

Day Break

Monday, 14 March 2016

Sector Update

| Auto | CP (PKR/share) |
|------|----------------|
| INDU | 946.8 |
| PSMC | 434.0 |
| HCAR | 245.5 |

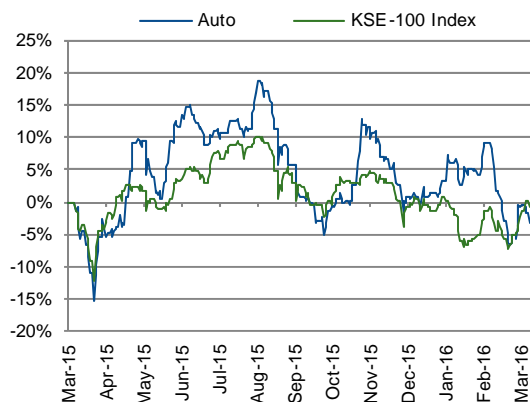
| Industry | Feb-16 | MoM | 8MFY16 | YoY |
|---------------|---------|------|-----------|------|
| Passenger Car | 14,027 | -22% | 121,934 | 38% |
| Farm Tractors | 3,045 | 29% | 17,772 | -37% |
| MotorCycles | 103,086 | -10% | 848,269 | 27% |
| Pickup/Jeeps | 1,847 | -49% | 27,377 | 96% |
| Bus/Trucks | 557 | -7% | 3,803 | 40% |
| Total | 127,346 | -12% | 1,049,599 | 27% |

| INDU | Feb-16 | MoM | 8MFY16 | YoY |
|----------|--------|------|--------|------|
| Corolla | 4,844 | -13% | 38,069 | 23% |
| Hilux | 395 | -28% | 3,286 | -24% |
| Fortuner | 36 | 6% | 368 | 15% |
| Total | 5,275 | -12% | 41,723 | 21% |

| HCAR | Feb-16 | MoM | 8MFY16 | YoY |
|--------------|--------|------|--------|-----|
| Civic + City | 2,168 | -28% | 15,793 | 12% |

| PSMC | Feb-16 | MoM | 8MFY16 | YoY |
|--------|--------|------|--------|------|
| Mehran | 3,177 | -26% | 25,469 | 33% |
| Cultus | 1,141 | 12% | 10,117 | 14% |
| Ravi | 1,405 | -56% | 23,540 | 129% |
| Bolan | 1,546 | -45% | 23,848 | 129% |
| Total | 8,420 | -34% | 91,608 | 71% |

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Automobile Assemblers

Passenger car volumes mounted by Impressive +38% in 8MFY16

- Passenger cars sales plummeted by 22%MoM to 14.03k units with no significant change on annual basis. Segment wise, 800-1000cc category nosedived by 33%MoM/12%YoY to 4.72k, 1300cc and above category was also on the downward/upward trend by 18%MoM/+4%YoY to 7.31k units.
- In Feb-16, PSMC vehicle sales dipped by 34%MoM/16%YoY to 8.42k units, INDU sales declined by 12%MoM in Feb-16 but increased by +4%YoY to 5.28k units, The primary contributor to monthly sales dip was Corolla, which was down by 13%MoM. Feb-16 sales dwindled for HCAR by 28%MoM/3%YoY to 2.17k units. For the 8MFY16, volumes stretched by +12%YoY to 15.79k units.
- INDU is currently trading at FY16E P/E of 7.71x and we currently maintain a 'Buy' call on company with Dec-16 TP of PKR 1,246/share, offering an upside of +31% from its last close.

Post January effects sales slowdown

Passenger cars sales plummeted by 22%MoM to 14.03k units with no significant change on annual basis. Segment wise, 800-1000cc category nosedived by 33%MoM/12%YoY to 4.72k, 1300cc and above category was also on the downward/upward trend by 18%MoM/+4%YoY to 7.31k units. 1000-1300cc segment also dropped/rose by 6%MoM/+19%YoY to 2.00k units. In 8MFY16, passenger car sales boomed by +38%YoY to 121.93k units, with 800-1000cc contributing largest growth of +67%YoY to 49.32k units, followed by +39%YoY growth to 16.14k units in 1000-1300 category.

PSMC: February sales dipped by 34%MoM/16%YoY

In Feb-16, PSMC vehicle sales dipped by 34%MoM/16%YoY to 8.42k units, with Ravi and Bolan plunging by 56%MoM/47%YoY and 45%MoM/37%YoY to 1.41k and 1.55k respectively post GoP's "ApnaRozgar Scheme". Mehran also fell/increased by 26%MoM/+9%YoY to 3.18k units, followed by Wagon R with a contraction/expansion of 22%MoM/ +67%YoY. Swift also declined by 14%MoM/6%YoY whereas Cultus sales improved/deteriorated by +12%MoM/2%YoY. For 8MFY16, sales increased by +71%YoY to 91.61k units, primarily on the back of "ApnaRozgaar Scheme", where Ravi and Bolan variants registered highest growth of +1.29xYoY both to 23.54k units and 23.85k units, respectively.

Monday, 14 March 2016

Exhibit: PAMA Monthly Auto Sales Numbers

| | Feb-16 | Jan-16 | MoM | Feb-15 | YoY | 8MFY16 | 8MFY15 | YoY |
|-----------------|---------|---------|------|--------|------|-----------|---------|------|
| =>1300 | 7,308 | 8,903 | -18% | 7,005 | 4% | 56,476 | 47,393 | 19% |
| 800<x<1000 | 4,723 | 7,061 | -33% | 5,360 | -12% | 49,317 | 29,496 | 67% |
| 1000<x<1300 | 1,996 | 2,119 | -6% | 1,676 | 19% | 16,141 | 11,649 | 39% |
| Passenger Cars | 14,027 | 18,083 | -22% | 14,041 | 0% | 121,934 | 88,538 | 38% |
| Commercial | 557 | 601 | -7% | 384 | 45% | 3,803 | 2,710 | 40% |
| Pick-up / Jeeps | 1,847 | 3,634 | -49% | 3,315 | -44% | 27,377 | 13,953 | 96% |
| Farm Tractor | 3,045 | 2,352 | 29% | 4,015 | -24% | 17,772 | 28,412 | -37% |
| Motorcycle | 103,086 | 114,430 | -10% | 73,994 | 39% | 848,269 | 667,650 | 27% |
| 3-wheeler | 4,784 | 5,085 | -6% | 3,783 | 26% | 30,444 | 28,274 | 8% |
| Total | 127,346 | 144,185 | -12% | 99,532 | 28% | 1,049,599 | 829,537 | 27% |

Source: IGI Research, PAMA

INDU: Sales going down by 12%MoM

INDU sales declined by 12%MoM in Feb-16 but increased by +4%YoY to 5.28k units. The primary contributor to monthly sales dip was Corolla, which was down by 13%MoM. However Hilux sales jumped up by +6%MoM but soaked on annual basis by 31%YoY to 395units. Sales increased by +21% YoY in 8MFY16, where Corolla posted +23%YoY hike, Fortuner depicted +15%YoY rise and Hilux sales fell by 24%YoY.

HCAR: Volumes normalized after high volumes in January

Feb-16 sales dwindled for HCAR by 28%MoM/3%YoY to 2.17k units. For the 8MFY16, volumes stretched by +12%YoY to 15.79k units.

Outlook

Going forward, we maintain our positive stance on auto industry due to a) availability of low auto financing rates which will remain primary stimuli of demand, b) reduced commodities prices, keeping companies margins relatively stable, c) low inflation resulting in high consumer spending. However, strengthening USD and subsequent weakening of PKR could potentially pose a risk to auto assembler's margins, whereas stable JPY / USD parity is expected to offset the impact.

Recommendation

Company is currently trading at FY16E P/E of 7.71x and we currently maintain a 'Buy' call on INDU with Dec-16 TP of PKR 1,246/share, offering an upside of +31% from its last close.

Exhibit: PAMA Monthly Auto Sales Numbers (Units) Company- wise

| | Feb-16 | Jan-16 | MoM | Feb-15 | YoY | 8MFY16 | 8MFY15 | YoY |
|------|--------|--------|------|--------|------|---------|---------|------|
| HCAR | 2,168 | 3,015 | -28% | 2,242 | -3% | 15,793 | 14,041 | 12% |
| INDU | 5,275 | 5,967 | -12% | 5,077 | 4% | 41,723 | 34,375 | 21% |
| PSMC | 8,420 | 12,706 | -34% | 9,981 | -16% | 91,608 | 53,669 | 71% |
| AGTL | 1,135 | 984 | 15% | 1,503 | -24% | 6,139 | 10,526 | -42% |
| MTL | 1,806 | 1,262 | 43% | 2,435 | -26% | 10,984 | 17,400 | -37% |
| HINO | 245 | 312 | -21% | 160 | 53% | 1,950 | 1,154 | 69% |
| GHNL | 102 | 72 | 42% | 86 | 19% | 510 | 509 | 0% |
| GHNI | 125 | 120 | 4% | 60 | 108% | 834 | 536 | 56% |
| ATLH | 66,128 | 73,259 | -10% | 53,030 | 25% | 532,173 | 408,204 | 30% |

Source: IGI Research, PAMA

Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed 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 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.

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

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- FCF(Free Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Changes in Exchange rate

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