

Day Break

Wednesday, 11 October 2017

Sector Update

Sym.	Target Price	P/E 2018	D/Y 2018	Recom.
INDU	2,406.1	9.3	7.5%	BUY
HCAR	565.2	9.1	3.3%	HOLD
PSMC	481.8	12.5	1.3%	HOLD

Industry	Sep-17	MoM	Sep-16	YoY
PASS. CARS	15,639	-16%	14,088	11%
TRUCKS/BUSES	793	-8%	578	37%
PICK-UP/JEEPS	3,159	-8%	1,972	60%
TRACTOR	5,953	16%	3,412	74%
2/W	136,954	-16%	119,308	15%
3/W	6,552	-6%	4,911	33%
Total	169,050	-15%	144,269	17%

Automobile Assembler

Big three dominance on rise-INDU being the prime mover; Volumes depressed by 15%MoM in Sep-17

- As per latest data released by Pakistan Automotive Manufacturers Association (PAMA), industry sales decreased by 15%MoM (+17%YoY) to 169.05k units on the back of shift in purchase behavior of customers during Eid season. Segment wise, major decline (16%MoM) was witnessed in sales of 2/W and passenger cars, reaching 137k and 15.6k units respectively.
- All three major OEMs witnessed decline in their sales with HCAR registering a major decline of 27%MoM to 3.4k units, while PSMC showing a drop of 12%MoM to 10.4k units. Similarly, INDU followed the trail with a drop of 11%MoM clocking at 4.9k units. This brings passenger car quarterly sales to 50.6k units, up by +22%YoY/+10%QoQ.
- We maintain a "BUY" call on INDU with Dec-17 based target price of PKR 2,406.1/share, offering +40% upside. The company is currently trading at FY18E P/E of 9.3x and offers a dividend yield of 7.5%.

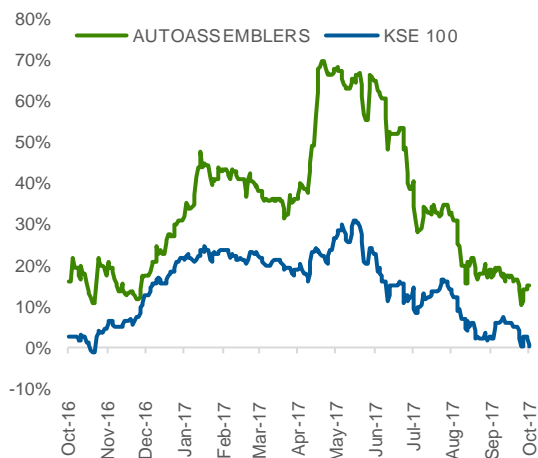
Drop in Industry sales across major segments-Tractor sales maintaining growth trend

As per latest data released by Pakistan Automotive Manufacturers Association (PAMA), industry sales decreased by 15%MoM (+17%YoY) to 169.05k units on the back of shift in purchase behavior of customers during Eid season. Segment wise, major decline of 16%MoM each was witnessed in sales of 2/W and passenger cars, reaching 137k and 15.6k units respectively. In contrast, sales of tractor continued to show healthy growth trend recording sales of 5.9k units, up by +16%MoM (+74%YoY). Within passenger cars segment <1300 cc engine category sales declined by 21%MoM/4%YoY to 7.2k units, followed by sales of 1000<x<1300 cc also dropping by 20%MoM/+46%YoY to 3.1k units. Similarly, 3/wheeler, Pick-up & Jeeps and Trucks witnessed drop of 6%/8%/8%MoM in volumes.

All three major OEMs posted a decline in their sales - passenger car volumes down by 16%MoM to 15.6k units

With respect to company wise sales, all three major OEMs witnessed decline in their sales with HCAR registering a major decline of 27%MoM to 3.4k units, while PSMC showing a drop of 12%MoM to 10.4k units. Similarly, INDU followed the trail with a drop of 11%MoM clocking at 4.9k units, translating monthly sales for the passenger car segment to 15.6k units (+11%YoY). The quarterly sales stands at 50.6k units (+22%YoY/+10%QoQ), potentially led by strong growth of +56%YoY in HCAR sales volumes.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

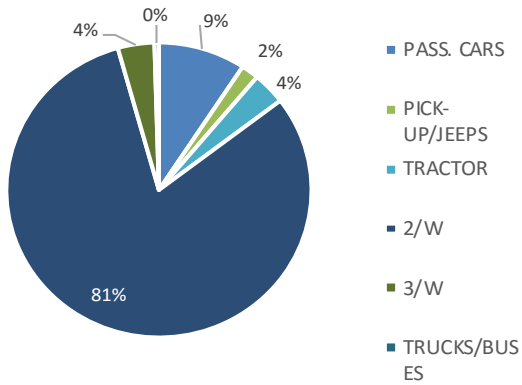
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Exhibit: Automobile sales composition- Sep-17



HCAR: Decline in monthly sales volumes while remarkable growth (+56%YoY) in quarterly sales

HCAR registered a volumetric decline of 27%MoM to 3.4k units led by drop in sales of Civic and City to 2.7k units (43%MoM) and followed by BRV reporting a decline of 8%MoM to 660 units. The company attained sales of 10.5k units for the 1QFY18, up by +56%YoY.

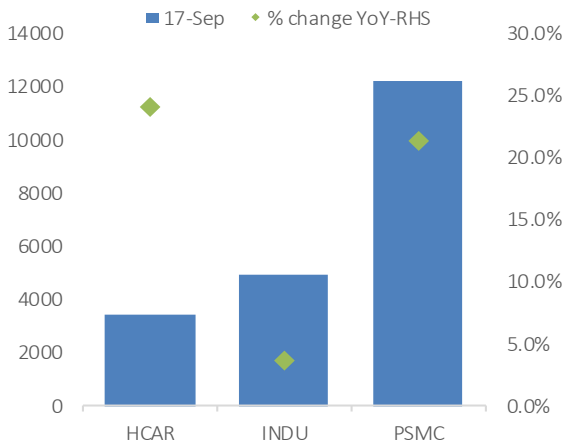
INDU: Monthly sales dwindled while quarterly sales creeping by +5%YoY

INDU’s volume declined by 11%MoM (+4%YoY) to 4.9k units, whereby sales of newly launched Corolla dented by 14%MoM to 4.1k units. INDU’s Fortuner variant sales clocked in at 257 units, down by 3%MoM, whereas Hilux sales continued to show progressive trend at a growth level of +14%MoM/+77%YoY to 563 units. This brings overall 1QFY18 sales to 15k units compared to 14.4k units witnessed during the same period last year.

PSMC: Major drop in Cultus and Wagon R monthly volumes although overall quarterly sales positive (+30%YoY)

PSMC’s witnessed a volumetric decline of 12%MoM to 10.4k units across all variants, wherein sales of Wagon R collapsed by 25%MoM to 1.6k units, followed by a drop of 14%MoM in sales of Ravi to 1.6k units. Sales of newly launched Cultus trickled by 15%MoM to 1.5k units for the month of Sep-17. Similarly, sales of Mehran descended by 7%MoM to 3.7k units due to base effect. However, Bolan sales remained relatively stable crawling by +2%MoM to 1.6k units. The 2/wheeler segment witnessed stagnant sales of 1.7k units for the month of Sep-17. To sum up, the overall quarterly sales jumped up by +30%YoY to 32.7k units led by an upsurge in sales of Wagon R/ Cultus/Bolan.

Exhibit: Passenger car sales volume-Sep-17



Recommendation

We maintain a “market” stance on Automobile Assemblers, with INDU as our top pick. We maintain a “BUY” call on INDU with Dec-17 based target price of PKR 2,406.1/share, offering +40% upside. The company is currently trading at FY18E P/E of 9.3 x and offers a dividend yield of 7.5%.

Source: PAMA, Bloomberg & IGI Research

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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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