

Day Break

Monday, 13 February 2017

Sector Update

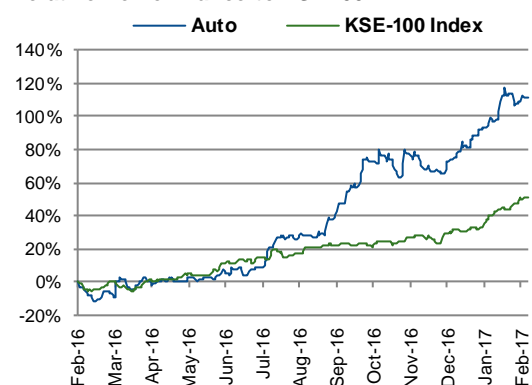
| Industry | Jan-17 | MoM | Jan-16 | YoY |
|-----------------|---------|-----|---------|------|
| Passenger Cars | 18,255 | 30% | 18,083 | 1% |
| Commercial | 827 | 28% | 601 | 38% |
| Pick-up / Jeeps | 2,629 | 30% | 3,634 | -28% |
| Farm Tractor | 5,390 | 68% | 2,352 | 129% |
| Motorcycle | 135,041 | 2% | 114,430 | 18% |
| 3-w heeler | 8,830 | 62% | 5,085 | 74% |
| Total | 170,972 | 8% | 144,185 | 19% |

| INDU | Jan-17 | MoM | Jan-16 | YoY |
|----------|--------|------|--------|------|
| Corolla | 5,108 | 23% | 5,544 | -8% |
| Fortuner | 126 | 600% | 50 | 152% |
| Hilux | 541 | -4% | 373 | 45% |
| Total | 5,775 | 22% | 5,967 | -3% |

| HCAR | Jan-17 | MoM | Jan-16 | YoY |
|--------------|--------|-----|--------|-----|
| Civic + City | 4,002 | 66% | 3,015 | 33% |

| PSMC | Jan-17 | MoM | Jan-16 | YoY |
|--------|--------|-----|--------|------|
| Mehran | 3,735 | 35% | 4,275 | -13% |
| Cultus | 1,366 | 5% | 1,018 | 34% |
| Ravi | 1,962 | 37% | 3,183 | -38% |
| Bolan | 2,030 | 20% | 2,786 | -27% |
| Total | 12,376 | 15% | 14,282 | -13% |

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Automobile Assembler

The January Effect: Auto volumes up by +8%MoM for Jan-17

- As per latest data released by Pakistan Automotive Manufacturers Association (PAMA), industry sales increased by +19%YoY to 171.0k units for the month of Jan-17, with a significant growth in motorcycles of +18%YoY to 135.0k units, followed by tractors registering growth of +2.3xYoY to 5.4k units.
- For Jan-17, HCAR's sales volume posted growth of +33%YoY/+66%MoM to 4.0k units. INDU's sale volume slowed down by 3%YoY to the tune of 5.8k, however sales volume increased on monthly basis by +22%, owing to the January effect. PSMC's volumes slowed down by 13%YoY to 12.4k units in Jan-17 because of lower sales of Ravi/Bolan, down by 38%YoY/27%YoY to 2.0k units each owing to base effect (Rozgar Scheme).
- We maintain our underweight stance on automobile assemblers, with a "Hold" call on INDU and "Sell" call on HCAR with target price of PKR 1,694/share and PKR 457/share, respectively.

Auto sales increased by +19%YoY to 171.0k units during Jan-17

As per latest data released by Pakistan Automotive Manufacturers Association (PAMA), industry sales increased by +19%YoY to 171.0k units for the month of Jan-17, with a significant growth in motorcycles of +18%YoY to 135.0k units, followed by tractors registering growth of +2.3xYoY to 5.4k units. However, growth in passenger car sales remained muted at 18.3k units due to the high base of PSMC (Rozgar Scheme) and INDU Corolla variants lagging behind, offsetting the august growth in HCAR's volumetric growth post launch of its New Civic Generation in Jul-16.

For 7MFY17, total industry volumes increased by +17%YoY to 1,082.9k units, however passenger cars volumes retreated by 3%YoY to 104.2k units.

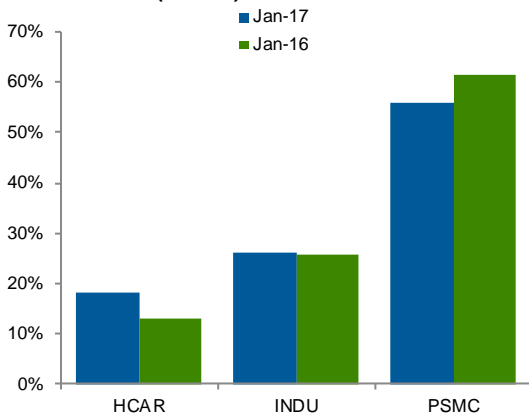
Exhibit:

PAMA Monthly Auto Sales Numbers (Units)

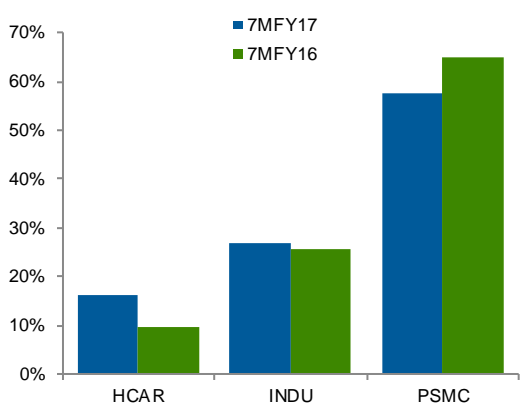
| | Jan-17 | MoM | Jan-16 | YoY | 7MFY17 | YoY |
|-----------------|---------|-----|---------|------|-----------|------|
| =>1300 | 9,522 | 38% | 8,903 | 7% | 53,974 | 10% |
| 800<x<1000 | 5,765 | 29% | 7,061 | -18% | 32,545 | -27% |
| 1000<x<1300 | 2,968 | 11% | 2,119 | 40% | 17,637 | 25% |
| Passenger Cars | 18,255 | 30% | 18,083 | 1% | 104,156 | -3% |
| Commercial | 827 | 28% | 601 | 38% | 4,708 | 45% |
| Pick-up / Jeeps | 2,629 | 30% | 3,634 | -28% | 14,261 | -44% |
| Farm Tractor | 5,390 | 68% | 2,352 | 129% | 26,132 | 77% |
| Motorcycle | 135,041 | 2% | 114,430 | 18% | 893,297 | 20% |
| 3-wheeler | 8,830 | 62% | 5,085 | 74% | 40,307 | 57% |
| Total | 170,972 | 8% | 144,185 | 19% | 1,082,861 | 17% |

Source: IGI Research, PAMA

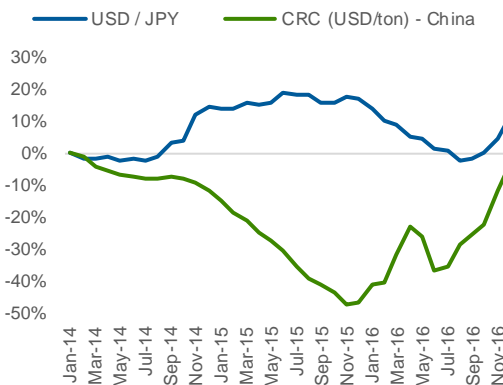
Market share (Jan-17)



Market share (7MFY17)



JPY and CRC movement (base Jan-14)



HCAR: Euphoria of New Civic Intact

Euphoria of HCAR’s new Civic Model remains intact, resulting in sales growth of +33%YoY/+66%MoM to 4.0k units for the month of Jan-17. This month sales are the highest monthly sales posted by HCAR. For the period of 7MFY17, the sales have augmented by +51%YoY to 20.6k units on the back of new Civic Generation led growth.

INDU: Corolla facing stiff competition

INDU’s sale volume slowed down by 3%YoY to the tune of 5.8k units due to shift in consumer preference away from Corolla towards new Civic Generation. However sales volume increased on monthly basis by +22%, owing to the January effect. INDU’s Corolla variant sales clocked in at 5.1k units, down 8%YoY/up +23%MoM. Hilux sales recorded growth of +45%YoY to 541 units on the back of new variant launched in Dec-16, while receded by 4%MoM on monthly basis. For 7MFY17, the company’s sales volume declined by 6%YoY on account of slowdown in sales of Corolla (7%YoY) owing to demand tilt towards HCAR New Civic and production disruptions holding back volumes.

PSMC: Subdued sales owing to high base

PSMC’s volumes slowed down by 13%YoY to 12.4k units in Jan-17 because of lower sales of Ravi/Bolan, down by 38%YoY/27%YoY to 2.0k units each owing to base effect (Rozgar Scheme), whereas Mehran sales contracted by 13%YoY to 3.7k units, possibly in anticipation of replacement with a new variant. However, Wagon R demands remains intact with sales increasing +46%YoY to 1.6k units for the month of Jan-17. On monthly basis, sales inclined by +15%MoM, primarily on account of January effect. During 7MFY17, the company’s sales dipped by 21%YoY to 74.0k units owing to base effect of Rozgar Scheme.

Recommendation

We maintain our underweight stance on automobile assemblers, with a “Hold” call on INDU and “Sell” call on HCAR with target price of PKR 1,694/share and PKR 457/share, respectively.

Exhibit:

PAMA Monthly Auto Sales Numbers (Units) Company-wise

| | Jan-17 | MoM | Jan-16 | YoY | 7MFY17 | YoY |
|------|--------|------|--------|------|---------|------|
| HCAR | 4,002 | 66% | 3,015 | 33% | 20,573 | 51% |
| INDU | 5,775 | 22% | 5,967 | -3% | 34,281 | -6% |
| PSMC | 12,376 | 15% | 14,282 | -13% | 73,906 | -21% |
| AGTL | 1,772 | 152% | 984 | 80% | 9,243 | 85% |
| MTL | 3,544 | 44% | 1,262 | 181% | 16,600 | 81% |
| HINO | 323 | 20% | 312 | 4% | 2,143 | 26% |
| GHNL | 80 | 23% | 72 | 11% | 488 | 20% |
| GHNI | 303 | 33% | 120 | 153% | 1,417 | 100% |
| ATLH | 86,074 | 2% | 73,259 | 17% | 544,769 | 17% |

Source: IGI Research, PAMA

Source: PAMA, Bloomberg, Company Acc.

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|----------------|--|
| Buy | If target price on aforementioned security(ies) is more than 10%, from its last closing price(s) |
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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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