

Sector Update

Automobile Assemblers

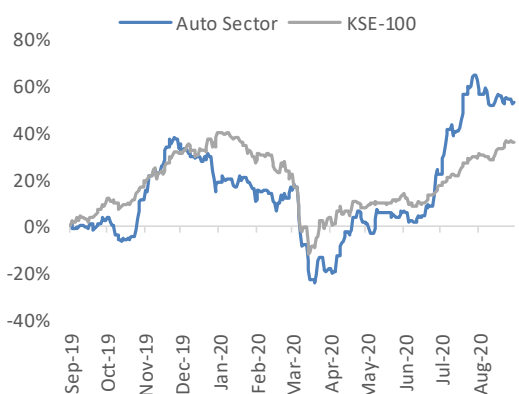
Aug-20: Volumes continue to increase on monthly basis; 2MFY20 sales soared by 19%Y/Y to 319k units

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA) for Aug-20, reports industry sales volume increased by +11% y/y to 155k units as all segments witnessed increase in their sales except truck sales.
- With respect to company wise, PSMC witnessed an increase of +19% m/m and decline by 9% y/y to 7.4K units during Aug-20. Likewise, the other two premium car makers INDU and HCAR portrayed a decline of 18%/8% m/m on sequential basis however, increased by +52%/+72% y/y to 3.3k and 2.2k units during the month of Aug-20.
- We expect auto volumes will continue its recovery path in 2020 and 2021, after Covid-19 shut downs. While interest rates are close to its historic low level, we feel aggregate demand pressure and competition from new assemblers will keep overall passenger cars volume rather tepid.

Industry sales up by +11% y/y as all segments reported increase except trucks

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA) for Aug-20, reports industry sales volume increased by +11% y/y to 155k units as all segments witnessed increase in their sales except trucks sales. However, on a sequential basis, sales slashed by 5% m/m owing to decrease in 2-3 wheelers, tractors and passenger cars by 5%/10%/21%/2% respectively. The decline in tractor sales is mainly attributable to deferred buying of tractors by farmers in anticipation of reduction in Tractor prices after reduction of GST from 5% to 0%. On a cumulative basis for the 2MFY20 industry sales surged by +19% y/y to 319K as pickups, SUVs tractors & 2-3 wheelers portrayed a massive increase of +22%/+35%/+15%/+19%/+3x y/y respectively. To note, industry sales have been on an increasing trend since last three months as improving economic situation spurred by decrease in interest rates, resumption of businesses and rising urban demand has revived consumer's interest. However, volatility in exchange rate followed by skyrocketed prices may however dampen auto demand.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Exhibit: Monthly Automobile Assemblers Sales Summary

	Aug-20	Jul-20	m/m	Aug-19	y/y	2m'21	2m'20	y/y
Below 1,000cc	3,004	2,677	12%	4,195	-28%	5,681	9,505	-40%
1,000cc<>1,300cc	2,133	1,643	30%	1,934	10%	3,776	3,985	-5%
Above 1,300cc	4,748	5,803	-18%	2,997	58%	10,551	6,604	60%
Passenger Cars	9,885	10,123	-2%	9,126	8%	20,008	20,094	0%
Trucks	223	218	2%	239	-7%	441	646	-32%
Buses	61	37	65%	42	45%	98	160	-39%
Jeeps & SUVs	421	403	4%	296	42%	824	612	35%
Pick-ups	1,436	1,133	27%	800	80%	2,569	2,110	22%
Tractors	2,844	3,613	-21%	2,545	12%	6,457	5,634	15%
2-Wheeler	136,068	143,80	-5%	125,013	9%	279,868	235,710	19%
3-Wheeler	4,256	4,724	-10%	1,325	3x	8,980	2,925	3x
Total	155,194	164,05	-5%	139,386	11%	319,245	267,891	19%

Major OEMs displayed mixed growth; PSMC led the pack on sequential basis

With respect to company wise, PSMC witnessed an increase of +19% m/m and decline by 9% y/y to 7.4K units during Aug-20. Likewise, the other two premium car makers INDU and HCAR portrayed a decline of 18%/8% m/m on sequential basis however, increased by +52%/+72% y/y to 3.3k and 2.2k units during the month of Aug-20.

Company-wise sales

- **HCAR sales gained some respite on yearly basis; Aug-20 sales dropped by 8% m/m:** HCAR sales for the month of Aug-20 dropped by 8% m/m to 2.2k units as sales of Civic/City witnessed decline of 10% m/m. However, volumes improved by +79% y/y. On the other hand, sales of BR-V increased by +8% m/m and +34% y/y to 278 units. On yearly basis both civic/city and BR-V massively surged by +79% and +34% y/y. On a cumulative basis, for 2MFY20 volumes soared by +57% y/y to 4.7k units as sales of Civic/City and BR-V witnessed an upsurge of +64% y/y and +19% y/y respectively due to rising urban demand. Going forward, we believe, that the company's growth would be restricted due to recent launch of Yaris, Sportage Alpha and Hyundai Tucson attractively priced and inadequate demand of BR-v. However, anticipation of new models of Civic and City will partially off-set the deterioration.
- **INDU: Corolla keeping down the trend; total sales up by +60% y/y to ~7.35k units for 2MFY20:** The Company witnessed low sales volumes, depicting a drop of 18% m/m to 3.3k units. All units reported decline except Hilux in their sales with Corolla coming across a hefty drop of 43% m/m and 50% y/y to ~867 units. Likewise, Fortuner and Yaris also observed a major drop (17%/9% m/m) in their sales to 121 units and 1.7k units respectively. On the flip side, sales increased by +52% y/y despite a 50% y/y decline in corolla sales. For the 2MFY20, INDU volumes increased substantially by +60% y/y to 7.3k units with the massive sales of Toyota Hilux and Fortuner of 1.1k units and 267 units respectively. On the other hand Corolla remained the laggard with sales volume of ~2.4k units as compared to 3.7k units, down by 35% y/y.
- **PSMC: Led the pack on sequential basis; however, declined by 9% y/y to 7.4k units:** For the month in review, PSMC sales displayed 19% m/m increase in its sales, while decline by 9% y/y to 7.4k units. On an individual basis all units reported increase in their volumes with sales of Ravi, Cultus and Wagon-R witnessed major increase of 37%/30%/30%. On yearly basis, Ravi and Bolan stood out with +2x/66% y/y growth. To note, sales of Alto and 2- wheelers took a downturn (30% /6% y/y drop) after reaching high at 2.3k/ 1.4k units in the preceding month. On a cumulative basis, for 2MFY21 PSMC sales decreased by 24% y/y to 13.7k units as major units reported ~14% y/y decline on average with Bolan partially absorbing the impact. Going forward, we think, high price elasticity of demand for low end vehicle is not being the primary choice of auto financing and increasing competition from picanto and used imported cars will restrict PSMCs sales volumes.

Outlook

We expect auto volumes will continue its recovery path in 2020 and 2021, after Covid-19 shut downs. While interest rates are close to its historic low level, we feel aggregate demand pressure and competition from new assemblers will keep overall passenger cars volume rather tepid.

Exhibit: Monthly Automobile Assemblers Sales Summary								
	Aug-20	Jul-20	m/m	Aug-19	y/y	2m'21	2m'20	y/y
INDU	3,307	4,043	-18%	2,173	52%	7,350	4,586	60%
Corolla	867	1,528	-43%	1,727	-50%	2,395	3,708	-35%
Yaris	1,705	1,883	-9%	-	-	3,588	-	-
Fortuner	121	146	-17%	88	38%	267	162	65%
Toyota Hilux	614	486	26%	358	72%	1,100	716	54%
PSMC	7,451	6,273	19%	8,163	-9%	13,724	18,152	-24%
Swift	196	182	8%	164	20%	378	338	12%
Cultus	1,400	1,077	30%	1,289	9%	2,477	2,497	-1%
Wagon R	733	566	30%	645	14%	1,299	1,488	-13%
Mehran	-	-	-	389	-100%	-	783	-
Bolan	615	519	18%	371	66%	1,134	703	61%
Alto	2,389	2,158	11%	3,435	-30%	4,547	8,019	-43%
Ravi	670	489	37%	322	2x	1,159	1,162	0%
PSMC 2/w	1,448	1,282	13%	1,548	-6%	2,730	3,162	-14%
HCAR	2,258	2,467	-8%	1,314	72%	4,725	3,008	57%
City/Civic	1,980	2,210	-10%	1,106	79%	4,190	2,558	64%
BRV	278	257	8%	208	34%	535	450	19%
Hyundai	22	-	-	-	-	22	-	-
Tucson	22	-	-	-	-	22	-	-
AGTL	633	1,401	-55%	1,304	-51%	2,034	2,426	-16%
Fiat	633	1,401	-55%	1,304	-51%	2,034	2,426	-16%
MTL	2,205	2,205	0%	1,228	80%	4,410	3,166	39%
Massey Ferguson	2,205	2,205	0%	1,228	80%	4,410	3,166	39%
HINO	60	45	33%	158	-62%	105	298	-65%
Hino Bus	26	16	63%	24	8%	42	63	-33%
Hino Truck	34	29	17%	134	-75%	63	235	-73%
GHNL	57	64	-11%	56	2%	121	107	13%
Nissan	-	-	-	-	-	-	-	-
Dong Feng	-	-	-	-	-	-	-	-
JAC	15	12	25%	-	-	27	-	-
JAC Pick-up	42	52	-19%	56	-25%	94	107	-12%
GHNI	142	155	-8%	139	2%	297	508	-42%
Isuzu Truck	113	109	4%	68	66%	222	320	-31%
Isuzu Bus	7	6	17%	7	0%	13	63	-79%
D-Max	22	40	-45%	64	-66%	62	125	-50%
ATLH	85,000	94,003	-10%	80,104	6%	179,003	160,109	12%
Honda 2/w	85,000	94,003	-10%	80,104	6%	179,003	160,109	12%
SZEW	1,222	1,115	10%	-	-	2,337	585	4x
Sazgar 3/w	1,222	1,115	10%	-	-	2,337	585	4x

Source: PAMA, IGI Research

Recommendation

At current we have a “Buy” recommendation for INDU and a “Sell” recommendation on HCAR and PSMC.