

Day Break

Monday, 23 October 2017

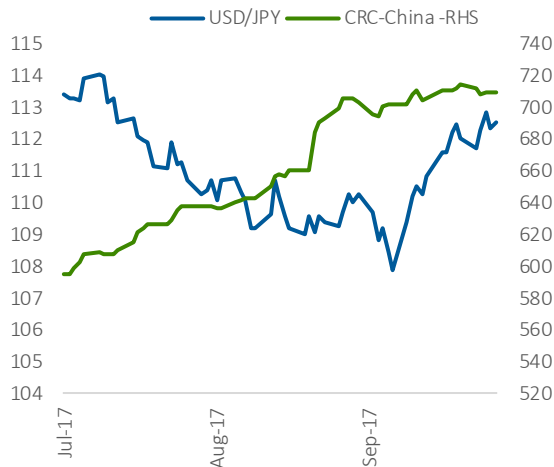
Sector Update

Sym.	Target Price	P/E x	D/Y %	P/B x	Recom.
INDU	2,277.1	9.7	7.2%	3.5	BUY
HCAR	553.8	10.1	4.0%	4.6	HOLD
PSMC	473.1	12.1	1.4%	1.4	HOLD

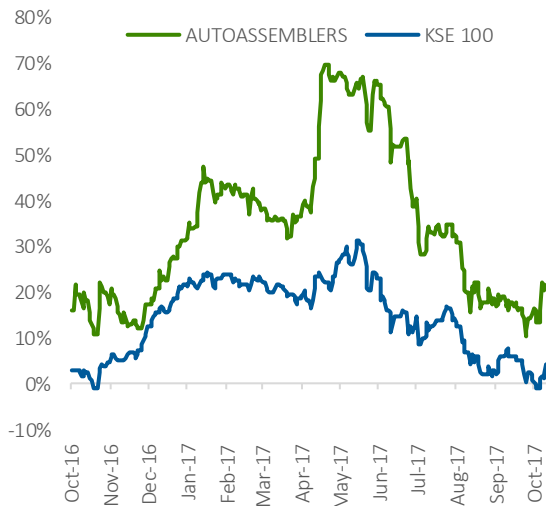
Exhibit: Sector Key Financials

SECTOR	1QFY18	QoQ	YoY
UNITS	66,101	11%	27%
NET SALES	78,944	10%	34%

Exhibit: USD/JPY Movements and CRC Prices



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Automobile Assemblers

IGI OEMs Earnings to grow by +48%YoY to PKR7.2bn

- We expect sectors profitably under IGI universe to increase by +48%YoY to PKR 7.2bn led by increase of +27%YoY in volumetric sales to 66k units
- On individual basis we expect INDU to post earnings of PKR 3.6bn (EPS PKR 45.7), up by+22%YoY, followed by PSMC regaining its earnings to PKR 1.3bn (EPS: PKR 16.8) at a growth level of +80%YoY. Similarly, for HCAR the earnings are expected to clock in at PKR2.3bn (EPS: PKR 15.9), up by +73%YoY.
- We maintain a "BUY" call on INDU with Dec-17 based target price of PKR 2,277.1/share, offering +28% upside. The company is currently trading at FY18E P/E of 9.7x and offers a dividend yield of 7.2%.

IGI auto universe earnings to increase by +48%YoY to PKR 7.2bn

We preview earnings of the major OEMs under IGI coverage (INDU, HCAR and PSMC) for the quarter ended, Sep-17. As per our analysis, we expect sectors profitably under IGI universe to increase by +48%YoY to PKR 7.2bn led by increase of +27%YoY in volumetric sales to 66k units. On individual basis we expect INDU to post earnings of PKR 3.6bn (EPS PKR 45.7), up by+22%YoY, followed by PSMC regaining its earnings to PKR 1.3bn (EPS: PKR 16.8) at a growth level of +80%YoY. Similarly, for HCAR the earnings are expected to clock in at PKR2.3bn (EPS: PKR 15.9), up by +73%YoY. We attribute growth in earnings during the quarter to volumetric incline witnessed across Big three sales volumes. Furthermore in the same period exchange rate fluctuated owing to USD/JPY rally, emanating from political situation in Japan and rifts between USA and North Korea. To state, USD/JPY rate clocked at 111.03 on average for the period, whereas CRC local prices witnessed an uptick of 2% to PKR 82,042/ton. With the cost of raw materials tied up with imports, the gross margins remained sensitive.

INDU: Volumetric sales beefing up the bottom line for 1QFY18 to PKR 3.6bn (EPS: PKR 45.7), up by+22%YoY

INDU is schedule to announce its 1QFY18 financial result on 27th Oct-17. We expect company to post earnings of PKR3.6bn (EPS: PKR 45.7) up by +22%YoY owing to volumetric increase of +5%YoY to 15.1k units. We attribute this growth on the back of a) increase in volumetric sales of Corolla by +4.8%YoY to 12.8k units, attributable to purchase of new-facelift model and b) sales of Fortuner showing remarkable growth of 5.5x to 792 units. However, sales of Hilux dented by 3.5%YoY to 1.5k units during the same period. This results in net sales of PKR30.3bn, up by +18%YoY. We expect gross margins for the quarter to strike at 17.5% while trading margins to clock in at 32.4%, thereby contributing 7.5% in the sales mix. In addition, we expect INDU to pay out cash dividend of PKR28/share, taking into consideration a payout ratio of 60%.

Exhibit: INDU Key Financials

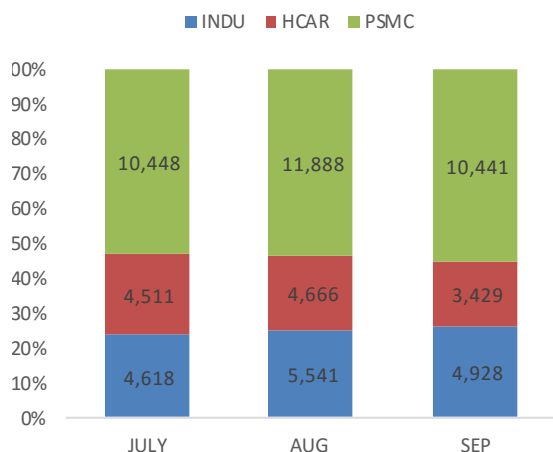
INDU	1QFY18	QoQ	YoY
UNITS	15,087	6%	5%
NET SALES	30,393	9%	18%
EPS	46	25%	22%
DPS	28	-20%	12%

Exhibit: HCAR Key Financials

HCAR	2QFY18	QoQ	YoY	1HFY18	YoY
UNITS	13,222	20%	64%	24,211	59%
NET SALES	24,251	15%	57%	45,310	74%
EPS	15.9	9%	54%	30.5	73%
DPS	-	-	-	-	-

Exhibit: PSMC Key Financials

PSMC	3QCY17	QoQ	YoY	9MCY17	YoY
UNITS	37,792	11%	28%	108,784	14%
NET SALES	24,300	6%	37%	71,129	25%
EPS	16.8	101%	215%	41.0	80%
DPS	-	-	-	-	-

Exhibit: Company Wise sales**HCAR: Peak sales to trigger quarterly earnings of PKR 2.3bn (EPS PKR 15.9), up by +73%YoY**

We expect company to post earnings of PKR2.3bn (EPS: PKR 15.9) up by +73% YoY having attained peak sales of 13.2k units at a growth level of +59%YoY. We attribute this increase on the back of a) combined sales of Civic and City reaching at 10.9k units, up by +35.3%YoY and b) BRV sales showing progressive trend, gearing by +7.5%QoQ to 2.3k units. Furthermore we expect Civic to have major share in the sales mix, driven by last year model launch. Overall net sales for the quarter is estimated to be PKR 24.3bn, up by +57%YoY, translating into cumulative net sales of PKR 45.3bn for the 1HFY18, a jump of +74.2%YoY. We expect gross margins for the quarter to hover around 13.8%, in-line with the past trend, while trading margins to maintain around 40.8% for the 2QFY18. As a result cumulative earnings for 1HFY18 is expected to clock in at PKR 30.5/share, up by 73%YoY as compared to PKR17.7/share in the same period last year.

PSMC: Rich sales mix to climb quarterly earnings by +80%YoY to PKR 1.3bn (EPS: PKR 16.8)

PSMC is schedule to announce its 3QCY17 financial result on 24th Oct-17. We expect company to post earnings of PKR1.3bn (EPS: PKR16.8), up by +80%YoY on the back of volumetric increase of +14%YoY to 37.7k units. Major contribution to sales jump was driven by a) WagonR/Cultus/Mehran, surging by +71%/56%/27%YoY to 5.8k/5.1k/10.5k units and b) Ravi/Bolan showing growth of +21%/16%YoY to 5.4k/5k units. For Cultus, new model launch in Apr-17 carried on with the growth trend. This brings company's net sales to PKR24.3bn, an increase of +37%YoY, pushing 9MCY17 net sales to PKR 71.1bn (+25.3%YoY). In addition, we expect gross margins to strike at 12.2% for the 3QCY17. As a result cumulative earnings for 9MCY17 is expected to clock in at PKR 41/share, up by +80%YoY as compared to PKR 22.8/share in the same period last year.

Outlook

INDU: We expect sales of Corolla to remain strong during the year as INDU will be able to complete its debottlenecking activity by 3QFY18, hence having the capacity (66,000 units) to curb backlogs and meet unexpected rise in demand. The overall impact of capacity addition will be seen from FY19 onwards. We maintain a "BUY" call on INDU with Dec-17 based target price of PKR 2,277.1/share, offering +28% upside. The company is currently trading at FY18 P/E of 9.7x and offers a dividend yield of 7.2%.

HCAR: Looking ahead, we expect sales of Civic to maintain at current levels during later half of the year as well. Furthermore, it would be a challenging scenario for HCAR to keep its sales upbeat given the launch of Corolla, and dwindling sales volume of City. Also, building our forecast on the current growth level attained in sales volume, HCAR will face capacity constraints in the future, as the current utilization level for the last quarter stands at 106%. We maintain a "HOLD" call on HCAR based on target price of PKR 553.8.

Source: PAMA, Bloomberg & IGI Research

PSMC: We expect PSMC to maintain its share in small car segment supported by strong sales of Cultus and Wagon R. In addition, Government Orange Cab scheme (50,000 units) if comes into play, may lift sales volume for Bolan/Mehran/Wagon R, however no progress has been made in this front and hence we haven't incorporated in our estimates. With respect to PSMCs' investment in Techno Auto Glass Limited (process underway for new facility), we expect company to receive certain easing to its cost of production in the future. We maintain a **"HOLD"** call on PSMC based on target price of PKR473.1.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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