

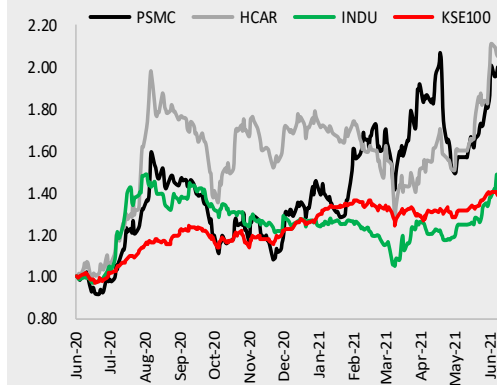
PAKISTAN



Automobile Sales May'21

| | May'20 | Apr'20 | MoM | 11MFY21 | YoY |
|---------------|--------|--------|------|---------|-------|
| PC | 12,170 | 13,688 | -11% | 131,604 | 18% |
| Jeeps and LCV | 2,533 | 2,444 | 4% | 25,859 | 193% |
| Tractors | 4,240 | 4,501 | -6% | 45,696 | 62% |
| INDU | 4,676 | 5,355 | -13% | 52,701 | 104% |
| PSMC | 8,307 | 8,606 | -3% | 82,926 | 38% |
| HCAR | 2,001 | 2,287 | -13% | 25,986 | 81% |
| Hyundai | 641 | 896 | -28% | 4,931 | 1680% |
| Al-Ghazi | 1,301 | 1,287 | 1% | 13,587 | 37% |
| Millat | 2,910 | 3,214 | -9% | 32,051 | 85% |

Source: PAMA, Foundation Research, June 2021



Source: Bloomberg, Foundation Research, June 2021

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Friday, July 9, 2021

Pakistan Automobile

Unconventional price decline

Event

Reduction in government levies to spur automobile volumetric growth to generate employment would play in favor of OEMs in the long run, in our view. However, Gov't pressure to keep the vehicle prices at recently announced rates would suppress margins in the short run, but we believe the same would be compensated by higher volumes. Moreover, we don't think incentives for Electric Vehicles would dent volumes of existing players given their high price range.

Impact

FED reduced across the board: Overall reduction in FED by 2.5% would stimulate growth which would restrict the upward revision in prices this quarter. The government is foregoing revenue in absolute terms but prospectively the reduction in prices to consumer would stimulate volumetric growth in the industry. INDU has decreased Yaris/Corolla/Hilux/Fortuner by Rs100/110/120/400K and HCAR has decreased Civic/BRV by Rs135/105k. Prices of Honda City are not yet disclosed, however, booking for City is ongoing with prepayment of Rs1.2m & delivery by Apr'22.

Sales tax reduced for up to 1000cc: Sales tax for locally assembled cars up to 1000cc has been reduced by 4.5% from 17% to 12.5%. PSMC is the main beneficiary of this tax reduction as their target market is low range PCs. This sales tax reduction was justified by gov't to incentivize low-income individuals. Moreover, additional custom duty for import of vehicle (up to 850cc) on CKD and CBU has also been exempted (previously 7% on raw material).

Prices of PC's under 1000cc have fallen by 7% (up to Rs98/120/140/85K on Alto/WagonR/Cultus/Bolan) due to reduction in sales tax and FED. Other vehicle that would be affected from this tax reduction is KIA's Picanto which is now priced at Rs1.8mn. Moreover, to encourage first time buyer's gov't is expected to introduce car financing program (Apni Car Scheme) at concessionary rate in upcoming weeks.

Gov't places customers at forefront: Delivery time for most vehicles is currently over 5 mths because of supply chain issues in the industry. This late delivery has benefited dealers who are charging excessive 'on money' for early delivery and manufacturers are benefiting from excess cash deposits (prepayments from customers & dealers). Gov't policies to overcome this issue include (1) registration of car in the name of the buyer, and (2) penalty on manufacturer of KIBOR +3% against the deposited amount if delivery exceeds 60 days shall be paid to the customers.

Profitability to sustain despite cost pressures: Automobile industry sales have been unable to recover to pre-COVID level. As sales volumes are starting to pick up, other costs including rising steel & freight charges, rupee depreciation and shortage of semiconductor has hindered the path to recovery. With gov't intervention for tax cuts, OEMs are unable to pass on cost pressures and hence would face margin suppression in the near term, in our view. However, pick up in volumes would help OEMs to sustain their profitability.

Outlook

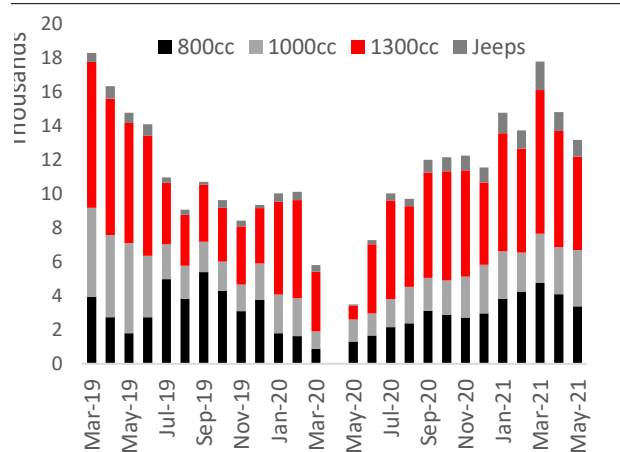
We are neutral on the sector as price reduction would stimulate growth and counter elevated raw material cost. We believe ease of supply chain issues in near future along with introduction of Apni Car Scheme would enhance probability of attaining the peak volumes hit during FY18.

Table 1: Car price changes

| | | Old prices | New prices | Change in prices | Delivery time |
|-------------|-----------------|------------|-------------------|------------------|---------------|
| INDU | | | | | |
| Yaris | 1.3GLIMIT | 2,515,000 | 2,415,000 | -100,000 | 1-2m |
| | 1.5ATIVXCVT | 3,005,000 | 2,905,000 | -100,000 | 1-2m |
| Corolla | Altis1.6ATIVXMT | 3,225,000 | 3,115,000 | -110,000 | 5-6m |
| | 1.8GrandeCVT | 4,005,000 | 3,895,000 | -110,000 | 5-6m |
| Hilux | 4x22TRpetrol | 3,755,500 | 3,685,500 | -70,000 | 9-10m |
| | 4x4D/CSTD | 5,965,500 | 5,866,500 | -99,000 | 9-10m |
| HiluxREVO | 4x4M/T | 6,556,500 | 6,436,500 | -120,000 | 9-10m |
| | 4x4A/T | 7,506,500 | 7,386,500 | -120,000 | 9-10m |
| Fortuner | 4x2GAT | 8,008,000 | 7,658,000 | -350,000 | 7-8m |
| | 4x4VHI | 9,308,000 | 8,908,000 | -400,000 | 7-8m |
| | 2.8L4x4SIGMA | 9,658,000 | 9,278,000 | -380,000 | 7-8m |
| PSMC | | | | | |
| Alto | VX | 1,198,000 | 1,113,000 | -85,000 | 2m |
| | VXR | 1,433,000 | 1,335,000 | -98,000 | 2m |
| WagonR | VXR | 1,640,000 | 1,530,000 | -110,000 | 2m |
| | VXL | 1,730,000 | 1,610,000 | -120,000 | 2m |
| Cultus | VXR | 1,780,000 | 1,655,000 | -125,000 | 3m |
| | VXL | 1,970,000 | 1,830,000 | -140,000 | 3m |
| Swift | DLX | 2,030,000 | 1,972,000 | -58,000 | 2m |
| | Automatic | 2,210,000 | 2,148,000 | -62,000 | 2m |
| Bolan | Bolan | 1,134,000 | 1,049,000 | -85,000 | 2m |
| HCAR | | | | | |
| City | 1.3Lprosmatec | 2,657,000 | | | 10-11m |
| | 1.5Lprosmatec | 2,717,000 | Not yet disclosed | | 10-11m |
| City Aspire | 1.5Lprosmatec | 2,877,000 | | | |
| Civic | i-VTECoriel1.8L | 3,997,000 | 3,882,000 | -115,000 | 7-8m |
| | RSturbo1.5L | 4,717,000 | 4,582,000 | -135,000 | 7-8m |
| BRV | CVT | 3,497,000 | 3,392,000 | -105,000 | 1-2m |

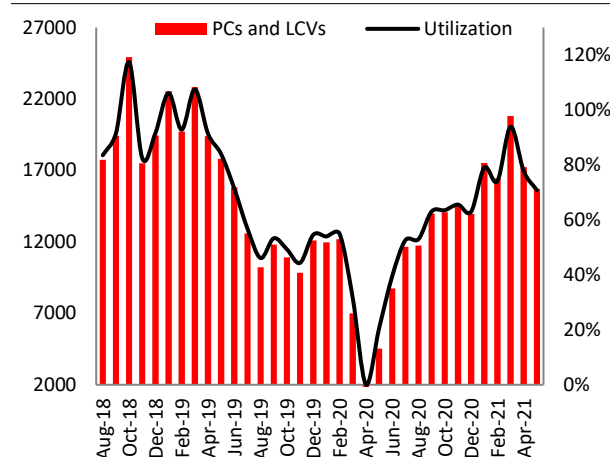
Source: Foundation Research, July 2021

Fig 1: 800cc overshadowed by 1300cc



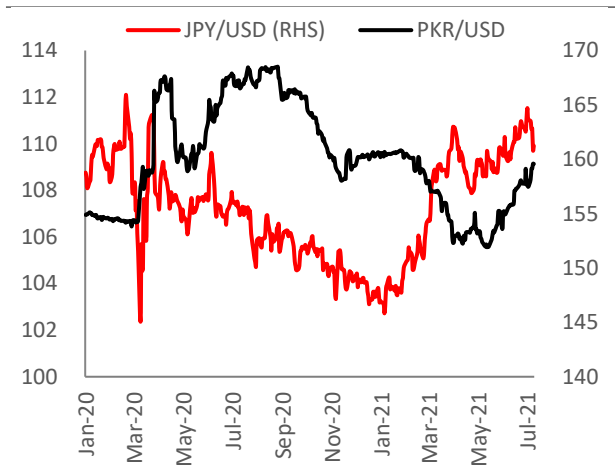
Source: PAMA, FSL Research, July 2021

Fig2: Utilization rate drops



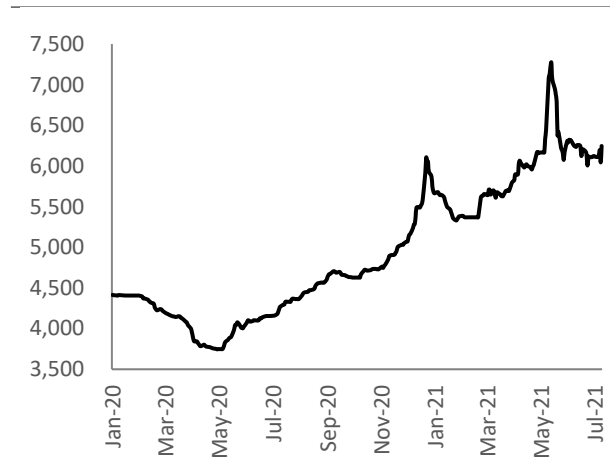
Source: PAMA, FSL Research, July 2021

Fig 3: Currency movements unfavorable for autos



Source: Bloomberg, FSL Research, July 2021

Fig 4: CRC prices remain elevated (US\$ per ton)



Source: Bloomberg, FSL Research, July 2021

Important disclosures:

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Recommendations definitions

| | |
|-----------------------------------|---------------|
| If | |
| Expected return >+10% | Outperform. |
| Expected return from -10% to +10% | Neutral. |
| Expected return <-10% | Underperform. |