

# Day Break

Monday, 23 July 2018

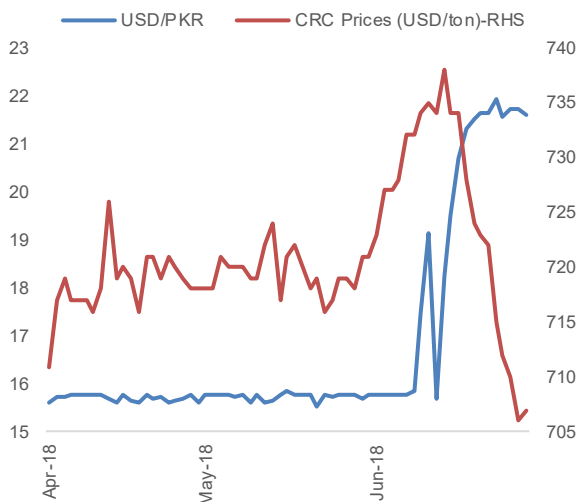
## Sector Update

Sym.	Target Price	P/E 2018	D/Y 2018	Recom
INDU	1,893.1	6.6	10.5%	BUY
HCAR	424.2	6.3	6.3%	BUY
PSMC	411.0	8.5	4.7%	BUY

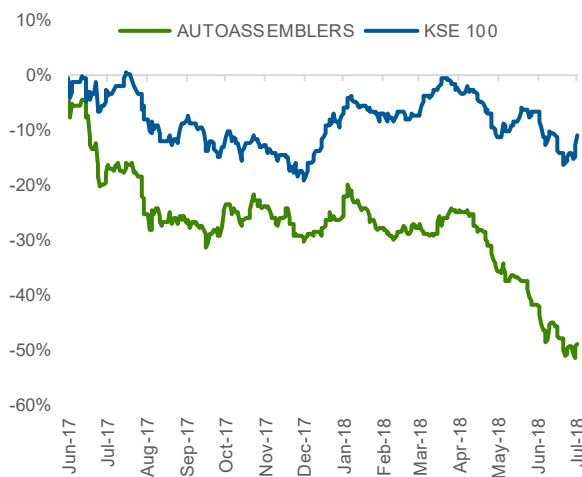
### Exhibit: Sector Key Financials

SECTOR	4QFY18	QoQ	YoY
UNITS	71,651	-3%	21%
NET SALES	91,885	-2%	28%

### Exhibit: USD/JPY movement and CRC prices



### Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Automobile Assemblers

### Earnings preview for the quarter ended Jun-18

- We expect sectors profitably under IGI universe to increase by +10%YoY to PKR 6.1bn with INDU and PSMC to exhibit positive growth level while HCAR may witness decline in its earnings
- On individual basis, we expect INDU being a prime mover may witness double digit growth of +45%YoY to PKR 4.0bn (EPS: PKR 50.9) followed by PSMC showing +20%YoY increase in its earnings (PKR 858bn; EPS: PKR 10.0). However, for HCAR, we expect earnings to decline by 41%YoY to PKR 1.2bn (EPS: PKR 8.69).
- We maintain a "BUY" call on INDU with Dec-18 based target price of PKR 1,893.1/share, offering +43% upside. The company is currently trading at FY18E P/E of 6.6x and offers a dividend yield of 10.5%.

### IGI auto universe earnings to increase by +10%YoY to PKR 6.1bn

We preview earnings of the major OEMs under IGI coverage (INDU, HCAR and PSMC) for the quarter ended, Jun-18. As per our analysis, we expect sectors' profitability under IGI universe to increase by +10%YoY to PKR 6.1bn, attributed to +21%YoY increase in volumes to 71k units while inclusion of super tax during the quarter, will chip away sectors' earnings. On individual basis, we expect INDU being a prime mover may witness double digit growth of +45%YoY to PKR 4.0bn (EPS: PKR 50.9) followed by PSMC showing +20%YoY increase in its earnings (PKR 858bn; EPS: PKR 10.0). However, for HCAR, we expect earnings to decline by 41%YoY to PKR 1.2bn (EPS: PKR 8.62). Furthermore, gross margins during the quarter remained sensitive marred by fluctuating exchange rate movements wherein PKR depreciated by whopping 11%YoY to 116.8 against USD on average. In addition, CRC prices, exhibited strong price movement during the major part of the quarter, retreating from mid-June-18 to close at USD 720/ton (+8%YoY) on average. To recall, automobile assemblers subsequently increased their prices during the start of the quarter to cushion against rising input costs. However, with PKR sliding down (4%) during the month of Jun-18 we expect margins to suffer a hit. As such, we foresee INDU having the high pricing capacity to safeguard its margins on the back of robust sales in high margin segment while HCAR and PSMC to witness slight compression.

### PSMC: Earnings to decline by 13%YoY to PKR 1.7bn (EPS: PKR 21.0) for 1HCY18

PSMC is scheduled to announce its 2QCY18 financial result on 24th Jul-18 wherein we expect the company to post earnings of PKR 822mn (EPS: PKR 9.98), taking total profitability for the 1HCY18 to PKR 1.73bn, down by 52%YoY. Owing to super tax effect earnings may suffer an impact of PKR ~1.50/share in our view. Net sales for the quarter are expected to clock in at PKR 30bn, up by +32%YoY as volumes increased by +24%YoY to 43k units along with the price increase of 3-4%/unit. On sequential basis sales are down by mere 4%QoQ owing to 2%QoQ decline in volumes with cumulative sales for the 1HCY17 estimated at PKR 62bn (up by +32%YoY). Gross margins may improve slightly by +12bpsYoY/19bpsQoQ to 8.5% during 2QCY18 owing to favorable sales mix (sales down in low margin segment). However, despite a price increase across all units, the impact may not fully offset rising input costs owing to increasing CRC prices and with PKR drifting down in Jun-18.

## Exhibit:

**PSMC 1HCY18 Result Highlights**

PKRmn (Period end=Dec)	2QCY18E	2QCY17	YoY	1HCY18E	1HCY17	YoY
Net Sales	30,293	22,938	32%	61,804	46,829	32%
Cost Of Sales	27,721	21,017	32%	56,615	42,004	35%
Gross Profit	2,573	1,921	34%	5,189	4,825	8%
Selling & Dist.	695	675	3%	1,499	1,382	8%
Admin.	468	416	13%	966	736	31%
Operating Profit	1,410	830	70%	2,724	2,707	1%
Other Income	182	260	-30%	358	445	-20%
EBIT	1,481	1,016	46%	2,874	2,937	-2%
Profit Before Tax	1,407	1,002	40%	2,727	2,896	-6%
Taxation	586	317	85%	1,001	904	11%
Profit After Tax	822	685	20%	1,726	1,992	-13%
EPS (PKR)	10.0	8.3		21.0	24.2	
DPS (PKR)	-	-		-	-	

**KEY INDICATORS**

Units sold (kUnits)	42.5	34.2	24.4%	86.1	71.0	21%
Gross Profit Margins	8.5%	8.4%		8.4%	10.3%	
Effective Tax Rate	41.6%	31.6%		36.7%	31.2%	

SOURCE: IGI Research, Company accounts, PSX notifications

No of shares(mn):82.30

**HCAR: Earnings for the 1QFY19 to decline by 41%YoY to PKR 1.2bn (EPS: PKR 8.69) despite +14%YoY increase in sales**

HCAR is scheduled to announce its 1QFY19 financial result on 28th Jul-18. As per our analysis we expect company to post earnings of PKR 1.24bn or PKR 8.69/share, down by 41%YoY for 1QFY19. Despite witnessing +14%YoY increase in sales to 12.5k units, earnings are expected to deteriorate owing to weak gross margins and imposition of super tax charge (PKR 1.87/share). Overall net sales for the quarter are estimated to be PKR 22.5bn, up by +7%YoY attributed to price increase across all units while discount offerings on late delivery might crumble sales a bit. Gross margins for the quarter are expected to remain subdued (down by 440bps YoY to 9.8%) recovering by 30-50bps on sequential basis as sales of BR-V contributed less in sales mix with sales of City to cover up major portion.

## Exhibit:

**HCAR 1QFY19 Result Highlights**

PKRmn (Period end=Mar)	1QFY19E	1QFY18	YoY	4QFY18	QoQ
Net Sales	22,503	21,058	7%	25,777	-13%
Cost Of Sales	20,290	18,068	12%	23,315	-13%
Gross Profit	2,212	2,990	-26%	2,462	-10%
Selling & Dist.	191	149	28%	418	-54%
Admin.	185	136	36%	231	-20%
Operating Profit	1,836	2,705	-32%	1,813	1%
Other Income	450	466	-3%	469	-4%
EBIT	2,159	2,918	-26%	1,864	16%
Profit Before Tax	2,155	2,914	-26%	1,859	16%
Taxation	914	828	10%	485	88%
Profit After Tax	1,241	2,086	-41%	1,374	-10%
EPS (PKR)	8.7	14.6		9.6	
DPS (PKR)	-	4.2		22.8	

**KEY INDICATORS**

Units sold (kUnits)	12.5	11.0	13.6%	14	-12.3%
Gross Profit Margins	9.8%	14.2%		9.6%	
Effective Tax Rate	42.4%	28.4%		26.1%	

SOURCE: IGI Research, Company accounts, PSX notifications

No of shares(mn):142.80

**INDU: Robust sales in high margin segment to boost full year profitability by +20%YoY to PKR 15bn (EPS: PKR 198.9)**

As per our analysis, we estimate company to post earnings of PKR4.0bn (EPS: PKR 50.9) up by +45%YoY as volumetric sales increased by +17%YoY to 16k units. This takes total earnings for FY18 to PKR15.6bn (EPS: PKR 198.9), up by +20%YoY with volumetric sales approaching at 63k units, an increase of +4%YoY. For the quarter, we attribute growth in earnings on the back of increase in volumetric sales across high margin segment with Fortuner witnessing massive growth of ~+2xYoY to 1.5k units, followed by Hilux showing double digit growth of +25%YoY to 2.0k units. In addition, sales of Corolla also increased by +10%YoY to 13.1k units. As a result, net sales are expected at PKR 39bn (+40%YoY) for the 4QFY18 with full year sales to culminate at PKR 139bn (+24%YoY). We expect gross margins for the quarter to strike at ~17%, while trading margins to clock in at 31%, contributing 7% in the sales mix. In addition, we expect INDU to pay out cash dividend of PKR 40/share, taking full year payout to PKR 135/share.

## Exhibit:

**INDU FY18 Result Highlights**

PKRmn (Period end=Jun)	4QFY18E	4QFY17	YoY	FY18E	FY17	YoY
Net Sales	39,089	27,928	40%	139,276	112,272	24%
Cost Of Sales	32,375	23,314	39%	114,984	92,450	24%
Gross Profit	6,714	4,614	46%	24,293	19,822	23%
Selling & Dist.	348	384	-9%	1,258	1,228	2%
Admin.	349	317	10%	1,419	1,053	35%
Operating Profit	6,013	3,828	57%	21,538	17,364	24%
Other Income	1,065	1,070	0%	3,744	3,593	4%
EBIT	6,669	4,572	46%	23,644	19,539	21%
Profit Before Tax	6,535	4,408	48%	23,109	19,141	21%
Taxation	2,535	1,654	53%	7,472	6,140	22%
Profit After Tax	4,000	2,754	45%	15,636	13,001	20%
EPS (PKR)	50.9	35.0		198.9	165.4	
DPS (PKR)	40.0	35.0		135.0	115.0	

**KEY INDICATORS**

Units sold (kUnits)	16.6	14.2	17.5%	63.1	59.9	5.3%
Gross Profit Margins	17.2%	16.5%		17.4%	17.7%	
Effective Tax Rate	38.8%	37.5%		32.3%	32.1%	

SOURCE: IGI Research, Company accounts, PSX notifications

No of shares(mn):78.60

**Recommendation**

We maintain a **"BUY"** call on INDU with Dec-18 based target price of PKR 1,893.1/share, offering +43% upside. The company is currently trading at FY18E P/E of 6.6x and offers a dividend yield of 10.5%.

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**Time Horizon:** Dec – 2018

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