

Day Break

Monday, 22 July 2019

COMPANY UPDATE

Honda Atlas Cars (Pakistan) Limited

Automobile Assembler

Recommendation	SELL
Target Price: 31-Dec-19	107.2
Last Closing: 19-Jul-19	121.7
Upside:	- 11.9
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 5M

Market Data

Bloomberg Tkr.	HCAR PA		
Shares (mn)	142.8		
Free Float Shares (mn)	28.6		
Free Float Shares (%)	20.0%		
Market Cap (PKRbn USDmn)	17.4	108.6	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(44.3)	(43.7)	(58.6)
Lo	115.9	115.9	115.9
Hi	218.3	272.0	296.1

Key Company Financials

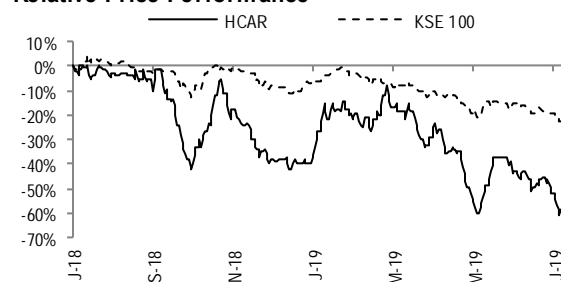
Period End: Mar

PKRbn	FY19A	FY20E	FY21F	FY22F
Total Revenue	95.1	81.7	76.9	75.1
Net Income	3.9	1.7	1.2	1.2
EPS (PKR)	27.0	12.1	8.1	8.4
DPS (PKR)	12.2	5.5	3.7	3.8
Total Assets	32.1	31.3	30.8	31.6
Total Equity	17.6	18.6	19.2	19.9

Key Financial Ratios

ROE (%)	21.8	9.3	6.01	6.02
P/E (x)	4.5	10.1	15.0	14.5
P/B (x)	3.6	0.9	0.9	0.9
DY (%)	10.0	4.5	3.0	3.1

Relative Price Performance



About the Company

The Company was incorporated on November 04, 1992 and commenced commercial production from July 1994. The principal activities are the assembling and progressive manufacturing and sale of Honda vehicles and spare parts.

Source: Bloomberg, PSX & IGI Research

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Automobile Assemblers

HCAR & PSMC Result Previews

- HCAR is scheduled to announce its 1QMY20 financial result on 23rd Jul-19, wherein we expect company to post earnings of PKR 0.52bn (EPS: PKR 3.60). We factor drop in total sales, weak margins and decrease in other income for 51%YoY decline in earnings.
- PSMC is scheduled to announce its 2QCY19 financial result on 24th Jul-19 wherein we expect the company to report a loss of PKR 0.76bn (LPS: PKR 9.3), taking total loss for the 1HCY19 to PKR 1.74bn (LPS: PKR 21.2), compared to profitability reported (PKR 1.30bn) during the same periods last year
- We are underweight on auto sector considering weak fundamentals and deteriorating financial performance. We have a "SELL" call on HCAR and PSMC based on our Dec-19 target price of PKR 107/share and PKR 105/share, respectively.

HCAR: Weak margins and drop in volumes to keep earnings subdued

HCAR is scheduled to announce its 1QMY20 financial result on 23rd Jul-19, wherein we expect company to post earnings of PKR 0.52bn (EPS: PKR 3.60), down by 51%YoY. We factor drop in total sales, weak margins and decrease in other income for drop in earnings for the quarter in review. As such, net sales are expected to decline by 24%YoY to PKR18.1bn, led by 33% decrease in volumes (offsetting 20%YoY increase in car prices on average) where sales of Civic/City and BR-V exhibited 35%YoY and 22%YoY drop in their sales, respectively. More so, we estimate gross margin to taper down by 300bpsYoY to 5.8% owing to PKR depreciation (26%YoY/5%QoQ) and possibility of lesser proportion of high margin sales in the mix. Furthermore, support to the earnings may also be restrained owing to decrease in other income (low cash tied up in investments, 77%YoY decrease) by 60%YoY to PKR 0.19bn.

Exhibit:

HCAR 1QMY20 Result Highlights

PKRmn (Period end =Mar)	1QMY20E	1QMY20	YoY	MY19	MY18	YoY
Net Sales	18,077	23,854	-24%	95,128	91,523	4%
Cost Of Sales	17,019	21,711	-22%	87,824	81,074	8%
Gross Profit	1,058	2,144	-51%	7,304	10,449	-30%
Selling & Dist.	192	191	1%	932	917	2%
Admin.	214	166	28%	800	678	18%
Operating Profit	652	1,786	-63%	5,572	8,855	-37%
Other Income	180	449	-60%	1,314	1,883	-30%
Finance Cost	3	4	-33%	11	14	-23%
Profit Before Tax	725	1,884	-62%	5,594	9,479	-41%
Taxation	210	834	-75%	1,742	2,984	-42%
Profit After Tax	515	1,050	-51%	3,851	6,494	-41%
EPS	3.6	7.4		27.0	45.5	
DPS	-	-		12.2	22.8	

Key Indicators

Unit Sold (Ths)	8.3	12.5	-33.1%	48.4	50.0	-3.3%
Gross Profit Margins	5.9%	9.0%	(313)	7.7%	11.4%	(327)
Effective Tax Rate	29.0%	44.2%	(1,524)	31.2%	31.5%	(30)

Source: IGI Research, Company accounts, PSX

No of shares(mn): 142.8

Recommendation

We have a "SELL" call on the scrip based on our Dec-19 target price of PKR 107/share, implying a downside of 12% from the last closing price. The company is currently trading at MY20E P/E of 10.0x and offers a dividend yield of 4.5%.

Monday, 22 July 2019

COMPANY UPDATE

Pak Suzuki Motor Company Limited

Automobile Assembler

Recommendation **SELL**

Target Price: 31-Dec-19 105.4

Last Closing: 19-Jul-19 198.4

Upside: - 46.9

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 5M

Market Data

Bloomberg Tkr. PSMC PA

Shares (mn) 82.3

Free Float Shares (mn) 21.7

Free Float Shares (%) 26.4%

Market Cap (PKRbn | USDmn) 16.3 | 102.1

Exchange KSEALL

Price Info. 90D 06M 12M

Abs. Return (25.2) (0.0) (45.3)

Lo 188.9 188.9 174.1

Hi 310.1 340.4 362.9

Key Company Financials

Period End: Dec

PKRbn **CY18A** **CY19E** **CY20F** **CY21F**

Total Revenue 119.9 98.8 96.5 98.8

Net Income 1.3 (2.1) (1.4) (0.6)

EPS (PKR) 15.8 (25.3) (17.3) (6.8)

DPS (PKR) 3.2 - - -

Total Assets 61.5 54.7 53.7 52.9

Total Equity 29.2 32.5 34.0 35.4

Key Financial Ratios

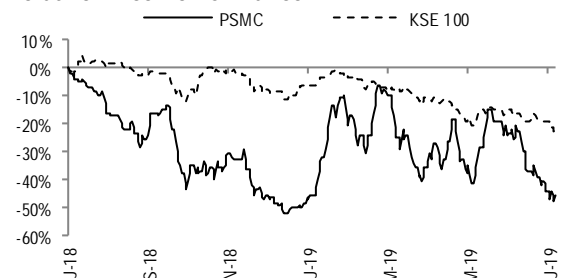
ROE (%) 4.4 (6.4) (4.17) (1.57)

P/E (x) 12.6 - - -

P/B (x) 3.6 0.5 0.5 0.5

DY (%) 1.6 - - -

Relative Price Performance



About the Company

The Company was incorporated in Pakistan as a public limited company in August 1983. The Company started commercial production in January 1984, and is engaged in the assembling, manufacturing and marketing of Suzuki vehicles and spare parts.

Source: Bloomberg, PSX & IGI Research

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PSMC: Low volumes, weak margins and high finance cost takes its toll; expecting a loss of PKR 0.76bn (LPS: PKR 9.3) for 2QCY19

PSMC is scheduled to announce its 2QCY19 financial result on 24th Jul-19 wherein we expect the company to report a loss of PKR 0.76bn (LPS: PKR 9.3) taking total loss for the 1HCY19 to PKR 1.74bn (LPS: PKR 21.2), compared to profitability reported (PKR 1.30bn) during the same periods last year. We attribute the increase in losses owing to decline in sales, high input costs (PKR depreciation) putting pressure on margins and short-term financing arrangements. Net sales for the quarter are estimated to decrease by 9%YoY to PKR 28.0bn despite 13%YoY increase in car prices marred by decline of 16%YoY in volumes. Gross margins are expected to taper down by 300bpsYoY to ~3% owing to PKR depreciation and limited pass-on (low pricing power). Furthermore, finance cost to the tune of PKR 271mn will further push up loss; owing to pretax loss imposition of turnover tax (1.5%) may also act as a drag.

Exhibit:

PSMC 2QCY19 Result Highlights

PKRmn (Period end =Dec)	2QCY19E	2QCY18	YoY	6MCY19E	6MCY18	YoY
Net Sales	28,039	30,881	-9%	62,486	62,392	0%
Cost Of Sales	27,222	29,132	-7%	60,551	58,026	4%
Gross Profit	816	1,749	-53%	1,935	4,365	-56%
Selling & Dist.	410	642	-10%	1,153	1,446	-9%
Admin.	526	517	16%	1,152	1,016	21%
Operating Profit	(120)	589	n.m	(371)	1,904	n.m.
Other Income	50	213	-77%	100	389	-74%
Finance Cost	271	19	12.8x	598	93	5.4x
Profit Before Tax	(342)	728	n.m	(870)	2,048	n.m.
Taxation	421	335	26%	873	750	16%
Profit After Tax	(762)	394	n.m	(1,743)	1,298	n.m.
EPS	(9.3)	4.8		(21.2)	15.77	

Key Indicators

Unit Sold (Ths) 35.9 42.5 -15.6% 78.3 86.1 -9.1%

Gross Profit Margins 2.9% 5.7% (275) 3.1% 7.0% (557)

Effective Tax Rate -123.3% 46.0% n.m -100.3% 36.6% n.m

Source: IGI Research, Company accounts, PSX

No of shares(mn): 82.3

Recommendation

The stock performance has deteriorated substantially by 45% against the benchmark index, KSE-100. We have a "SELL" on the scrip based on our Dec-19 target price of PKR 105/share, implying downside of 50% from the last closing price.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec – 2019

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

(Reserve Based DCF Valuation)

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