

Day Break

Monday, 14 October 2019

Sector Update

Automobile Assemblers

Sep-19: Dismal sales performance for the 1QFY20; Industry volumes down by 23% y/y

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA) for Sep-19, reports industry sales volume declined by 26%YoY to 141k units as all segments witnessed drop in their sales.
- We attribute the steep decline in sales to multiple factors such as increase in car prices (PKR depreciation pass-over and increase in FED), monetary tightening and hefty tax measures on non-filer customers.
- With respect to company wise, HCAR witnessed significant drop of 68%YoY to 1.5k units followed by INDU at 57%YoY to 2.1k units. Similarly, PSMC sales collapsed by 18%YoY to 8.2k units. On a sequential basis INDU's sales inched down by a minor 2%MoM while PSMC and HCAR witnessed 23%/10%MoM increase.
- We have an underweight stance on the sector as we expect macro-economic headwinds will keep demand at bay.

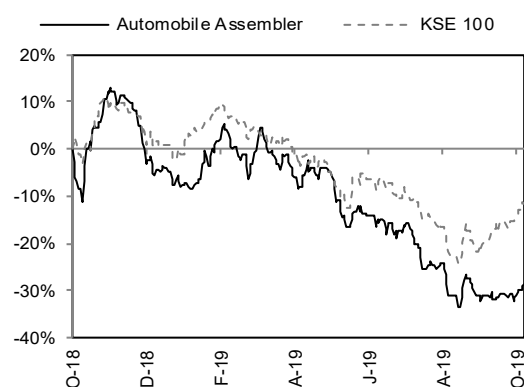
Industry sales down by 26%YoY as all segments reported drop across the board

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA) for Sep-19, reports industry sales volume declined by 26%YoY to 141k units as all segments witnessed drop in their sales. However, on a sequential basis, sales inched up by +2%YoY owing to +2.6x growth in 3/W segment followed by +48% jump in tractor sales and +20% increase in passenger car sales. On a cumulative basis for the 1QFY20 industry sales were down by 23%YoY to 409k units. We attribute the steep decline in sales to multiple factors such as increase in car prices (PKR depreciation pass-over and increase in FED), monetary tightening and hefty tax measures on non-filer customers.

Big three sales on a slippery slope

With respect to company wise, HCAR witnessed significant drop of 68%YoY to 1.5k units followed by INDU at 57%YoY to 2.1k units. Similarly, PSMC sales collapsed by 18%YoY to 8.2k units. On a sequential basis INDU's sales inched down by a minor 2%MoM while PSMC and HCAR witnessed 23%/10%MoM increase.

Exhibit: Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Suleman Ashraf

Research Analyst

suleman.ashraf@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

Exhibit: Monthly PAMA Sales

UNITS	Sep-19	Aug-19	MoM	Sep-18	YoY	1QFY20	1QFY19	YoY
Below 1,000cc	5,793	4,195	38%	3,539	64%	15,298	11,853	29%
1,000cc->1,300cc	1,781	1,934	-8%	4,455	-60%	5,766	12,718	-55%
Above 1,300cc	3,349	2,997	12%	8,963	-63%	9,953	26,650	-63%
PASS. CARS	10,923	9,126	20%	16,957	-36%	31,017	51,221	-39%
TRUCKS / BUSES	264	281	-6%	589	-55%	1,070	2,005	-47%
PICK-UP/JEEPS	896	1,096	-18%	2,388	-62%	3,618	7,130	-49%
TRACTOR	3,761	2,545	48%	5,818	-35%	9,395	13,731	-32%
2/W	122,718	125,013	-2%	160,201	-23%	358,428	441,856	-19%
3/W	3,423	1,325	158%	5,518	-38%	6,348	14,770	-57%
TOTAL	141,985	139,386	2%	191,471	-26%	409,876	530,713	-23%

Source: PAMA, IGI Research

Company-wise sales

- HCAR: Sales of Civic/City down to 3-year low; 52%YoY decline in total sales during the 6month period:** HCAR sales for the month of Sep-19 dropped by 68%YoY to 1.4k units as sales of Civic/City recorded 68%YoY. Similarly, sales of BR-V also collapsed massively by 82%YoY to 78 units. On a cumulative basis, for 1HMY20 sales of HCAR have dropped by whopping 52%YoY to 11.0k units owing to 55% and 38% drop in Civic/City and BR-V volumes, respectively.
- INDU: Injury continues as INDU’s flagship Corolla declines severely:** The Company witnessed 4-year low sales volumes, depicting a drop of 57%YoY to 2.1k units. All units reported double digit decline in their sales with Corolla coming across a hefty drop of 59% on year to 1.8k units. Likewise, Fortuner and Hilux also observed a major drop (43%/32%) in their sales to 0.1k units and 0.2k units respectively. For the 1QFY20, INDU volumes have collapsed by more than half to 6.7k units.
- PSMC: Newly launched Alto driving company’s sales; cumulative sales for 9MCY19 down by 12%YoY to 106.5 k units:** For the month in review, total sales decreased by 29%YoY to 8.6k units as all units reported decline in their volumes. However, on a sequential basis sales increased by +23%MoM primarily on the back of +43%MoM increase in Alto sales and +15%MoM growth in LCV segment. On a cumulative basis, for 9MCY19 total sales (including 2/w segment) have dropped substantially by 12%YoY to 106.5k units.

Exhibit: Monthly average sales of HCAR, INDU and PSMC drops close to 2012 (in Ths Units)

Exhibit: Passenger Cars monthly sales growth m/m

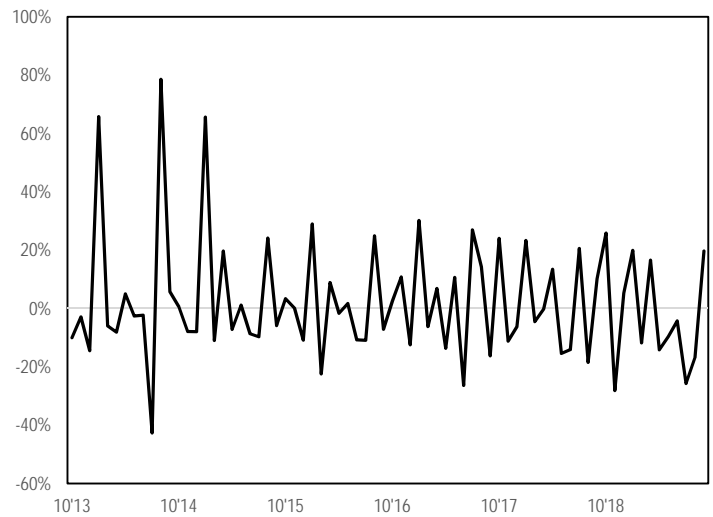
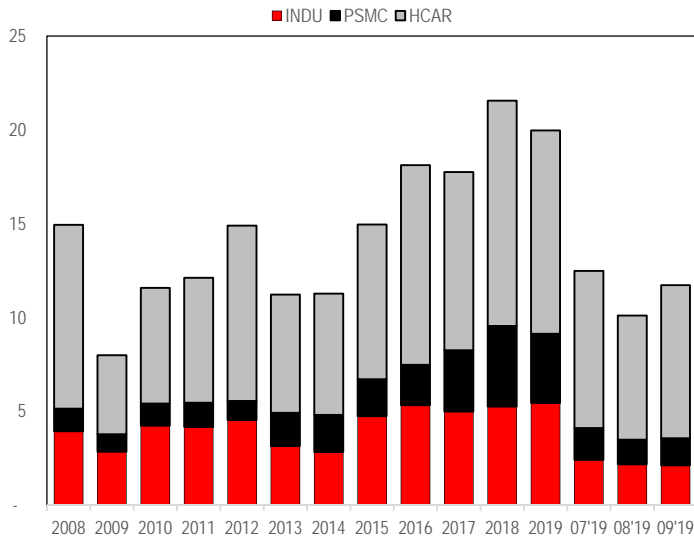
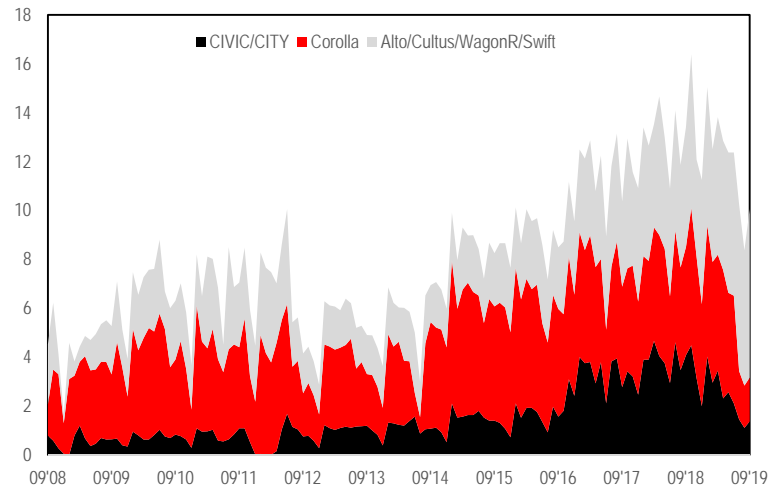


Exhibit: Top passenger cars break-up company wise



Recommendation

We have an underweight stance on the sector as we expect macro-economic headwinds will keep demand at bay. Amongst our coverage companies we have a liking for INDU with our rolled over Dec-20 target price of PKR 1,196.2 /share. The company is currently trading at FY20 P/E of 12.1x, offering a dividend yield of 5.4%.

Exhibit: **Monthly Sales**

UNITS	Sep-19	Aug-19	MoM	Sep-18	YoY	1q FY20	1q FY19	Y/Y	FY19	FY18
Below 1,000cc	5,793	4,195	38%	3,539	64%	15,298	11,853	29%	51,294	67,959
1,000cc<>1,300cc	1,781	1,934	-8%	4,455	-60%	5,766	12,718	-55%	55,377	49,689
Above 1,300cc	3,349	2,997	12%	8,963	-63%	9,953	26,650	-63%	100,959	99,140
PASS. CARS	10,923	9,126	20%	16,957	-36%	31,017	51,221	-39%	207,630	216,788
TRUCKS / BUSES	264	281	-6%	589	-55%	1,070	2,005	-47%	6,763	9,946
PICK-UP/JEEPS	896	1,096	-18%	2,388	-62%	3,618	7,130	-49%	32,640	41,845
TRACTOR	3,761	2,545	48%	5,818	-35%	9,395	13,731	-32%	50,405	70,866
2/W	122,718	125,013	-2%	160,201	-23%	358,428	441,856	-19%	1,685,758	1,781,359
3/W	3,423	1,325	158%	5,518	-38%	6,348	14,770	-57%	57,435	72,961
TOTAL	141,985	139,386	2%	191,471	-26%	409,876	530,713	-23%	2,040,631	2,193,765

Company-wise Sales

UNITS	Sep-19	Aug-19	MoM	Sep-18	YoY	1q FY20	1q FY19	Y/Y	FY19	FY18
INDU	2,121	2,173	-2%	4,933	-57%	6,707	15,419	-57%	65,399	63,068
PSMC	8,157	6,615	23%	9,900	-18%	23,147	29,478	-21%	130,002	144,070
HCAR	1,446	1,314	10%	4,512	-68%	4,454	13,454	-67%	44,234	51,495
AGTL	2,044	1,304	57%	1,737	18%	4,470	3,602	24%	18,451	27,839
MTL	1,663	1,228	35%	4,028	-59%	4,829	10,014	-52%	31,560	42,707
HINO	158	158	0%	447	-65%	614	1,424	-57%	4,247	8,265
GHNL	-	-	0%	-	0%	-	-	0%	-	18
GHNI	166	195	-15%	290	-43%	781	891	-12%	3,655	4,000
ATLH	75,007	80,104	-6%	96,008	-22%	235,116	266,029	-12%	1,114,956	1,150,346
PSMC	8,157	6,615	23%	9,900	-18%	23,147	29,478	-21%	130,002	144,070
SZEW	1,007	-	0%	1,630	-38%	1,592	4,440	-64%	15,845	21,978
TOTAL	99,926	99,706	0%	133,385	-25%	304,857	374,229	-19%	1,558,351	1,657,856

Variant-wise Sales

UNITS	Sep-19	Aug-19	MoM	Sep-18	YoY	1q FY20	1q FY19	Y/Y	FY19	FY18
CIVIC	1,000	1,000	0%	1,000	0%	3,000	3,000	0%	12,000	12,000
CITY/CIVIC	368	106	247%	3,083	-88%	926	9,161	-90%	27,189	30,812
CITY/CIVIC	1,368	1,106	24%	4,083	-66%	3,926	12,161	-68%	39,189	42,812
BRV	78	208	-63%	429	-82%	528	1,293	-59%	5,045	8,683
HCAR	1,446	1,314	10%	4,512	-68%	4,454	13,454	-67%	44,234	51,495
COROLLA	1,795	1,727	4%	4,426	-59%	5,503	13,196	-58%	56,720	51,412
FORTUNER	104	88	18%	182	-43%	266	606	-56%	2,609	4,186
TOYOTA HILUX	222	358	-38%	325	-32%	938	1,617	-42%	6,070	7,470
INDU	2,121	2,173	-2%	4,933	-57%	6,707	15,419	-57%	65,399	63,068
ALTO	4,924	3,435	43%	-	0%	12,943	-	0%	1,685	-
WAGON R	680	645	5%	2,667	-75%	2,168	7,889	-73%	32,614	29,206
CULTUS	1,101	1,289	-15%	1,788	-38%	3,598	4,829	-25%	22,763	20,483
SWIFT	186	164	13%	454	-59%	524	1,293	-59%	5,050	4,916
RAVI	397	322	23%	1,452	-73%	1,559	3,614	-57%	18,281	21,506
BOLAN	403	371	9%	1,219	-67%	1,106	3,778	-71%	17,628	21,738
MEHRAN	466	389	20%	2,320	-80%	1,249	8,075	-85%	31,981	46,221
PSMC	8,623	7,004	23%	12,220	-29%	23,147	29,478	-21%	128,317	144,070
PSMC 2W	1,856	1,548	20%	1,922	-3%	5,018	5,660	-11%	23,352	21,725
AGTL	2,044	1,304	57%	1,737	18%	4,470	3,602	24%	18,451	27,839
MTL	1,663	1,228	35%	4,028	-59%	4,829	10,014	-52%	31,560	42,707
ATLH	75,007	80,104	-6%	96,008	-22%	235,116	266,029	-12%	1,114,956	1,150,346

Source: PAMA, IGI Research

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Saddar Cantt.
Tel: (92-91) 5273035, 5223882

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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