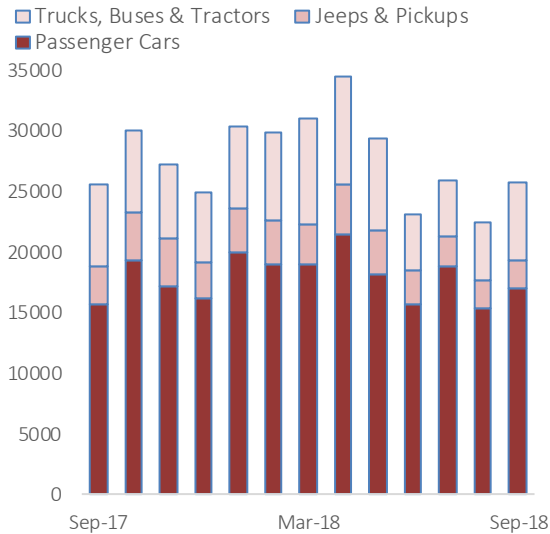


# Day Break

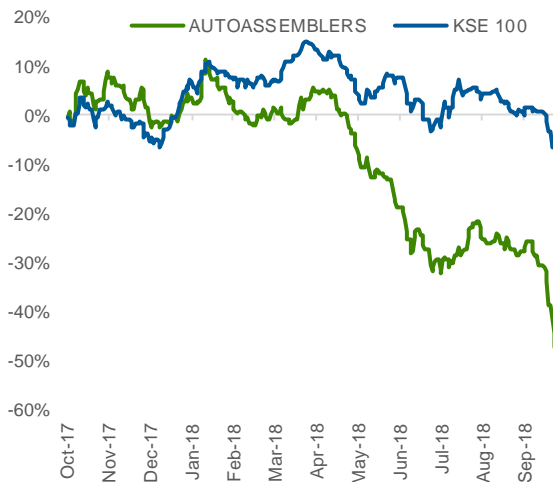
Thursday, 11 October 2018

## Sector Update

Exhibit: Industry Car sales volume



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Automobile Assemblers

### Sep-18: Industry sales clocked in at 184k units, up by +16%MoM

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), shows industry sales volume increased by +16%MoM to 189k units owing to bookings done in the previous months. However, on cumulative basis, for 1QFY19 sales have inched down by 3%YoY to 528k units.
- With respect to company wise sales, HCAR and PSMC each recorded growth of 14%MoM to 4.5k/9.9k units respectively while sales of INDU inched down by a mere 2%MoM to 4.9k units. However, on yearly basis HCAR lead the growth chart by +32%YoY, followed by INDU witnessing flattish sales with PSMC kneeling down by 5%YoY.
- We expect sales in the upcoming month to witness tepid growth as the effect of ban becomes significant. Moreover, with the abnormal currency movement and PKR slipping against USD, we expect another series of price hikes during the next quarter or so.
- We maintain a 'BUY' call on INDU with our roll-over Jun-19 target price of PKR 1,749/share, offering +66% upside from the last closing. The company is currently trading at FY19E P/E of 6.3x and offers a dividend yield of 11.2%.

### Sales up by +16%MoM to 189k units as passenger cars recorded volumes up by +10%MoM

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), shows industry sales volume increased by +16%MoM to 189k units. However, on cumulative basis, for 1QFY19 sales have inched down by 3%YoY to 528k units.

Segment wise, only sales of truck/busses declined by 18%MoM to 589 units while sales of tractor recorded significant jump of +44%YoY to 5.8k units. Similarly, 2/W and 3/W segment witnessed double-digit growth of 17%/16%MoM followed by passenger cars, up by +10%MoM to 16.9k units. Within the passenger car segment, 800<x<1000cc category witnessed flat sales with 1000<x<1300cc and =>1300cc category driving the volumes by +16%/12%MoM.

Exhibit:

Monthly PAMA Sales

UNITS	Sep-18	Aug-18	MoM	Sep-17	YoY	1QFY19	1QFY18
=>1300	8,963	8,028	12%	7,199	25%	26,650	24,345
800<x<1000	3,539	3,531	0%	5,277	-33%	11,853	15,327
1000<x<1300	4,455	3,830	16%	3,163	41%	12,718	10,970
<b>PASS. CARS</b>	<b>16,957</b>	<b>15,389</b>	<b>10%</b>	<b>15,639</b>	<b>8%</b>	<b>51,221</b>	<b>50,642</b>
TRUCKS / BUSES	589	722	-18%	793	-26%	2,005	2,446
PICK-UP/JEEPS	2,388	2,273	5%	3,159	-24%	7,130	9,828
TRACTOR	5,818	4,041	44%	5,953	-2%	13,731	15,710
2/W	158,182	135,481	17%	136,954	16%	439,837	449,663
3/W	5,518	4,762	16%	6,552	-16%	14,770	18,844
<b>TOTAL</b>	<b>189,452</b>	<b>162,668</b>	<b>16%</b>	<b>169,050</b>	<b>12%</b>	<b>528,694</b>	<b>547,133</b>

Source: PAMA, IGI Research

**Major OEM’s displayed mixed growth levels**

With respect to company wise sales, HCAR and PSMC each recorded growth of 14%MoM to 4.5k/9.9k units respectively while sales of INDU inched down by a mere 2%MoM to 4.9k units. However, on yearly basis HCAR lead the growth chart by +32%YoY, followed by INDU witnessing relatively flat sales with PSMC kneeling down by 5%YoY.

**HCAR: Robust sales of Civic/City; volumes up by+9%YoY to 10.5k units for 2QM19**

Sales of Civic/City lead the growth in volumes increasing substantially by +47%MoM to 4.1k units for the month of Sep-18. However, sales of BR-V collapsed by 13%MoM to 429 units. For the 2QM19, sales are up by +9%YoY to 13.4k units driven by robust sales of Civic and City with BR-V dragged down by 38%YoY.

**INDU: Flat sales recorded at 15.5k units for 1QFY19**

The company registered a volumetric incline of +5%MoM to 4.9k units supported by +5%MoM growth in Corolla sales to 4.4k units. However, in high margin segment, sales have declined wherein Hilux sales dropped drastically by 47%MoM to 325 units, followed by Fortuner declining by 11%MoM to 182 units. For the 1QFY19, total sales volume for the company have stepped up by +2%MoM to 15.4k units backed by positive growth of +6%/3%MoM in Hilux/Corolla sales with Fortuner coming as a laggard (down by 23%YoY).

**PSMC: Depressed sales for 3QCY18; volumes down by 10%YoY to 29.5k units**

PSMC showcased growth of +14%MoM to 9.9k units, taking total sales for the 3QCY18 to 29.5k units, down by 10%YoY. For the month of Sep-18, sales of Wagon R/Cultus/Swift were up by +9%/33%/28%MoM to 2.7k/1.8k/0.45k units. However, sales of Mehran remained flat at 2.3k units, leaving inventory of 1.5k units during this month. In the light commercial vehicle segment, only Ravi witnessed hefty growth of 50%MoM to 1.4k units with Bolan sales stagnating at 1.2k units.

Exhibit:  
**Automobile sales composition-Sep-18**

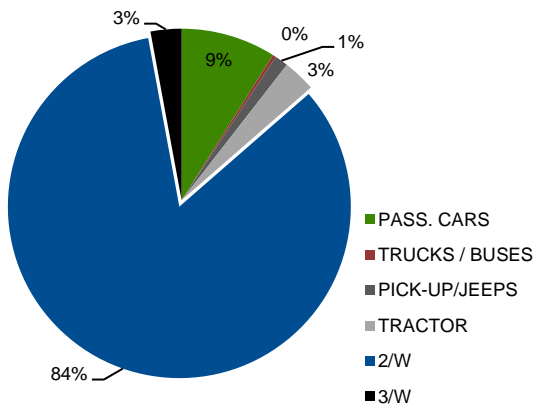
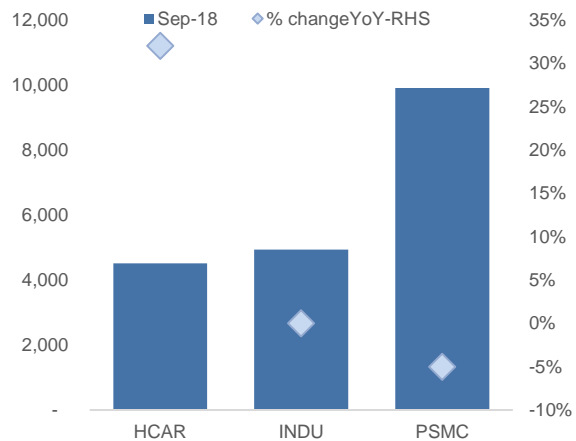


Exhibit:  
**Company wise passenger car sales for Sep-18**



Source: PBS, SBP, IGI Research

**Outlook: Volumes to plummet amid ban on non-filers; another price hike expected shortly**

We expect sales in the upcoming months to witness tepid growth as the effect of ban becomes significant. In addition, increase in interest rate will also pose a setback to auto financing, which will suffer gradually as more hikes comes into play. Lastly, with the abnormal currency movement and PKR slipping against USD, we expect another series of price hikes by major OEMs during the next quarter or so.

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**Recommendation**

We maintain a **'BUY'** call on INDU with our roll-over Jun-19 target price of PKR 1,749/share, offering +66% upside from the last closing. The company is currently trading at FY19E P/E of 6.3x and offers a dividend yield of 11.2%.

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**Time Horizon:** Dec – 2018

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