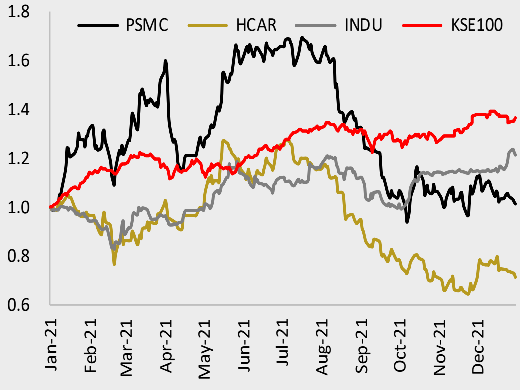
PAKISTAN

FSL Autos Universe 2QFY22 Profitability Preview

	2QFY22E	YoY	QoQ	1HFY21*	QoQ
EPS					
INDU	61.1	63%	-11%	130.1	-11%
HCAR	10.0	93%	52%	22.7	265%
PSMC	9.8	-43%	-18%	36.5	na
	2QFY22E	**2QFY21**	**YoY**	**1QFY21**	**QoQ**
INDU					
GP Margin	9.4%	8.2%	1.2%	10.8%	-13%
EBIT Margin	10.2%	9.2%	1.0%	11.8%	-13%
NP Margin	7.2%	6.5%	0.7%	8.3%	-13%
HCAR					
GP Margin	7.3%	6.5%	0.8%	6.9%	6%
EBIT Margin	6.6%	6.3%	0.3%	5.7%	16%
NP Margin	4.6%	4.2%	0.4%	3.6%	27%
PSMC					
GP Margin	6.0%	8.2%	-2.2%	5.3%	13%
EBIT Margin	3.4%	10.1%	-6.6%	2.9%	16%
NP Margin	1.9%	5.3%	-3.5%	2.0%	-5%

Source: Company Accounts, Foundation Research, January 2022
*CY21/9MMY22 for PSMC/HCAR

FSL auto companies vs KSE-100



Source: Bloomberg, Foundation Research, January 2022

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Pakistan Automobiles

Sustaining margins to recuperate earnings

Event

- FSL automobile manufacturing sector is expected to post earnings growth of 38% YoY in 2QFY22 given (1) higher volumetric growth, (2) sustaining margins due to increase in retention prices, and (3) higher other income amid better cash position and increasing interest rate. On sequential basis gross margins are expected decline by 3% QoQ in 2QFY22 as price increase came into play in latter part of the period given 3% QoQ reduction in demand in 2QFY22. We expect INDU/HCAR/PSMC to report earnings of Rs61.1/10.0/9.8 per sh.

Impact

- **Earnings to recuperate due to higher volumes:** FSL auto universe is expected to post earnings of Rs7.0bn (↑/↓ 38/4% YoY/MoM) in 2QFY22. The boost in earning is mainly accredited to volumetric growth of 56% YoY and better cash position given higher demand outlook to keep cash position inflated. Moreover the price increase by the players during 2QFY22 would keep overall gross margins consistent offsetting rupee depreciation of 8.5% YoY. We estimate sales to increase/decrease by 57/1% YoY/QoQ and gross margin to clock in at 7.9% for 2QFY22. We expect margins to increase in short-medium term as players' further hike up their prices to counteract with depreciating rupee.

- **INDU's changing mix to yield better**: INDU is expected to report Rs61.1/sh, (up/down by 63/11% YoY/QoQ), with dividend expectation of Rs37/sh. This would cumulate earnings for 1HFY22 at Rs130.6/sh. The increase in earnings is mainly due to increase in net sales of 46% YoY, given 35% increase in volumetric growth and 15ppt YoY increasing in sales mix of Corolla (Yaris dropping by 17ppt). To highlight Corolla sales increased by 93% YoY in 2QFY22, whereas sales for Yaris dropped by 12%. Gross margins are expected to increase by 1.2ppt to clock in at 9.4%, given higher fixed cost coverage and price increase of ~6% during the quarter. On sequential basis, the decrease in earnings would mainly due to margins contracting due to rupee depreciating by 6% QoQ.

- **HCAR's profitability on higher demand:** HCAR is expected to post EPS of Rs10.0/sh (↑93/52% YoY/QoQ). This accumulates 9MMY22 EPS at Rs22.7/sh, increasing by 3.65x YoY. This increase in profitability in 3QMY22 is accredited to volumetric growth of 67/13% YoY/QoQ and improvement in margins as prices increased by 5% during the quarter. Product-wise Civic/City sales increased by 79/26% YoY/QoQ, whereas sales for BRV dropped by 27/60% YoY/QoQ. Net margins are expected to clock in at 4.6% (↑0.4/1ppt YoY/QoQ).

- **Profitable closing for PSMC:** PSMC is expected to report Rs9.8/sh for 4QCY21 (↓/ ↓ 43/18% YoY). This profitability shift is margins contracting to 6% (↓2.2% YoY). This would cumulate CY21 earnings at Rs36.5/sh, compared to last year LPS of Rs19.3. Sequentially, net sales decreased by 14% QoQ, mainly due to volumetric decline of 11% and contribution of Cultus declining by 13ppt in sales mix; alto increasing by 8ppt. Other income is also expected to buffer earnings as cash position improves.

Outlook

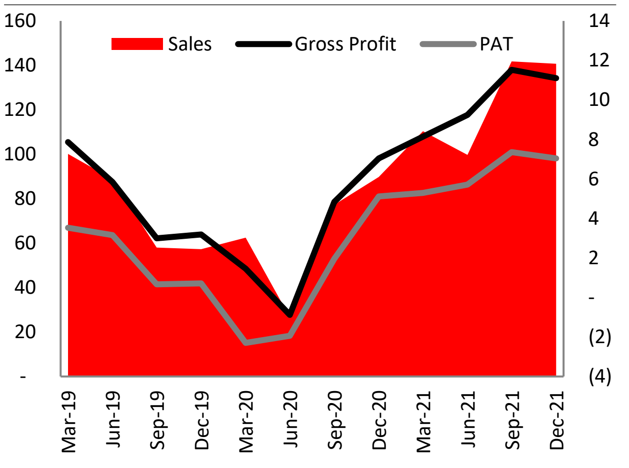
- We have an outperform stance on the sector. As Improving macro factors and indigenous growth would provide an impetus to overall demand but rupee depreciation and new competition would keep the margins for the existing OEMs in check.

Table 01: FSL auto universe profitability outlook

Income Statement (Rs mn)	2QFY22E	2QFY21	YoY	1QFY22	QoQ%	1HFY22E	1HFY21	YoY%
Net Sales	140,718	89,738	57%	141,792	-1%	282,510	166,963	69%
COGS	129,608	82,690	57%	130,267	-1%	259,875	155,070	68%
Gross Profit	**11,110**	**7,048**	**58%**	11,524	**-4%**	22,635	11,893	**90%**
Distribution Expenses	1,839	1,066	72%	1,415	30%	3,254	1,887	72%
Administration Expenses	1,721	748	130%	1,459	18%	3,180	1,802	77%
Operating Profit	**7,550**	**5,234**	**44%**	8,651	**-13%**	16,201	8,204	**97%**
Other Income	3,598	2,121	70%	2,987	20%	6,584	3,277	101%
Other Expense	848	(598)	-242%	974	-13%	1,822	500	264%
EBIT	**10,300**	**7,954**	**29%**	10,663	**-3%**	20,964	10,981	**91%**
Finance Cost	172	922	-81%	133	29%	305	833	-63%
PBT	**10,128**	**7,032**	**44%**	10,530	**-4%**	20,659	10,149	**104%**
Tax	3,085	1,915	61%	3,172	-3%	6,258	3,076	103%
Net Profit	**7,043**	**5,117**	**38%**	7,358	**-4%**	14,401	7,073	**104%**
Gross Margins	7.9%	7.9%		8.1%		8.0%	7.1%	
Net Margins	5.0%	5.7%		5.2%		5.1%	4.2%	
Effective Tax rate	30.5%	27.2%		30.1%		30.3%	30.3%	

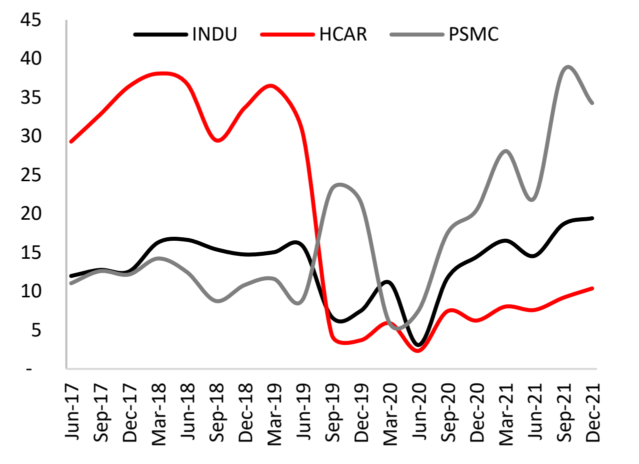
Source: Company Accounts, Foundation Research, January 2022

Fig 01: Margins stabilizes as price increases



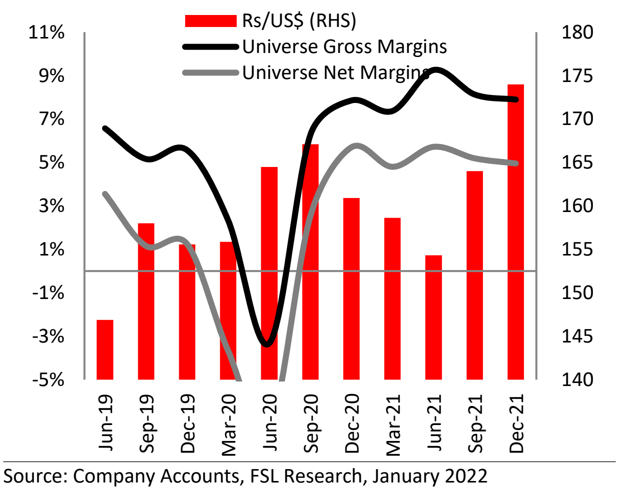
Source: Company Accounts, FSL Research, January 2022

Fig 02: Volumetric growth across the sector



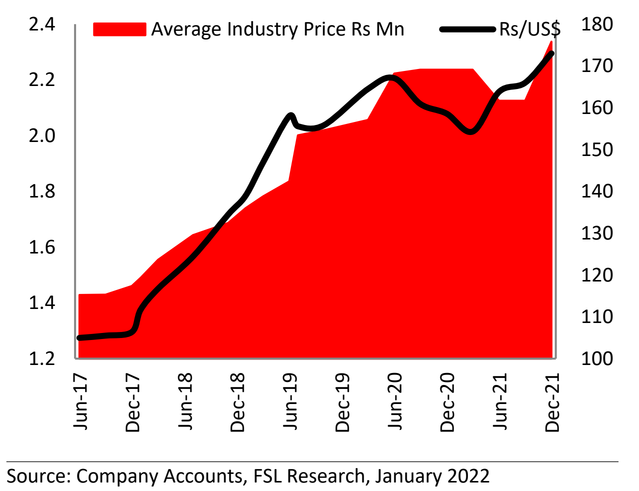
Source: Company Accounts, FSL Research, January 2022

Fig 03: Margins stabilizes as price increases…



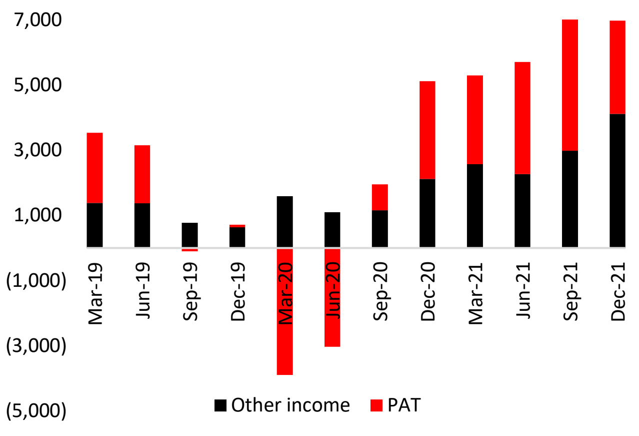
Source: Company Accounts, FSL Research, January 2022

Fig 04: …to cover for rupee depreciation



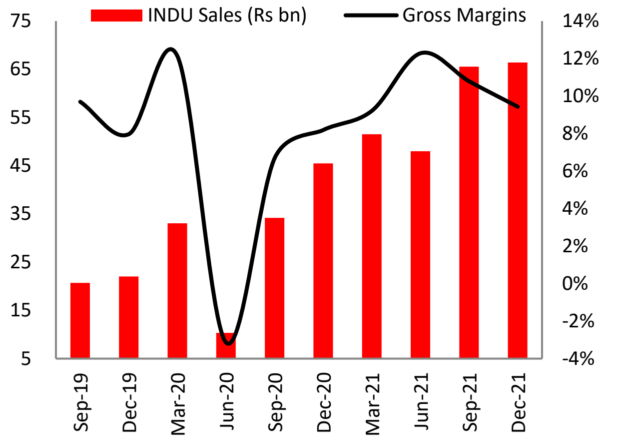
Source: Company Accounts, FSL Research, January 2022

Fig 05: Other income to provide buffer



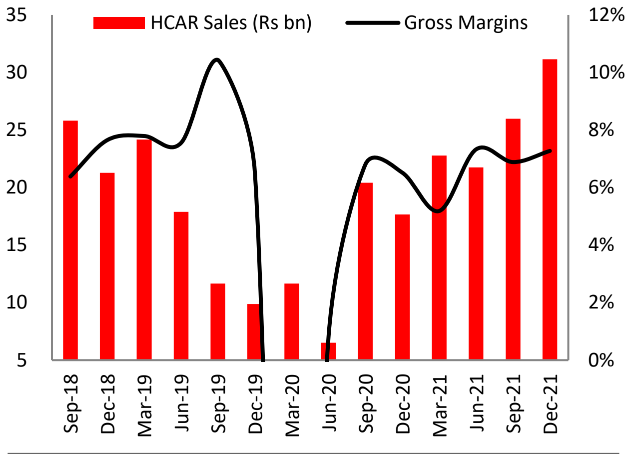
Source: Company accounts, FSL Research, January 2022

Fig 06: INDU's sales and gross margins



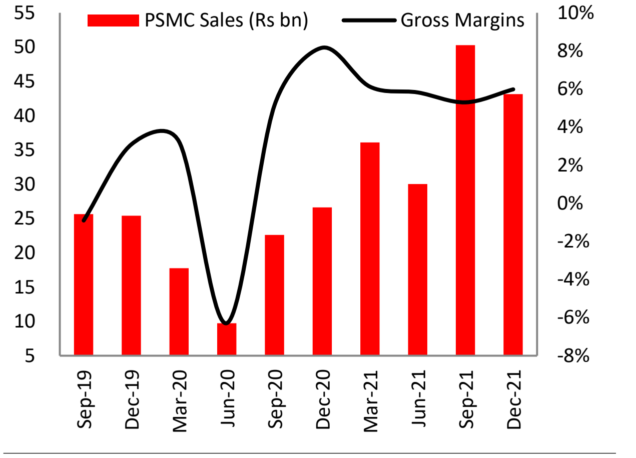
Source: Company Accounts, FSL Research, January 2022

Fig 07: HCAR's sales and gross margins



Source: Company accounts, FSL Research, January 2022

Fig 08: PSMC's sales and gross margins



Source: Company accounts, FSL Research, January 2022

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

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If

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