

Day Break

Monday, 22 January 2018

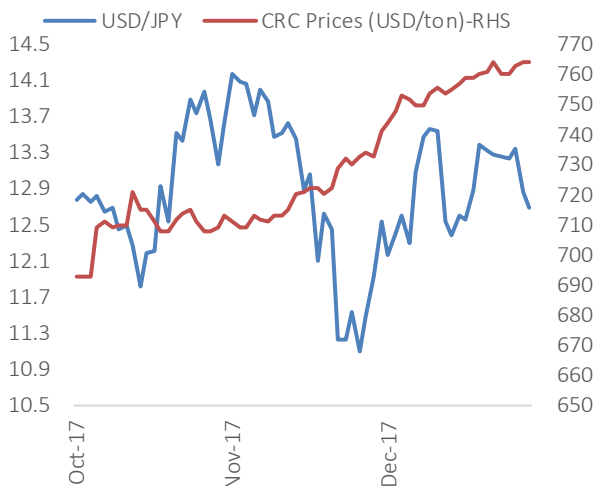
Sector Update

Sym.	Target Price	P/E 2018	D/Y 2018	Recom
INDU	2,291.9	10.0	7.0%	BUY
HCAR	622.1	9.7	4.1%	BUY
PSMC	499.5	11.1	3.7%	HOLD

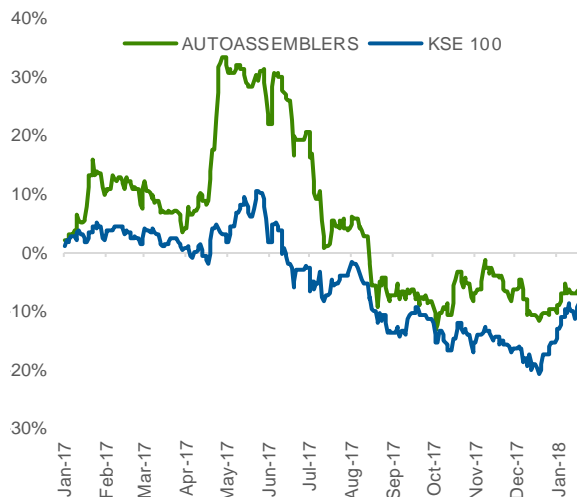
Exhibit: Sector Key Financials

SECTOR	2QFY18	QoQ	YoY
UNITS	69,097	6%	26%
NET SALES	78,972	8%	29%

Exhibit: USD/JPY movement and CRC prices



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Suleman Ashraf

Research Analyst

suleman.ashraf@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

Automobile Assemblers

IGI OEMs Earnings to grow by 19%YoY to PKR6.5bn

- We expect sectors profitably under IGI universe to increase by +19%YoY to PKR 6.5bn led by increase of +26%YoY in volumetric sales to 69k units
- On individual basis we expect INDU to post earnings of PKR 3.6bn (EPS PKR 44.6), up by +16%YoY, followed by PSMC attaining earnings of PKR 1.12bn (EPS: PKR 13.7) at a growth level of +25%YoY. Similarly, for HCAR the earnings are expected to clock in at PKR1.8bn (EPS: PKR 12.7), up by +22%YoY.
- We maintain a "BUY" call on INDU with Dec-18 based target price of PKR 2,291.9/share, offering +24% upside. The company is currently trading at FY18E P/E of 10x and offers a dividend yield of ~7%.

IGI auto universe earnings to increase by +19%YoY to PKR 6.5bn

We preview earnings of the major OEMs under IGI coverage (INDU, HCAR and PSMC) for the quarter ended, Dec-17. As per our analysis, we expect sectors profitably under IGI universe to increase by +19%YoY to PKR 6.5bn led by increase of +26%YoY in volumetric sales to 69k units. On individual basis we expect INDU to post earnings of PKR 3.6bn (EPS PKR 44.6), up by +16%YoY, followed by PSMC attaining earnings of PKR 1.12bn (EPS: PKR 13.7) at a growth level of +25%YoY. Similarly, for HCAR the earnings are expected to clock in at PKR1.8bn (EPS: PKR 12.7), up by +22%YoY. We attribute growth in earnings during the quarter to volumetric incline (27% on average) witnessed across sales volumes. Furthermore, gross margins during the period remained sensitive owing to increase in CRC prices, up by +18%YoY/7%QoQ to USD728/ton on average. In addition, exchange rate fluctuated owing to USD/JPY rally (average 112.9; 3%YoY), followed by PKR depreciation against USD (average 106.4; 2%YoY) in Dec-17.

INDU: Earnings to increase by +16%YoY to PKR 3.5bn (EPS: PKR 44.6)

According to our analysis, we expect company to post earnings of PKR3.5bn (EPS: PKR 44.6) up by +16%YoY owing to volumetric increase of +7%YoY to 15k units. This takes total earnings for 1HFY18 to PKR7.1bn, up by +18%YoY with volumetric sales approaching at 30k units (+6%YoY). For the quarter, we attribute growth in earnings on the back of increase in volumetric sales across high margin segment with Hilux witnessing growth of +73%YoY to 1.6k units, followed by Fortuner increasing massively by +14xYoY to 846 units. However, sales of Corolla dented by 4%YoY to 12.6k units as the year end approached. This results in net sales of PKR30.4bn (+19%YoY), translating half year sales to PKR 61bn (+20%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 PKR30/share, taking half year payout to PKR 60/share.

Exhibit: INDU Key Financials

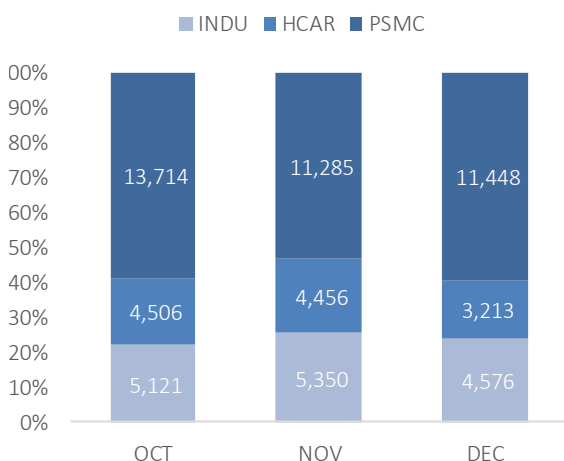
INDU	2QFY18	QoQ	YoY	1HFY18	YoY
UNITS	15,047	0%	7%	30,134	6%
NET SALES	30,403	-3%	19%	61,623	20%
EPS	45	-3%	16%	91	18%
DPS	30	0%	16%	60	20%

Exhibit: HCAR Key Financials

HCAR	3QFY18	QoQ	YoY	9MFY18	YoY
UNITS	12,175	-3%	43%	35,770	51%
NET SALES	22,890	-5%	38%	65,685	57%
EPS	12.8	13%	22%	38.7	38%
DPS	-	-	-	-	-

Exhibit: PSMC Key Financials

PSMC	4QCY17	QoQ	YoY	CY17	YoY
UNITS	41,875	11%	31%	150,659	18%
NET SALES	26,834	3%	36%	99,636	30%
EPS	13.7	2%	25%	51.3	52%
DPS	-	-	-	20	3x

Exhibit: Company Wise sales**HCAR: Sales growth of +43%YoY triggering quarterly earnings to PKR 1.8bn (EPS: PKR 12.8), up by +22%YoY**

HCAR is scheduled to announce 3QFY18 financial result on 23rd Jan-18. We expect company to post earnings of PKR1.8bn (EPS: PKR 12.8) up by +22%YoY having attained sales of 12.2k units at a growth level of +43%YoY. We attribute this increase in earnings on the back of a) combined sales of Civic and City reaching at 9.1k units, up by +6%YoY and b) BRV sales showing healthy trend, gearing up by +49%QoQ to 3.1k units. Overall net sales for the quarter is estimated to be PKR 21.7bn, up by +38%YoY, translating into cumulative net sales of PKR 65bn for the 9MFY18, up by +57%YoY. We expect gross margins for the quarter to hover around 12%, down by 188bps on yearly basis. As a result, cumulative earnings for 9MFY18 is expected to clock in at PKR 38.7/share, up by +38%YoY as compared to PKR28.7/share in the same period last year.

PSMC: CY17 earnings to witness massive growth of +52%YoY to PKR 4.2bn (EPS: PKR 51.3)

We expect company to post earnings of PKR1.12bn (EPS: PKR13.65), up by +25%YoY, on account of +31%YoY growth in volumes (42k units). Major contribution to sales jump was driven by a) WagonR/Mehran/Cultus, surging by +100%/31%/14%YoY to 8.3k/11.7k/4.3k units and b) Ravi/Bolan showing growth of +21%/15%YoY to 5.3k/5.6k units. In 2W segment, sales volume have also jumped by +14%YoY to 5.4k units. This brings net sales to PKR 27bn (+36%YoY) for 4QCY17, translating into cumulative net sales for the year to PKR 99.6bn (+30%YoY). We expect gross margins to strike at 9%, down by 200bps on yearly basis for 4QCY17. As a result cumulative earnings for CY17 is expected to clock in at PKR 51.3/share, up by +52%YoY as compared to PKR 33.7/share in the same period last year. In addition, we expect company to declare cash dividend of PKR20/share.

Outlook

INDU: We expect volumetric sales to regain their momentum in the later half of the year as the election period approaches. We see INDU to be more beneficial owing to rise in demand expected for its high margin segment (new Fortuner and Hilux variant expected). Furthermore, the recent price hike will likely provide a safe haven to the company's margins; though possibility of further PKR depreciation and rising CRC prices cannot be sidelined. Nevertheless, strong pass-over capacity may act as a safeguard against such macroeconomic pressures. We therefore maintain our liking for the scrip with a **"BUY"** call based on Dec-18 based target price of PKR 2,291.9/share, offering +24% upside. The company is currently trading at FY18 P/E of 10x and offers a dividend yield of ~7%.

HCAR: For HCAR, we expect BRV sales to support overall company's volumetric sales, which had been inclined to Civic/City only (sales of City/Civic are already at crossroads with Corolla). However, with BRV there seems to be limited competition in the SUV segment, hence volumes may less likely stifle. We have a **"BUY"** call on HCAR based on target price of PKR 622/share.

Source: PAMA, Bloomberg & IGI Research

PSMC: We expect company to maintain its strong foothold in the small car segment, rolling out new models (Alto 660cc in process). However, since company has to bear low margins, therefore gross margins will likely remain sensitive (rising CRC prices and exchange rate volatility) which cannot be curbed easily owing to limited price pass-over capacity (as evident with recent price hike of 1-2%/unit). We therefore, maintain a **“HOLD”** call on PSMC based on target price of PKR499.5/share.

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2018

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2017 IGI Finex Securities Limited

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,
Gulberg II, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road, Faisalabad
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Tel: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad
Station, Mansehra Road, Abbottabad
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarak Pura, Sialkot.
Tel: (+92-52) 3258437, 3258762