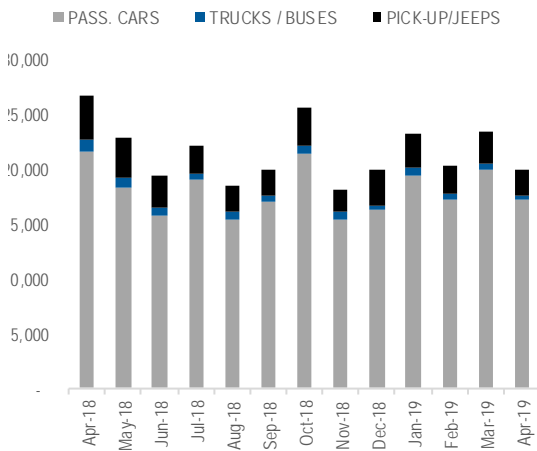


Day Break

Tuesday, 14 May 2019

Sector Update

Exhibit: Industry Car sales volume



Automobile Assemblers

Apr-19: Industry sales drag on subdued demand; passenger car sales fall by 21%YoY to 17.1k units

- The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA), reports industry sales volume declined by 7%YoY to 180k 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 38%YoY (2.8k units) was reported by HCAR, followed by PSMC, witnessing a decline of 27%YoY to 10.8k units. Similarly, INDU's sales volumes decreased by 7%YoY to 5.7k units.
- We have a "BUY" call on INDU, based on our revised Dec-19 target price of PKR 1,662/share, offering +38% upside from its last closing. The company is currently trading at FY19E P/E of 6.01x and offers a dividend yield of 11.6%.

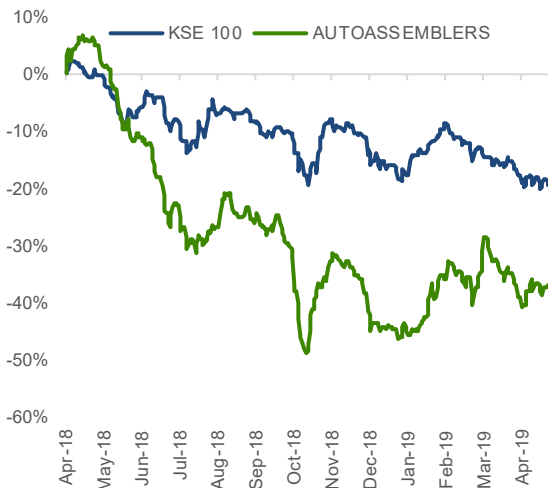
Industry sales down by 7%YoY as all segments reported decline across the board

The latest sales data released by Pakistan Automotive Manufacturers Association (PAMA) for Apr-19, reports industry sales volume declined by 7%YoY to 180k units as all segments witnessed drop in their sales. On a sequential basis, sales have increased by +8%YoY as 2/W segment lead the growth by +13%MoM, while all other segments (on aggregate basis) witnessed 11%MoM drop. 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).

Major OEM's displayed drop in volumes; HCAR and PSMC witnessed double digit decline

With respect to company wise, a substantial drop of 38%YoY (2.8k units) was reported by HCAR, followed by PSMC, witnessing a decline of 27%YoY to 10.8k units. Similarly, INDU's sales volumes decreased by 7%YoY to 5.7k units. However, on a sequential basis, INDU exhibited +11%MoM growth while PSMC and HCAR turned out laggards by 22%/41%MoM decrease in their volumes.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Exhibit:

Monthly PAMA Sales

UNITS	Apr-19	Mar-19	MoM	Apr-18	YoY	10MFY19	10MFY18
=>1300	8,019	8,576	-6%	9,523	-16%	86,827	83,436
800<x<1000	4,225	6,086	-31%	6,879	-39%	44,156	57,944
1000<x<1300	4,832	5,235	-8%	5,138	-6%	46,452	41,533
PASS. CARS	17,076	19,897	-14%	21,540	-21%	177,435	182,913
TRUCKS / BUSES	472	492	-4%	983	-52%	5,900	8,288
PICK-UP/JEEPS	2,328	2,931	-21%	4,027	-42%	27,224	35,389
TRACTOR	5,430	5,729	-5%	7,979	-32%	43,172	60,218
2/W	150,160	132,887	13%	154,501	-3%	1,417,533	1,504,264
3/W	5,055	5,123	-1%	4,265	19%	51,151	62,542
TOTAL	180,521	167,059	8%	193,295	-7%	1,722,415	1,853,614

Source: PAMA, IGI Research

HCAR: A gloomy start to the financial year (March 2020); 38%YoY drop in sales

For HCAR, the start of its financial year turned out dismal as sales witnessed hefty decline of 38%YoY to 2.8k units. This was primarily on the back of 43%YoY substantial drop in Civic/City sales (2.3k units) with BRV trailing behind by 6%YoY decline (0.5k units).

INDU: Corolla driving up the sales; total sales up by +5%YoY to 55.3k units for 10MFY19

The company registered a volumetric decline of 7%YoY to 5.7k units for the month of Apr-19 as sales in high margins segment (Hilux /Fortuner) dropped significantly by 61%YoY to 0.5k units. However, Corolla highlighted +6%YoY growth in its sales to 5.3k units. On a sequential basis total sales increased by +11%MoM as all units reported double-digit growth in their sales. On a cumulative basis, for the 10MFY19, total sales volume for the company increased by +5%YoY to 55.3k units supported by positive sales growth of +12%YoY in Corolla (48.2k units) with Hilux and Fortuner trailing behind with a drop of 21%/21% YoY to 4.9k/2.2k units .

PSMC: Cumulative sales for 4MCY19 recorded at 55.5k units, down by 9%YoY

PSMC sales displayed 27%YoY decrease in its sales (exc-2/W) to 10.8k units as all units reported decline in their volumes. On an individual basis, Mehran and Bolan witnessed hefty drop of 41%/43%YoY to 2.7k/1.3k units. Likewise, Wagon R and Swift sales decreased by 13%/15%YoY to 2.6k/0.4k units. On a cumulative basis, for 4MCY19 total sales have dropped by 11%YoY to 47.2k units owing to 29%YoY decline in Mehran sales (12.3k units) followed by 13%YoY drop in Ravi/Bolan sales (13.7k units). However, on the flip side Wagon R and Cultus sales rose by +15%/3%YoY to 11.1k/8.4k units.

Exhibit:

Monthly PAMA Sales

UNITS	Apr-19	Mar-19	MoM	Apr-18	YoY	2019*	2018*	YoY
CITY/CIVIC	2,310	3,449	-33%	4,045	-43%	2,310	4,045	-43%
BRV	526	362	45%	558	-6%	526	558	-6%
HCAR	2,836	3,811	-26%	4,603	-38%	2,836	4,603	-38%
COROLLA	5,256	4,741	11%	4,946	6%	48,245	43,190	12%
FORTUNER	195	166	17%	523	-63%	2,204	3,264	-32%
TOYOTA HILUX	287	250	15%	714	-60%	4,855	6,156	-21%
INDU	5,738	5,157	11%	6,183	-7%	55,304	52,610	5%
WAGON R	2,641	2,982	-11%	3,053	-13%	11,142	9,683	15%
CULTUS	2,191	2,253	-3%	2,085	5%	8,472	8,208	3%
SWIFT	453	386	17%	532	-15%	1,554	1,984	-22%
RAVI	1,279	2,108	-39%	2,232	-43%	6,834	7,735	-12%
BOLAN	1,487	2,144	-31%	2,231	-33%	6,885	8,010	-14%
MEHRAN	2,738	3,942	-31%	4,648	-41%	12,314	17,231	-29%
PSMC 2W	1,796	2,184	-18%	1,840	-2%	7,805	7,369	6%
PSMC	12,585	15,999	-21%	16,621	-24%	55,006	60,220	-9%

Source: PAMA, IGI Research

*= total sales based on respective year end

Recommendation

We have a "BUY" call on INDU, based on our Dec-19 target price of PKR 1,662/share, offering +38% upside from its last closing. The company is currently trading at FY19E P/E of 6.01x and offers a dividend yield of 11.6%.

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Time Horizon: Dec – 2019

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