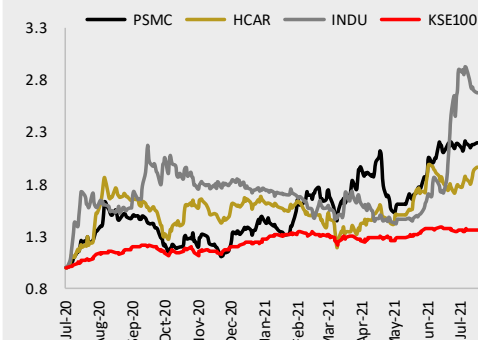


PAKISTAN



Automobile Sales Jun'21

	4QFY21E	4QFY20	3QFY21	YoY	QoQ
EPS					
INDU	44.2	1.3	46.0	na	-4%
HCAR	8.2	-3.6	6.3	na	29%
PSMC	6.4	-22.9	9.7	na	-34%
INDU					
GP Margin	10%	-3%	9%	13%	6%
EBIT Margin	11%	2%	10%	8%	8%
NP Margin	7%	1%	7%	7%	6%
HCAR					
GP Margin	9%	1%	5%	8%	74%
EBIT Margin	7%	-5%	4%	12%	65%
NP Margin	5%	-8%	4%	13%	33%
PSMC					
GP Margin	7%	-5%	6%	12%	14%
EBIT Margin	4%	-9%	4%	13%	2%
NP Margin	2%	-19%	2%	0.2	-18%



Source: Bloomberg, Foundation Research, July 2021

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Foundation Securities (Pvt) Ltd
Thursday, 29 July 2021

Pakistan Automobile

Profitability shifting gears

Event

▪ Volumetric sales (PCs&LCVs) increased by 2.5x YoY to 46,679 units sold in 4QFY21, given covid induced lockdown last year. This resulted in FY21 increase of 65% YoY to 181,397 units. However sequential decline of 15% QoQ was observed in 4QFY21 due to shortage of semi-conductor chips globally. Subsequently, we expect sector to report profit of Rs5.2bn in 4QFY21 compared to loss of Rs2.3bn in 4QFY20.

Impact

▪ **Cost pressures to keep margins down:** FSL universe is expected to post profit of Rs5.2bn in 4QFY21. We attribute this profitability to (1) 2.5x increase in volumes, (2) rupee appreciation of 6% YoY and (3) low interest rates. This would cumulate into profitability of Rs17.6bn for FY21 compared to Rs3.2bn loss in FY20. However, the auto industry growth was restricted given (1) high freight cost, (2) elevated steel prices and (3) production issues in the industry. We expect gross margins to remain at 8% for FY21. Player-wise INDU is expected to report profit of Rs44.2/sh followed by HCAR/PSMC to report Rs8.2/6.4mn in 1QMY21/2QCY21.

▪ **INDU shines despite competition:** INDU's earning are expected to clock in at Rs3.5bn (EPS 44.2 Rs/sh) compared to Rs99mn in the same period last year. We expect INDU to declare cash payout of Rs30/sh taking full year payout to Rs97/sh. However, drop of 4% QoQ would be observed given decrease of 12% QoQ in volumetric sales. This resulted in gross margins to remain at 9.8% (↑0.6 ppt QoQ) due to appreciation of rupee. The growth of INDU was supported by Yaris due to its novelty factor and it became the most sedan selling 28,378 units in FY21 despite new entrants targeting 1300cc segment. Moreover, INDU would report Rs5.4bn in FY21 from other income primarily driven by Rs~70bn in ST investments. This would take full year profitability to Rs11.9bn (EPS Rs151.3) for FY21.

▪ **HCAR lacks due to absence of new variants:** HCAR is expected to report profit of Rs1.2bn (EPS Rs8.2) compared to loss of Rs511mn in 4QFY20. HCAR experienced an increase of 2.3x YoY in volumes to 7,593 units sold in 4QFY21 which revived profitability. We expect the gross margins to increase to 9% given high fixed cost coverage, higher proportion of Civic in sales mix and rupee appreciation. HCAR has introduced new variant for City (to be launched today) which would further support its growth. To highlight, HCAR's cash+ST investment stood at Rs14bn which would allow the company to generate other income amounting to Rs279mn in 4QFY21, providing further boost to earning.

▪ **Wait for budgetary reliefs breaks PSMC momentum:** PSMC is expected to report profit of Rs529mn (EPS Rs6.4) in 4QFY21 compared to loss of Rs1.9bn (LPS Rs22.9) in 4QFY20. PSMC was able to recover its sales by 1.9x to 22,019 units sold in 4QFY21. On sequential basis, we foresee PSMC profitability to decline as customers waited for implementation of budgetary relief measures. We estimate gross margins for PSMC to clock in at 7% (↑0.9 ppt QoQ). To highlight PSMC has retired loan of US\$78mn obtained from holding company on May 11'21.

Outlook

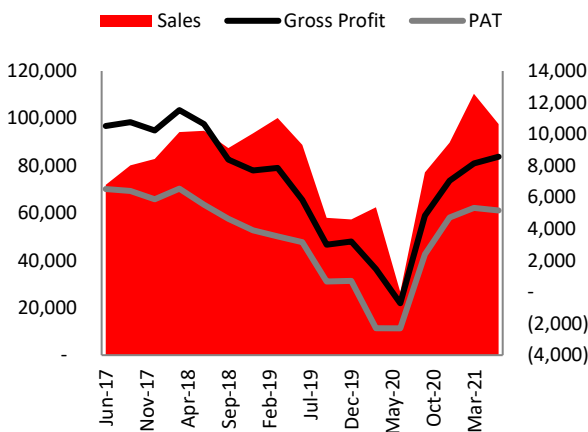
We are neutral on the sector with a positive inclination towards INDU. The growth is expected to continue given low interest rates to boost auto financing amid continuation of economic growth. However, FSL universe players growth is expected to remain constraint due to new entrants such as KIA, Proton, Hyundai etc which are eager to share the pie.

Table 1: FSL auto universe profitability outlook

Income Statement (Rs mn)	4QFY21E	4QFY20	YoY%	3QFY20	QoQ%	FY21E	FY20	YoY%
Net Sales	97,621	26,581	267%	110,386	-12%	374,970	204,371	83%
COGS	89,045	27,291	226%	102,250	-13%	346,365	197,447	75%
Gross Profit	8,576	(711)	na	8,136	5%	28,605	6,924	313%
Distribution Expenses	1,317	589	124%	1,420	-7%	4,625	3,432	35%
Administration Expenses	1,198	793	51%	1,361	-12%	4,361	4,288	2%
Operating Profit	6,061	(2,093)	na	5,355	13%	19,620	(796)	na
Other Income	2,084	1,015	105%	2,573	-19%	7,934	4,011	98%
Other Expense	486	(135)	na	493	-1%	1,434	860	67%
EBIT	7,659	(943)	na	7,435	3%	26,120	2,355	1009%
Finance Cost	274	1,010	-73%	248	11%	1,354	4,175	-68%
PBT	7,384	(1,953)	na	7,188	n/a	24,766	(1,819)	na
Tax	2,216	347	539%	1,867	19%	7,159	1,400	411%
Net Profit	5,168	(2,300)	na	5,320	-3%	17,606	(3,219)	na
Gross Margins	8.8%	-2.7%		7.4%		7.6%	3.4%	
Net Margins	5.3%	-8.7%		4.8%		4.7%	-1.6%	
Effective Tax rate	30%	n/a		26.0%		28.9%	na	

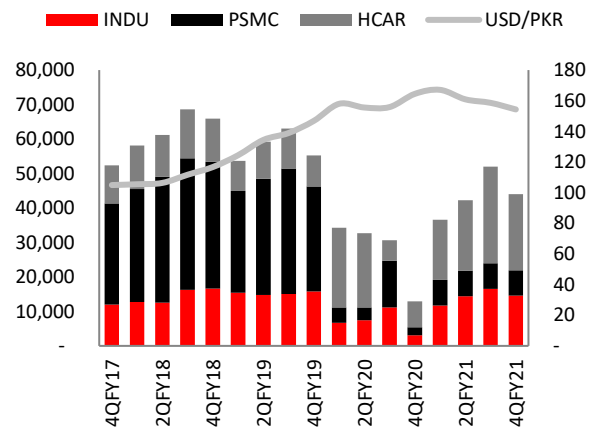
Source: Company Accounts, Foundation Research, July 2021

Fig 01: recovery in sales and gross/net profit...



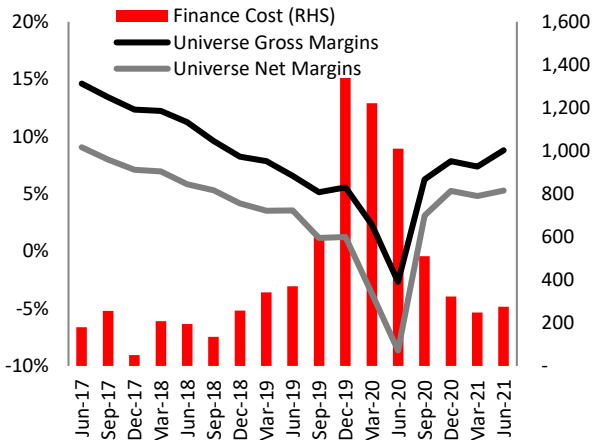
Source: PSX, Foundation Research, July 2021

Fig 02: ... as volumes recover



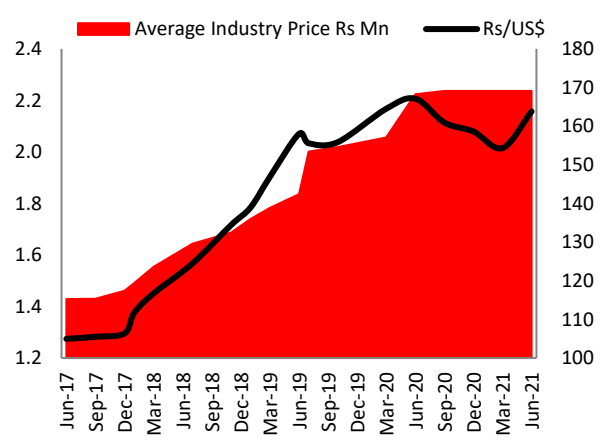
Source: PAMA, Bloomberg, FSL Research, July 2021

Fig 03: improving margins with declining finance cost



Source: PSX, Foundation Research, July 2021

Fig 04: Prices remain stagnant despite Rs strengthen



Source: PSX, Foundation Research, July 2021

Abbreviations

INDU	Indus Motor Company
HCAR	Honda Atlas Cars
PSMC	Pak Suzuki Motor Company
YoY	Year on Year
QoQ	Quarter on Quarter
3Q	2nd Quarter
FY	Fiscal Year
USD	US Dollar
Rs	Rupees
Ppts	Percentage Points
ST	Short-Term
FY	Fiscal Year
Mn	Million
GP	Gross Profit
PAT	Profit After Tax
PBT	Profit Before Tax
EBIT	Earnings Before Interest Tax
GP	Gross Profit
NP	Net Profit
Sh	Share
DPS	Dividend per Share
FSL	Foundation Securities Limited

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