

Day Break

Tuesday, 24 January 2017

Sector Update

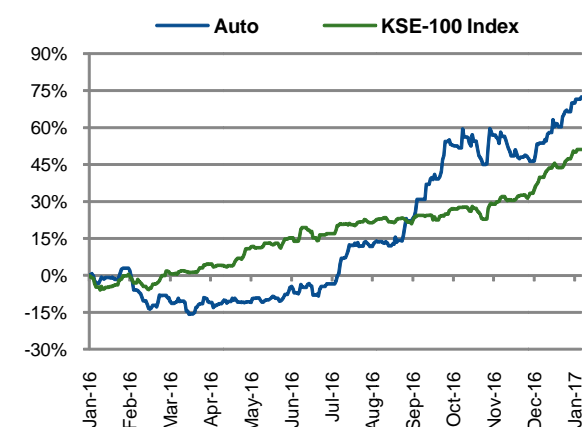
Auto Sector	TP	Upside	P/E	D.Yld
PSMC	741	2%	16.4	1.2%
INDU	1,815	2%	12.7	5.6%
HCAR	647	-20%	20.5	1.5%

PSMC	4QCY16	YoY	CY16E	YoY
EPS	8.3	-57%	31.1	-56%
DPS	7.0	-53%	7.0	-53%

INDU	2QFY17	YoY	IHFY17	YoY
EPS	35.5	-6%	74.3	-1%
DPS	25.0	25%	50.0	25%

HCAR	3QFY17	YoY	9MFY17	YoY
EPS	11.2	162%	28.9	70%
DPS	-	-	-	-

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Automobile Assembler

Automobile Sector Result Preview for Period Ending Dec-16

- Auto assemblers will start declaring their results for the quarter ending Dec-16 from 25th Jan-17 (tomorrow). We expect volumetric slowdown due to base effect (Rozgar Scheme) and fading Corolla novelty to weigh down on earnings offsetting the growth in HCAR volumes due to New Civic Model.
- EPS estimates for the quarter – PSMC: PKR 8.3 (up by +57%QoQ/down by 57%YoY), INDU: PKR 35.5 (down by 8%QoQ/6%YoY) and HCAR: PKR 11.2 (up by 9%QoQ/1.6xYoY).
- We currently have **“HOLD”** call on PSMC and INDU with target prices of PKR 741/share (upside +2%) and PKR 1815/share (upside +2%), respectively and **“SELL”** call on HCAR with target price of PKR 647/share (downside 20%).

Auto assemblers result previews

Auto assemblers will start declaring their results for the quarter ending Dec-16 from 25th Jan-17 (tomorrow). We expect volumetric slowdown due to base effect (Rozgar Scheme) and fading Corolla novelty to weigh down on earnings offsetting the growth in HCAR volumes due to New Civic Model.

PSMC: Earnings for CY16E to clock in at PKR 31.1/share (down 56%YoY)

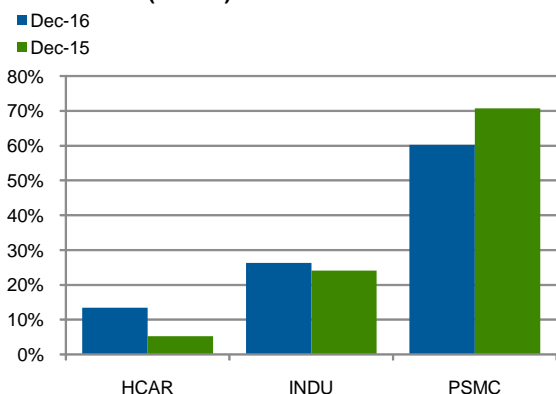
PSMC will announce its 4QCY16 results on 25th Jan-17 (tomorrow). We estimate PSMC to post profit after tax of PKR 686mn (EPS PKR 8.3), up +57%QoQ owing to volumetric growth and price increase while down by 57%YoY from slowdown in sales volumes post conclusion of Apna Rozgar Scheme. This takes CY16E earning to PKR 2.6bn (EPS PKR 31.1), down by 56%YoY. Gross margins for CY16E are estimated to clock in at 8.7%, down by 491bpsYoY owing to stronger JPY against USD during the year and rebound in international steel prices. Along the results, we expect the company to announce an annual cash dividend of PKR 7/share.

Exhibit: Financial Highlights

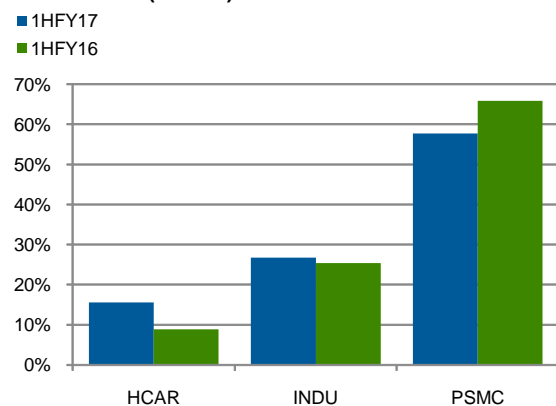
PKRmn	4QCY16	YoY	3QCY16	QoQ	CY16E	YoY
Net Sales	18,033	-23%	17,771	1%	74,793	-12%
Gross Profit	1,258	-58%	1,251	1%	6,491	-43%
S & D Exp	223	-50%	492	-55%	1,721	-12%
Admin Exp	228	-35%	327	-30%	1,371	11%
Post-tax Profits	686	-57%	438	57%	2,559	-56%
EPS (PKR)	8.3		5.3		31.1	
DPS (PKR)	7.0		0.0		7.0	

Source: IGI Research and Company Financials

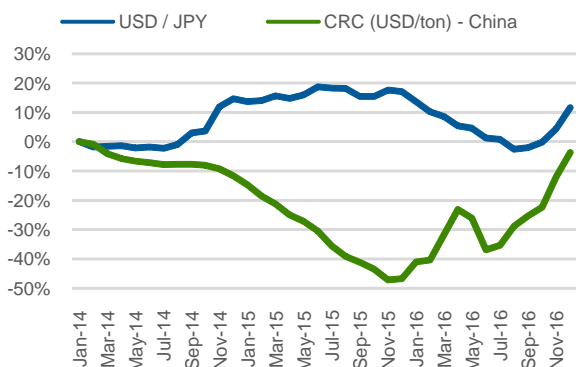
Market share (Dec-16)



Market share (1HFY17)



JPY and CRC movement (base Jan-14)



Source: PAMA, Bloomberg, Company Acc.

INDU: Lack of triggers to keep earnings lackluster

We envisage INDU to post profitability of PKR 2.8bn (EPS PKR 35.5), down by 8%QoQ/6%YoY taking 1HFY17 earnings to PKR 5.9bn (EPS PKR 74.3). The attrition in earnings is mainly on the back of slowdown in total volumes by 2%QoQ/10%YoY to 14.1kunits due to fading novelty of Corolla 11th Generation and hold up in sales of Hilux and Fortuner variants in anticipation of new generation launches. We expect gross margins to go down by 31bpsQoQ/14bpsYoY owing to reduced capacity utilizations and higher steel prices. However, the impact is partly offset by recent depreciation of JPY against PKR. We expect the company to continue its cash distribution practice and pay a cash dividend of PKR 25/share taking the total dividend for 1HFY17 to PKR 50/share.

Exhibit: Financial Highlights

PKRmn	2QFY17	YoY	1QFY17	QoQ	1HFY17	YoY
Net Sales	25,251	-5%	25,752	-2%	51,002	-1%
Gross Profit	4,018	-5%	4,178	-4%	8,196	-3%
S & D Exp	200	11%	204	-2%	404	2%
Admin Exp	216	-2%	221	-2%	437	7%
Post-tax Profits	2,789	-6%	3,047	-8%	5,836	-1%
EPS (PKR)	35.5		38.8		74.3	
DPS (PKR)	25.0		25.0		50	

Source: IGI Research and Company Financials

HCAR: New Civic led volumetric growth to drive earnings

HCAR is scheduled to announce 3QFY17 results on 25th Jan-17 (tomorrow). We expect HCAR to post earnings of PKR 1.6bn (EPS PKR 11.2), up +9%QoQ/+1.6xYoY. This takes 9MFY17 profit after tax to PKR 4.1bn (EPS PKR 28.9), up by +70%YoY. The growth in earnings is primarily attributed to the new 10th Generation Civic led volumetric growth of +6%QoQ/+92%YoY, higher prices of the new Civic model, higher quotient of Civic sales in total sales mix and healthy other income earned on customer advances. We expect the gross margins to further improve by 112bpsQoQ/191bpsYoY owing to increased capacity utilization and favorable tilt in the sales mix towards highly priced Civic.

Exhibit: Financial Highlights

PKRmn	3QFY17F	YoY	2QMY17	QoQ	9MFY17E	YoY
Net Sales	15,643	127%	15,482	1%	41,659	49%
Gross Profit	2,706	156%	2,504	8%	6,828	63%
S & D Exp	136	45%	135	1%	363	63%
Admin Exp	117	40%	116	1%	331	29%
Post-tax Profits	1,605	162%	1,473	9%	4,129	70%
EPS (PKR)	11.2		10.3		28.9	

Source: IGI Research and Company Financials

Recommendation

Recent JPY depreciation against USD and positive sector developments (Civic Model launch by HCAR, Hilux and Fortuner launches by INDU and expected launch of Celerio by PSMC in IHCY17) has garner public interest and the sector has rallied by +97%FYTD stretching valuations. Henceforth, we have **“HOLD”** call on PSMC and INDU with target prices of PKR 741/share (upside +2%) and PKR 1815/share (upside +2%), respectively and **“SELL”** call on HCAR with target price of PKR 647/share (downside 20%).

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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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