

PAKISTAN AUTO SECTOR

Annual sales up 62% as the sector shifts gears

Wednesday, July 14, 2021

The Auto sector is back on track after a lackluster FY20 with total sales for FY21 climbing to 181,397 units (↑62% YoY). However, monthly sales (PC, LCV, SUV) continued their declining trend from high of 20,813 units seen in Mar'21 to 13,750 units (↓12% MoM) in Jun'21 due to increased vehicle delivery times. On a MoM basis, PSMC faced the largest decline with sales of 5,106 units (↓39% MoM) as consumers withheld purchasing prior to budget announcement, INDU stayed largely unfazed with sales of 4,535 units (↓3% MoM), while HCAR witnessed a sharp recovery with sales of 3,305 units (↑65% MoM) due to higher Civic/BRV sales. New development in the sector during the month included, the launch of Hyundai Sonata (D segment Sedan), kick off of the local production of the BAIC BJ40 (4x4 SUV) with expected delivery in 4QCY21, Toyota Revo facelift reveal and price cuts across the board for all consumer vehicles post budget. In the near term, the Honda City'21 is expected to be unveiled post Eid.

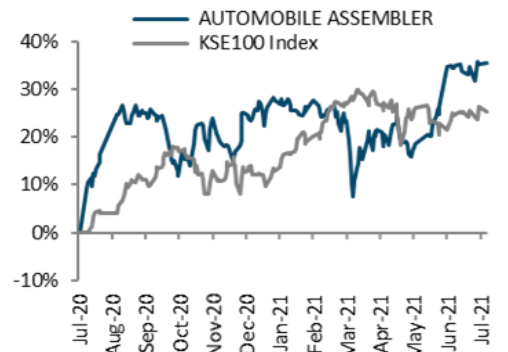
Despite weak Jun'21 numbers, annual sales shot up by 62%: All three major OEM's underwent surge in volumes, with combined sales up 58% YoY. Starting with INDU, it witnessed the highest volumetric yearly improvement in sales of 102% and sold 57,236 units in FY21. The hike in sales numbers is attributed to the launch of Yaris which sold 28,295 units in the outgoing year and took the crown from Corolla which had long been INDU's top seller. Riding the SUV wave, the Fortuner and Hilux volumetric sales also increased by 205/88% YoY. HCAR's FY21 annual sales clocked in at 29,291 units (↑79% YoY) as sales improved across the board and the Civic covered for declining City sales. PSMC growth numbers also landed in the green zone with annual sales of 88,032 units (↑34% YoY), but it reported the lowest growth of Big three, the same way it witnessed lower decline in sales in FY20. The Alto took lion's share (43%) of PSMC sales at 37,720 units (↑22% YoY), while the Wagon R posted the highest yearly increase in sales at 12,659 units (↑81% YoY).

Major players: Hyundai Nishat sales for FY21 clocked in at 4,935 units (↑15x YoY) mainly on account of the Tucson and Elantra sales which commenced from Aug'20 and Mar'21 respectively. All other listed player showcased improvement in annual sales except GHNI and HINO with sales of 2,336 units (↓1% YoY) and 852 units (↓34% YoY) respectively. On the contrary, sales of following players showed an upward trend namely; 1) MTL 35,527 tractors (↑72% YoY), 2) AGTL 15,129 tractors (↑28% YoY), 3) GHNL 955 units (↑119% YoY), 4) ATLH 1.29Mn bikes (↑48% YoY), and 5) SAZEW 15,665 three wheelers (↑28% YoY), respectively.

Future outlook: The current momentum, set in place by economic recovery, low financing rates, and new model launches is expected to continue on the back of FY22 budget incentives and a favorable auto policy expected next month. However, caution is required due to increasing input prices of freight, containers, steel, plastics resin and semi conductor chips, which may lead to higher prices and longer delivery times. Moving forward, we opine the existing dynamics should change in FY22 as; 1) New entrants gear up production capacities, 2) Increasing competitive options in the market, 3) Decline in global shipping cost/delays and, 4) normalization of input prices.

Recommendation: Our top pick for the sector are INDU and PSMC with Jun'22 TP of 1600/sh and 450/sh, offering upside of 33%/29% respectively.

Auto Sector vs. KSE-100 Index



%	3M	6M	12M
Absolute	13	7	35
Relative	7	3	4

Source: PSX

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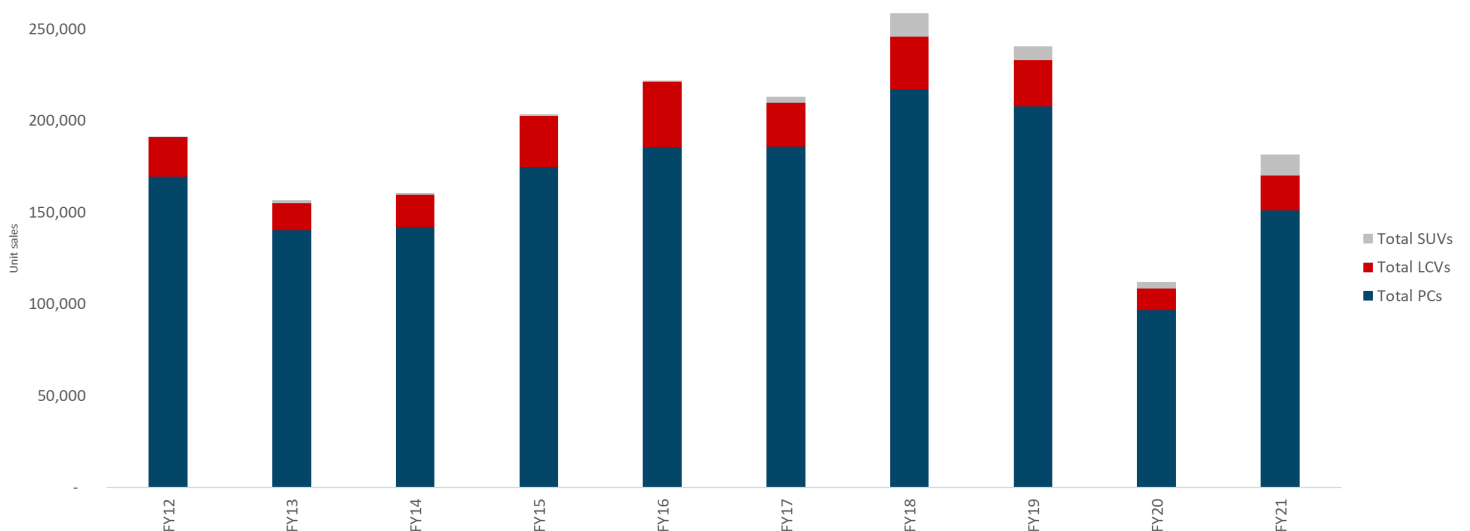
BMA Capital Management Ltd.

Table 1: Automobile sales for the month of Jun'21

Description	Jun-21	Jun-20	% YoY	May-21	% MoM	FY21	FY20	%YoY
Honda Civic/City	2,826	1,839	54%	1,581	79%	25,276	14,094	79%
Hyundai Elantra	270	0	N.M.	259	4%	855	0	N.M.
Toyota Corolla	1,862	855	118%	1,514	23%	18,355	22,140	-17%
Toyota Yaris	1,876	1,160	62%	2,099	-11%	28,295	1,327	N.M.
Suzuki Swift	208	202	3%	31	571%	2,316	1,828	27%
Suzuki Cultus	2,270	830	173%	1,820	25%	17,510	12,307	42%
Suzuki Wagon R	854	476	79%	1,491	-43%	12,659	6,984	81%
Suzuki Alto	1,216	1,656	-27%	3,375	-64%	37,720	30,916	22%
Suzuki Bolan	187	306	-39%	764	-76%	8,196	5,159	59%
Total PCs	11,569	7,325	58%	12,934	-11%	151,182	96,458	57%
Honda BR-V	479	164	192%	420	14%	4,015	2,296	75%
Toyota Fortuner	412	78	428%	318	30%	3,543	1,163	205%
Hyundai Tucson	231	0	N.M.	255	-9%	3,748	0	N.M.
Total SUVs	1,122	242	364%	993	13%	11,306	3,459	227%
Toyota Hilux	385	438	-12%	745	-48%	7,043	3,748	88%
Suzuki Ravi	371	441	-16%	826	-55%	9,631	6,918	39%
Hyundai Porter (LCV)	103	57	81%	123	-16%	1,187	334	255%
Others	200	250	-20%	75	167%	1,048	1,048	0%
Total LCVs	1,059	1,186	-11%	1,769	-40%	18,909	12,048	57%
Total Industry (PC + LCV + SUVs)	13,750	8,753	57%	15,696	-12%	181,397	111,965	62%
HCAR	3,305	2,003	65%	2,001	65%	29,291	16,390	79%
INDU	4,535	2,531	79%	4,676	-3%	57,236	28,378	102%
PSMC	5,106	3,911	31%	8,307	-39%	88,032	64,112	37%
Fiat	1,542	1,925	-20%	1,301	19%	15,129	11,825	28%
Massey Ferguson	3,476	3,378	3%	2,910	19%	35,527	20,706	72%
Orient IMT	0	11	N.M.	0	N.M.	29	196	-85%
Total Tractors	5,018	5,314	-6%	4,211	19%	50,685	32,727	55%
Total Trucks	352	243	45%	361	-2%	3,695	3,088	20%
Total Buses	53	24	121%	34	56%	652	559	17%
Total Trucks & Buses	405	267	52%	395	3%	4,347	3,647	19%
Total 2 & 3 Wheelers	156,590	147,179	6%	147,729	6%	1,754,425	1,370,005	28%
Total Vehicles	175,763	161,513	9%	168,031	5%	1,990,854	1,518,344	31%

Source: PAMA, BMA Research

Annual units sales near FY15-17 levels in FY21



Source: Bloomberg, BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

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

- Discounted cash flow (DCF, DDM)
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- Equity & Asset return based methodologies (EVA, Residual Income etc.)