

Day Break

Tuesday, 23 October 2018

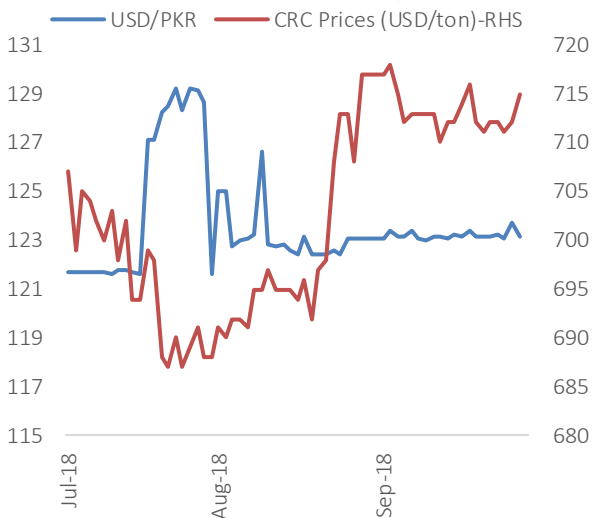
Sector Update

Sym.	Target Price	P/E 2019	D/Y 2019	Recom
INDU	1,749.0	7.3	9.6%	BUY
HCAR	353.7	5.6	7.2%	BUY
PSMC	302.9	8.2	2.5%	BUY

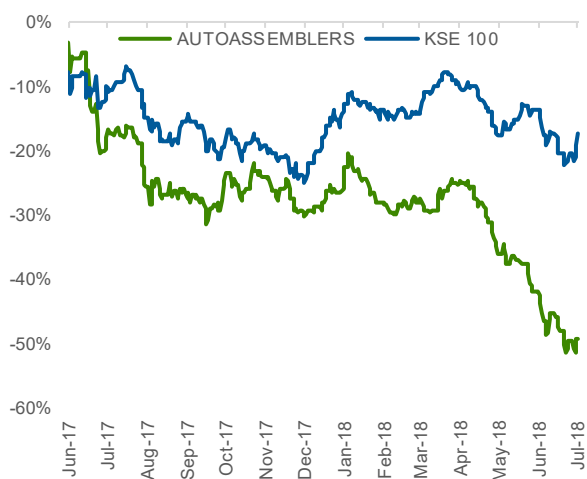
Exhibit: Sector Key Financials

SECTOR	1QFY19	QoQ	YoY
UNITS	64,011	-11%	-2%
NET SALES	85,379	-10%	7%

Exhibit: USD/JPY movement and CRC prices



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Automobile Assemblers

INDU to drive sector's profitability-HCAR and PSMC coming as laggards

- We expect sector's profitability under IGI universe to decrease by +11%YoY to PKR 5.67bn with INDU to exhibit positive growth in its earnings while PSMC and HCAR to witness negative growth
- On individual basis, we expect INDU being a prime mover to sectors profitability witnessing growth of +4%YoY to PKR 47.82/share. However, HCAR and PSMC will come as laggards, showing decline in their profitability by 12%/55%YoY to PKR 9.92/6.01 per share during the quarter in review.
- We maintain a "BUY" call on INDU with Jun-19 based target price of PKR 1,749/share, offering +43% upside. The company is currently trading at FY19E P/E of 7.27x and offers a dividend yield of 9.64%.

IGI auto universe earnings to decrease by 11%YoY to PKR 5.67bn

We preview earnings of the major OEMs under IGI coverage (INDU, HCAR and PSMC) for the quarter ended, Sep-18. As per our analysis, we expect sector's profitability under IGI universe to decrease by 11%YoY to PKR 5.67bn, attributed to 2%YoY decline in volumes to 64k units (ban on non-filers becoming effective) and contraction in margins amid PKR devaluation. On individual basis, we expect INDU to attain positive growth in its earnings, by +4%YoY to PKR 47.82/share. However, HCAR and PSMC will likely come as laggards, showing decline in their profitability by 12%/55%YoY to PKR 9.92/6.01 per share during the quarter in review. Furthermore, gross margins during the quarter remained sensitive marred by fluctuating exchange rate movements wherein PKR slipped by 17%YoY to 123.62 on average against USD. In addition, CRC prices, continued to move up, increasing by 4% on average to USD 700/ton. To recall, automobile assemblers subsequently increased their prices during the start of the quarter to cushion against rising input costs. However, despite that we expect margins for some OEMs to suffer.

PSMC: Dwindling margins and low volumes to drag earnings by 55%YoY to PKR 495mn (EPS: PKR 6.01) for 3QCY18

PSMC is scheduled to announce its 3QCY18 financial result on 23rd Oct-18 wherein we expect the company to post earnings of PKR 495mn (EPS: PKR 6.01), taking total profitability for the 9MCY18 to PKR 1.79bn (EPS: PKR 21.78), down by 42%YoY. Net sales for the quarter are expected to remain flat at PKR 25.92bn, despite increase in car prices, marred by decline of 7%YoY in volumes. On sequential basis net sales are down by 16%QoQ owing to 17%QoQ decline in volumes with cumulative sales for the 9MCY18 estimated at PKR 88.31bn (up by +21%YoY). Gross margins may improve slightly by +80bpsQoQ to 6.5% owing to increase in prices, while compared to same period last year may suffer a decline of 240bpsYoY owing to decrease in high margin sales, increase in CRC prices and effect of PKR depreciation.

Exhibit:

PSMC 3QCY18 Result Highlights

PKRmn (Period end=Dec)	3QCY18E	3QCY17	YoY	9MCY18E	9MCY17	YoY
Net Sales	25,915	25,973	0%	88,307	72,802	21%
Cost Of Sales	24,241	23,408	4%	82,267	65,412	26%
Gross Profit	1,674	2,565	-35%	6,040	4,486	35%
Selling & Dist.	595	588	1%	2,040	1,970	4%
Other Income	128	219	-41%	517	664	-22%
Profit Before Tax	707	1,578	-55%	2,755	4,475	-38%
Taxation	212	474	-55%	962	1,378	-30%
Profit After Tax	495	1,105	-55%	1,793	3,097	-42%
EPS	6.01	13.43		21.78	37.63	
Key Indicators						
Unit Sold (Ths)	35.14	37.79	-7%	121.27	108.78	11%
Gross Profit Margins	6.5%	9.9%	(341)	6.8%	6.2%	68
Effective Tax Rate	30.0%	30.0%	-	34.9%	30.8%	413

Source: IGI Research, Company accounts, PSX

No of shares(mn): 82.3

INDU: Stable margins and high volumetric sales to drive profitability up by +4%YoY to PKR 3.76bn (EPS: PKR 47.82) for 1QFY19

INDU is scheduled to announce its 1QFY19 financial result on 25th Oct-18 wherein we expect the company to post earnings of PKR 3.76bn (EPS: PKR 47.82) up by +4%YoY as volumetric sales increased by +2%YoY to 15.42k units. Increase in sales was led by Corolla (+3%YoY), while in the high margin segment only Hilux witnessed an increase of +6%YoY in volumes. However, sales of Fortuner declined by 23%YoY partially due to ban imposed on non-filers. As a result, net sales are expected to increase by +11%YoY to PKR 34.67bn with margins to remain stable around ~17% driven by subsequent price hikes following PKR depreciation.

Lastly, we expect INDU to pay out cash dividend of PKR 40/share, during the quarter.

Exhibit:

INDU 1QFY19 Result Highlights

PKRmn (Period end=Jun)	1QFY19E	1QFY18	YoY	FY18	FY17	YoY
Net Sales	34,669	31,220	11%	143,656	117,740	22%
Cost Of Sales	28,847	25,777	12%	118,901	96,653	23%
Gross Profit	5,821	5,443	7%	24,755	21,086	17%
Admin.	311	279	12%	1,556	1,112	40%
Operating Profit	5,050	4,850	4%	21,576	18,462	17%
Other Income	894	856	4%	3,938	3,576	10%
Profit Before Tax	5,369	5,168	4%	23,200	20,013	16%
Taxation	1,611	1,539	5%	7,299	6,430	14%
Profit After Tax	3,758	3,629	4%	15,902	13,583	17%
EPS	47.82	46.17		202.31	172.81	
DPS	40.0	30.0		149.0	120.0	
Key Indicators						
Unit Sold (Ths)	15.42	15.09	2.2%	63.40	60.61	5%
Gross Profit Margins	16.8%	17.4%	(64)	17.2%	17.9%	(68)
Effective Tax Rate	30.0%	29.8%	21	31.5%	32.1%	(67)

Source: IGI Research, Company accounts, PSX

No of shares(mn): 78.6

HCAR: Earnings for the 2QMY19 to decline by 12%YoY to PKR 1.42bn (EPS: PKR 9.92) despite +7%YoY increase in sales

According to our analysis we expect company to post earnings of PKR 1.42bn or PKR 9.92/share, down by 12%YoY for 2QMY19. On cumulative basis for the 1MY19 earnings are expected to decrease by 33%YoY to PKR 2.47bn. Despite witnessing +12%YoY increase in sales to 13.45k units, reduction in earnings is primarily due to weak margins which are estimated to suffer by 280bpsYoY to 9.1%. Overall net sales for the quarter are estimated to be PKR 24.80bn, up by +8%YoY attributed to price and sales increase while discount offerings on late delivery might crumble net sales a bit.

HCAR 2QMY19 Result Highlights

PKRmn (Period end=Mar)	2QMY19E	2QMY18	YoY	1HMY19E	1HMY18	YoY
Net Sales	24,795	22,890	8%	48,649	43,948	11%
Cost Of Sales	22,536	20,172	12%	44,247	38,240	16%
Gross Profit	2,259	2,718	-17%	4,403	5,708	-23%
Admin.	163	160	2%	330	296	11%
Operating Profit	1,885	2,365	-20%	3,671	5,070	-28%
Other Income	408	487	-16%	857	954	-10%
Profit Before Tax	2,024	2,593	-22%	3,908	5,507	-29%
Taxation	607	975	-38%	1,441	1,803	-20%
Profit After Tax	1,417	1,618	-12%	2,467	3,704	-33%
EPS	9.92	11.33		17.28	25.94	
Key Indicators						
Unit Sold (Ths)	13.45	12.61	7%	25.94	23.60	10%
Gross Profit Margins	9.1%	11.9%	(276)	9.0%	13.0%	(394)
Effective Tax Rate	30.0%	37.6%	(761)	36.9%	32.7%	412

Source: IGI Research, Company accounts, PSX

No of shares(mn): 142.8

Recommendation

We maintain a **"BUY"** call on INDU with Jun-19 based target price of PKR 1,749.1/share, offering +43% upside. The company is currently trading at FY19E P/E of 7.27x and offers a dividend yield of 9.64%.

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Time Horizon: Jun – 2019

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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