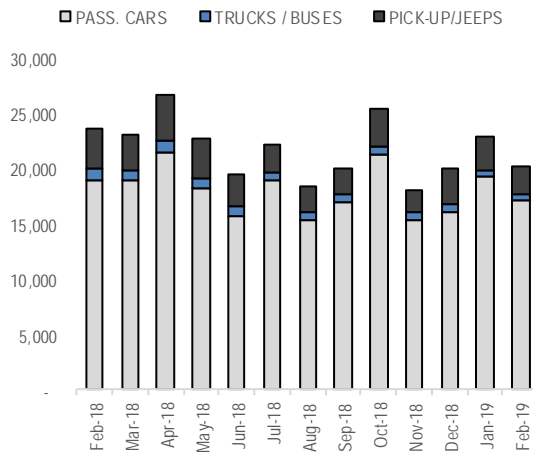


# Day Break

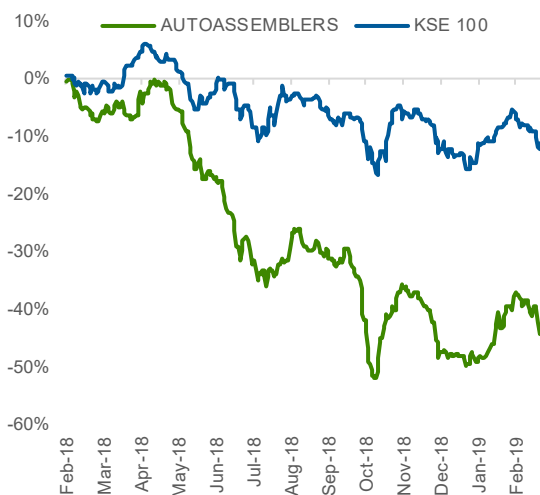
Tuesday, 12 March 2019

## Sector Update

Exhibit: Industry Car sales volume



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Automobile Assemblers

### Feb-19: Industry volumes down by 8%YoY to 162k units; recent policy amendment to drive recovery

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), shows industry sales volume declined by 8%YoY to 162k units as all segments reported decline in their sales. On cumulative basis, for 8MFY19 sales have weakened by 7%YoY to 1,374k units, marred by high interest rates, increase in car prices and impact of non-tax filer in our view.
- With respect to company wise, HCAR witnessed a major decline of 41%MoM/27%YoY to 3.3k units. This was followed by PSMC also reporting a drop of 8%MoM/17%YoY to 10.9k units. However, INDU remained relatively in a better position reporting an increase of +8%YoY to 5.5k units while witnessing a decline of 12% on sequential basis.
- We have a “BUY” call on INDU, based on our revised Dec-19 target price of PKR 1,662/share, offering +21% upside from its last closing. The company is currently trading at FY19E P/E of 7.34x and offers a dividend yield of 9.4%.

#### Industry sales recorded at 162k units as all segments reported drop in their volumes

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), shows industry sales volume declined by 8%YoY to 162k units as all segments witnessed drop in their sales. On a cumulative basis, for 8MFY19 sales have weakened by 7%YoY to 1,374k units, marred by high interest rates, increase in car prices and impact of non-tax filer in our view.

On a sequential basis, industry volumes have decreased by 7%MoM as major segments reported decline in their volumes. However, sales of tractor witnessed a rebound of +16%MoM to 4.0k units. In 3/W and 2/W segments volumes slumped by 6%/25%MoM to 133k/5.4k units. Likewise, passenger car segment reported a decline of 12%MoM to 17.1k units as sales of cars exceeding engine capacity of 1000cc drained by 17%MoM to 12.5k units.

#### Major OEM's displayed negative growth in sales

With respect to company wise, HCAR witnessed a major decline of 41%MoM/27%YoY to 3.3k units. This was followed by PSMC also reporting a drop of 8%MoM/17%YoY to 10.9k units. However, INDU remained relatively in a better position reporting an increase of +8%YoY to 5.5k units while witnessing a decline of 12% on sequential basis.

Exhibit:

Monthly PAMA Sales

UNITS	Feb-19	Jan-19	MoM	Feb-18	YoY	8MFY19	8MFY18
=>1300	8,239	9,750	-15%	8,413	-2%	70,232	64,145
800<x<1000	4,570	4,318	6%	6,372	-28%	33,845	45,607
1000<x<1300	4,262	5,285	-19%	4,242	0%	36,385	32,633
<b>PASS. CARS</b>	<b>17,071</b>	<b>19,353</b>	<b>-12%</b>	<b>19,027</b>	<b>-10%</b>	<b>140,462</b>	<b>142,385</b>
<b>TRUCKS / BUSES</b>	<b>563</b>	<b>602</b>	<b>-6%</b>	<b>779</b>	<b>-28%</b>	<b>4,936</b>	<b>6,279</b>
<b>PICK-UP/JEEPS</b>	<b>2,590</b>	<b>3,160</b>	<b>-18%</b>	<b>3,627</b>	<b>-29%</b>	<b>21,778</b>	<b>27,970</b>
<b>TRACTOR</b>	<b>4,044</b>	<b>3,486</b>	<b>16%</b>	<b>6,454</b>	<b>-37%</b>	<b>32,013</b>	<b>44,606</b>
2W	133,137	141,607	-6%	140,110	-5%	1,134,486	1,201,996
3W	5,418	7,213	-25%	6,200	-13%	40,973	52,993
<b>TOTAL</b>	<b>162,823</b>	<b>175,421</b>	<b>-7%</b>	<b>176,197</b>	<b>-8%</b>	<b>1,374,648</b>	<b>1,476,229</b>

Source: PAMA, IGI Research

**HCAR: BR-V stands laggard; total volumes for 11MM19 flat at 44.6k units**

For the month of Feb-19, sales of Civic/City decreased by 27%MoM to 2.95k units with BR-V also showcasing a negative growth of 33% to 331 units. As a result, total company’s sales volume are down by 27%MoM to 3.3k units. On a cumulative basis for the 11-month period total volumes are relatively flat at 44.6k units led by +9%YoY growth in Civic/City sales (39.5k units), absorbing the substantial decline of 34%YoY in BR-V sales (5.1k units).

**INDU: Corolla driving company’s sales in the mix**

The company registered a volumetric decline of 12%MoM to 5.5k units for the month of Feb-19. On an individual basis, sales of Corolla and Hilux, witnessed drop of 8%/61%MoM to 4.9k/0.2k units while Fortuner picked up pace at a growth of +29%MoM to 332 units. For the 8MFY19, total sales volume for the company increased by +9%YoY to 44.4k units backed by positive sales growth of +14%YoY in Corolla (38.2k units) with Hilux and Fortuner trailing behind with a drop of 9%/19% YoY to 4.3k/1.8k units .

**PSMC: Cumulative sales for 2MCY19 recorded at 26.k units, down by 8%YoY**

PSMC sales weakened by 6%MoM to 12.8k units wherein Wagon R /Cultus sales declined by 22%/16%MoM to 2.4k/1.8k units. In LCV segment, sales inched down by 2%YoY to 3.3k units. However, Mehran sales increased by +8%MoM to 2.9k units led by its limited edition offering in the market. On a cumulative basis, for 2MCY19 total sales have collapsed by 12%YoY to 26.4k units owing to substantial decline (20%/27%)YoY in Mehran /Bolan sales while Wagon R/ Cultus managed to attain growth of +1%/14%YoY to 5.5k/4.0k units.

Exhibit:  
**Automobile sales composition-Feb-19**

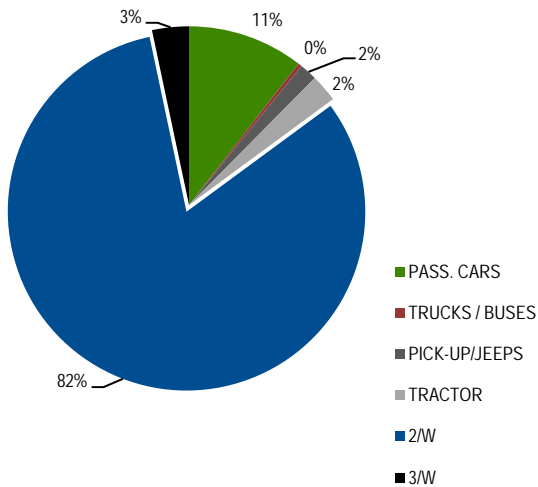
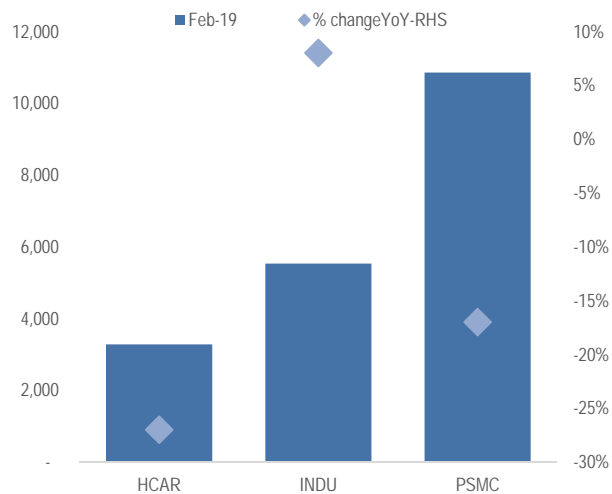


Exhibit:  
**Company wise passenger car sales for Feb-19**



Source: PBS, SBP, IGI Research

**Outlook:**

The recent policy amendment allowing non-filers to purchase local assembled cars irrespective of engine capacity is positive for local OEMs. We view the impact of this measure to be visible in the next quarter with companies witnessing rebound in their volumes. On an individual basis, we may see substantial recovery in PSMC and HCAR volumes which have decreased by -5%/11%YoY since the imposition of ban from Jul-18.

**Recommendation**

We have a “BUY” call on INDU, based on our revised Dec-19 target price of PKR 1,662/share, offering +21% upside from its last closing. The company is currently trading at FY19E P/E of 7.34x and offers a dividend yield of 9.5%.

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**Time Horizon:** Dec – 2019

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