

Foundation Alert

PSMC: Analyst Briefing Takeaways

Event

- Pak Suzuki Motor Company Ltd (PSMC PA) held its Analyst briefing today to discuss its financial/operational performance for CY22/1QCY23 and outlook of the company. Following are the key takeaways of the briefing.

Impact

- Pak Suzuki Motor Company Ltd (PSMC PA) reported loss of Rs6.3bn (LPS Rs77.0) in CY22 against profit of Rs2.7bn (EPS Rs32.6) in CY21. Management attributed loss to higher financial charges due to rupee depreciation during the year amid delay in foreign payments on the back of imports of CKD on open account basis.
- Company reported net sales of Rs202.5bn (↑26% YoY) in CY22. Moreover, automobile/motorcycle contributed Rs194.2bn/8.2bn to topline, up 25.9/42.5% YoY. Increase in prices explains Rs34.6bn variance in net sales while only Rs5.5bn was because of higher quantity.
- PSMC cumulatively sold 125,996 units in CY22, up 2.6% YoY due to incentives given by SBP. Increase in company's sales during CY22 led by Alto, which volumes increased by 23% YoY to 66,424 units.
- Company loss clocked in at Rs12.9bn (LPS Rs156.9) in 1QCY23 as compared to profit of Rs460mn (LPS Rs5.59) in 1QCY22. Management attributed loss to exchange losses given depreciation of currency.
- PSMC reported net sales of Rs21.8bn (↓54% YoY) in 1QCY23. Moreover, automobile/motorcycle contributed Rs20.4bn/1.5bn to topline, down 56/20% YoY. Company has lost Rs37.7bn of sales due to lower quantity while increase in prices helped to cover Rs8.3bn in 1QCY23.
- PSMC was able to sell 9,551 units in 1QCY23, decreasing by 74% YoY. The decrease in sales was witnessed across the board as Alto/WagonR/Ravi/Bolan/Cultus/Swift volumes decreased by 85/76/71/57/66/76% YoY to 3,130/1,253/1,201/1,429/1,090/1,448 units in 1QCY23.
- Gross margins clocked in at 5.8/9.1% in CY22/1QCY23, up by 70/630bps YoY. Increase in gross margins is accredited to higher car prices to pass on the impact of currency depreciation.
- Company reported financial charges of Rs11.6/Rs12.8bn in CY22/1QCY23 due to exchange loss.
- Management states that company is now shifting to opening of LCs for import of CKD and raw material from current strategy of open imports given difference in priority of SBP for clearance of foreign payments.
- Current localization levels for Swift/Alto/Cultus/WagonR/Bolan/Ravi are 35/49/60/61/71/68%.

Outlook

- We expect PSMC profitability to struggle in near term amid (1) imposition of import restrictions by Gov't resulting in plant shutdown, (2) dampening of car demand due to elevated interest rates, high car prices and rupee depreciation, and (3) exchange loss on foreign currency transactions and dollar balances incurred which if not paid on time due to restrictions imposed by SBP would adversely impact the equity of the company in case of further rupee depreciation.

Fig 1: PSMC 1QCY23 Earnings Review

Income Statement (Rs mn)	1QCY23	1QCY22	YoY	QoQ	CY22	CY21	YoY
Net Sales	21,839	47,736	-54%	-64%	202,467	160,082	26%
COGS	19,856	46,387	-57%	-63%	190,782	151,912	26%
Gross Profit	1,983	1,349	47%	-66%	11,684	8,171	43%
Distribution Expenses	878	732	20%	-18%	3,218	2,943	9%
Administration Expenses	920	740	24%	36%	2,957	2,481	19%
Operating Profit	185	(123)	NA	-96%	5,510	2,747	101%
Other Income	74	527	-86%	-87%	3,212	2,223	45%
Other Expense	80	22	272%	-61%	250	437	-43%
EBIT	179	383	-53%	-96%	8,472	4,532	87%
Finance Cost	12,821	1,031	1143%	158%	11,614	737	1476%
PBT	(12,642)	(648)	NA	NA	(3,143)	3,795	na
Tax	274	(188)	NA	-92%	3,194	1,116	186%
Net Profit	(12,916)	(460)	NA	NA	(6,337)	2,679	-337%
EPS	(156.94)	(5.59)			(77.00)	32.60	
Gross Margins	9.10%	2.80%			5.80%	5.10%	
Net Margins	-59.10%	-1.00%			-3.10%	1.70%	
Effective Tax rate	-2.20%	29.00%				29.40%	

Source: Company Accounts, Foundation Research, May 2023

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