

## PAKISTAN



## FSL Autos universe 1QFY22 Earning preview (Rs mn)

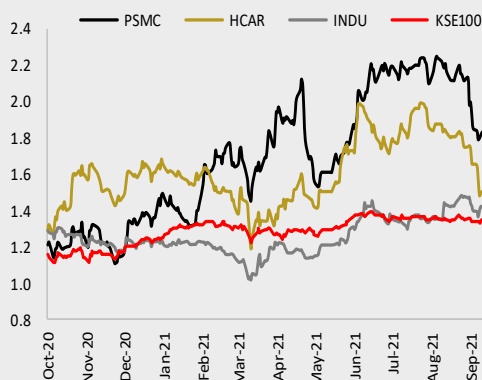
	1QFY21	YoY	QoQ
Net Sales	139,661	81%	40%
Gross Profits	10,438	115%	13%
Operating cost	3,448	182%	60%
Other Income	2,706	111%	19%
Finance cost	105	-79%	-2%
PBT	9,000	155%	8%
Tax	2,610	125%	0%
PAT	6,390	170%	12%

	1QFY21	YoY	QoQ
INDU	58.6	150%	4%
PSMC	9.1	na	79%
HCAR	7.2	57%	17%

## Dividend expectations (Rs/sh)

INDU	35.2
PSMC	
HCAR	

Source: Company accounts, FSL Research, October 2021



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# Pakistan Automobiles

## Driving on highlands

## Event

▪ The auto sector is expected to witness a substantial growth of 2.85x YoY in earning for 1QFY22 given high volumetric demand driven by (1) tax reforms in FY22 Budget, (2) favorable economic conditions, and (3) high auto financing. On sequential basis, auto manufacturers would depict an increase of 40% QoQ accredited to dissipating supply chain issues, however profitability would be restricted due to rupee depreciating by 7% QoQ. We expect INDU/HCAR/PSMC to report EPS of Rs58.6/9.64/9.11.

## Impact

▪ **Earnings to recuperate due to higher volumes:** FSL auto universe is expected to report a profit of Rs6.7bn in 1QFY22, compared to a profit of Rs2.3bn in 1QFY21 given post pandemic recovery phase of the economy. This increase in profitability is attributed to (1) volumetric growth of 81% YoY, (2) 2.1x YoY increase in other income, and (3) higher fixed cost coverage. We estimate net sales  $\uparrow$ 81/40% YoY/QoQ and gross margins to clock in at 7.5% ( $\uparrow$ 1.4/ $\downarrow$ 1.5ppt YoY/QoQ) for 1QFY22. We expect the margins to stay depressed given rising current account deficit that would keep pressure on exchange rate. Furthermore, sales growth would tamper down given new players penetrating the market.

▪ **INDU's growth in core supported by other income:** INDU profitability is expected to increase by 2.1x YoY to report EPS at Rs58.6/sh for 1QFY21, with a dividend expectation of Rs35.2/sh. This earning's growth is attributed to increase in sales of 80/28% YoY/QoQ. This increase in sales was driven by Corolla/Yaris increasing by 80/20% YoY (29/10% QoQ) and Fortuner/Hilux increasing by 311/89% YoY (46/79% QoQ). However gross margins would clock in at 10.1% ( $\uparrow$ 3.4/ $\downarrow$ 2.2ppt YoY/QoQ). INDU profitability would further be supported by other income increasing by 64% YoY to clock in at Rs1.8bn. To highlight, INDU had cash and cash equivalents of Rs82bn at the end of 4QFY21.

▪ **HCAR's profit would be restricted due to curtailed margins:** HCAR is expected to report EPS of Rs7.24/sh ( $\uparrow$ 57/17% YoY/QoQ) for 3MFY21. Sales for 3MFY21 increased by 28/20 YoY/QoQ, whereas gross margins would clock in at 6.5%, ( $\downarrow$ 0.3ppt YoY), given rupee devaluation which would be restricted by higher fixed cost coverage. Product-wise sales increasing by Civic/City increasing sales by 20/21% YoY/QoQ, similarly BRV sales were up/down 78/71% YoY/QoQ. Net margin would clock in at 9.6% ( $\uparrow$ 2.1/1.2ppt YoY/QoQ), which would be supported by other income of Rs550mn ( $\uparrow$ 740/66% YoY/QoQ).

▪ **Gov't incentives to boost PSMC:** PSMC is expected to report EPS of Rs9.11/sh during 3QCY20 against LPS of Rs1.66 during 3QCY19. This profitability shift is because of higher fixed cost coverage. As PSMC recorded highest ever sales of Rs52bn ( $\uparrow$ 2.31/1.74x YoY/QoQ), given sales tax reduction in FY22 Budget. However gross margins would drop by 0.3/1ppt YoY/QoQ, given rupee depreciating to all time low. To highlight better cash management would increase other income by  $\uparrow$ 2.9/1.5% YoY/QoQ, as late delivery of vehicles would hold up inventory and repayment of short-term loan from parent would decrease debt.

## Outlook

▪ We have an outperform stance on the sector. As Improving macro factors and a low policy rate would provide an impetus to overall demand but rupee depreciation and new competition would keep the demand for the existing OEMs in check.

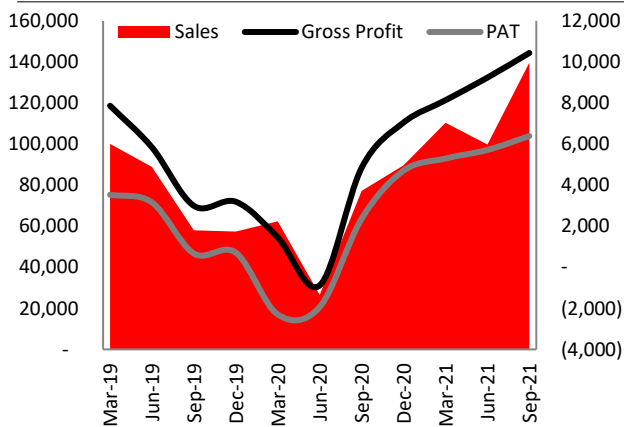
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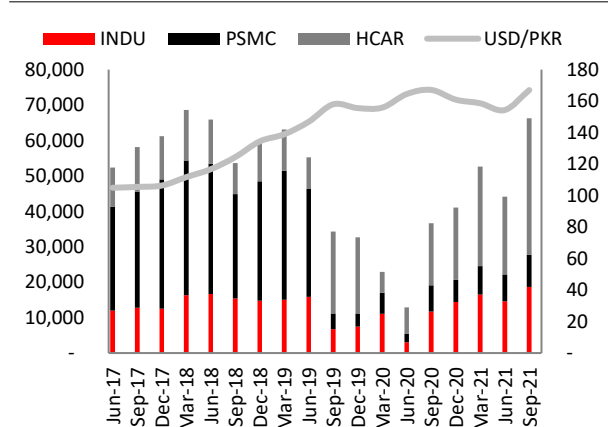
**Table 01: FSL auto universe profitability outlook**

Income Statement (Rs mn)	1QFY22E	1QFY21	YoY	4QFY21	QoQ%
Net Sales	139,661	77,224	81%	99,780	40%
COGS	129,223	72,380	79%	90,542	43%
<b>Gross Profit</b>	<b>10,438</b>	<b>4,845</b>	<b>115%</b>	<b>9,237</b>	<b>13%</b>
Distribution Expenses	2,026	821	147%	1,341	51%
Administration Expenses	1,421	1,054	35%	1,300	9%
<b>Operating Profit</b>	<b>6,990</b>	<b>2,970</b>	<b>135%</b>	<b>6,597</b>	<b>6%</b>
Other Income	2,706	1,280	111%	2,269	19%
Other Expense	591	213	177%	432	37%
<b>EBIT</b>	<b>9,106</b>	<b>4,036</b>	<b>126%</b>	<b>8,434</b>	<b>8%</b>
Finance Cost	105	510	-79%	108	-2%
<b>PBT</b>	<b>9,000</b>	<b>3,527</b>	<b>155%</b>	<b>8,326</b>	<b>8%</b>
Tax	2,610	1,161	125%	2,611	0%
<b>Net Profit</b>	<b>6,390</b>	<b>2,366</b>	<b>170%</b>	<b>5,715</b>	<b>12%</b>
Gross Margins	7.5%	6.3%		9.3%	
Net Margins	4.6%	3.1%		5.7%	
Effective Tax rate	29.0%	n/a		31.4%	

Source: Company Accounts, Foundation Research, October 2021

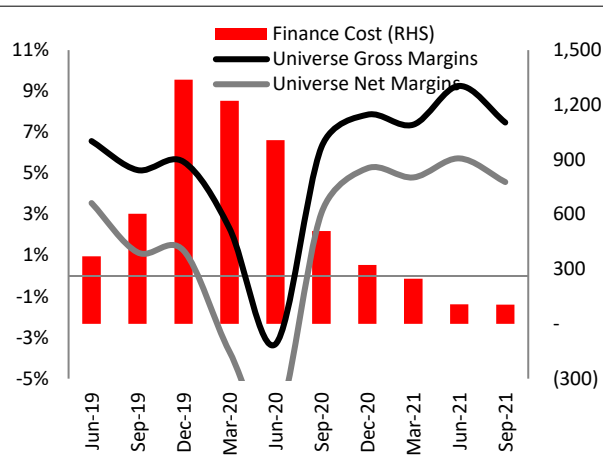
**Fig 01: Incline in sales and gross/net profit due to...**

Source: Company Accounts, FSL Research, October 2021

**Fig 02: rise in volumetric sales**

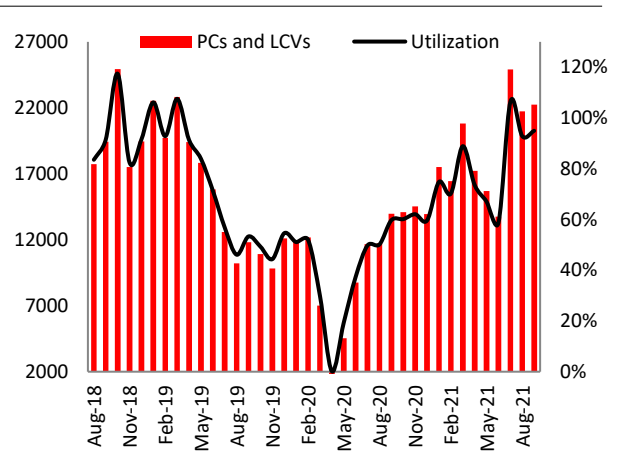
Source: PAMA, Bloomberg, FSL Research, October 2021

**Fig 03: Margins decline due to rupee depreciation**



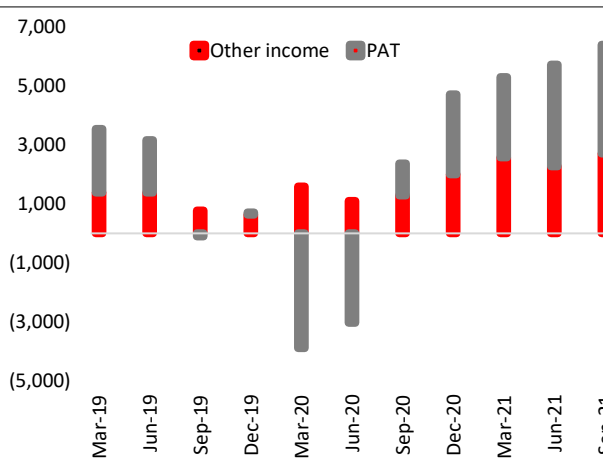
Source: Company Accounts, FSL Research, October 2021

**Fig 04: High fixed cost coverage accredited to**



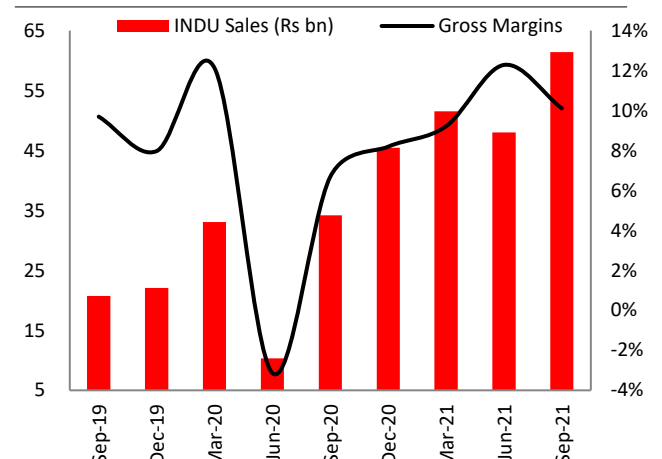
Source: Company Accounts, FSL Research, October 2021

**Fig 05: Other income to provide buffer**



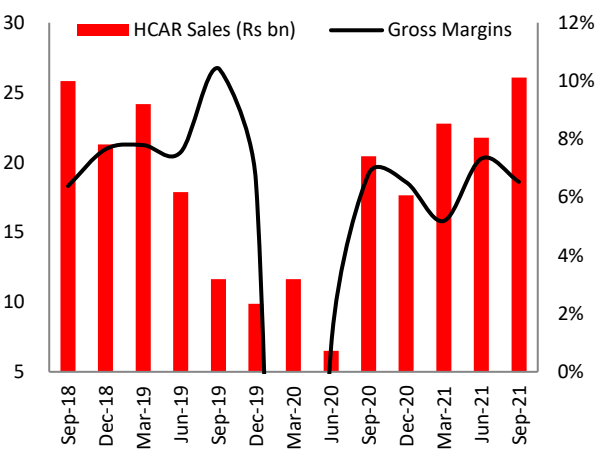
Source: Company accounts, FSL Research, October 2021

**Fig 06: INDU's sales and gross margins**



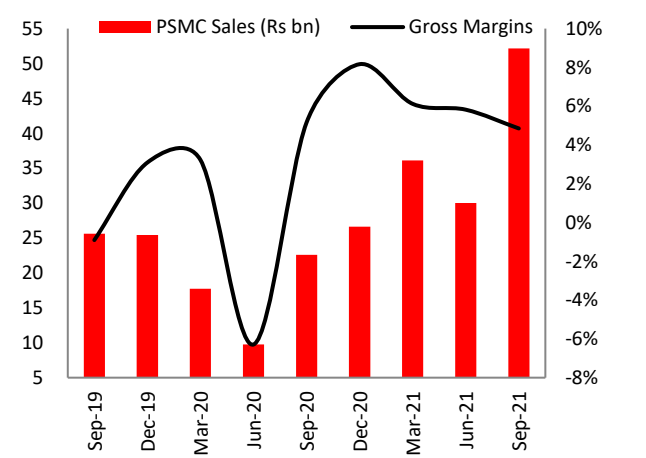
Source: Company Accounts, FSL Research, October 2021

**Fig 07: HCAR's sales and gross margins**



Source: Company accounts, FSL Research, October 2021

**Fig 08: PSMC's sales and gross margins**



Source: Company accounts, FSL Research, October 2021

**Abbreviations**

INDU	Indus Motor Company
HCAR	Honda Atlas Cars
PSMC	Pak Suzuki Motor Company
YoY	Year on Year
FY	Fiscal Year
MY	March Year
CY	Current Year
TP	Target Price
LDCP	Last Day Closing Price
LNG	Liquid Natural Gas
BPS	Basis Points
Mn	Million
Bn	Billion
EPS	Earning Per Share
DPS	Dividend Per Share
BVPS	Book Value Per Share
P/E	Price to Earnings ratio
P/BV	Price to Book Value Per Share
RHS	Right Hand Side
DOL	Degree of Operating Leverage
DFL	Degree of Financial Leverage
CCC	Cash Conversion Cycle

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