

Day Break

Wednesday, 11 May 2016

Sector Update

Auto	TP	CP	Upside Recom.	
INDU	1,020	950	7%	HOLD
PSMC	UR	388	UR	UR
HCAR	UR	293	UR	UR

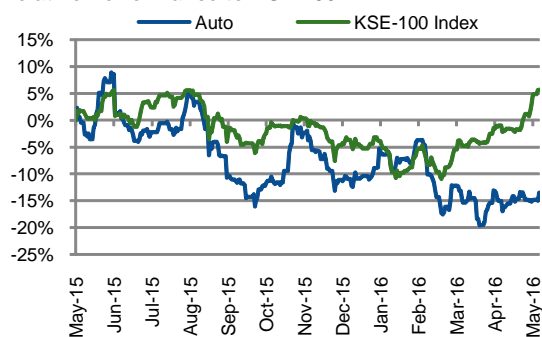
Industry	Apr-16	MoM	10MFY16	YoY
Passenger Car	15,023	-2%	152,229	26%
Farm Tractors	4,417	0%	26,586	-31%
MotorCycles	100,685	6%	1,043,793	31%
Pickup/Jeeps	2,178	-6%	31,870	46%
Bus/Trucks	625	-4%	5,076	42%
Total	127,276	4%	1,298,701	28%

INDU	Apr-16	MoM	10MFY16	YoY
Corolla	4,859	-8%	48,203	16%
Hilux	564	26%	4,296	-22%
Fortuner	60	0%	488	16%
Total	5,483	-5%	52,987	15%

HCAR	Apr-16	MoM	10MFY16	YoY
Civic + City	2,751	0%	21,293	13%

PSMC	Apr-16	MoM	10MFY16	YoY
Mehran	3,202	10%	31,569	27%
Cultus	1,527	-6%	13,274	16%
Ravi	1,554	-14%	26,902	57%
Bolan	1,428	-5%	26,776	56%
Total	8,965	-1%	109,628	41%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Automobile Assembler

Passenger car volumes mounted by Impressive +26% in 10MFY16

- For the month of Apr-16, auto sales are up by +33%YoY to 127k units, led by +49%YoY growth in 2/wheeler, followed by commercial vehicles(+38%YoY) and 3/wheeler (+20%YoY).
- PSMC sales fell by 18%YoY/1%MoM for the month of Apr-16 to 9.0kunits. Highest fall was witnessed in Ravi and Bolan variants, down by 51%YoY and 56%YoY to 1.6k units and 1.4k units respectively, In Apr-16, INDU sales waned by 6%YoY/5%MoM to 5.5kunits, primarily due to drop in sales of Corolla variant and HCAR sales remained strong, growing by +16%YoY and remained flat on monthly basis at 2.7k units
- 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 +10%YoY led by 2/Wheelers

For the month of Apr-16, auto sales are up by +33%YoY to 127k units, led by +49%YoY growth in 2/wheeler, followed by commercial vehicles(+38%YoY) and 3/wheeler (+20%YoY). Passenger cars (PC) segment sales declined by 4%YoY to 15k units in Apr-16, which is due to a) conclusion of 'Rozgaar Scheme' for PSMC, and b) INDU Corolla variant sales reaching its inflection point. Tractors sales are down by 15%YoY to 4.4k units as ambiguity still looms over government subsidy extension.

Exhibit: PAMA Monthly Auto Sales Numbers (Units)

Unit	Apr-16	Mar-16	MoM	YoY	10MFY16	YoY
Passenger Cars	15,023	15,272	-2%	-4%	152,229	26%
Commercial	625	648	-4%	38%	5,076	42%
Pick-up / Jeeps	2,178	2,315	-6%	-39%	31,870	46%
Farm Tractor	4,417	4,397	0%	-15%	26,586	-31%
Motorcycle	100,685	94,839	6%	49%	1,043,793	31%
3-wheeler	4,348	4,355	0%	20%	39,147	9%
Total	127,276	121,826	4%	33%	1,298,701	28%

Source: IGI Research, PAMA

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Exhibit: PAMA Monthly Auto Sales Numbers (Units)

Unit	Apr-16	Mar-16	MoM	YoY	10MFY16	YoY
=>1300	7,939	8,406	-6%	-2%	72,821	15%
800<x<1000	4,630	4,398	5%	-21%	58,345	39%
1000<x<1300	2,454	2,468	-1%	55%	21,063	36%
Passenger Cars	15,023	15,272	-2%	-4%	152,229	26%

Source: IGI Research, PAMA

PSMC: Taxi Scheme Conclusion led to 18%YoY decline in Sales

PSMC sales fell by 18%YoY/1%MoM for the month of Apr-16 to 9.0kunits. Highest fall was witnessed in Ravi and Bolan variants, down by 51%YoY and 56%YoY to 1.6k units and 1.4k units respectively. Both these variants were included in government's 'Apna Rozgaar' Taxi Scheme. Cultus, Wagon R and Mehran, PC variants of PSMC, showed healthy growth of +71%YoY, 34%YoY and +22%YoY during the month. In our view, this growth is largely a result of easy auto financing, which for the 10MFY16 is up by +19%YoY.

Exhibit: PSMC monthly sales volumes

Units	Apr-16	Mar-16	MoM	YoY	10MFY16	YoY
Wagon R	925	837	11%	34%	7,782	93%
Cultus	1,527	1,630	-6%	71%	13,274	16%
Swift	329	382	-14%	-4%	3,325	13%
Suzuki Ravi	1,554	1,808	-14%	-51%	26,902	57%
Bolan	1,428	1,500	-5%	-56%	26,776	56%
Mehran	3,202	2,898	10%	22%	31,569	27%
Total	8,965	9,055	-1%	-18%	109,628	41%

Source: IGI Research, PAMA

INDU: 10th Generation Corolla variant reached its inflection point

In Apr-16, INDU sales waned by 6%YoY/5%MoM to 5.5kunits, primarily due to drop in sales of Corolla variant. We believe, this is due to a) 11th Generation Corolla reaching its sales inflection point, and b) expected launch of 10th generation HCAR Civic variant by Dec-16. However, dedicated assembly line for Hilux variant has improved sales volume to 0.5k units, up by 58%YoY/+26%MoM. We continue to assume Hilux sales growth to register above +18%YoY in the next 2-3 years.

Exhibit: INDU monthly sales volumes

Unit	Apr-16	Mar-16	MoM	YoY	10MFY16	YoY
Corolla	4,859	5,275	-8%	-10%	48,203	16%
Fortuner	60	60	0%	-10%	488	-22%
Toyota Hilux	564	446	26%	58%	4,296	16%
Total	5,483	5,781	-5%	-6%	52,987	15%

Source: IGI Research, PAMA

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HCAR: Buoyant sales despite new Civic variant expected in Dec-16

HCAR sales remained strong, growing by +16%YoY and remained flat on monthly basis at 2.7k units. We assume this to be the result of higher City sales. Expected launch of 10th generation HCAR Civic variant by Dec-16, is likely to keep sales volumes for civic on the lower side.

Exhibit: HCAR monthly sales volumes

Unit	Apr-16	Mar-16	MoM	YoY	10MFY16	YoY
Civic / City	2,751	2,749	0%	16%	21,293	13%

Source: IGI Research, PAMA

Tractors and 2/wheeler: Farmers giving up on Government

Farm tractor segment witnessed a decline of 15%YoY to 4.4k units, as ambiguity still looms over government subsidy extension. We suspect upcoming budget FY17 to carry some relief for farmers in terms of subsidized farm tractors.

Amongst the 2/Wheeler, Atlas Honda (ATLH) continued its growth trajectory, with sales reaching 73k units /per month, up by +19%YoY.

Exhibit: Tractors and ATLH monthly sales volumes

Unit	Apr-16	MoM	YoY	10MFY16	YoY
AGTL	1,935	7%	23%	9,882	-30%
MTL	2,440	-4%	-29%	15,974	-32%
Orient IMT	42	8%	-71%	730	-6%
Total	4,417	0%	-15%	26,586	-31%
ATLH (2/Wheeler)	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 sales volumes company-wise

Unit	Apr-16	Mar-16	MoM	Apr-15	YoY	10MFY16	10MFY15	YoY
HCAR	2,751	2,749	0%	2,376	16%	21,293	18,781	13%
INDU	5,483	5,781	-5%	5,837	-6%	52,987	45,978	15%
PSMC	8,965	9,055	-1%	10,956	-18%	109,628	77,607	41%
AGTL	1,935	1,808	7%	1,572	23%	9,882	14,152	-30%
MTL	2,440	2,550	-4%	3,456	-29%	15,974	23,426	-32%
HINO	305	369	-17%	209	46%	2,624	1,557	69%
GHNL	84	72	17%	92	-9%	666	692	-4%
GHNI	160	140	14%	71	125%	1,134	687	65%
ATLH	73,087	69,581	5%	61,488	19%	674,841	526,327	28%

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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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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