# Pakistan Automobile

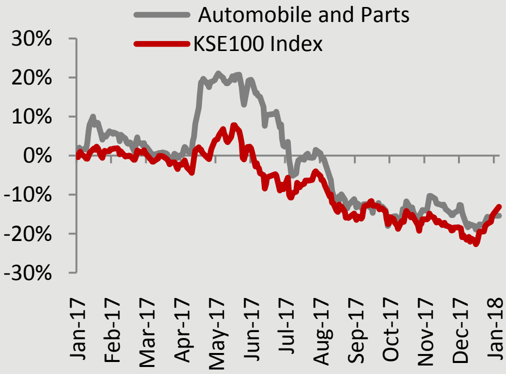
## Dec'17 sales expectedly took a breather, amid strong 1H!

Thursday, January 11, 2018

**Automobile Sector Performance**

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute % | 3% | -15% | -13% |
| Relative to KSE % | -3% | -11% | -2% |

**Automobile Sector vs. KSE100 Relative Chart**




Source: PSX, BMA Research

- **As per latest data, total auto sales took a breather in Dec'17 and contracted by 9% MoM, with all passenger cars sales declining 6% MoM.**
- **We attribute seasonal factors to this broad-based decline, where sales for all three OEMs took a hit. HCVs sales, on the other hand, buckled the trend and increased 6%MoM, driven by rising construction activities.**
- **On a cumulative basis, 1HFY18 numbers remained healthy for the auto sector sales, with total sales growing by 20% YoY. HCAR outperform ed with 33% YoY increase followed by PSMC with a 29% YoY growth in sales.**
- **INDU remains our top pick at TP of PKR2,152 (22% upside) given its greater pricing power, attractive D/Y of 7.2% compared to peers, and strong investment position to benefit in case of higher interest rates.**
- **Key risks: (i) disorderly exchange rate shock, and (ii) higher commodity prices forcing OEMs to pass on impact to consumers and consequent slowdown in volumes to some extent.**

**Dec'17 sales took a breather on MoM as seasonality kicks-in:** As per latest data released by Pakistan Automotive Manufacturers Association (PAMA), total auto sales saw a slowdown in Dec'17 (down 9% MoM), with all passenger cars sales declining by 6% MoM. Amongst LCVs segment, only Hilux (up 1% MoM) saw positive growth in sales, while sales for BR-V and Ravi declined by 40% and 13% MoM, respectively. We believe the year end factor led to the broad-based decline in sales on monthly basis, whereby sales for all three OEMs (down 14%, 28% for INDU, HCAR, respectively, while PSMC saw a meager growth of 1%) took a hit during the month. On the other hand, Dec'17 saw HCVs' sales growth of 6% MoM, maintaining its strong momentum on the back of increased construction activities, however, sales for tractor dipped 11% MoM. Going forward, we expect sales to recover from Jan'18 onwards due to new year effect, also we don not expect much sales attrition post recent price hike due to favorable demand dynamics (low interest rates favorable for auto financing and soft inflation).

**Healthy show in 1H as volumes grow by 27%:** On a cumulative basis, 1HFY18 numbers remained healthy for auto sector sales, with total sales growing (up 27% YoY). HCAR outperformed with 50% YoY increase. PSMC followed with a 32% YoY growth in sales, driven by 34% YoY growth in Cultus (new model launch), 29% in Mehran and 87% in Wagon-R. We believe boost in 800-1000cc segment sales is a reflection of more attractive consumer financing rates, higher purchasing power in the middle-income group and demand emanating from ride hailing apps like Uber and Careem. INDU closed the 1H with sales growth of 6%YoY.

**Dec'17 sales remain robust on YoY basis**

**Pak Suzuki Motor Company** Sales are up 29% YoY in Dec'17 thanks to hefty 100%/22%/15% YoY growth in Wagon-R, Mehran and new Cultus sales, respectively. Despite delay in much awaited boon for PSMC in the form of orange cab scheme, PSMC has held its forte in the 800-1000cc segment (+20% YoY in Dec'17, 31% in 1H). We flag recent addition of Cultus AT in the fleet as a major positive which will likely to keep demand sanguine, going forward.

**Honda Car sales growth** HCAR sales were up 33% YoY mainly due to absence of BR-V model last year. HCAR's recent move on upgrading its City portfolio in Aug'17 (introduction of City 1.5L and face-lift of Aspire 1.5L) may boost HCAR sales going forward due to reflection of deliveries of upgraded variant.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**Indus Motors sales** On a YoY basis, INDU remained an exception where sales plunged by 3% YoY due to slowdown in sales of new Hilux and Corolla (down by 8% and 5% respectively), during the month. We foresee this phenomenon to end going forward, as INDU has initiated a purge against dodgy corporate to put an end on practice of charging premium and to simultaneously improve the booking process for genuine buyers since Nov'17.

**Key risks:** Sector underperformance of 9% in last 6-mths is clearly attributed to imminent risk of disorderly exchange rate depreciation, which does not bode well for sector margins. While an orderly PKR/USD devaluation can be passed on by the assemblers (recent increase of about 3% in price by all OEMs) without hurting margins much. We flag downside risk could stem from a worse scenario of combination of sharp exchange rate devaluation, rise in input costs leading to car price hike as well as fuel cost increase and interest rate hike which could result in a double whammy for current strong demand dynamics. Given risk of exchange rate devaluation, a 5% PKR/USD devaluation in FY18 over and above our base case of 4%, would negatively impact earnings by 7%/17.4%/17.5% for INDU/PSMC/HCAR, respectively.

**Investment thesis:** INDU remains our top pick at TP of PKR2,152 (22% upside) given its greater pricing power, attractive D/Y of 7.3% compared to peers, and strong investment position to benefit in case of higher interest rates.

**Auto numbers for the month of Dec'17**

| | 17-Dec | MoM% | YoY% | 6MFY18 | YoY% |
|---|---|---|---|---|---|
| Swift | 381 | 11% | 18% | 2,141 | 1% |
| Cultus | 1,499 | 10% | 15% | 9,501 | 34% |
| WagonR | 2,758 | 30% | 100% | 14,141 | 87% |
| Mehran | 3,390 | -14% | 22% | 22,219 | 29% |
| Bolan | 1,860 | 9% | 10% | 10,484 | 9% |
| Ravi | 1,560 | -13% | 9% | 10,738 | 21% |
| **PSMC** | **11,448** | **1%** | **29%** | **69,224** | **32%** |
| Corolla | 3,807 | -16% | -8% | 25,325 | -2% |
| Fortuner | 230 | -18% | 1178% | 1,638 | 699% |
| Hilux | 539 | 1% | -5% | 3,171 | 25% |
| **INDU** | **4,576** | **-14%** | **-3%** | **30,134** | **6%** |
| City/Civic | 2,464 | -23% | 2% | 19,623 | 18% |
| BR-V | 749 | -40% | NA | 5,159 | NA |
| **HCAR** | **3,213** | **-28%** | **33%** | **24,782** | **50%** |
| **Total** | **19,237** | **-9%** | **20%** | **124,140** | **27%** |
| **FarmTractors** | | | | | |
| AGTL | 1,223 | -50% | 74% | 12,061 | 61% |
| MTL | 3,733 | 20% | 52% | 20,154 | 54% |
| Orient | 20 | -5% | -46% | 95 | -77% |
| **Total** | **4,976** | **-11%** | **55%** | **32,310** | **54%** |
| **HCV** | | | | | |
| Hino | 399 | 42% | 48% | 2,044 | 12% |
| GHNL (Nissan) | - | NA | -100% | 18 | -96% |
| Master | 62 | -48% | -27% | 790 | 47% |
| GHNI (Isuzu) | 251 | -8% | 11% | 1,710 | 54% |
| **Total** | **712** | **6%** | **10%** | **4,562** | **18%** |

Source: PAMA, BMA Research

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| **Rating definitions** | |
|---|---|
| Overweight | Total stock return > expected market return + 2% |
| Market-weight | Expected market return ± 2% |
| Underweight | Total stock return < expected market return - 2% |

*Total stock return = capital gain + dividend yield

Old rating system (discarded effective Feb 29'16)

| | |
|---|---|
| Buy | >20% upside potential |
| Accumulate | >=5% to <=20% upside potential |
| Hold | <5% to >5% potential |
| Reduce | <=-5% to >=-20% downside potential |
| Sell | <-20% downside potential |

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)