PAKISTAN

FSL Automobile universe valuation snapshot

	Reco	J-22 TP	Upside	EPS FY22E	EPS FY23E
INDU	O-pr	1,584.9	32%	163.7	182.2
PSMC*	O-pr	313.3	17%	28.8	29.4
HCAR	Neu	291.9	9%	24.3	26.8

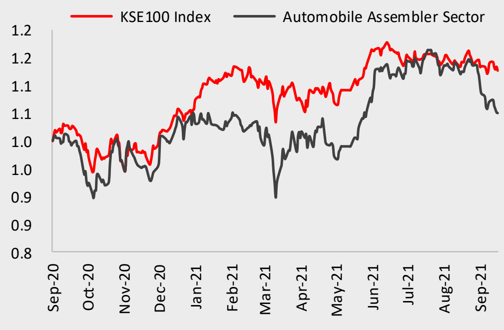
Source: Foundation Research, September 2021

		TP	FY22E	FY23E
INDU	New	1,584.9	163.7	182.2
	Old	1,651.0	160.0	178.8
PSMC*	New	313.3	28.8	29.4
	Old	252.6	22.8	34.6
HCAR	New	291.9	24.3	26.8
	Old	339.9	27.6	31.4

Source: Foundation Research, September 2021

*PSMC estimate is for CY21/CY22

FSL Automobile universe V/S KSE100 Index



Source: Bloomberg, Foundation Research, September 2021

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Pakistan Automobile

Accelerating Uphill!

Event

Accelerating economic growth coupled with the conducive government policies has fueled the sharp rebound in automobile demand. We expect this momentum of growing demand to continue going forward which would bode well for the FSL Automobile universe. We expect the volumes to remain upbeat with sales increasing by 26/16% in FY22/23. Based on our analysis, we have assigned Jun-22 TP of Rs1,584.9/313.3/291.9 for INDU/PSMC/HCAR.

Impact

Favorable Macroeconomics

After touching its lows during COVID induced lockdowns, demand for automobile strongly bounced back with ~220k units up by 76% YoY in FY21 due to low base effect. We estimate demand for automobiles to increase with a 3/5yr-CAGR of 14/13%. This growth is likely to come from all segments with 800/1,000/1,300cc registering a 3yr CAGR of 12/4/16% whereas demand for SUVs is also expected to remain upbeat and grow with a 3yr CAGR of 21%. Moreover, recent SBP prudential regulation would channelize demand for auto financing. Furthermore, SBP's new prudential regulation, to disallow auto financing for imported vehicles (Used or New) would create vacuum for local manufacturers. PSMC and INDU are likely to stay least affected with the changing industry dynamics due to (1) lower direct competition, (2) high brand equity & (3) low reliance on auto financing.

Consumer centric policies to support sales

To support automobile industry and make cars more affordable, government has reduced sales tax/FED by 5.0/2.5ppt. In addition, government has also taken initiatives to discourage price speculation by imposing taxes if booking and registration of the same vehicle is done by different persons. Furthermore, it has now made compulsory for automakers to pay amount of KIBOR+3% on the delivery amount if delivery time goes beyond 60 days. In addition to this, Gov't is encouraging localization in industry by reducing custom duty on auto parts. This would ease off pressure on trade deficit and improve supply chain. Government has also reduced custom/regulatory duties and sales tax on electric and hybrid vehicles. We expect all these developments to bode well for the entire sector by reducing the cost of production and would further rejuvenate demand.

Normalization of freight and commodity prices

Post COVID resumption of economic activities has drastically increased steel prices and freight charges. Whereas the prevailing chip shortages and delayed shipments have already been causing substantial delays in delivery timings. We expect shipment delays to prevail in medium term. However, elevated freight charges and steel prices would be normalized in the medium term.

Key Risks

Rupee depreciation: Adverse rupee depreciation may suppress margins further.

Supply chain issues: Supply chain issues to prevail for longer.

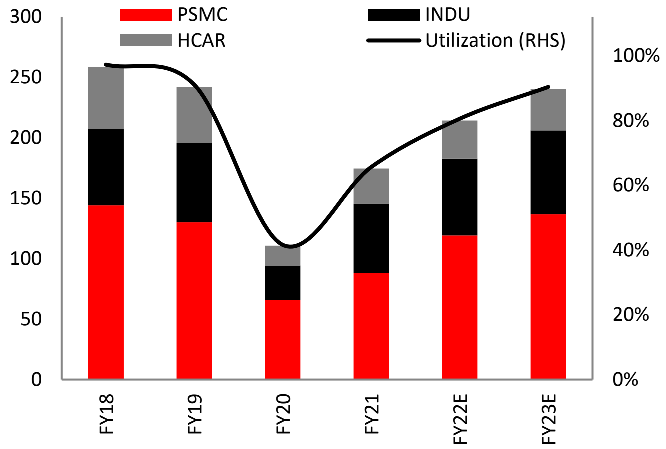
New Entrant: New entrants to eat up the market share for existing player.

Table 01: FSL Automobile Universe valuations snapshot

	CMP	Jun-22 TP	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
				EPS (Rs)			DPS (Rs)			BVPS		
INDU	1,200.1	1,584.9	O-pr	163.2	163.7	182.2	103.5	97.0	128.0	613.2	663.5	735.7
PSMC	267.4	313.3	O-pr	28.8	29.4	35.7	-	7.0	9.0	324.6	354.1	382.7
HCAR	267.0	291.9	Neu	12.6	24.3	26.8	4.5	7.0	8.0	127.4	147.2	167.1
				P/E(x)			DY (%)			PB(x)		
INDU				7.4	7.3	6.6	8.6	8.1	10.7	2.0	1.8	1.6
PSMC				9.3	9.1	7.5	-	2.6	3.4	0.8	0.8	0.7
HCAR				21.3	11.0	10.0	1.7	2.6	3.0	2.1	1.8	1.6
				Earning Growth (%)			EV/EBITDA(x)			ROE(x)		
INDU				152.4	0.3	11.3	4.3	2.4	1.8	28.7	25.6	26.0
PSMC				N/A	2.4	21.2	1.6	1.3	0.4	9.3	8.7	9.7
HCAR				163.0	93.9	10.2	7.0	3.8	3.1	10.3	17.7	17.1

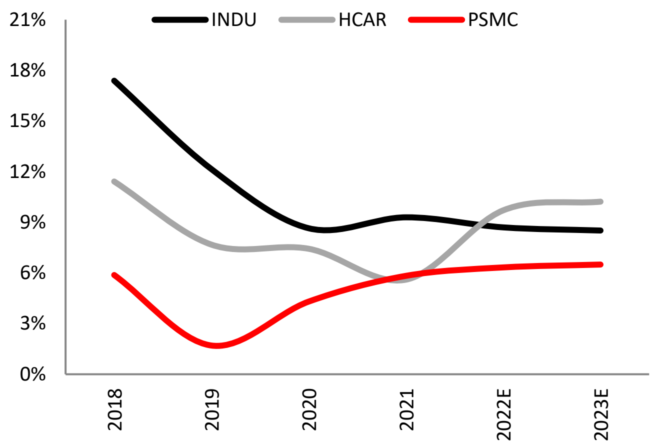
Source: Company Accounts, Foundation Research, September 2021

Fig 01: Utilization remain on higher side… (K units)



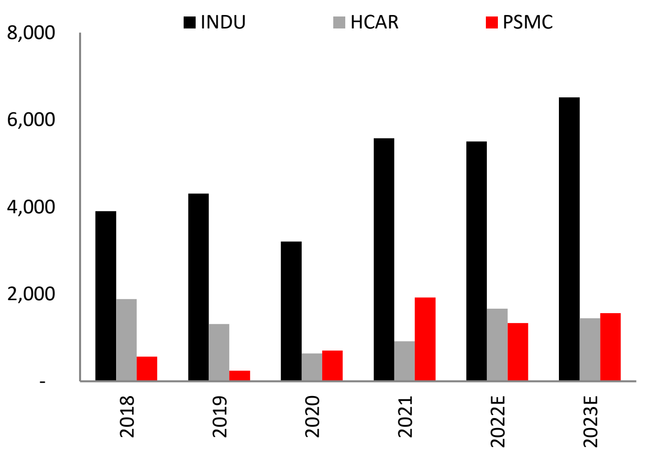
Source: Company Accounts, FSL Research, Sept 2021

Fig 02: …as gross margins would remain steady



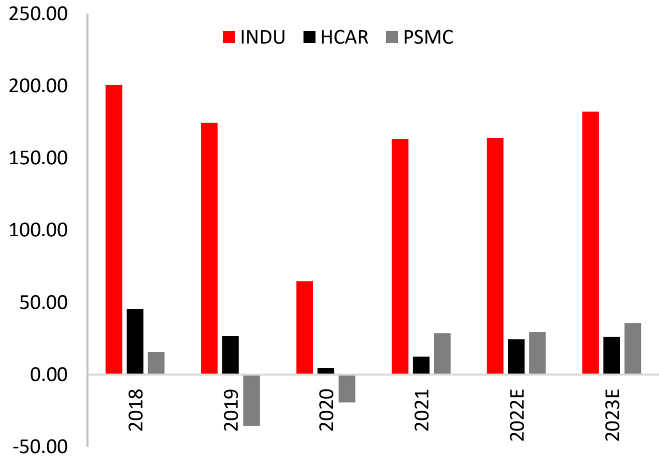
Source: Company Accounts, FSL Research, Sept 2021

Fig 03: other income to buffer… (Rs mn)



Source: Company Accounts, FSL Research, Sept 2021

Fig 04: …profitability on upside (EPS)

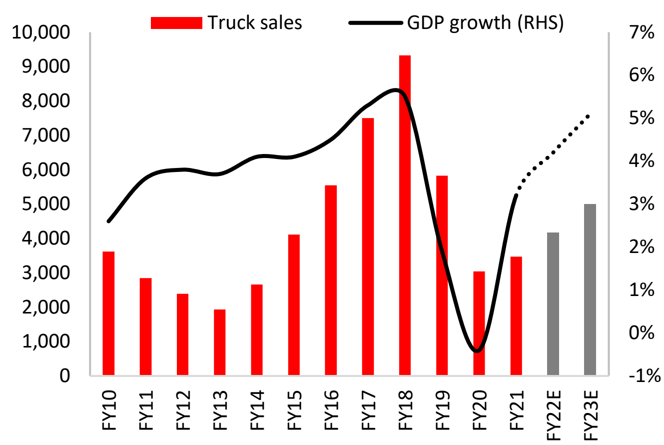


Source: Company Accounts, FSL Research, Sept 2021

Economic Outlook

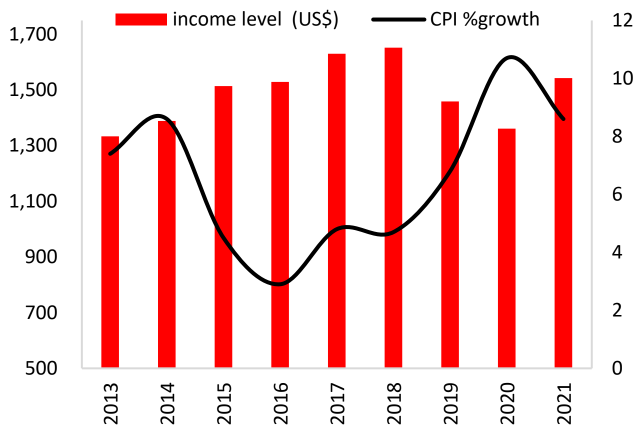
On the back of conducive policies by the government, GDP growth is expected to pick up in FY22/FY23 to 4.0/5.0%. This uptick in growth is estimated to increase auto demand by 5Yr CAGR of 13%. On the other hand, auto financing currently stands at its highest ever level (Rs326bn in Aug'21) which is further expected to boost auto demand. In past couple of years, government has introduced favorable policies to improve local production of automobile and discourage imports. As a result, share of locally available cars has gone up we expect local player to dominate the market going forward.

Fig 05: Economy is now on path of growth……



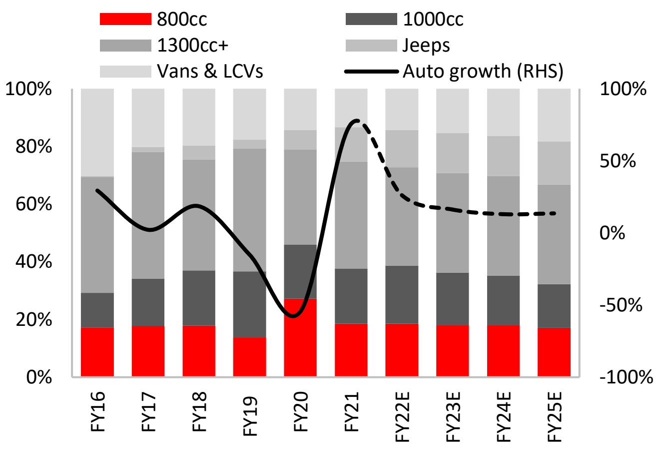
Source: PAMA, FSL Research, Sept 2021

Fig 06: ....which would rebound income levels



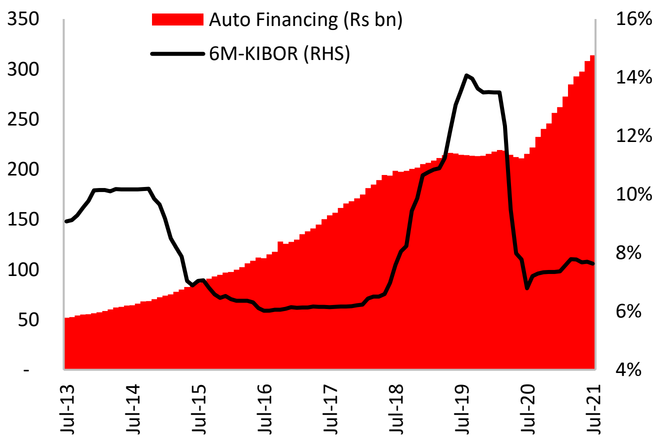
Source: PBS, FSL Research, September 2021

Fig 07:....which would uplift car sales



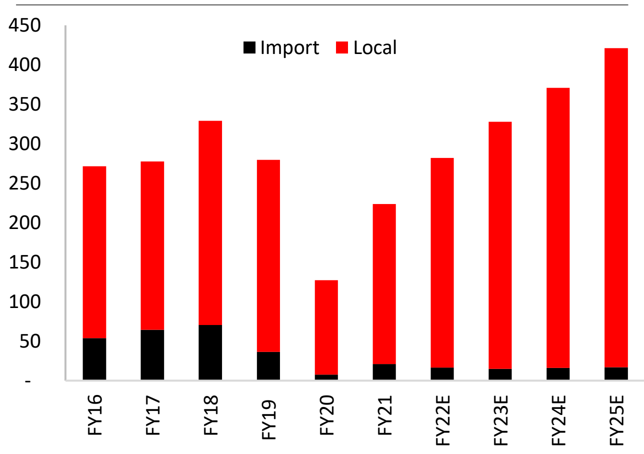
Source: PAMA, FSL Research, September 2021

Fig 08: … ↑auto financing will further add to it



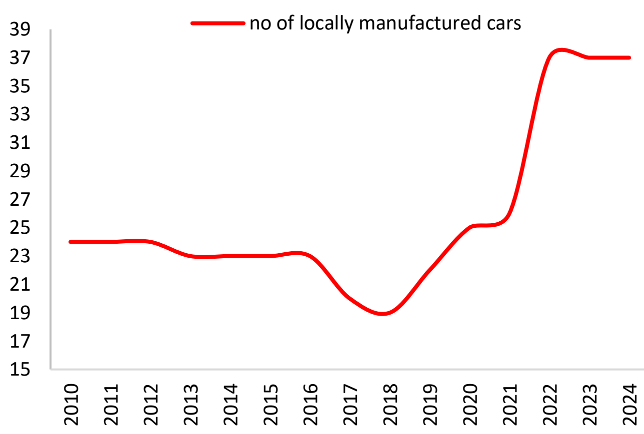
Source: SBP, FSL Research, September 2021

Fig 09: ↑Rs dep and ↑duties has ↓imports (K units)



Source: SBP, FSL Research, September 2021

Fig 10: No. of cars locally available has gone up



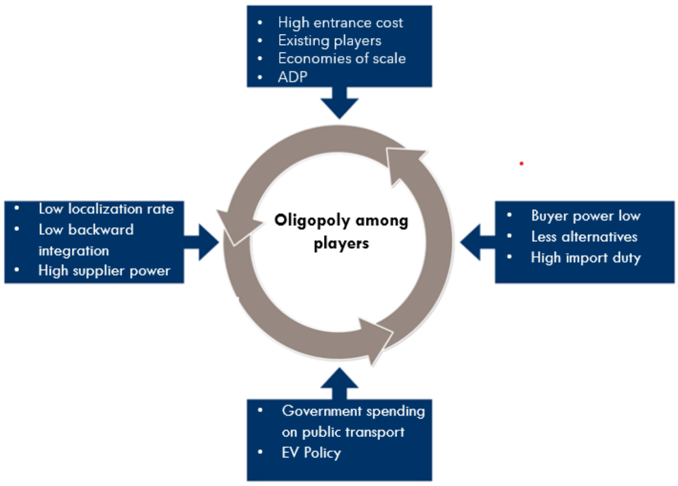
Source: PAMA, FSL Research, September 2021

Industry Outlook: Favourable Gov't policies to fuel growth

Automobile industry is a capital-intensive industry that requires around US$100mn to set up a plant with an annual production capacity of 25k units. This industry has been mainly dominated by the three players which accounted for more than 90% of the total automobile market. As a result, these companies have enjoyed strong pricing power with a little incentive to bring new/latest variants. However, ADP 2016-21 has allowed new entrants to change the dynamics of the industry by making it more competitive. This investment policy was able to attract investment of over US$1bn with Lucky KIA Motors and Hyundai Nishat Motors being the most prominent with the investment outlay of US$190mn and US$163mn respectively. Given high market presence and established supply, it was a challenging task for new players to establish their space. However, new entrants have been able to make their mark in the compact SUV segment as it was an unchartered territory with minimal presence of local players.

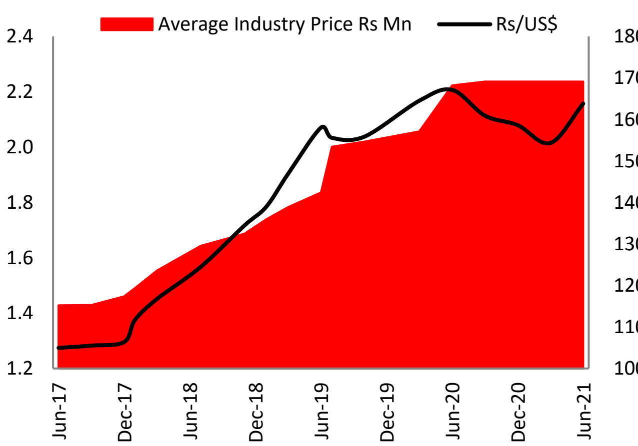
We believe that it's too early to put verdict on new vs. old competition as the new players haven't gotten the proper chance to establish themselves due to global chip shortage and COVID induced lockdowns, while the existing players were better positioned thus remained less affected. Going forward, we expect share of new entrants to increase as they develop their supply chain and improve the spare parts availability at a competitive cost. Furthermore, new players would keep prices competitive given more choice of products now available in the market. To highlight, lack of localization and absence of R&D, categorically assigns the industry to being a mere assembling segment. The high localization rate has been a challenge for the players, due to (1) lower R&D, (2) price difference, and (3) lack of raw material availability in the domestic market. However, with the recently announced incentives by the government, we expect localization to improve going forward.

Fig 11: Industry Structure



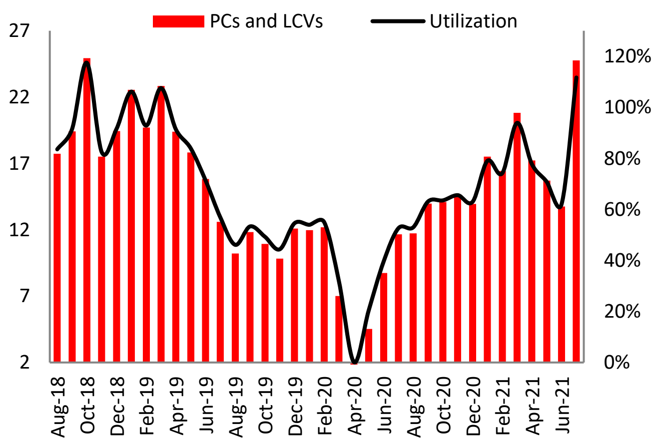
Source: FSL Research, Sept 2021

Fig 12: increasing FX cost is passed on easily



Source: Company Accounts, FSL Research, Sept 2021

Fig 13: ...Utilization remain on higher side (K units)



Source: PAMA, FSL Research, Sept 2021

Government Policies to gear up Automotive

The auto sector has been under the umbrella of oligopolistic market structure with only 3 players satisfying the appetite of local demand previously. The excess demand was satisfied by the import of used CBUs. Whereas existing players been offering limited number of vehicles as their market dominance remained unchallenged. PSMC, HCAR, and INDU have been in Pakistan for over 20 years, having a comfortable position in the market and have supported local supply chain in manufacturing plastic components and Sheet metals. However, things took a turn for the good after the approval of Auto development Policy (ADP, 2016-21).

In 2016, Gov't proposed Auto development policy (2016-21) which attracted investment for Greenfield projects by new entrants in the industry. ADP has so far led to an inflow of over ~US$1bn with 19 Greenfield projects. This policy has incentivized investors to setup production facilities with duty free import of plant and machinery along with the concessionary rate of custom duty of 10/25% on non-localized/localized parts for 5 years. So far compact SUV and the sedan segment has been the prime focus of new entrants leaving other categories almost untouched.

Table 02: New Makes under ADP 2016-21

Company	Product Line	Investments (USD mn)
Kia Lucky Motors Pakistan, Karachi	LCVs and SUVs	190.0
Hyundai Nishat Motor, Faisalabad	LCVs and SUVs	163.0
Foton JW Auto Park, Lahore	LCVs, HCVs, and SUVs	150.0
Master Motors, Karachi	SUVs, HCVs, Jeeps	101.0
Sazgar Engineering Works, Lahore	PCs, SUVs, and Jeeps	40.0
United Motors, Lahore	800cc/1000cc LCVs	19.5
Regal Automobile Industries, Lahore	LCVs, Vans, and SUVs	10.7

Source: EDB, Foundation research, September 2021

Automotive Industry Development and Export Plan (AIDEP 2021-26)

Gov't has now introduced new incentives under Automotive Industry Development and Export Plan (AIDEP 2021-26) in Finance Act 2021, which is consumer oriented by providing sales tax reduction of 5ppt (up to 1000cc), and Federal excise duty reduction of 2.5ppt up to 1800cc. Moreover, to tackle the 'on money' problem prevailing in the industry government has imposed (1) taxes on registration where booking is made by Person A and registration is made in name of person B and (2) manufacturers are to make compulsory payment of KIBOR+3% if delivery time goes beyond 60 days.

On Electric Vehicle front, (1) Gov't has set Custom Duty on specific parts for electric vehicles at 1%, (2) reduction of sales tax to 8.5%, and (3) reduction in regulatory duty on CBU import at 10% custom duty instead of 25%. Similarly, Hybrid manufacturing is incentivized by lower (1) Custom duty on specific parts at 4%, (2) Sales tax of 8.5%, and (3) removal in regulatory duty on CBU import up to 1800cc at 0%. Top contender given this EV/HEV incentives is MG and INDU to avail this facility as of now.

Current Government Stance

Gov't aims to increase local production with higher localization rate to achieve 300 thousand units by 2023, with the ideology of 'Made in Pakistan' and enable export of automobile. Gov't is also constantly pushing for localization in manufacturing to ease of pressure on the trade deficit and has recently reduced tax rates on locally assembled spare parts of automobiles. To further facilitate auto demand, the government has recently introduced "Roshan Apni Car" scheme with concessionary financing rates which is expected to spur demand further.

SBP has revised its prudential regulations for consumer financing to deflate the auto financing to moderate import bill. Under this, Auto financing facility tenure has been reduced to 5 years from 7 years, and maximum facility to each person has been caped at Rs3mn. Moreover, imported vehicles (Used or New) shall not be eligible for auto financing from banks/DFIs. However, these regulations will not be applicable on 1) financing for locally assembled/manufactured vehicles of up-to 1000cc engine capacity 2) Roshan Apni Car product of banks and 3) locally assembled/manufactured Electric Vehicles. The following regulations would tamper the growth for high end vehicles manufactures. HCAR would be most affected by these prudential regulation tightening, in our universe. However, INDU would be least effected given less sales reliance on auto financing respectively due to higher rural penetration. PSMC is immune to these revised regulations given insignificant share of 1000cc+ segment in total company sales mix i.e., 3% of Suzuki Swift.

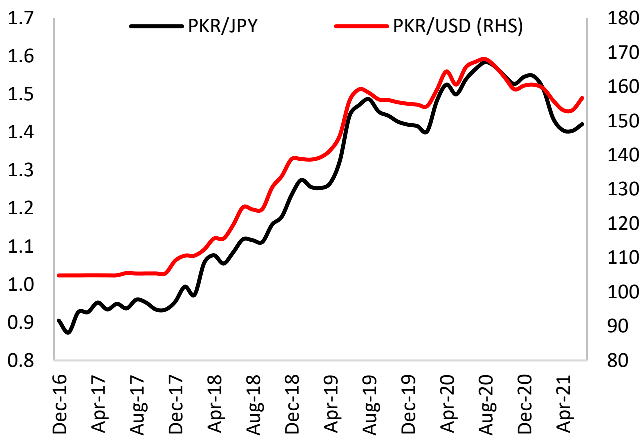
Speed bumps in journey

Semiconductor shortage: In revival of the global economies, the major setback for the automobile manufactures has been the shortage of semi-conductor chips. This has disrupted the production globally and is estimated to cost automobile manufactures about $110bn globally (Bloomberg). This shortage is a result of multiple factors among which the most important factor was the decision of chipmakers to shift their focus on making chips for consumer electronics as their demand substantially increased during COVID while automakers had to halt production due to lockdown. We expect this issue to prevail until 2023. This has also affected the local players with delivery time of over 5 to 6 months.

Increasing commodity prices and fright charges: In the after math of COVID, the commodity prices and fright charges have skyrocketed. Flat steel (CRC) price has increased from US$600/ton to over US$1,000/ton post COVID lockdowns. This elevated commodity price has pressurized the margins as procurement cost for CKD units has gone up. Moreover, freight charges have followed a similar trend as a typical 40ft container that was used to cost around US$600 have now increased to over US$3,000 from JPY-PAK. However, these costs are revised semi-annually or quarterly depending on the contracts with freight forwarders and parent manufactures. We expect these pressures to prevail in the short run and keep margins of local players under check.

Rupee Depreciation: The V shaped economic recovery post COVID followed by government's decision to promote growth has tested US$/Rs parity as the Rs has depreciated from Rs154 to Rs168 against the greenback in last three months. This is likely to add up in the cost of automobile assemblers as most of the raw material is imported. However, SBP's close monitoring and sufficient forex exchange buffer provides us comfort from any further sharp devaluation anytime soon.

Fig 14: Currency devaluation

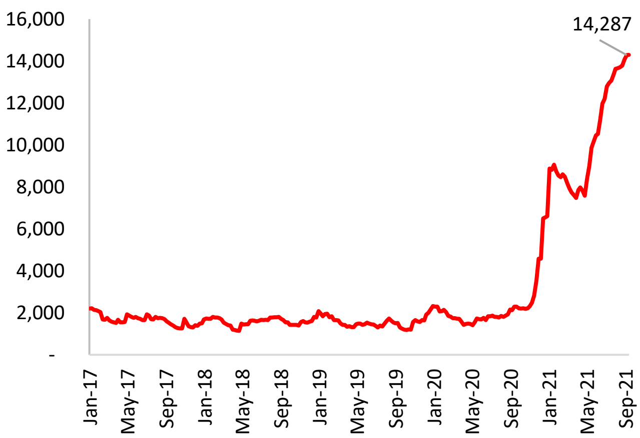


Source: Bloomberg, FSL Research, Sept 2021

Fig 15: Steel prices have skyrocketed (USD/ton)

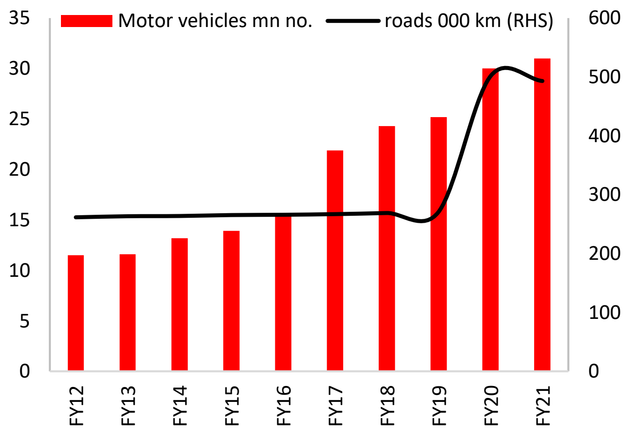
Source: Bloomberg, FSL Research, Sept 2021

Fig 16: Freight Charges (WCI composite Index)



Source: Bloomberg, FSL Research, Sept 2021

Fig 17: lack of infrastructure in the region



Source: MOF, FSL Research, Sept 2021

Segment Analysis: Sedan and SUV segment to drive growth

800cc segment: Sensitivity

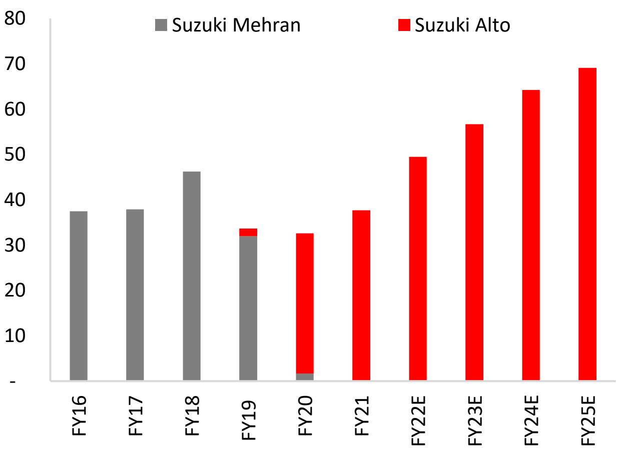
800cc segment is expected to grow at 3/5-year CAGR of of 12/12%. This segment is sensitive to price changes because of the audience it engages i.e., low-income level. 800cc segment holds 19% of the market share of PC&LCVs. Suzuki Alto is the most dominant car in the segment due to lack of attention from new players. Gov't has provided incentives to the segment by reducing sales tax from 17% to 12.5% and has also reduced ad-valor duty on auto parts as well. To highlight, this segment is immune to economic slowdown as it would feed on to itself from the consumers from higher segments.

This segment is the gateway for most of the car owners in Pakistan as it is the cheapest available segment. Therefore, it's a natural option for the consumers upgrading from two wheelers to cars segment. PSMC has always been the dominant player with its Iconic Suzuki Mehran being the first choice as budget car as it was the cheapest car available in the local market. Now with the discontinuation of the said model, this place has been taken by Suzuki Alto. Currently Prince Pearl and United Bravo are also being offered in the same segment. However, we don't expect Pearl/Bravo to make any material impact due to low production and predominance of Alto.

Fig 18: Available Options

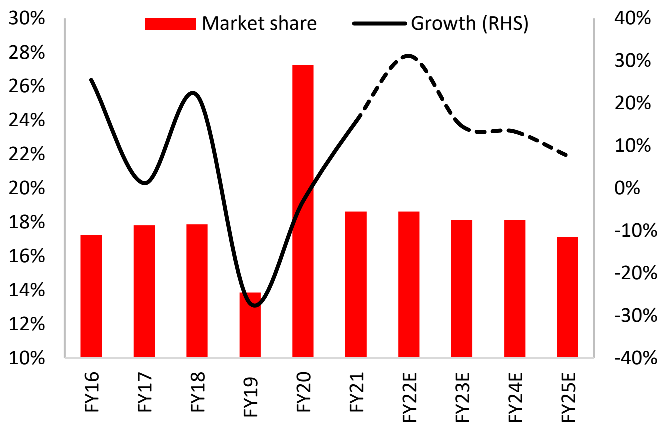
Source: Company Accounts, FSL Research, Sept 2021

Fig 19: 800cc remain uncontended (K units)



Source: PAMA, FSL Research, Sept 2021

Fig 20: Market share of 800cc segment



Source: PAMA, FSL Research, Sept 2021

1,000cc segment: The middleman

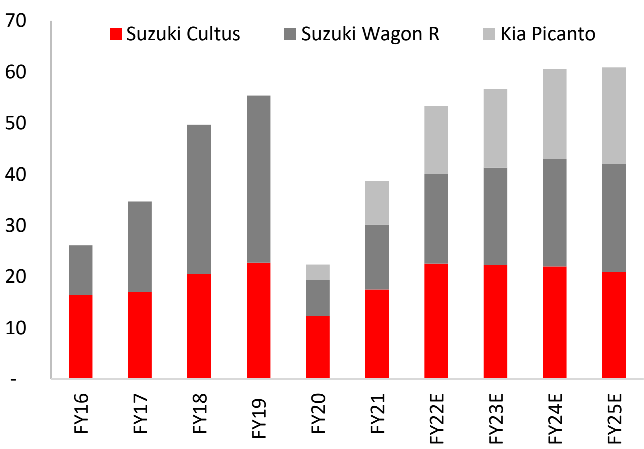
1,000cc segment is expected to grow at a 3/5-year CAGR of 4/7%. This segment currently holds 19% of the market share of total PCs/LCVs, which is expected to decline in medium term, given availability of low range sedans from new entrants i.e., Proton Saga and Changan Alsvin. However prevailing supply chain issues and Suzuki's firm presence would not make it an easy affair. Furthermore, Sales tax reduction provided by the gov't in budget FY22 is extended to this segment as well alongside the FED reduction across the board.

This segment has also been dominated by the Pak Suzuki with its offering of Cultus and Wagon R. Currently PSMC's joint market share with both of its products stands at 78%. This segment also experiences cannibalization of Suzuki vehicles with Wagon R and Cultus placed in the same segment, however the price placement of wagon R (low variant) is competitive to Alto (top variant). There has been no significant new entry in this segment except for KIA Picanto which has now gained market share of 22% by selling over 8,000 units in FY21. Going forward we expect Picanto to gain further share as availability of cost-effective parts improves, resulting in lower maintenance cost and better resale value. However, we expect PSMC is expected to keep dominating this segment, going forward.

Fig 21: Available Options

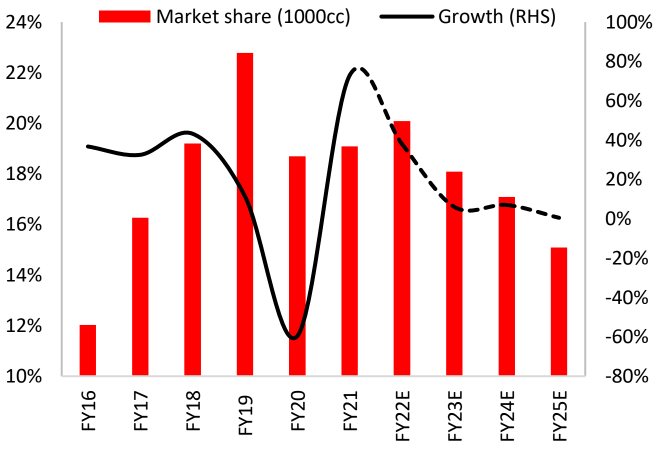
Source: Company Accounts, FSL Research, Sept 2021

Fig 22: Picanto to restrict growth of PSMC



Source: PAMA, FSL Research, Sept 2021

Fig 23: Market share to decline due to cheap sedans



Source: PAMA, FSL Research, Sept 2021

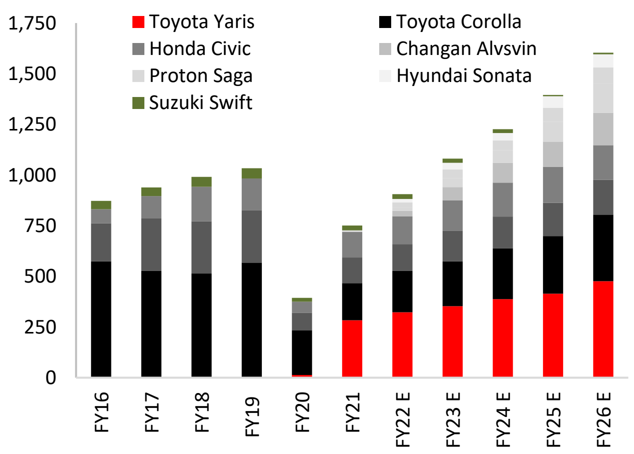
1,300cc segment: Competitive landscape

We expect 1,300cc segment to grow at a 3/5-year CAGR of 16/15%. The segment currently holds 37% of the market share of PCs&LCVs with INDU being the dominant player. This segment can be further divided into low-end Sedans (1,300cc) and high-end Sedans (1,300cc+). Competition has mainly been targeting the low-end sedans with Proton Saga and Changan's Alsvin which would be competing against Honda City and Toyota Yaris. On the other hand, Hyundai Elantra and Hyundai Sonata would be giving competition to premium Sedan cars of Honda Civic and Toyota Grande. We expect competition in the lower end sedan to give tough competition to Honda City and might also be able to grab some share of 1,000cc segment due to its price competitiveness. However, Hyundai Elantra may dilute the market share of existing players, but Hyundai Sonata would not be able to increase any substantial competition due to its high price tag.

Fig 24: Available Options

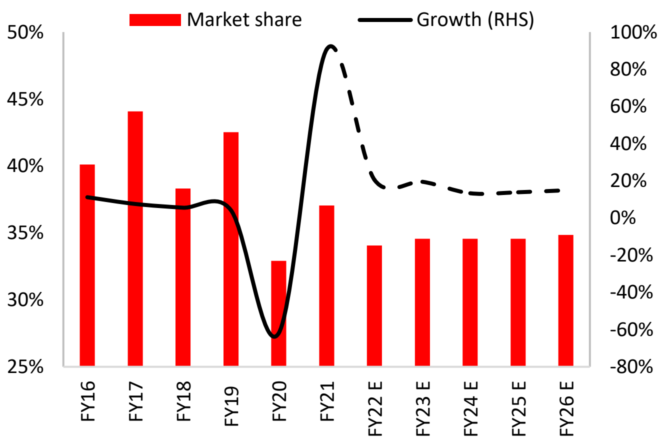
Source: Company Accounts, FSL Research, Sept 2021

Fig 25: New players to divide market share (k units)



Source: PAMA, FSL Research, Sept 2021

Fig 26: sedan segment to maintain its share



Source: PAMA, FSL Research, Sept 2021

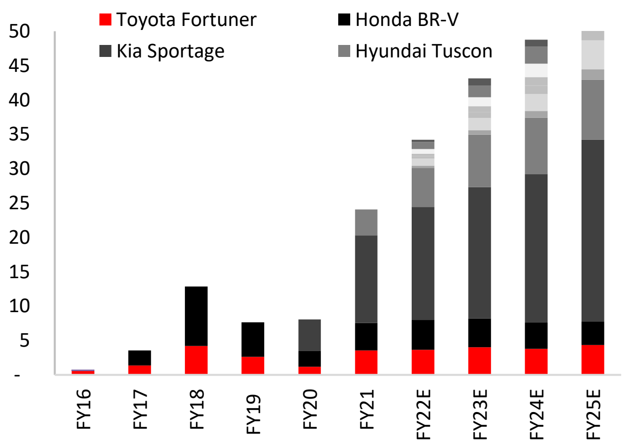
SUV segment: Rising Fashion

The SUV segment is expected to grow at a 3/5-year CAGR of 21/17%. Previously it was largely considered as unchartered territory with very few options available to consumers. It has recently acquired market share of 12% in FY21 (previously 7% in FY20) which is expected to grow further given new players have vastly launched new variants. The segment vacuum can be signified given low base and past novelty factor of existing players. This segment has been mainly dominated by the KIA Sportage with a market share of 53% (21,200 units) in FY21. The entrance of price competitive SUVs (Proton X70, Glory 580, etc.) may further increase competition for the compact SUV segment. However, outlook of premium SUV segment is likely to remain intact.

Fig 27: Available Options

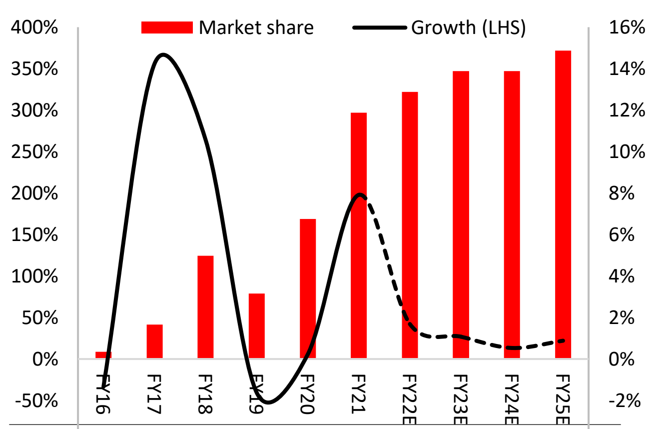
Source: Company Accounts, FSL Research, Sept 2021

Fig 28: Increasing variants to boost market share



Source: PAMA, FSL Research, Sept 2021

Fig 29: Increasing market share and diluting low base



Source: PAMA, FSL Research, Sept 2021

Value Enhancers

Localization

Gov't of Pakistan is incentivizing localization by reducing custom duty on auto parts, to boost auto manufacturing in Pakistan. Increasing localization would ease pressure from adverse movement of currency and enhance the product quality in the industry. Increasing localization would dilute the supply chain problems such as freight delays which would improve the delivery time. Auto parts is a growing industry in Pakistan and therefore has not been able to provide all the required components to the auto assemblers. Currently electrical system, radiator, exhaust system, glass work, shocks and spurts are being provided by the local vendors. Increasing localization in domestic industry is a challenge because of absence of (1) R&D, (2) high grade steel, and (3) active supplier. However, recent incentives given by the federal government can be considered a step in the right direction which would improve localization in the long term

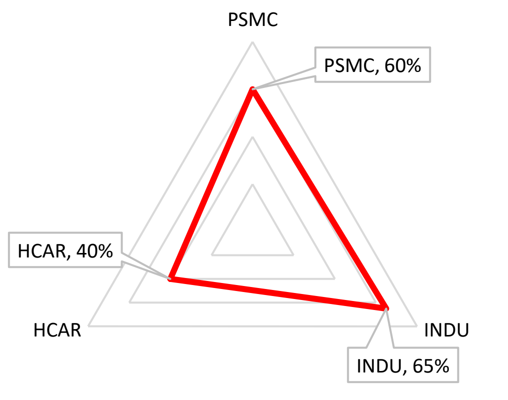
Market Penetration

The existing players have been enjoying 2 decades of oligopoly and have established a vast network of dealership to provide them with ease of push sales. The market penetration in rural has been a key driver of the players that have allowed them to avail from improving agro economics. Moreover, the manufactures have driven their sales by B2B contracts with gov't and corporate sector. This has allowed existing players to be flexible to maintain their market share. New entrants would have a tough time in the industry given the market penetration of the existing players that provides them ease of market Intel to cater demand vacuums in the industry. So far, only KIA has been able to rapidly increase its dealership network that is now equivalent to HCAR. Going forward, as other players improve their dealership networks and enhanced the availability of parts, acceptability for new players would go up diluting the share of existing players.

Consumer Confidence

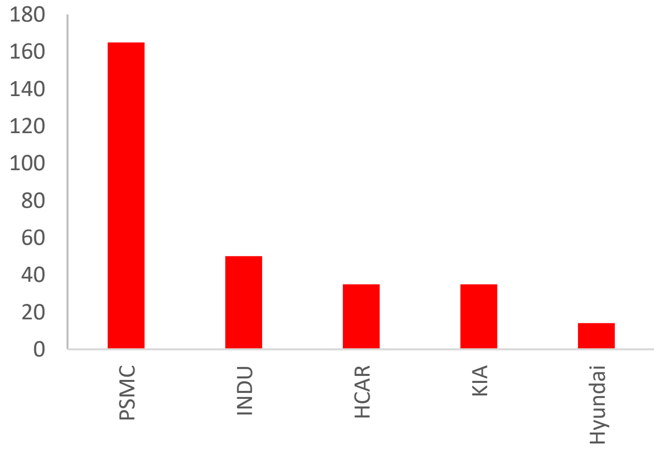
Consumer sales are driven by product perception. New variants need to gain consumer confidence after getting on road reviews. Existing players have established a perception of ease of maintenance and assurance of quick resale. The awareness of existing products along the informal channel has also allowed consumers to be reassured of cheap maintenance. The availability of spare parts also plays an important role in consumer's decision-making. The adaptability of domestic infrastructure and life span of vehicle plays a pivotal role in brand image as well. Existing players with their vast network or 3S (Sale, Service, and Spare parts) have allowed consumer ease of mind to build up the brand confidence. We believe it would take some time for new entrants to develop support from customers.

Fig 30 Localization



Source: Company Accounts, FSL Research, Sept 2021

Fig 31: Dealership network



Source: Company Accounts, FSL Research, Sept 2021

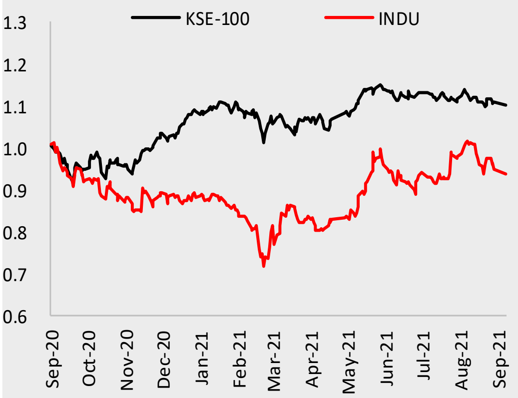
INDU PA **Outperform**

Price (23 Sep 21 CP)	Rs	1,200.1
Jun-22 Target Price	Rs	1,584.9
Upside/Downside	%	32.1
12M Target Price	Rs	1,651.3
- DCF methodology		
Sector		Auto
Market cap	Rs bn	94.3
30-day avg turnover	$ m	0.1
Market cap	$ m	559.7
Freet float	%	17.1
Shares issued	m	78.6

Investment fundamentals

Year end Jun		2020A	2021A	2022F	2023F
Net Revenues	mn	86,167	179,162	197,454	226,548
EBITDA	m	10,208	21,294	21,669	23,601
EBITDA Growth	%	(59.5)	0.8	112.3	10.8
PBT	m	7,287	18,199	18,126	20,167
Recurring Profit	m	5,082	12,829	12,870	14,318
Net Profit	m	5,082	12,829	12,870	14,318
EPS reported	Rs	64.7	163.2	163.7	182.2
Rev growth	%	(45.5)	107.9	10.2	14.7
EPS growth	%	(61.2)	152.4	0.3	11.3
PE	x	18.6	7.4	7.3	6.6
DPS	Rs	30.0	103.5	97.0	128.0
Div. Yield	%	2.5	8.6	8.1	10.7
ROA	%	7.0	12.0	10.5	11.7
ROE	%	12.5	28.7	25.6	26.0
EV/EBITDA	x	9.1	4.3	2.4	1.8
Net D/E	x	(0.0)	(0.0)	(0.8)	(0.9)
Price to Book	x	2.3	2.0	1.8	1.6
Price to Sales	x	1.1	0.5	0.5	0.4

INDU KSE-100 Relative Performance



Source: PSX, Foundation Research, September 2021
(all figures are in Rs unless noted)

Indus Motor Company Ltd

Consolidating on brand equity

Event

- We restate our Outperform stance on INDU with a June-22 TP of Rs1,584.9/sh with an upside potential of 32.1% along with a decent dividend yield of 8.1%. Our preference for INDU is based on its 1) strong brand equity, 2) sustainable growth, 3) first mover advantage in HEVs and, 4) sufficient cash buffer to support profitability.

Impact

- **Strong brand equity:** INDU has established a strong customer base over the past few decades and has now positioned itself as a manufacture of durable cars. This can be reflected by its high share of rural sales. INDU's long term presence in the auto industry with well-established aftermarket sales service provides ease of repair & maintenance to the customer base which new players lack. INDU's product portfolio mainly consists of segment A&C sedan, double cabin (LCVs), & SUV. We expect INDU to maintain its stronghold in the Sedan segment due to its strong brand equity whereas lack of new entries in the high-end SUV and LCV segment may keep its share unchallenged.

- **Growth trajectory likely to remain intact**: INDU has a strong penetration into rural region (50% of gross sales) due to durability of its product offering. We expect this product positioning to largely remain uncontended whereas entry of new players in the sedan segment may result in slight dilution of its urban market share. Due to high portion of rural and B2B sales, INDU's sales are expected to be the least affected from any potential hike in the interest rate amid economic growth. On the back of strong brand equity and absence of material competition, INDU's growth trajectory is expected to continue its momentum.

- **First mover in HEVs:** INDU has been the first player to announce its plan to produce locally manufactured hybrid-electric-vehicle over period of 3yrs. INDU's initiative to locally manufactured HEV, with the aid of EV policy, would most likely give it the first mover advantage. We believe that the acceptability of INDU's HEV would be on the higher side given the fact that the consumer base is already familiarized with some self-imported hybrid units of Toyota i.e., Aqua, Prius, etc.

- **Sufficient cash buffer to support profitability:** INDU has cash+ST investment of about Rs84bn (Rs51bn from advances from customers) as per Jun'21 financials, which is expected to remain on the higher side given strong demand. This excess cash would provide INDU with the financial muscle to weather through all cycles. Strong cash position would allow company to maintain its payout ratio even in expansionary phase.

Earnings Revision

- We have revised up our FY22/23 EPS by 2.3/1.9% due to change in assumption of volumes and commodity prices.

Price Catalyst

- Jun-22 TP: Rs 1,584.9/sh based on the DCF methodology.

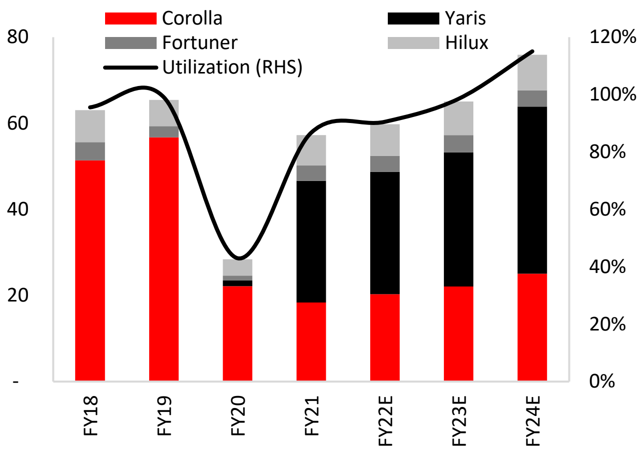
- Catalysts: 1) early reversal in commodity prices, 2) greater penetration in HEV/SUV market and 3) increased localization.

- Key risks: 1) Rupee depreciation, 2) Increased competition in sedan segment and 3) Prolonged supply chain disruptions.

Outlook

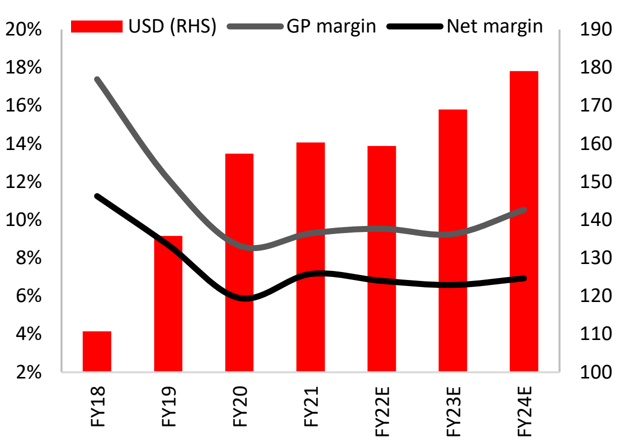
- We have an "Outperform" stance on the stock with Jun-22 TP of Rs1,584.9/sh.

Fig 32: Sales to continue its ↑ trajectory (K units) …



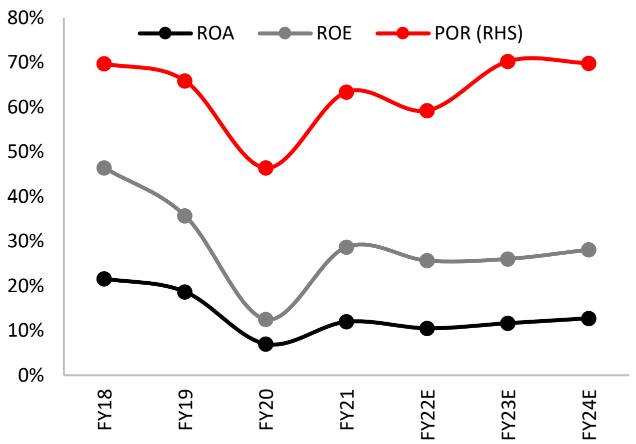
Source: Company Accounts, FSL Research, Sept 2021

Fig 33: ... however, margins remain depressed



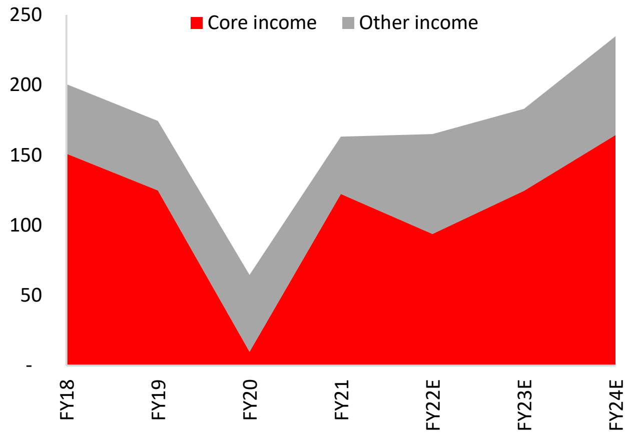
Source: Company Accounts, FSL Research, Sept 2021

Fig 34: other income to boost profitability… (Rs bn)



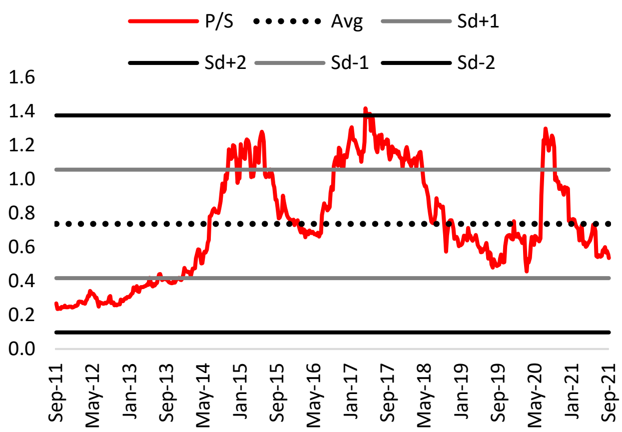
Source: Company Accounts, FSL Research, Sept 2021

Fig 35: .... with decent dividend payout (Rs bn)



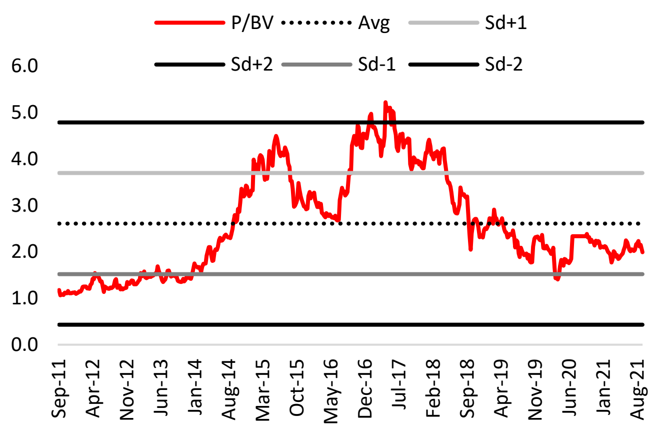
Source: Company Accounts, FSL Research, Sept 2021

Fig 36: Price to sales on low momentum



Source: Bloomberg, FSL Research, Sept 2021

Fig 37: Price to book value at discount



Source: Bloomberg, FSL Research, Sept 2021

Table 3: Indus Motor Company Limited (INDU PA, 'Outperform', Target price Rs 1,584.9/sh)

Balance Sheet		FY20A	FY21A	FY22E	FY23E
PP&E	m	16,502	15,770	15,458	23,651
Inventory	m	15,933	22,289	18,495	21,183
Cash & ST Inv	m	42,366	84,092	65,845	77,804
Other Assets	m	5,478	11,755	11,131	12,179
Total Assets	**m**	**80,279**	**133,906**	**110,929**	**134,816**
Advances	m	24,534	51,267	23,783	28,491
Trade & other payable	m	13,594	30,288	31,417	35,981
Other Liabilities	m	982	4,149	3,580	12,521
Total Liabilities	**m**	**39,109**	**85,704**	**58,779**	**76,994**
Paid-up Cap.	m	786	786	786	786
Reserves	m	40,383	47,415	51,364	57,036
Sh Equity	m	**41,169**	**48,201**	**52,150**	**57,822**
Liabilities + Equity	**m**	**80,279**	**133,906**	**110,929**	**134,816**

Profit & Loss		FY20A	FY21A	FY22E	FY23E
Net Sales	m	86,167	179,162	197,454	226,548
Cost of Sales	m	78,716	162,508	180,278	207,261
Gross Profit	**m**	**7,451**	**16,654**	**17,176**	**19,286**
Dist. Cost	m	1,469	1,619	1,777	2,039
Admin Cost	m	1,385	1,465	1,654	1,898
Other expense	m	429	817	1,023	1,635
Other income	m	3,205	5,579	5,504	6,512
EBIT	**m**	**7,373**	**18,333**	**18,225**	**20,226**
Finance cost	m	86	134	99	59
Pre-tax Profit	**m**	**7,287**	**18,199**	**18,126**	**20,167**
Taxation	m	2,205	5,371	5,257	5,848
PAT	m	**5,082**	**12,829**	**12,870**	**14,318**
EPS	**Rs**	**64.7**	**163.2**	**163.7**	**182.2**
DPS	**Rs**	**30.0**	**103.5**	**97.0**	**128.0**

Q Performance		1QFY22E	2QFY22E	3QFY22E	4QFY22E
Net Sales	m	48,779	46,629	54,993	47,053
Cost of Sales	m	44,434	42,493	49,676	43,675
Gross Profit	**m**	**4,346**	**4,136**	**5,316**	**3,379**
Dist. Cost	m	439	420	495	423
Admin Expenses	m	409	391	461	394
Other expense	m	260	248	326	189
Other income	m	1,472	1,370	1,212	1,451
EBIT	**m**	**4,710**	**4,447**	**5,246**	**3,823**
Finance cost	m	34	12	10	43
PBT	**m**	**4,675**	**4,435**	**5,236**	**3,780**
Taxation	m	1,356	1,286	1,519	1,096
PAT	**m**	**3,320**	**3,149**	**3,718**	**2,684**
EPS	Rs	42.2	40.1	47.3	34.1
DPS	Rs	25.0	24.0	28.0	20.0

Key Ratios		FY20A	FY21A	FY22E	FY23E
BVPS	Rs	523.8	613.2	663.5	735.7
EPS	Rs	64.7	163.2	163.7	182.2
PE	x	18.6	7.4	7.3	6.6
PBV	x	2.3	2.0	1.8	1.6
GP margins	%	8.6%	9.3%	8.7%	8.5%
EBIT Margins	%	8.6%	10.2%	9.2%	8.9%
NP margin	%	5.9%	7.2%	6.5%	6.3%
ROE	x	12.5%	28.7%	25.6%	26.0%
ROA	x	7.0%	12.0%	10.5%	11.7%
Earnings yield	%	5.3%	13.4%	13.4%	14.9%
Payout Ratio	%	46%	63%	59%	70%
Dividend Yield	%	2.5%	8.6%	8.1%	10.7%
EV/EBITDA	x	9.1	4.3	2.4	1.8
Inventory days	x	68.4	42.9	41.3	34.9

Source: Company Accounts, FSL Research, Sept 2021
All figures in PKR unless noted

About the Company

Indus Motor Company Limited (IMC) is a joint venture between certain companies of House of Habib of Pakistan, Toyota Motor Corporation (TMC) and Toyota Tsusho Corporation (TTC) of Japan. Incorporated in 1989, the Company manufactures and markets Toyota brand vehicles in Pakistan. These include several variants of the flagship 'Corolla' and the newly launched "Yaris" in the passenger car segment, "Hilux" in the light commercial vehicle segment and "Fortuner" in Sports Utility Vehicle segment.

IMC's manufacturing facility and offices are located at a 107-acre site in Port Qasim, Karachi. The product is delivered to end customers nationwide through a strong network of 50 independent 3S Dealerships spread across the country

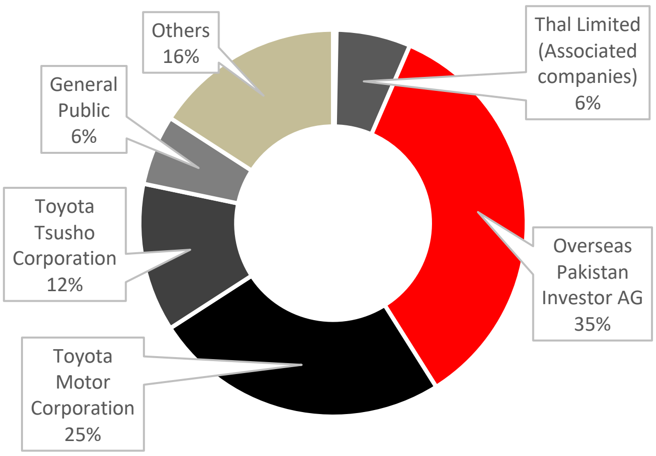
Auditors: A.F. Ferguson & Co. Chartered Accountants.

Table 4: INDU key personnel

Key Personnel	Name	Designation
Board of Directors	Mr. Ali Asghar Jamali	Chief Executive Officer
	Mr. Mohamedali R. Habib	Director
	Mr. Shinji Yanag	Director
	Mr. Muhammad H. Habib	Director
	Mr. Noriaki Kurokawa	Director
	Mr. Tetsuya Ezui	Director
	Mr. Imran A. Habib	Director
	Mr. Azam Faruque	Director
	Mr. Riyaz T. Chinoy	Director
	Syeda Tatheer Zehra	Director
	Hamdani	Director
Management	Mr. Ali Asghar Jamali	Chief Executive Officer
	Mr. Mohammad Ibadullah	Chief Financial Officer
	Mr. Arif Anzer	Company Secretary

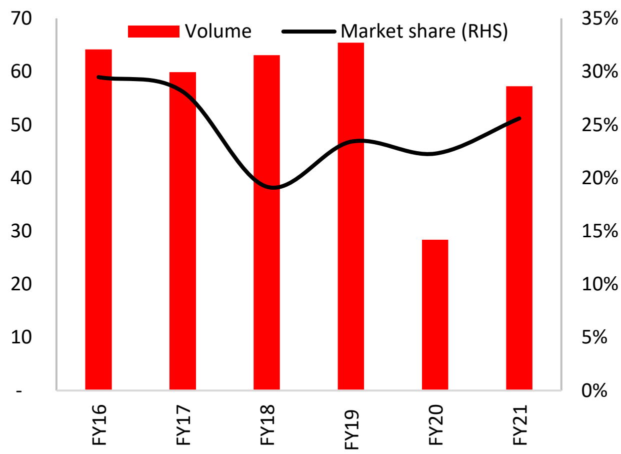
Source: Company Accounts, FSL Research, Sept 2021

Fig 38: Shareholding Pattern



Source: Company Accounts, FSL Research, Sept 2021

Fig 39: Market share/utilization (K units)



Source: Company Accounts, FSL Research, Sept 2021

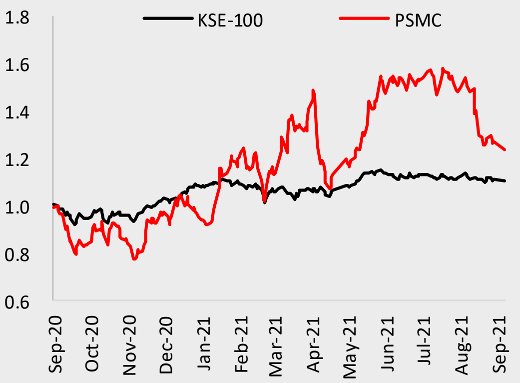
PSMC PA **Outperform**

Price (23 Sep 21 CP)	Rs	267.4
Jun-22 Target Price	Rs	313.3
Upside/Downside	%	17.2
12M Target Price	Rs	326.1
- DCF methodology		
Sector		Auto
Market cap	Rs bn	22.0
30-day avg turnover	$ m	0.8
Market cap	$ m	130.6
Freet float	%	26.4
Shares issued	m	82.3

Investment fundamentals

Year end Jun		2020A	2021A	2022F	2023F
Net Revenues	mn	76,721	141,236	171,965	193,666
EBITDA	m	4,145	7,680	7,871	8,384
EBITDA Growth	%	1.0	4,170.0	89.9	9.2
PBT	m	(2,186)	4,132	4,572	5,357
Recurring Profit	m	(1,590)	2,367	2,423	2,936
Net Profit	m	(1,590)	2,367	2,423	2,936
EPS reported	Rs	(19.3)	28.8	29.4	35.7
Rev growth	%	(34.2)	84.1	21.8	12.6
EPS growth	%	na	na	2.4	21.2
PE	x	na	9.3	9.1	7.5
DPS	Rs	-	-	7.0	9.0
Div. Yield	%	-	-	2.6	3.4
ROA	%	na	3.5	3.3	3.7
ROE	%	na	9.3	8.7	9.7
EV/EBITDA	x	4.1	1.6	1.3	0.4
Net D/E	x	(0.2)	(0.4)	(0.4)	(0.6)
Price to Book	x	0.9	0.8	0.8	0.7
Price to Sales	x	0.3	0.2	0.1	0.1

PSMC KSE-100 Relative Performance



Source: PSX, Foundation Research, September 2021
(all figures are in Rs unless noted)

Pak Suzuki Motor Company

Beneficiary of consumerism

Event

We state our Outperform stance on PSMC with a June-22 TP of Rs313.3/sh with an upside potential of 17.2%. Our preference for PSMC is on the back of uptick in volumes in CY22/23E by 78/21% due to i) Uncontended market share in lower hatchback segment, ii) Gov't incentives in FY22 Budget, and iii) better cash conversion cycle. However, upside from aforementioned factors is estimated to get capped by prevailing supply chain issues in the short term and the entry of low-priced sedans in the long term. We expect EPS for CY21/22/23 to clock in at Rs28.8/29.4/35.7.

Impact

- **Uncontended market share:** PSMC has been dominating the hatchback segment since past few decades by positioning itself as consumers' first choice for economical car. This segment is subdivided into 800cc or below and 1,000cc segments. In the 800cc segment, PSMC maintains its outright dominance as there is not any significant presence of any other competitor. However, in the other segment, PSMC has two cars (Cultus and Wagon R) which competes with the KIA Picanto. Despite the decent performance by KIA Picanto, PSMC still holds over 70% share in the 1,000cc segment. Going forward, we expect PSMC to maintain its uncontended dominance in the hatchback segment.

- **Gov't Incentives to uplift volumes:** Gov't incentives in Budget FY22 provided an edge to PSMC over peers as it is only automobile assembler that operates in 800cc segment. With this segment being price sensitive, sales tax reduction of 4.5ppt and 2.5ppt cut on FED, is expected to stimulate growth. Government has been making efforts to increase the car ownership rate in the country by improving car affordability. For this purpose, gov't has also introduced SBP backed schemes of concessionary lending. We expect PSMC to be the key beneficiary of this development, going forward. In addition to this, introduction of new variants for Swift and Bolan may further support volumes and uplift profitability, in our view.

- **Better cash conversion cycle:** With its cyclical nature, PSMC has been through different cash cycles due to variation in demand growth. To fulfill its working capital needs, PSMC had taken a short-term foreign currency loan from its parent company which further exposed it to currency movement in the past. However, due to recovery in automobile demand and healthy cash generation, has repaid the foreign loan. To highlight PSMC has awaited TERF of Rs1.4bn for the production of new variants of Swift/Bolan.

Earnings Revision

- We have revised ↑/↓/↑ our CY21/22 EPS by 26.1/15.0 due to revised assumption of volumes and commodity prices.

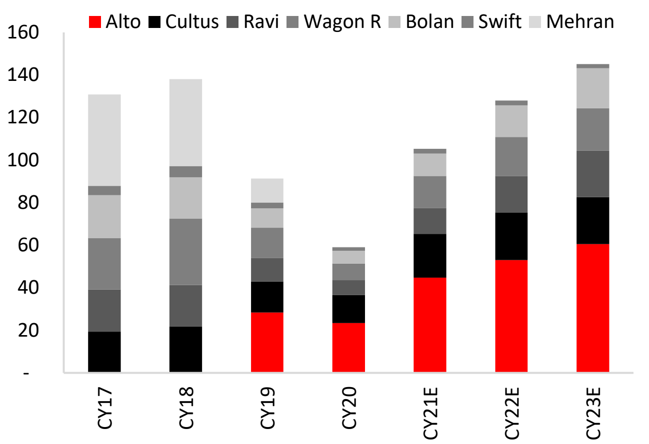
Price Catalyst

- **Jun-22 TP:** Rs313.3/sh based on the DCF methodology.
- **Catalysts**: 1) Early reversal in commodity prices, 2) Incentives to incorporate in AIDEP, 3) increased localization.
- **Key risks:** 1) Rupee depreciation, 2) Prolonged supply chain disruptions.

Outlook

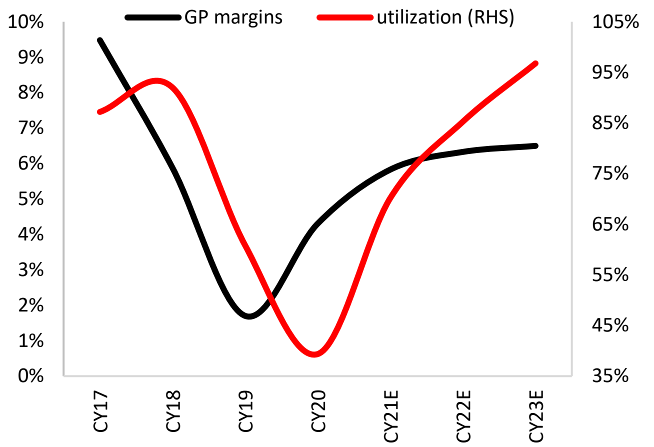
- We have an outperform stance on the scrip with Jun-22 TP of Rs313.3/sh.

Fig 40: Volumetric boost uplifted by industry (K units)



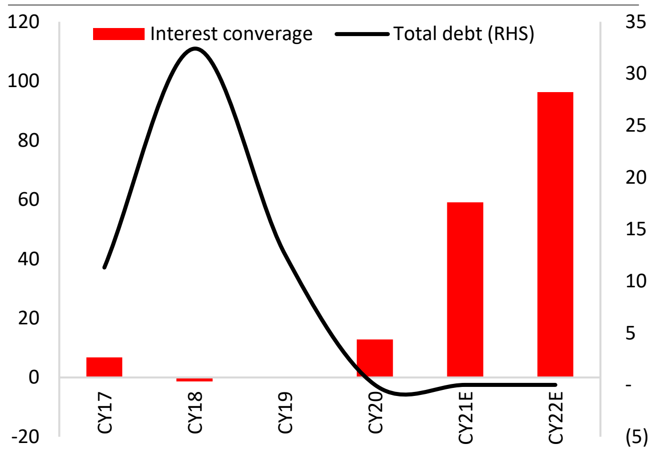
Source: Company Accounts, FSL Research, Sept 2021

Fig 41: High fixed cost coverage improving margins



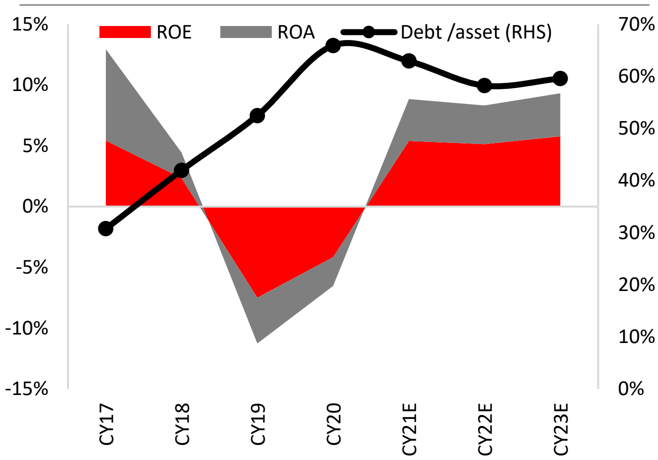
Source: Company Accounts, FSL Research, Sept 2021

Fig 42: ↑ interest coverage due to lower debt (Rs bn)



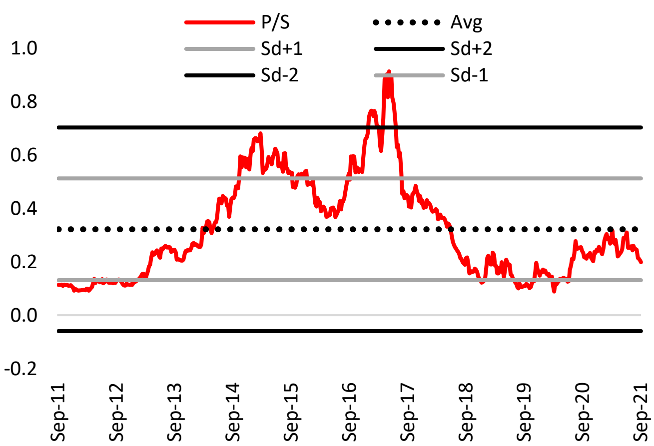
Source: Company Accounts, FSL Research, Sept 2021

Fig 43: Rebound in profitability



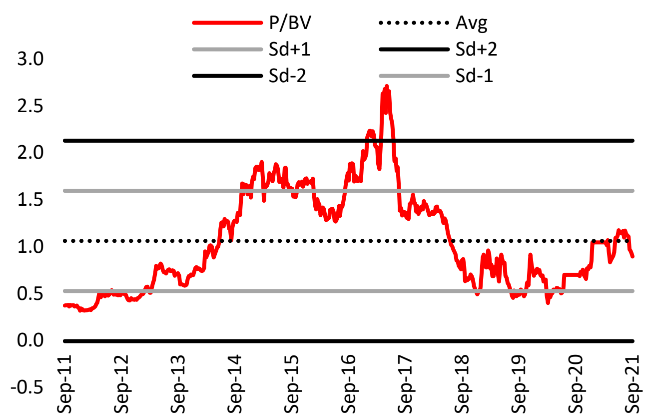
Source: Company Accounts, FSL Research, Sept 2021

Fig 44: Trading at lower Price to sale band



Source: Bloomberg, FSL Research, Sept 2021

Fig 45: …and P/B as well



Source: Bloomberg, FSL Research, Sept 2021

Table 5: Pak Suzuki Motor Company Limited (PSMC PA, underperform, Target price 313.3/sh.)

Balance sheet		**CY20**	**CY21E**	**CY22E**	**CY23E**
PP&E	m	13,039	13,805	12,155	10,775
Inventory	m	18,055	28,782	31,373	31,741
Cash & ST inv	m	17,819	9,652	11,519	18,551
Other Assets	m	17,793	16,351	21,109	21,952
Total Assets	**m**	**66,704**	**68,590**	**76,155**	**83,019**
Trade Liabilities	m	13,754	19,149	22,543	24,651
Adv. From customers	m	9,878	14,138	16,394	18,288
Other Liabilities	m	18,724	8,587	8,081	8,580
Total Liabilities	**m**	**42,355**	**41,874**	**47,017**	**51,520**
Paid-up capital	m	823	823	823	823
Reserves	m	23,526	25,893	28,316	30,676
Shareholders 'Equity	**m**	**24,349**	**26,716**	**29,139**	**31,499**
Liabilities + Equity	**m**	**66,704**	**68,590**	**76,155**	**83,019**

Profit & Loss		**CY20**	**CY21E**	**CY22E**	**CY23E**
Net sales	m	76,721	141,236	171,965	193,666
Cost of sales	m	73,419	133,003	161,083	181,081
Gross Profit	**m**	**3,303**	**8,233**	**10,881**	**12,584**
Dist. cost	m	1,640	2,542	3,611	4,067
Admin cost	m	1,791	2,825	3,611	4,261
Other exp	m	49	311	344	403
Other income	m	704	1,925	1,336	1,560
EBIT	**m**	**528**	**4,480**	**4,651**	**5,413**
Finance cost	m	**2,665**	**348**	**79**	**56**
PBT	**m**	**(2,186)**	**4,132**	**4,572**	**5,357**
Taxation	m	(596)	1,765	2,150	2,421
PAT	**m**	**(1,590)**	**2,367**	**2,423**	**2,936**
EPS(rep)		**(19.3)**	**28.8**	**29.4**	**35.7**
DPS		**-**	**-**	**7.0**	**9.0**

Quarterly perf.		**1QCY21**	**2QCY21**	**3QCY21E**	**4QCY21E**
Net Sales	m	36,098	30,013	42,822	32,304
Cost of Sales	m	33,889	28,267	40,383	30,464
Gross Profit	**m**	**2,209**	**1,746**	**2,439**	**1,840**
Distribution Cost	m	710	555	728	549
Admin cost	m	666	667	850	642
Operating cost	m	83	111	67	50
Other income	m	619	248	603	455
EBIT	**m**	**1,369**	**661**	**1,397**	**1,054**
Finance cost	m	250	42	32	24
PBT	**m**	**1,118**	**618**	**1,365**	**1,030**
Taxation	m	318	171	728	549
PAT	**m**	**800**	**447**	**638**	**481**
EPS (rep)		9.7	5.4	7.7	5.8

Key ratios		**CY20**	**CY21E**	**CY22E**	**CY23E**
BVPS		296	325	354	383
EPS		(19.3)	28.8	29.4	35.7
PE	x	na	9.3	9.1	7.5
PBV	x	0.9	0.8	0.8	0.7
GP margins	%	4.3%	5.8%	6.3%	6.5%
EBIT margins	%	0.7%	3.2%	2.7%	2.8%
NP margin	%	-2.1%	1.7%	1.4%	1.5%
ROE	x	-6.3%	9.3%	8.7%	9.7%
ROA	x	-2.2%	3.5%	3.3%	3.7%
Earnings yield	%	-7.0%	10.4%	10.6%	12.9%
Payout Ratio	%	0.0%	0.0%	23.8%	25.2%
Dividend Yield	%	0.0%	0.0%	2.6%	3.4%
EV/EBITDA	x	4.1	1.6	1.3	0.4

Source: Company Accounts, FSL Research, Sept 2021

All figures in Rs unless noted

About the Company

Pak Suzuki Motor Company Limited (PSMC) is a public limited company with its shares quoted on Pakistan Stock Exchange. The Company was formed in August 1983 in accordance with the terms of a joint venture agreement between Pakistan Automobile Corporation Limited (representing Government of Pakistan) and Suzuki Motor Corporation (SMC) Japan. The Company started commercial production in January 1984 with the primary objective of progressive manufacturing, assembling, and marketing of Cars, Pickups, Vans and 4x4 vehicles in Pakistan.

The Company setup a new plant for motorcycles at Bin Qasim. All the operations of motorcycles have been shifted to the new plant effective from July 2011. Joint Venture Agreement was signed between Pak. Suzuki Motor Company Limited and Tecno Pack Telecom (Private) Limited to set up Tecno Auto Glass Limited ("TAG"). TAG's main area of operations will be manufacturing, development and designing of Auto Glass products to cater local as well as international markets.

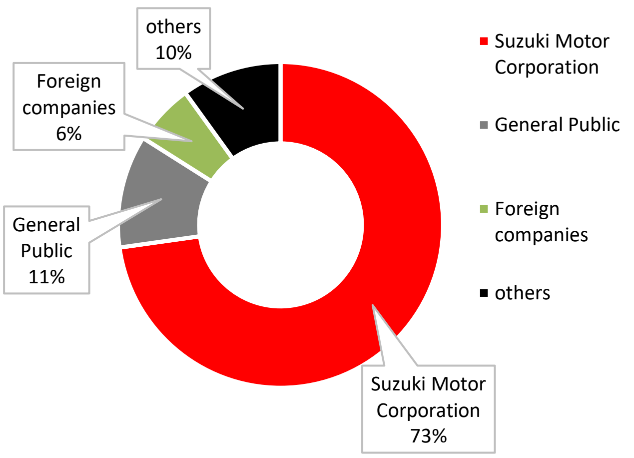
Auditors: A.F. FERGUSON & CO.

Table 6: PSMC key personnel

Key Personnel	Name	Designation
Board of Directors	Azam Sakrani	Chief Executive Officer
	Abdullah Yousuf	Director
	Alexandra Autrey	Director
	Zain Ashraf Mukaty	Director
	Simon Jennings	Director
	Muhammad Jawaid Iqbal	Director
	Ejaz Ahmed	Director
Management	Azam Sakrani	Chief Executive Officer
	Adnan Shaikh	Chief Financial Officer & Company Secretary

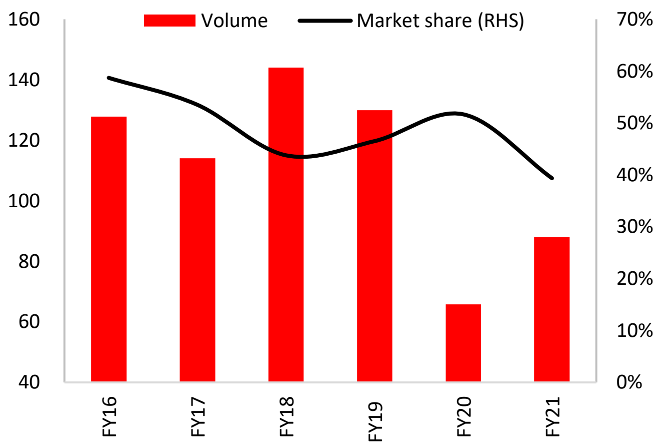
Source: Company Accounts, FSL Research, Sept 2021

Fig 46: Shareholding Pattern



Source: Company Accounts, FSL Research, Sept 2021

Fig 47: Market share/utilization (K units)



Source: PAMA, FSL Research, Sept 2021

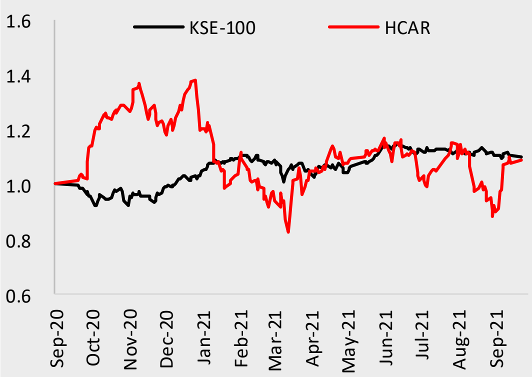
HCAR PA **Neutral**

Price (23 Sep 21 CP)	Rs	267.0
Jun-22 Target Price	Rs	291.9
Upside/Downside	%	9.3
12M Target Price	Rs	326.1
- DCF methodology		
Sector		Auto
Market cap	Rs bn	38.1
30-day avg turnover	$ m	0.6
Market cap	$ m	226.2
Freet float	%	20.0
Shares issued	m	142.8

Investment fundamentals

Year end Jun		2020A	2021A	2022F	2023F
Net Revenues	mn	55,046	67,362	82,345	91,675
EBITDA	m	3,238	3,605	6,036	6,793
EBITDA Growth	%	(68.4)	(45.2)	86.4	88.4
PBT	m	1,547	2,781	4,952	5,395
Recurring Profit	m	682	1,793	3,476	3,830
Net Profit	m	682	1,793	3,476	3,830
EPS reported	Rs	4.8	12.6	24.3	26.8
Rev growth	%	(42.1)	22.4	22.2	11.3
EPS growth	%	(82.3)	163.0	93.9	10.2
PE	x	55.9	21.3	11.0	10.0
DPS	Rs	1.0	4.5	7.0	8.0
Div. Yield	%	0.4	1.7	2.6	3.0
ROA	%	2.1	4.7	7.7	8.2
ROE	%	4.0	10.3	17.7	17.1
EV/EBITDA	x	10.1	7.0	3.8	3.1
Net D/E	x	(0.3)	(0.7)	(0.7)	(0.7)
Price to Book	x	2.3	2.1	1.8	1.6
Price to Sales	x	0.7	0.6	0.5	0.4

HCAR KSE-100 Relative Performance



Source: PSX, Foundation Research, September 2021
(all figures are in Rs unless noted)

Honda Atlas Cars Limited

Surviving the round of competition

Event

- Rising competition in sedan segment, HCAR's market position would be most affected that would tamper its growth momentum. This along with recently announced SBP measures to control imports through amendments in prudential regulations would restrict company's volumetric growth to 17/9% in MY22/23. Hence we have Neutral stance on HCAR with a June-22 TP of Rs291.9/sh with an upside potential of 9.3%.

Impact

- **Competition to remain intense in 1300cc segment:** With the recovery in automobile demand, we expect HCAR's sales volume to increase by 17/9% in MY22/MY23 from ~24K units recorded in MY21. This demand is estimated to be primarily driven by the sedan segment (City/Civic). HCAR's City that is priced at Rs3.1mn would face competition from Changan Alsvin/Proton Saga which are Rs0.18/0.72mn cheaper than City, while Yaris is expected to remain market leader.

- HCAR introduced new variant of Honda City which is expected to restrict the decline in market share. Similarly, Honda Civic would take a beating from low priced SUVs such as KIA Sportage, DFSK Glory and Proton X70. Other than crossover SUVs, HCAR will also face competition from Hyundai's Elantra/Sonata. To highlight, HCARs market presence and consumer acceptability would keep Civic sales outlook largely intact.

- **Diluting auto finance to restrict expected growth:** The rising trajectory of auto financing would be tampered with revised SBP's prudential regulations that has (1) decreased tenure for auto financing to 5-years, previously 7-years (2) caped at Rs3mn, and (3) increased down payment to 30% of the value of the vehicle, for over 1000cc. However, the improving landscape of economy would keep +1300cc sales upbeat as it is expected to grow by 5/3-year CAGR of 15/16%, on which HCAR would allow its sales to grow by 5/3-year CAGR of 6/6%. HCAR sales are receptive to changes in auto financing, as it accounts for most of its sales.

- **Profitability growth to remain range bound:** HCAR profitability would be restricted given gross margins to sustain at 6.6/7.5% in MY22/23. Given high competition landscape, HCAR wouldn't be able to pass on cost swiftly, hence even after high fixed cost coverage margins would remain stagnant. HCAR profitability is expected to clock in at Rs24.3/26.3 per share in MY22/23. To highlight, as of Jun'21, HCAR holds Rs14.9bn cash and bank balances mainly on account of advancement from customers.

Earnings Revision

- We have revised down our MY22/23 EPS by 12.0/14.6% due to revised assumption of volumes and commodity prices.

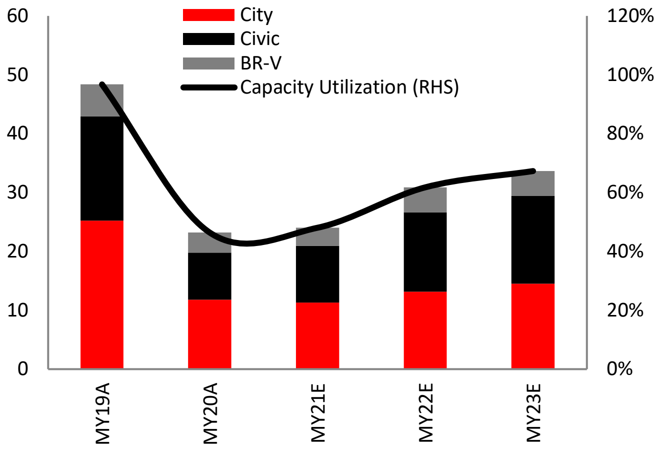
Price Catalyst

- **Jun-22 TP:** Rs 291.9/sh based on the DCF methodology.
- **Catalysts:** 1) Brand equity to hold, 2) favorable currency movement, 3) new variants.
- **Key risks:** 1) Rupee depreciation, 2) Prolonged supply chain disruptions 3) increasing competition.

Outlook

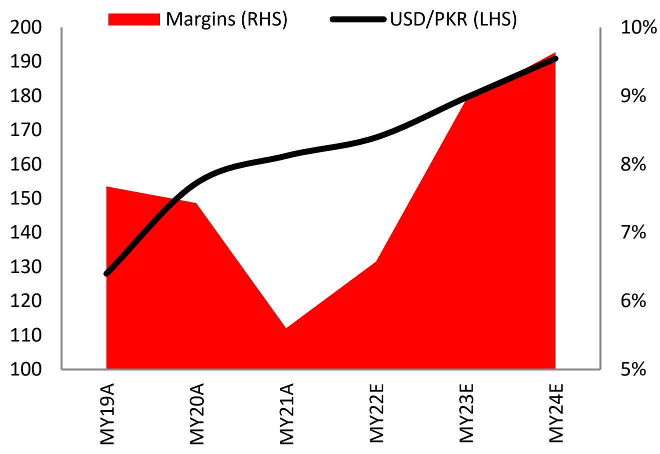
- We have a Neutral stance on the scrip with Jun-22 TP of Rs291.9/sh.

Fig 48: Utilization to increase gradually (K units)



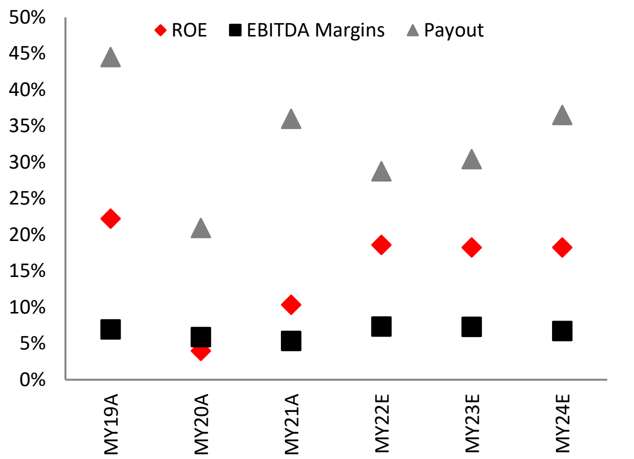
Source: PAMA, FSL Research, Sept 2021

Fig 49: GP to improve…



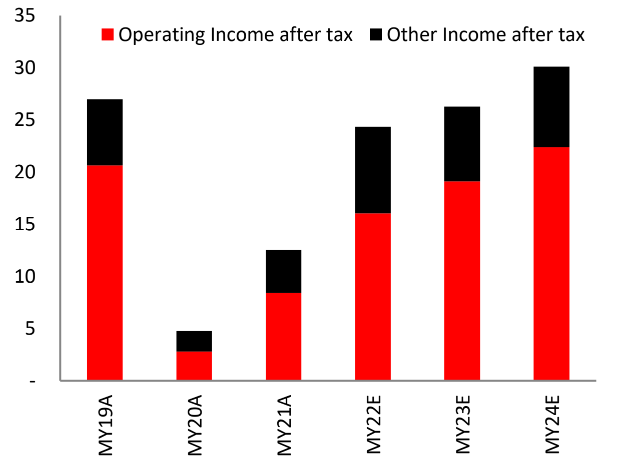
Source: Company Accounts, FSL Research, Sept 2021

Fig 50: Return on equity to improve



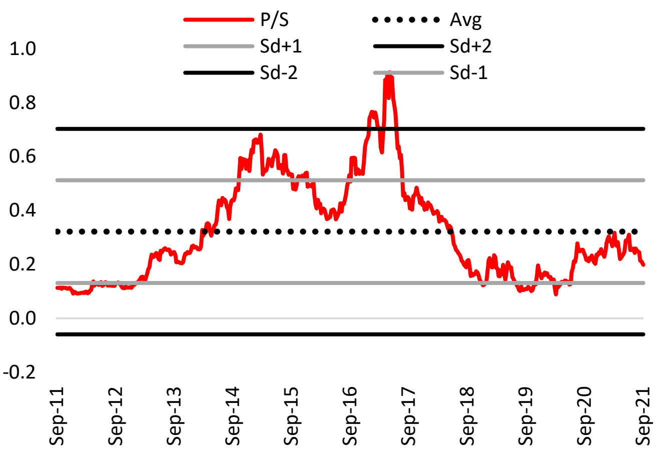
Source: Company Accounts, FSL Research, Sept 2021

Fig 51: Other income providing buffer to profit (Rs/sh)



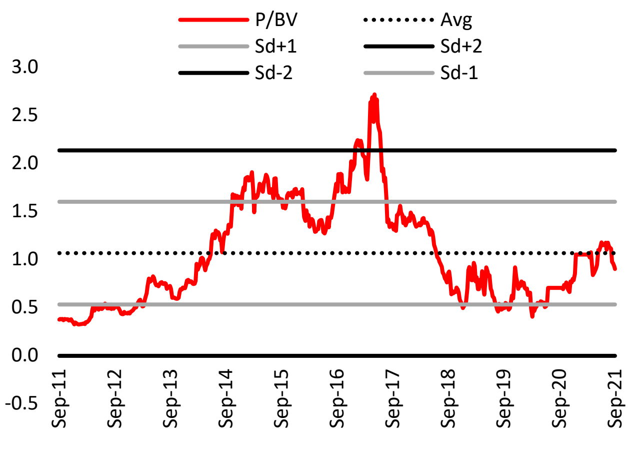
Source: Company Accounts, FSL Research, Sept 2021

Fig 52: Trading lower on Price to Sales



Source: Bloomberg, FSL Research, Sept 2021

Fig 53: …and Price to Book as well



Source: Bloomberg, FSL Research, Sept 2021

Table 10: Honda Atlas Cars Ltd (HCAR PA, 'Neutral', TP Rs291.9/sh)

Balance Sheet		MY20A	MY21A	MY22E	MY23E
PP&E	m	4,519	4,000	7,748	7,129
Cash & ST invest	m	5,575	14,922	16,802	18,472
Inventory	m	11,269	11,649	10,224	10,944
Receivables	m	9,522	10,196	9,339	11,182
Other Assets	m	958	4,390	894	1,021
Total Assets	**m**	**31,842**	**45,156**	**45,007**	**48,748**
Payables	m	12,334	23,491	20,449	21,316
ST Borrowings	m	2,332	362	362	362
Ot Liabilities	m	619	3,107	3,170	3,213
Total Liabilities	**m**	**15,285**	**26,960**	**23,980**	**24,891**
Paid-up Capital	m	1,428	1,428	1,428	1,428
Others	m	15,129	16,768	19,599	22,430
SH' Equity	**m**	**16,557**	**18,196**	**21,027**	**23,858**
L+E	**m**	**31,842**	**45,156**	**45,007**	**48,748**

Profit & Loss		MY20A	MY21A	MY22E	MY23E
Sales	m	55,046	67,362	82,345	91,675
Cost of Sales	m	50,955	63,586	76,950	84,842
Gross Profit	**m**	**4,091**	**3,776**	**5,395**	**6,833**
dist. expense	m	668	737	738	841
Admin .Exp.	m	739	824	776	978
Other Charges	m	1,049	237	476	1,059
Other Income	m	639	918	1,669	1,553
EBIT	**m**	**2,275**	**2,897**	**5,073**	**5,508**
Finance cost	m	727	116	121	113
PBT	**m**	**1,547**	**2,781**	**4,952**	**5,395**
Taxation	m	866	987	1,476	1,565
PAT	**m**	**682**	**1,793**	**3,476**	**3,830**
EPS(rep)		4.8	12.6	24.3	26.8
EPS growth YoY	%	-82%	163%	94%	10%
DPS		1.0	4.5	7.0	8.0

Q performance		1QMY22A	1QMY22A	1QMY23A	4QMY22E
Net Sales	m	21,765	19,906	18,091	22,583
Cost of Sales	m	20,170	18,558	17,097	21,126
Gross Profit	**m**	**1,595**	**1,348**	**995**	**1,457**
Dist. Expense	m	132	199	181	226
Admin exp.	m	231	179	163	203
Other Charges	m	192	102	76	106
Other Income	m	335	462	408	464
EBIT	**m**	**1,375**	**1,329**	**983**	**1,386**
Finance cost	m	11	36	36	36
PBT	**m**	**1,364**	**1,293**	**946**	**1,350**
Taxation	m	435	375	274	391
PAT	**m**	928	918	672	958
EPS(rep)		6.5	6.4	4.7	6.7

Key ratios		MY20A	MY21A	MY22E	MY23E
BVPS	x	115.9	127.4	147.2	167.1
EPS	x	4.8	12.6	24.3	26.8
PE	x	55.9	21.3	11.0	10.0
PBv	x	2.3	2.1	1.8	1.6
P/S	x	0.69	0.57	0.46	0.42
GP margins	%	7.4%	5.6%	6.6%	7.5%
EBITDA margin	%	5.9%	6.5%	9.0%	8.2%
Net margin	%	1.2%	2.7%	4.2%	4.2%
ROE	x	4.0%	10.3%	17.7%	17.1%
ROA	x	2.1%	4.7%	7.7%	8.2%
Earnings yield	%	1.8%	4.7%	9.1%	10.0%
Payout Ratio	%	21%	36%	29%	30%
Dividend Yield	%	0%	2%	3%	3%
EV/EBITDA	x	9.3	7.0	3.8	3.1

Source: Company Accounts, FSL Research, Sept 2021

All Figures in PKR unless noted

About the Company

Honda Atlas Cars Pakistan Limited is a joint venture between Honda Motor Company Limited Japan, and the Atlas Group of Companies, Pakistan.

The company was incorporated on November 04, 1992 and joint venture agreement was signed on August 05, 1993. The ground-breaking ceremony was held on April 17, 1993 and within a record time of 11 months, construction and erection of machinery was completed. The first car rolled off the assembly line on May 26, 1994. Official inauguration was done by the then President of Pakistan, Sardar Farooq Ahmad Khan Leghari. Mr. Kawamoto, President of Honda Motor Company Limited Japan was also present to grace the occasion. The company is listed in Karachi, Lahore, and Islamabad Stock Exchanges.

On July 14, 1994, car bookings started at six dealerships in Karachi, Lahore, and Islamabad. Since then, the dealerships network has expanded and now the company has thirty-five 3S (Sales, Service and Spare Parts), eighteen 2S (Service and Spare Parts), and five 1S (Spare Parts) authorized dealerships network in all major cities of Pakistan. Currently, we are offering Honda Accord, Honda CR-V, Honda Civic (four variant), Honda BR-V, Honda City Aspire (two variant), and Honda City (four variant) in wide range of colors with advanced technological features.

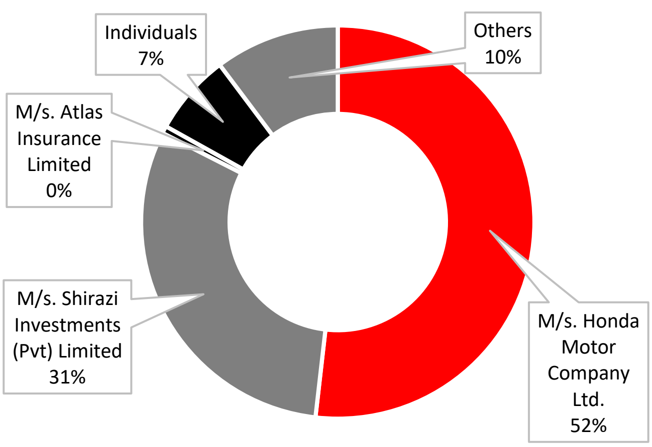
Auditors: A. F. Ferguson & Company Chartered Accountants

Table 8: HCAR key personnel

Key Personnel	Name	Designation
Board of Directors	Mr. Aamir H. Shirazi	Chairman
	Mr. Hironobu Yoshimura	CEO
	Mr. Saquib H. Shirazi	Director
	Mr. Katsumi Kasai	Director
	Mr. Eihiko Sato	Director
	Mr. Kazunori Shibayama	Director
	Mr. Feroz Rizvi	Director
	Mr. Ariful Islam	Director
	Ms. Rie Mihara	Director
Management	Mr. Hironobu Yoshimura	Chief Executive Officer
	Adnan Shaikh	Company Secretary
	Mr. Hamood ur Rahman	Chief Financial Officer

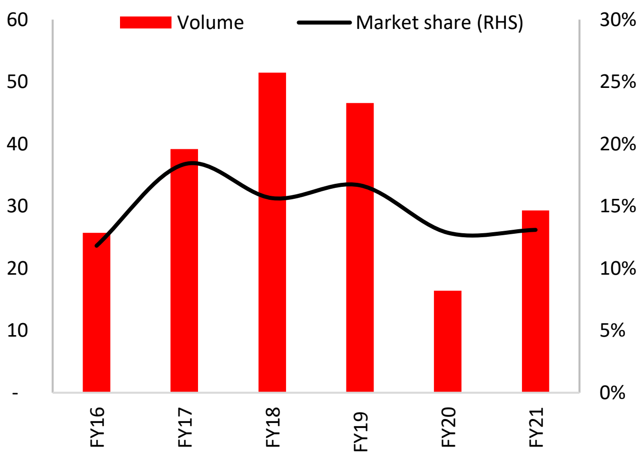
Source: Company Accounts, FSL Research, Sept 2021

Fig 54: Shareholding Pattern



Source: Company Accounts, FSL Research, Sept 2021

Fig 55: Market share/utilization (K units)



Source: PAMA, FSL Research, Sept 2021

Abbreviation

CAGR	Compound Annual Growth Rate
TP	Target Price
YoY	Year on Year
Dep	Depreciation
GP	Gross Profit
FY	Fiscal Year
FED	Federal Excise Duty
ADP	Auto Development Policy
Mn	Million
ICE	Internal Combustion Engine
Bn	Billions
BS	Balance Sheet
Sh	Share
Rs	Rupee
EPS	Earning Per Share
DPS	Dividend per Share
DCF	Discounted Cash Flow
PE	Price/Earning
ROE	Return on Equity
DY	Dividend Yield
PBV	Price to Book Value
BVPS	Book value Per Share
EBIT	Earnings Before Interest Tax
EBITDA	Earnings Before Interest Tax Depreciation Amortization
PBT	Profit before Tax
EV	Enterprise Value

Important disclosures:

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If

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

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