

Day Break

Wednesday, 18 October 2017

Sector Update

Sym.	Target Price	P/E x	D/Y %	P/B x	Recom.
INDU	2,277.1	9.6	7.2%	3.5	BUY
HCAR	553.8	9.5	4.2%	4.3	HOLD
PSMC	473.1	11.8	1.4%	1.4	HOLD

Automobile Assembler

Regulatory duty targeting new vehicles

- Federal Board of Revenue (FBR) has recently amended regulatory duties on imported goods, in order to curb down overall trade balance. Of the given amendments regulatory duty has also been changed for motor vehicles which could potentially have direct impact on local auto-assemblers.
- The newly issued SRO (1035 (I)) released on 16th Oct-17, reveals duty changes specifically on new cars, while the duty on used cars remains more or less unchanged.
- We attribute minimal impact on local assemblers (INDU, HCAR and PSMC) primarily because major imported vehicles fall under re-conditioned/used category
- We maintain a **"BUY"** call on INDU with Dec-17 based target price of PKR 2,277.1/share, offering +28% upside. The company is currently trading at FY18E P/E of 9.6x and offers a dividend yield of 7.2%.

New Regulatory duties to have minimal impact on local auto-assemblers

Federal Board of Revenue (FBR) has recently amended regulatory duties on imported goods in order to curb down overall trade balance. Of the given changes, regulatory duty has also been changed for motor vehicles which could potentially have direct impact on local auto-assemblers. Since, imported vehicles are in direct competition with local assemblers, in particular Pak-Suzuki Company (PSMC), henceforth changes in regulatory duty is widely accepted as a positive move. Auto-assembler stocks have rallied on the news of imposition of Regulatory duty on used and new vehicles. However, we believe the changes will have minimal impact on local assemblers. As such, the new prescribed changes in duty refers mainly to new vehicles being imported instead of old/used. Although this will help local assembler's trading volumes but it will not be enough to reduce overall imported vehicles competition.

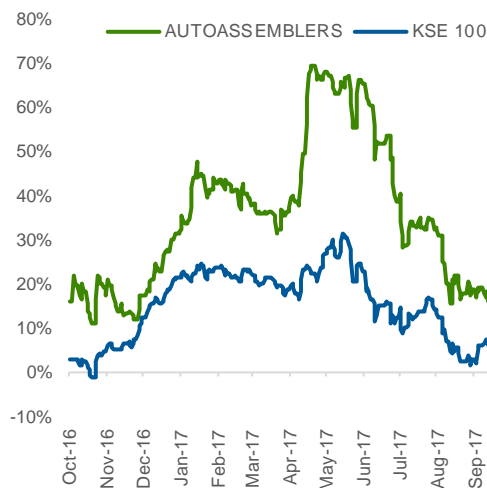
...however, comparing with the previous SRO 505(I)

The newly issued SRO (1035 (I)) released on 16th Oct-17, reveals duty changes specifically on new cars, while the duty on used cars remains more or less unchanged. Major regulatory duty changes have been observed on new cars belonging to engine category of 1,800cc and above, under which additional duty of 30% has been levied, tuning at 80%. However, under used cars in same category engine size, duty remains the same at 60%. Apart from that, vehicles falling under the engine size capacity of 1,000cc and under 1,300c depicts a 15% regulatory duty imposition.

Minimal impact on local players

We attribute minimal impact on local assemblers (INDU, HCAR, and PSMC) primarily because major imported vehicles fall under re-conditioned/used category, whereas new imported CBU category forms a relatively small portion of company. Likewise, gross margins are expected to remain unchanged as no such additional regulatory duty has been imposed on steel. Overall, increase in pricing (resulting from additional duty) might counter sales, thus impacting trading income, still it may lead to reduce competition posed by market dealers.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Exhibit:

New SRO on auto assembler have no change for Old & Used vehicles

New / Old	Category	Engine Size	Old RD %	New RD %	Status
New	Vehicles	>=1,000 to 1,300cc	-	15%	Change
New	Cars & Jeeps	>=1,801 to 3,000cc	50%	80%	Change
New	Cars & Jeeps	>3,000cc	50%	80%	Change
New	SUV	>2,000cc	50%	80%	Change
New	All-Terrain Vehicles (ATV)	-	50%	80%	Change
New	Cars & Jeeps	>2,000cc	50%	80%	Change
New	Cars & Jeeps	>2,500cc	50%	80%	Change
Old & Used	Cars & Jeeps	>=1,801 to 3,000cc	60%	60%	No Change
Old & Used	Cars & Jeeps	>3,000cc	60%	60%	No Change
Old & Used	SUV	>2,000cc	60%	60%	No Change
Old & Used	All-Terrain Vehicles (ATV)	-	60%	60%	No Change
Old & Used	Cars & Jeeps	>2,000cc	60%	60%	No Change
Old & Used	Cars & Jeeps	>2,500cc	60%	60%	No Change

Source: Federal Board of Revenue, IGI Research

Recommendation

Our stance on INDU remains same, following its successful launch of Corolla and constant margin accretion. We therefore have a **“BUY”** call on INDU while **“HOLD”** call for HCAR and PSMC.

Exhibit:

Auto assemblers projected financials

Company	Heads	FY16A	FY17A	FY18E	FY19F	FY20F
INDU	EPS	145.7	165.4	184.4	184	178.9
	DPS	100	115	129	128	125
	Gross Margins	16%	18%	17%	17%	16%
	Trading Sales / Total Sales	5%	8%	8%	8%	8%
	Trading Margins	44%	48%	48%	48%	48%
	Vol. (kunits)	63,977	59,911	62,400	64,272	64,272
HCAR	EPS	24.9	43.0	56.7	61.3	59.2
	DPS	7.0	17.2	22.7	24.5	23.7
	Gross Margins	15%	15%	14%	14%	13%
	Trading Sales / Total Sales	4%	3%	2%	2%	2%
	Trading Margins	40%	40%	40%	40%	40%
	Vol. (kunits)	25,759	35,304	49,200	52,272	52,920
PSMC*	EPS	71.0	33.7	42.2	38.9	40.2
	DPS	15.0	5.5	7.0	6.0	7.0
	Gross Margins	14%	10%	9%	9%	9%
	Trading Sales / Total Sales	3%	3%	3%	3%	3%
	Trading Margins	30%	29%	29%	29%	29%
	Vol. (kunits)	154,249	127,656	145,920	149,592	153,372

Source: Company financials, IGI Research, *FY=CY15 onwards

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Time Horizon: Dec - 2017

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

DCF (Discounted Cash Flow)

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