla	4,426	4,204	5%	8%	39,283	39,673	-1.0%
Fortuner	182	204	-11%	-29%	3,154	1,962	60.8%
Hilux	325	610	-47%	-42%	5,916	4,857	21.8%
HCAR							
Civic & City	4,083	3,469	18%	47%	35,350	30,967	14.2%
B-RV	429	492	-13%	-35%	4,818	4,230	13.9%

Source: PAMA & AKD Research

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Neutral	> 10% to < 16% expected total return
Sell	< 10% expected total return (Rf: 10%)

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Accumulate	> 5% to < 20% upside potential
Neutral	< 5% to > -5% potential
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Sell	< -20% downside potential
Not Rated	No investment opinion or recommendation

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