

Day Break

Monday, 13 June 2016

Sector Update

Auto	TP	CP	Upside Recom.
INDU	1,020	920	11% BUY

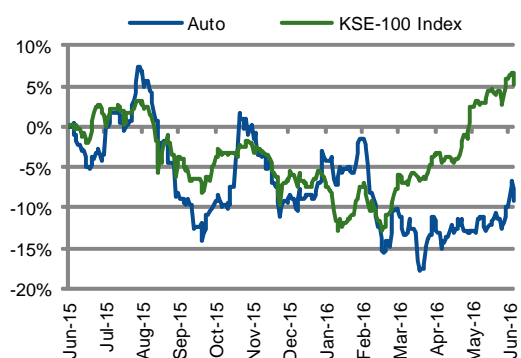
Industry	May-16	MoM	11MFY16	YoY
Passenger Car	15,278	2%	167,507	23%
Farm Tractors	4,021	-9%	30,607	-28%
MotorCycles	94,621	-6%	1,153,951	33%
Pickup/Jeeps	1,774	-19%	33,644	32%
Bus/Trucks	739	18%	5,815	42%
Total	121,144	-5%	1,435,467	4%

INDU	May-16	MoM	11MFY16	YoY
Corolla	5,207	7%	53,410	14%
Hilux	307	-46%	4,603	11%
Fortuner	30	-50%	518	-22%
Total	5,544	1%	58,531	14%

HCAR	May-16	MoM	11MFY16	YoY
Civic + City	2,507	-9%	23,800	13%

PSMC	May-16	MoM	11MFY16	YoY
Mehran	3,122	-1%	34,691	26%
Cultus	1,576	3%	14,850	16%
Ravi	1,437	-8%	28,339	40%
Bolan	1,722	21%	28,498	38%
Total	9,001	0%	118,629	33%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Automobile Assembler

Passenger car volumes mounted by Impressive +23% in 11MFY16

- For the month of May-16, auto sales are up by +21%YoY to 121k units, led by +43%YoY growth in commercial vehicles, followed by motorcycles (+31%YoY) and 3/wheeler (+31%YoY).
- PSMC sales fell by 22%YoY, while remained flat on monthly basis in May-16. INDU sales remain flat on both monthly and annual basis at 5.54k units. HCAR sales contracted by 9%MoM, which we believe is a result of subdued Civic sales, in anticipation of launch of 10th Generation Civic Model in 1HFY17.
- Going forward, we maintain our positive stance on auto industry on the back a) availability of low financing cost, b) reduced commodity prices, keeping companies margins relatively stable c) general positive economic outlook of Pakistan.

Auto sales up by +21%YoY in May-16

For the month of May-16, auto sales are up by +21%YoY to 121k units, led by +43%YoY growth in commercial vehicles, followed by motorcycles (+31%YoY) and 3/wheeler (+31%YoY). Passenger cars (PC) sales declined by 3%YoY to 15k units due to conclusion of 'Rozgaar Scheme' for PSMC and slowdown in sales of Civic variant in anticipation of 10th Generation Civic launch. Tractors sales are down by 9%YoY to 4.02k units, as farmers wait for expected tractor subsidies in provincial budgets.

Exhibit: PAMA Monthly Auto Sales Numbers (Units)

	May-16	MoM	YoY	11MFY16	YoY
=>1300	8,150	3%	6%	80,971	14%
800<x<1000	4,844	5%	-20%	63,189	31%
1000<x<1300	2,284	-7%	12%	23,347	33%
Passenger Cars	15,278	2%	-3%	167,507	23%
Commercial	739	18%	43%	5,815	42%
Pick-up / Jeeps	1,774	-19%	-50%	33,644	32%
Farm Tractor	4,021	-9%	-9%	30,607	-28%
Motorcycle	94,621	-6%	31%	1,153,951	33%
3-wheeler	4,711	8%	31%	43,943	-85%
Total	121,144	-5%	21%	1,435,467	4%

Source: IGI Research, PAMA

PSMC: Ending of Rozgar Scheme taking its toll

PSMC sales fell by 22%YoY, while remained flat on monthly basis in May-16. Highestcut was witnessed in Ravi and Bolan variants, down by 53%YoY and 49%YoY to 1.44k units and 1.72k units, respectively. Both

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these variants were included in government's 'ApnaRozgaar' Taxi Scheme. Swift, Mehran and Cultus showed healthy growth of +51%YoY, +17%YoY and +16%YoY during the month. In our view, this growth is on the back of increased auto financing.

INDU:10th Generation Corolla sustaining demand

INDU sales remain flat on both monthly and annual basis at 5.54k units, however Corolla depicted growth of +7%MoM/+4%YoY to 5.21k units due to demand of 11th Generation Corolla. Hilux and Fortunersales decreased by 29%YoY to 307units and 32%YoY to mere 30units, respectively. Sales increased by +14%YoY to 58.53kunits in 11MFY16 with Corolla posting +14%YoY growth to 53.41kunits and Hilux depicting growth of +11%YoY to 4.60kunits.

HCAR:City Variant supporting sales

HCAR sales contracted by 9%MoM, which we believe is a result of subdued Civic sales, in anticipation of launch of 10th Generation Civic Model in 1HFY17. Volumes grew by +7%YoY to 2.5kunits. Company has already started booking orders for new Civic variant from Jun-16. For the period 11MFY16, HCAR sales grew by +13%YoY to 23.8k units, which in our view was on the back of strong demand of City variant.

Tractors and 2/wheeler: Farmers waiting for the provincial budgets

Farm tractor segment witnessed a decline of 9%YoY to 4.02k units, as farmers wait for relief packages in provincial budgets. Amongst the 2/Wheeler, Atlas Honda (ATLH) continued its growth trend, with a growth of +19%YoY to 73kunits, primarily due to introduction of Motorcycle financing, we believe.

Exhibit: Tractors and 2/Wheeler

	May-16	MoM	YoY	11MFY16	YoY
AGTL	1,771	-8%	14%	11,653	-26%
MTL	2,234	-8%	-18%	18,208	-30%
Orient IMT	16	-62%	-89%	746	-19%
Total	4,021	-9%	-9%	30,607	-28%
2/wheeler (ATLH)	73,087	5%	19%	674,841	28%

Source: IGI Research, PAMA

Outlook

Going forward, we maintain our positive stance on auto industry on the back a) availability of low financing cost, b) reduced commodity prices, keeping companies margins relatively stable c) general positive economic outlook of Pakistan.

Exhibit: PAMA Monthly Auto Sales Numbers (Units) Company- wise

	May-16	MoM	YoY	11MFY16	YoY
HCAR	2,507	-9%	7%	21,293	1%
INDU	5,544	1%	1%	52,987	3%
PSMC	9,001	0%	-22%	109,628	23%
AGTL	1,771	-8%	14%	9,882	-93%
MTL	2,234	-8%	-18%	15,974	-39%
HINO	334	10%	58%	2,624	48%
GHNL	90	7%	-24%	666	-18%
GHNI	202	26%	87%	1,134	43%
ATLH	74,060	1%	14%	674,841	14%

Source: IGI Research, PAMA

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- FCF(Free Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Changes in Exchange rate

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