

PAKISTAN AUTOS

MARKET VISTA

REP-019

Ups & downs are what cycles are made of

- Tepid August'18 PAMA sales data (total industry sales of 18,384 units -17%MoM/-20%YoY) illustrates sector dampeners (input pressures and price hikes, lack of new models) catching up to restrict demand, with the non-filer sales ban being the straw that breaks the camel's back.
- Seasonality played-out during the month (Eid effect, end of Kharif season), where cumulative 8MCY18 total industry sales of 180,300 units (+10%YoY) remains a better barometer for judging industry health (seasonal variations evened out by longer periods).
- Cumulative sales were up +13/+12/+5%YoY for PSMC/HCAR/INDU during 8MCY18, as a 23%YoY rise in 1000cc segment sales for passenger cars (driven by the Wagon R) kept PSMC's operations healthy, while a paltry 5%YoY rise in 1,300CC+ sales offtake restricted Corolla sales.
- While news reports point to additional levies on imported vehicles and reduction in maximum allowed years of depreciation for used vehicles, we believe policies surrounding the non-filer ban (exemptions) is a key measure to monitor, where new entrants are likely to feel the heat of reduced demand as well.
- Our June'19 TP of PkR2,060/sh for INDU offers 41% upside, where enhanced capacity of 75,000 by FY21F, is the perfect launchpad, in our view, for stratification of the Corolla into mid-tier and premium markets. In the meantime, yields of FY19/20F 9.8/10.3% and P/BV 2.7/2.3x underscore value.

PSMC: Aug'18 sales underwent significant slowdown offtake for PSMC where the sales settled at 8,683 (-20%MoM/-27%YoY) with cumulative sales at 94,424 units which was +13%YoY. Cumulative 8MCY18 sales of Swift/Wagon R/ Mehran/Bolan increased by 27%/42%/8%/8%YoY, where the price differential between the re-priced automatic Cultus (AGS/VXL PkR1.57/1.46mn) and Swift (Auto/DLX PkR1.61/1.48mn) can be seen cannibalizing demand for each other, even though one is in the 1300cc+ category.

INDU: The Company posted sales of 5,018 units during Aug'18 down -9%YoY/-8%MoM. Sales volume of Corolla were at 4,204 units moving -8%MoM/-12%YoY with Fortuner slowing as well. The minor major face lift for the Corolla seems to have played out its new model bump (one year since launch) with premium 4x4 sales receding in-line with management expectations.

HCAR: The company recorded volumetric sales of 3,961 units in Aug'18, falling by 21%MoM continuing the slide of 15%YoY. Cumulative 8MCY18 amounted to 35,656 units up 12%YoY with HCAR's seemingly on the tail end of its new model wave. Sales for the BRV have seemingly capped out where Aug'18 offtake was up 32%MoM but down 32%YoY.

Outlook: While news reports point to additional levies on imported vehicles and reduction in maximum allowed years of depreciation for used vehicles, we believe policies surrounding the non-filer ban (exemptions) is a key measure to monitor, where new entrants are likely to feel the heat of reduced demand as well. The ban on sales to non-filers may be having unintended consequences in the form of pulling LCV & Pickup sales lower (Bolan/Ravi sales -22%/-50%YoY), a demand center underpinned by logistical service providers, construction, materials and commercial users primed to take advantage of infrastructure investments.

Investment perspective: Final dividend of PkR45/sh paid out by INDU (interim PkR95/sh) are a factor of improving payout ratios (72% for FY18 vs. 64% for FY17) reflective of a strong cash position. In addition to the results company, the company announced an additional expansion of its production facility through a de-bottlenecking activity, raising capacity to 76,000 (on double shift basis) at a cost of PkR3.3bn. Our June'19 TP of PkR2,060/sh offers 41% upside, where enhanced capacity of 76,000 by FY21F, is the perfect launch-pad, in our view, for stratification of the Corolla into mid-tier and premium markets. In the meantime, yields of FY19/20F 9.8/10.3% and P/BV 2.7/2.3x underscore value.

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AKD Securities Limited

Pakistan Automotive Industry Sales Snapshot

(Units)	Aug-18	Jul-18	MoM	YoY	8MCY18	8MCY17	YoY
Ind. Perform.							
Total Industry Sales	18,384	22,038	-16.6%	-19.9%	180,300	163,658	10.2%
Cars	15,389	18,875	-18.5%	-17.5%	147,618	134,881	9.4%
LCVs & Pickups	2,273	2,469	-7.9%	-33.7%	25,882	22,376	15.7%
Trucks*	615	584	5.3%	-20.7%	6,149	5,673	8.4%
Buses*	107	110	-2.7%	25.9%	651	728	-10.6%
Tractors	4,041	3,872	4.4%	-21.4%	46,490	43,816	6.1%
Company Wise							
PSMC	8,683	10,895	-20.3%	-27.0%	94,424	83,925	12.5%
INDU	5,018	5,468	-8.2%	-9.4%	43,420	41,564	4.5%
HCAR	3,961	4,981	-20.5%	-15.1%	35,656	31,768	12.2%
MTL	2,980	3,006	-0.9%	-7.6%	28,539	27,776	2.7%
AGTL	1,051	814	29.1%	-44.7%	17,643	15,769	11.9%
Segment-Wise Sales							
1300cc & above	8,028	9,659	-16.9%	-12.4%	69,738	66,617	4.7%
1000cc	3,830	4,433	-13.6%	-3.7%	34,310	27,816	23.3%
800cc & below	3,531	4,783	-26.2%	-36.1%	43,570	40,448	7.7%
Passenger Cars	15,389	18,875	-18.5%	-17.5%	147,618	134,881	9.4%
PSMC							
Swift	355	484	-26.7%	-18.2%	3,614	2,854	26.6%
Cultus	1,380	1,661	-16.9%	-22.3%	14,023	13,573	3.3%
Wagon R	2,450	2,772	-11.6%	100.0%	20,287	14,243	42.4%
Mehran	2,318	3,437	-32.6%	-41.5%	29,757	27,592	7.8%
Bolan	1,213	1,346	-9.9%	-22.4%	13,813	12,856	7.4%
Ravi	967	1,195	-19.1%	-50.4%	12,930	12,807	1.0%
INDU							
Corolla	4,204	4,566	-7.9%	-12.1%	34,857	35,565	-2.0%
Fortuner	204	220	-7.3%	-23.0%	2,972	1,705	74.3%
Hilux	610	682	-10.6%	23.5%	5,591	4,294	30.2%
HCAR							
Civic & City	3,469	4,609	-24.7%	-12.1%	31,267	28,198	10.9%
B-RV	492	372	32.3%	-31.7%	4,389	3,570	22.9%

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

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