

Day Break

Friday, 13 September 2019

Sector Update

Automobile Assemblers

August auto sales fall by 14% y/y as sector faces faltering demand; PC sales decline the most in 5-yrs

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), reports industry sales volume declined by 14%YoY to 139k units as all segments witnessed drop in their sales.
- We attribute the decline in volumes to unfavorable economic conditions (rise in interest rates) and increase in car prices (PKR depreciation pass-over and increase in FED).
- With respect to company wise, HCAR witnessed significant drop of 67%YoY to 1.3k units followed by INDU at 57%YoY to .2k units. Similarly, PSMC sales plunged by 21%YoY to 6.6k units. Similar trend was observed on sequential basis wherein sales of HCAR/INDU/PSMC declined by 22%/10%/21%.
- We have an underweight stance on the sector as we expect macro-economic head winds will keep demand at bay.

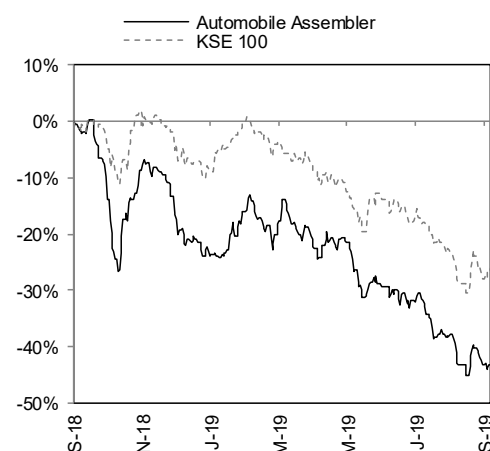
Industry sales down by 14%YoY as all segments reported drop across the board

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA) for Aug-19, reports industry sales volume declined by 14%YoY to 139k units as all segments witnessed drop in their sales. However, on a sequential basis, sales were up by +8%YoY thanks to +13%YoY growth in 2/W segment. On a cumulative basis for 2MFY20 industry sales were down by 21%YoY to 267k units. We attribute the decline in volumes to unfavorable economic conditions (rise in interest rates) and increase in car prices (PKR depreciation pass-over and increase in FED).

Big three sales on a declining trajectory

With respect to company wise, HCAR witnessed significant drop of 67%YoY to 1.3k units followed by INDU at 57%YoY to 2.2k units. Similarly, PSMC sales plummeted by 24%YoY to 6.6k units. Similar trend was observed on sequential basis wherein sales of HCAR/INDU/PSMC declined by 22%/10%/21%.

Exhibit: **Relative Performance to KSE 100**



Source: Bloomberg, PSX & IGI Research

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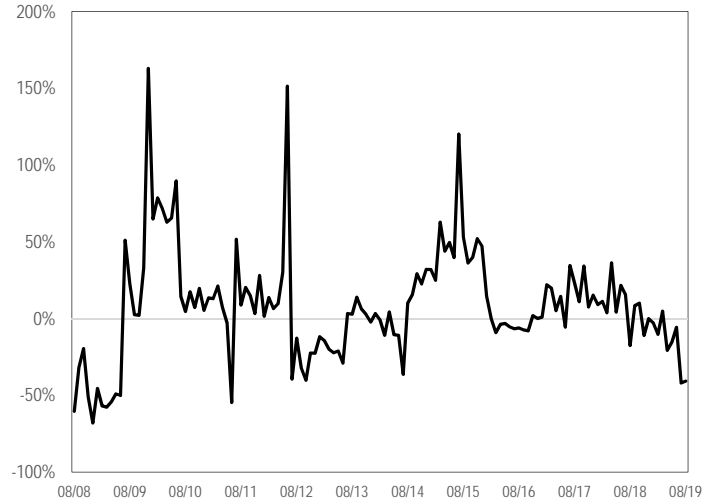
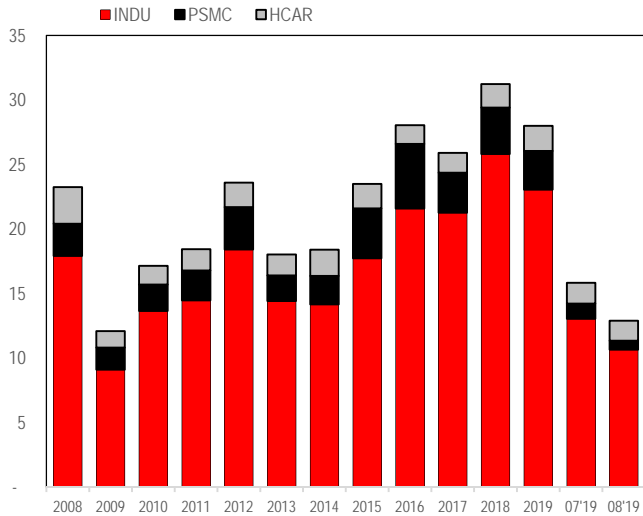
Exhibit: **Monthly Sales**

UNITS	Aug-19	Jul-19	MoM	Aug-18	YoY	2MFY20	2MFY19	YoY
Below 1,000cc	4,195	5,310	-21%	3,531	19%	9,505	8,314	14%
1,000cc->1,300cc	1,934	2,051	-6%	3,830	-50%	3,985	8,263	-52%
Above 1,300cc	2,997	3,607	-17%	8,028	-63%	6,604	17,687	-63%
PASS. CARS	9,126	10,968	-17%	15,389	-41%	20,094	34,264	-41%
TRUCKS / BUSES	281	525	-46%	722	-61%	806	1,416	-43%
PICK-UP/JEEPS	1,096	1,626	-33%	2,273	-52%	2,722	4,742	-43%
TRACTOR	2,545	3,089	-18%	4,041	-37%	5,634	7,913	-29%
2/W	125,013	110,697	13%	135,481	-8%	235,710	281,655	-16%
3/W	1,325	1,600	-17%	4,762	-72%	2,925	9,252	-68%
TOTAL	139,386	128,505	8%	162,668	-14%	267,891	339,242	-21%

Source: PAMA, IGI Research

Exhibit: Monthly average sales of HCAR, INDU and PSMC drops close to 2009 (in Ths Units)

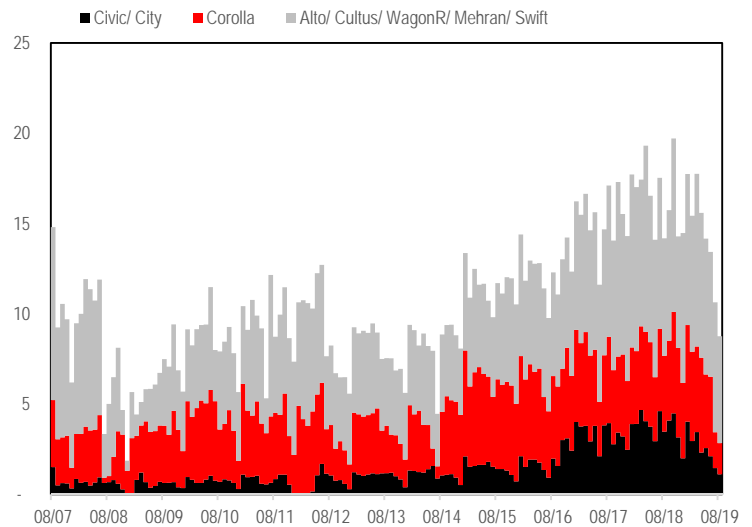
Exhibit: Passenger Cars monthly sales growth y/y



Company-wise sales

- **HCAR: Sales of Civic/City down to 3-year low; 49%YoY decline in total sales during the 5month period:** HCAR sales for the month of Aug-19 dropped by 67%YoY to 1.3k units as sales of Civic/City recorded 68%YoY decline in their volumes to 1.1k units. Similarly, sales of BR-V also collapsed by 14%YoY to 0.2k units. On a cumulative basis, for 5MMY20 sales of HCAR have dropped by whopping 47%YoY to 11.4k units owing to 49% and 30% drop in Civic/City and BR-V volumes, respectively.
- **INDU: Deterioration continues- volumes dropping to 4-year low:** The company showcased 4-year low in its sales to 2.1k units (drop of 57%YoY) for Aug-19 as all units witnessed double digit decline in volumes. To mention, Corolla sales recorded hefty drop of 59%YoY to 1.7k units followed by Fortuner, also observing 57%YoY decrease to 88k units. Hilux sales followed the trail with volumes down by 41%YoY to 358k units. On a cumulative basis for the 2MFY20 INDU volumes have collapsed by more than half to 4.6k units.
- **PSMC: Cumulative sales for 8MCY19 recorded at 96.5k units, down by 12%YoY:** For the month in review, total sales decreased by 22%YoY to 8.2k units as major units reported decline in their volumes; similar trend was also observed on sequential basis taking total sales down by 18%. With respect to unit wise, WagonR sales dwindled significantly by 74%YoY to 0.6k units. This was followed by LCV segment where in sales performed poorly dropping by 68%YoY to 0.7k units. Likewise, sales of newly launched Alto decreased by 25%MoM to 3.4k units. On a cumulative basis, for 8MCY19 total sales have dropped substantially by 12%YoY to 96.5k units.

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 a Jun-20 target price of PKR 985.5/share. The company is currently trading at FY20 P/E of 9.0x, offering a dividend yield of 7.8%.

Exhibit: Monthly auto assembler sales volume

UNITS	Aug-19	Jul-19	MoM	Aug-18	YoY	2mFY20	2mFY19	Y/Y	FY19	FY18	FY17
Below 1,000cc	4,195	5,310	-21%	3,531	19%	9,505	8,314	14%	51,294	67,959	57,178
1,000cc<>1,300cc	1,934	2,051	-6%	3,830	-50%	3,985	8,263	-52%	55,377	49,689	34,679
Above 1,300cc	2,997	3,607	-17%	8,028	-63%	6,604	17,687	-63%	100,959	99,140	93,871
PASS. CARS	9,126	10,968	-17%	15,389	-41%	20,094	34,264	-41%	207,630	216,788	185,728
TRUCKS / BUSES	281	525	-46%	722	-61%	806	1,416	-43%	6,763	9,946	8,629
PICK-UP/JEEPS	1,096	1,626	-33%	2,273	-52%	2,722	4,742	-43%	32,640	41,845	27,340
TRACTOR	2,545	3,089	-18%	4,041	-37%	5,634	7,913	-29%	50,405	70,866	54,937
2/W	125,013	110,697	13%	135,481	-8%	235,710	281,655	-16%	1,685,758	1,781,359	1,556,338
3/W	1,325	1,600	-17%	4,762	-72%	2,925	9,252	-68%	57,435	72,961	68,742
TOTAL	139,386	128,505	8%	162,668	-14%	267,891	339,242	-21%	2,040,631	2,193,765	1,901,714
Company-wise Sales											
UNITS	Aug-19	Jul-19	MoM	Aug-18	YoY	2mFY20	2mFY19	YoY	FY19	FY18	FY17
INDU	2,173	2,413	-10%	5,018	-57%	4,586	10,486	-56%	65,399	63,068	59,911
PSMC*	6,615	8,375	-21%	8,683	-24%	14,990	19,578	-23%	130,002	144,070	114,044
HCAR*	1,314	1,694	-22%	3,961	-67%	3,008	8,942	-66%	44,234	51,495	39,109
AGTL	1,304	1,122	16%	1,051	24%	2,426	1,865	30%	18,451	27,839	19,833
MTL	1,228	1,938	-37%	2,980	-59%	3,166	5,986	-47%	31,560	42,707	34,506
HINO	158	140	13%	513	-69%	298	977	-69%	4,247	8,265	7,509
GHNL	-	-	0%	-	0%	-	-	0%	-	18	702
GHNI	195	420	-54%	301	-35%	615	601	2%	3,655	4,000	2,905
ATLH	80,104	80,005	0%	80,012	0%	160,109	170,021	-6%	1,114,956	1,150,346	960,105
PSMC	6,615	8,375	-21%	8,683	-24%	14,990	19,578	-23%	130,002	144,070	114,044
SZEW	-	585	-100%	1,342	-100%	585	2,810	-79%	15,845	21,978	21,109
TOTAL	99,706	105,067	-5%	112,544	-11%	204,773	240,844	-15%	1,558,351	1,657,856	1,373,777
Variant-wise Sales											
UNITS	Aug-19	Jul-19	MoM	Aug-18	YoY	2mFY20	2mFY19	Y/Y	FY19	FY18	FY17
CITY/CIVIC	1,106	1,452	-24%	3,469	-68%	2,558	8,078	-68%	39,189	42,812	33,350
BRV	208	242	-14%	492	-58%	450	864	-48%	5,045	8,683	2,159
HCAR	1,314	1,694	-22%	3,961	-67%	3,008	8,942	-66%	44,234	51,495	35,509
COROLLA	1,727	1,981	-13%	4,204	-59%	3,708	8,770	-58%	56,720	51,412	52,676
FORTUNER	88	74	19%	204	-57%	162	424	-62%	2,609	4,186	1,375
TOYOTA HILUX	358	358	0%	610	-41%	716	1,292	-45%	6,070	7,470	5,860
INDU	2,173	2,413	-10%	5,018	-57%	4,586	10,486	-56%	65,399	63,068	59,911
ALTO	3,435	4,584	-25%	-	0%	8,019	-	0%	1,685	-	-
WAGON R	645	843	-23%	2,450	-74%	1,488	5,222	-72%	32,614	29,206	17,671
CULTUS	1,289	1,208	7%	1,380	-7%	2,497	3,041	-18%	22,763	20,483	17,006
SWIFT	164	174	-6%	355	-54%	338	839	-60%	5,050	4,916	4,245
RAVI	322	840	-62%	967	-67%	1,162	2,162	-46%	18,281	21,506	17,944
BOLAN	371	332	12%	1,213	-69%	703	2,559	-73%	17,628	21,738	19,245
MEHRAN	389	394	-1%	2,318	-83%	783	5,755	-86%	31,981	46,221	37,933
PSMC	7,004	8,769	-20%	11,001	-36%	14,990	19,578	-23%	128,317	144,070	114,044
PSMC 2W	1,548	1,614	-4%	1,837	-16%	3,162	3,738	-15%	23,352	21,725	18,478
AGTL	1,304	1,122	16%	1,051	24%	2,426	1,865	30%	18,451	27,839	19,833
MTL	1,228	1,938	-37%	2,980	-59%	3,166	5,986	-47%	31,560	42,707	34,506
ATLH	80,104	80,005	0%	80,012	0%	160,109	170,021	-6%	1,114,956	1,150,346	960,105

Source: PAMA, IGI Research

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Time Horizon: Dec – 2019

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