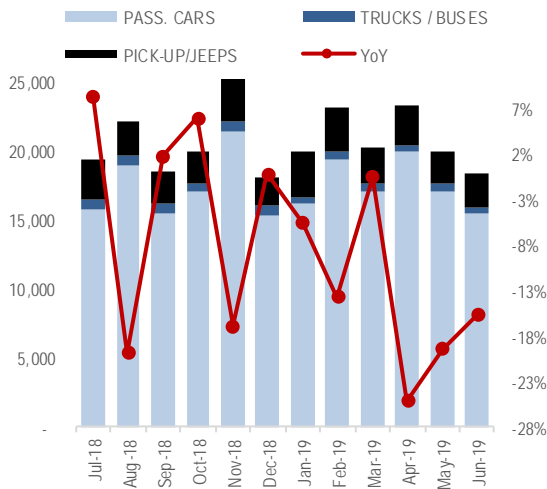


Day Break

Friday, 12 July 2019

Sector Update

Exhibit: Industry Car sales volume



Automobile Assemblers

Jun-19: Industry sales continue to skid amid fall back in demand; volumes down by 13%YoY to 140k units

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), reports industry sales volume declined by 13%YoY to 140k units as all segments witnessed drop in their sales.
- We attribute the decline in volumes to unfavorable economic conditions (rise in interest rates) and increase in car prices (PKR depreciation pass-over and increase in FED).
- With respect to company wise, a substantial drop of 29%YoY (2.6k units) was reported by HCAR, followed by PSMC, witnessing a decline of 8%YoY to 11.4k units. However, INDU reported +18%YoY growth in its volumes to 5.3k units.
- We are revising our investment case for the companies under our coverage and have an “underweight” stance on the sector

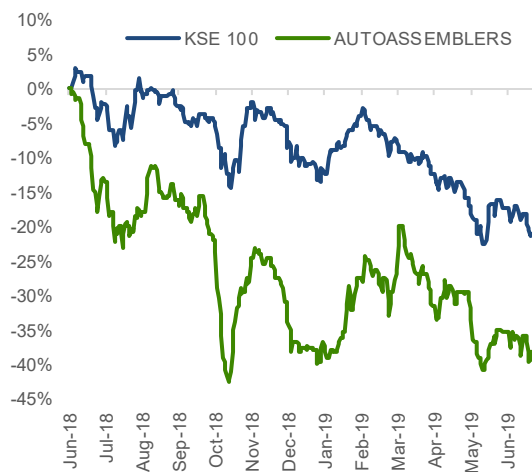
Industry sales down by 13%YoY as all segments reported decline across the board

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA) for Jun-19, reports industry sales volume declined by 13%YoY to 139k units as all segments witnessed drop in their sales. Similar trend was observed on sequential basis with industry sales down by 21%MoM. On a cumulative basis, for the FY19, industry sales have slumped by 7%YoY to 2.04mn units. We attribute the decline in volumes to unfavorable economic conditions (rise in interest rates) and increase in car prices (PKR depreciation pass-over and increase in FED).

HCAR and PSMC came as laggards with a decline of 29% and 8% on year; INDU emerged with a healthy growth of +18%YoY

With respect to company wise, a substantial drop of 29%YoY (2.6k units) was reported by HCAR, followed by PSMC, witnessing a decline of 8%YoY to 11.4k units. However, INDU reported +18%YoY growth in its volumes to 5.3k units. Similar trend was observed on sequential basis wherein sales of HCAR and PSMC declined by 13%/5% while INDU witnessed monthly incline of +13%.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Exhibit:

Monthly PAMA Sales

UNITS	Jun-19	May-19	MoM	Jun-18	YoY	FY19	FY18
=>1300	7,074	7,058	0%	6,839	3%	100,959	99,140
800<x<1000	2,394	3,059	-22%	4,771	-50%	49,609	67,959
1000<x<1300	3,614	5,311	-32%	4,042	-11%	55,377	49,689
PASS. CARS	13,082	15,428	-15%	15,652	-16%	205,945	216,788
TRUCKS / BUSES	412	451	-9%	752	-45%	6,763	9,946
PICK-UP/JEEPS	2,758	2,423	14%	2,866	-4%	32,405	41,845
TRACTOR	3,634	3,599	1%	3,895	-7%	50,405	70,866
2/W	117,745	150,480	-22%	132,271	-11%	1,685,758	1,781,359
3/W	1,982	4,302	-54%	5,871	-66%	57,435	72,961
TOTAL	139,613	176,683	-21%	161,307	-13%	2,038,711	2,193,765

Source: PAMA, IGI Research

HCAR: Total sales volume for 1QMY20 down by 33%YoY to 8.3k units

HCAR sales for the month of June-19 dropped by 29%YoY to 2.6k units as sales of Civic/City recorded 28%YoY decline in their volumes to 2.1k units. Similarly, sales of BR-V also collapsed by 34%YoY to 0.4k units. However, on a sequential basis, sales of BR-V exhibited +16% growth with sales of Civic/City down by 18%. On a cumulative basis, for its 1Q sales of HCAR have dropped by 33%YoY to 8.35k units as Civic/City and BR-V reported decline of 35% and 22% in their volumes, respectively.

INDU: Corolla leading the growth chart; full-year sales up by +4%YoY to 65.4k units

The company showcased +18%YoY growth in its sales as Corolla and Hilux led the volumetric chart, up by +24%/27%YoY to 4.4k/0.75k units. However, sales of Fortuner collapsed significantly by 53%YoY to 193 units. We attribute healthy growth in sales to pre-buying in anticipation of further price hikes, and stringent tax and duty measures in budget. On a cumulative basis, for FY19, total sales volume for the company rose by +4%YoY to 65.3k units as Corolla captured significant share (87%) in sales with a +10%YoY growth (56.7k units), while Fortuner and Hilux suffered a decline of 38%/19% to 2.6k/6.0k units.

PSMC: Cumulative sales for 6MCY19 recorded at 76.6k units, down by 11%YoY

For the month in review, total sales decreased by 8%YoY to 11.4k units as major units reported decline in their volumes with sales of Mehran acting as major drag (down 67% owing to discontinuation). On a sequential basis, total sales were down by 5% despite newest addition (Alto) in the portfolio reporting sales of 1.7k units with LCV segment witnessing +4%MoM growth in sales to 2.6k units. On the contrary, hefty decline of 61% and 41% was observed in Cultus and Mehran sales. On a cumulative basis, for 6MCY19 total sales have dropped substantially by 11%YoY to 76.6k units owing to 37%YoY decline in Mehran sales (15.2k units) followed by 14%YoY drop in LCV sales (18.9 units). However, on the flip side Wagon R and Cultus sales rose by +10%/9%YoY to 16.5k/12.0k units.

Exhibit:

Monthly PAMA Sales

UNITS	Jun-19	May-19	MoM	Jun-18	YoY	2019*	2018*	YoY
CITY/CIVIC	2,106	2,564	-18%	2,941	-28%	6,980	10,736	-35%
BRV	452	388	16%	685	-34%	1,366	1,745	-22%
HCAR	2,558	2,952	-13%	3,626	-29%	8,346	12,481	-33%
COROLLA	4,406	4,069	8%	3,546	24%	56,720	51,412	10%
FORTUNER	193	212	-9%	414	-53%	2,609	4,186	-38%
TOYOTA HILUX	747	468	60%	588	27%	6,070	7,470	-19%
INDU	5,346	4,749	13%	4,548	18%	65,399	63,068	4%
ALTO	1,685	-	n.m	-	n.m	n.m	-	n.m
WAGON R	2,626	2,765	-5%	2,680	-2%	16,533	15,065	10%
CULTUS	988	2,546	-61%	1,362	-27%	12,006	10,982	9%
SWIFT	562	425	32%	352	60%	2,541	2,775	-8%
RAVI	1,309	1,285	2%	1,179	11%	9,428	10,768	-12%
BOLAN	1,342	1,270	6%	1,557	-14%	9,497	11,254	-16%
MEHRAN	1,052	1,789	-41%	3,214	-67%	15,155	24,002	-37%
PSMC 2W	1,803	1,880	-4%	2,067	-13%	11,488	11,282	2%
PSMC	11,367	11,960	-5%	12,411	-8%	76,648	86,128	-11%

Source: PAMA, IGI Research

* = total sales based on respective year end

Recommendation

We are revising our investment case for the companies under our coverage and have an “underweight” stance on the sector.

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