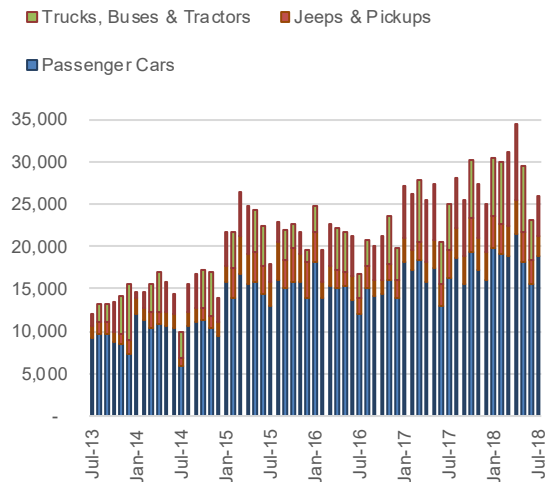


Day Break

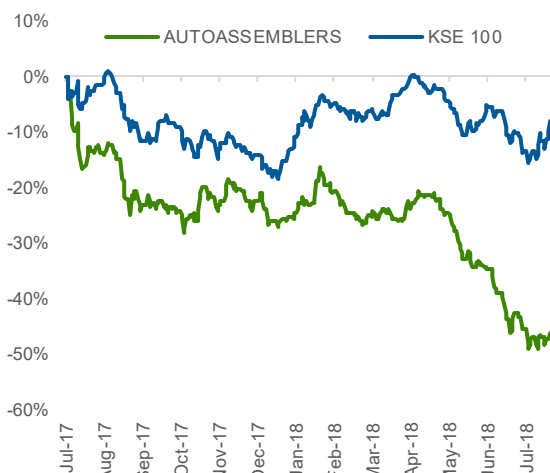
Monday, 13 August 2018

Sector Update

Exhibit: Industry Car sales volume



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Automobile Assemblers

Jul-18: Aggressive prior year bookings in the wake of non-filer tax triggered monthly PC sales up by +21%

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), shows industry sales volume have increased by +9%MoM to 176k units owing to low base effect in the previous month (Ramzan period). Despite ban imposed on non-filers volumes have shown positive growth owing to extensive bookings done in the previous months (especially after budgetary measure announcement).
- With respect to company wise sales, HCAR outperformed with sales volume surging by +37%MoM to 4.9k units followed by INDU also witnessing an increase of +20%MoM to 5.5k units. PSMC sales inched up by +5%MoM to 10.9k units.
- We expect momentum in sales volume to hit a break with demand slowing down courtesy of ban imposed on non-filers as per the Finance Act 2018-19. The impact will become more pronounced in the next two months as sales to non-filers phases out.
- We maintain a 'BUY' call on INDU with Dec-18 based target price of PKR 1,893/share, offering +20% upside from the last closing. The company is currently trading at FY19E P/E of 8.3x and offers a dividend yield of 8.4%.

Sales up by +9%MoM to 176k units as passenger cars recorded volumes up by +21%MoM

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), shows industry sales volume have increased by +9%MoM to 176k units owing to low base effect in the previous month (Ramzan period). Despite ban imposed on non-filers volumes have shown positive growth owing to extensive bookings done in the previous months (especially after budgetary measure announcement).

Majority of the segments witnessed monthly decline in their volumes while passenger car and 2/W segment reported double digit growth levels of +21%/11%MoM to 18.9k/146k units. Within the passenger car segment, =>1300cc engine category cars showcased stellar growth of 41%MoM to 9.7k units, followed by 1000<x<1300cc category, increasing by +10%MoM to 4.4k units. However, sales within 800<x<1000cc segment remained flat at 4.7k units.

Exhibit:

Monthly PAMA Sales

UNITS	Jul-18	Jun-18	MoM	Jul-17	YoY	FY18	FY17
=>1300	9,659	6,839	41%	7,984	21%	99,140	93,871
800<x<1000	4,783	4,771	0%	4,524	6%	67,959	57,178
1000<x<1300	4,433	4,042	10%	3,830	16%	49,689	34,679
Total Pass. Cars	18,875	15,652	21%	16,338	16%	216,788	185,728
Trucks / Buses	694	752	-8%	792	-12%	9,946	8,629
Pick-Up/Jeeps	2,469	2,866	-14%	3,239	-24%	41,845	27,338
Tractor	3,872	3,895	-1%	4,619	-16%	70,866	54,937
2/W	146,174	132,271	11%	149,617	-2%	1,781,359	1,556,338
3/W	4,490	5,871	-24%	5,326	-16%	72,961	68,742
TOTAL	176,574	161,307	9%	179,931	-2%	2,193,765	1,901,712

Source: PAMA, IGI Research

Major OEM’s displayed positive growth levels

With respect to company wise sales, HCAR outperformed with sales volume surging by +37%MoM to 4.9k units followed by INDU also witnessing an increase of +20%MoM to 5.5k units. PSMC sales inched up by +5%MoM to 10.9k units.

HCAR: Robust sales of Civic/City; total volumes up by +37%MoM to 4.6k units

Sales of Civic/City lead the growth in volumes increasing substantially by +57%MoM to 4.6k units for the month of Jul-18. However, sales of BR-V collapsed by +46%MoM to 372 units. For the four-month period (4MFY19) total sales for the company were up +17%YoY to 13.5k units driven by robust sales of Civic and City.

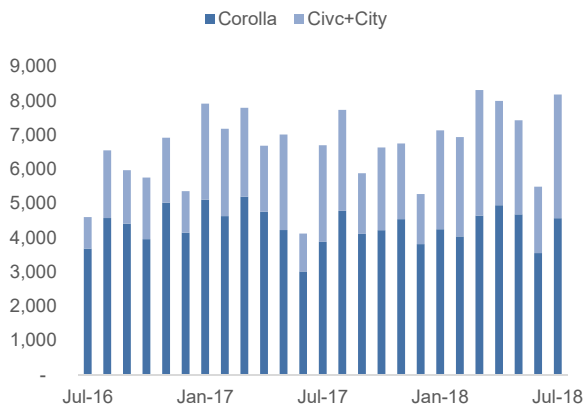
INDU: Corolla leading the volumetric chart; sales up by +20%MoM to 5.5k units

The company registered a volumetric incline of +20%MoM to 5.5k units led by double digit growth levels in Corolla and Hilux sales. To mention, Corolla sales gained +20% growth on monthly basis to 4.6k units, followed by Hilux moving up by +16%MoM to 682 units. However, sales of Fortuner declined by 47%MoM to 220 units as the demand stemming from election period receded.

PSMC: Mild sales performance with volumes up by +5%MoM to 10.9k units

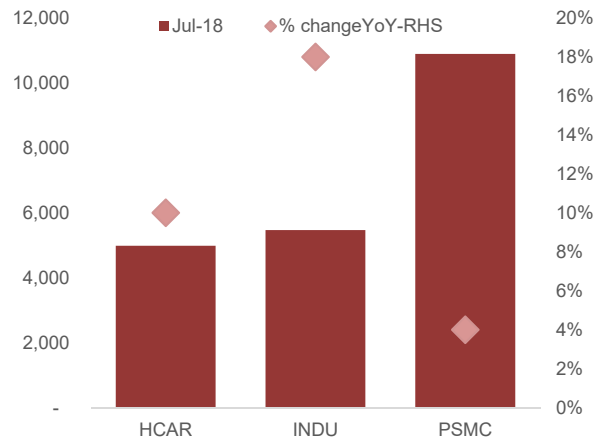
PSMC showed moderate growth performance with volumes increasing up by +5%MoM to 10.9k units. Sales of Wagon R/Cultus/Mehran were up by +3%/22%/7%MoM to 2.8k/1.7k/3.4k units. In the light commercial vehicle segment, Ravi and Bolan reported mixed growth levels with former witnessed flattish sales of 1.2k units while the latter suffering a decline of 14%MoM to 1.3k units. On cumulative basis for 7MCY18, sales were up by +19%YoY to 85k units, primarily contributed by strong growth in Wagon R (+48%YoY) and Mehran (+16%YoY) sales volume.

Exhibit:
Sales of Civic/City versus Corolla



Source: PBS, SBP, IGI Research

Exhibit:
Company wise passenger car sales for Jul-18



Outlook: Volumes to plummet amid ban on non-filers; impact to become visible in the next two months

The increase in sales volumes is due to extensive bookings done in the preceding periods by both filers and non-filers. However, we expect momentum in sales volume to hit a break with demand slowing down courtesy of ban imposed on non-filers as per the Finance Act 2018-19. The impact will become more pronounced in the next two months as sales to non-filers phases out. Moreover, new launches by OEMs might help spur demand in the short-run such as recently launched Corolla Xli variant (AGS) and possible launch of United Bravo by United Motors in mid-September.

Recommendation

We maintain a **'BUY'** call on INDU with Dec-18 based target price of PKR 1,893/share, offering +20% upside from the last closing. The company is currently trading at FY19E P/E of 8.3x and offers a dividend yield of 8.4%.

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Time Horizon: Dec – 2018

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