

Day Break

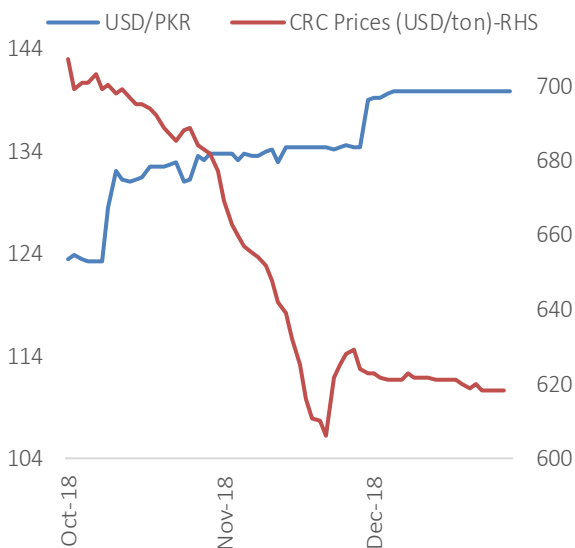
Wednesday, 23 January 2019

Sector Update

Exhibit: Sector Key Financials

SECTOR	Dec-18	QoQ	YoY
UNITS	67,919	6%	-2%
NET SALES (PKRmn)	89,513	2%	8%
PROFITABILITY (PKRmn)	4,775	3%	-19%

Exhibit: USD/PKR movement and CRC prices



Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

Suleman Ashraf

Research Analyst

suleman.ashraf@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

Automobile Assemblers

Earnings to loose strength marred by weak margins and drop in volumes

- We expect sector's profitably under IGI universe to decrease by +19%YoY to PKR 4.78bn attributed to 2%YoY decline in volumes to 67k units (ban on non-filers and high interest rates) and contraction in margins amid PKR devaluation (27%YoY to USD/PKR 134.61) despite price hikes
- On individual basis, we expect INDU to attain positive growth in its earnings, by +5%YoY to PKR 49.92/share. However, HCAR and PSMC will likely come as laggards, showing decline in their profitability by 52%/77%YoY to PKR 4.76/2.08 per share during the quarter in review
- We have a liking for INDU with a "BUY" call, based on Dec-19 target price of PKR 1,485.1/share, offering +20% upside. The company is currently trading at FY19E P/E of 7.54x and offers a dividend yield of 9.26%

IGI auto universe earnings to decrease by 19%YoY to PKR 4.78bn

We preview earnings of the major OEMs under IGI coverage (INDU, HCAR and PSMC) for the quarter ended, Dec-18. As per our analysis, we expect sector's profitability under IGI universe to decrease by 19%YoY to PKR 4.78bn, attributed to 2%YoY decline in volumes to 67k units (ban on non-filers and high interest rates) and contraction in margins amid PKR devaluation (27%YoY to USD/PKR 134.61) despite price hikes. On individual basis, we expect INDU to attain positive growth in its earnings, by +5%YoY to PKR 49.92/share. However, HCAR and PSMC will likely come as laggards, showing decline in their profitability by 52%/77%YoY to PKR 4.76/2.08 per share during the quarter under review.

HCAR: Earning to plummet by 52%YoY to PKR 4.76/share for 3QMY19

HCAR is scheduled to announce its 3QMY19 (March year) financial result on 24th Jan-18, where we expect company's profitability to deteriorate by 52%YoY to PKR 4.76/share on the back of drop in volumes and weak margins. During the quarter volumes decreased by 11%YoY as demand for BR-V waned by 61%YoY to 1.2k units, while combined sales of Civic/City stood at 9.6k units (up by +6%YoY). Amidst volatile PKR movements and discounts being given on late deliveries (leading to drop in net sales) HCAR's margins have been on declining trend and for the quarter we expect it to get worse by 460bpsYoY to 5.86%. In addition, support from other income is also expected to decline owing to low cash tied up in short term investments (PKR 91/share versus PKR 138/share SPLY). On cumulative basis, for the 9-month period earnings are expected to fall by 46%YoY to PKR 2.77bn (EPS: PKR 19.3) perturbed by substantial decrease (500bps YoY) in margins to 7.13%, despite increase in prices and a meager increase of +2.76%YoY in volumes.

Exhibit:

HCAR 3QMY19 Result Highlights

PKRmn (Period end=Mar)	3QMY19E	3QMY18	YoY	9MMY19E	9MMY18	YoY
Net Sales	19,885	21,798	-9%	69,556	65,746	6%
Cost Of Sales	18,716	19,519	-4%	64,596	57,759	12%
Gross Profit	1,169	2,279	-49%	4,960	7,987	-38%
Selling & Dist.	169	157	7%	525	499	5%
Admin.	176	150	17%	557	447	25%
Operating Profit	824	1,971	-58%	3,878	7,041	-45%
Other Income	265	460	-43%	1,074	1,414	-24%
Profit Before Tax	972	2,112	-54%	4,218	7,619	-45%
Taxation	292	696	-58%	1,457	2,499	-42%
Profit After Tax	680	1,416	-52%	2,761	5,120	-46%
EPS	4.76	9.92		19.33	35.86	

Key Indicators

Unit Sold (Ths)	10.82	12.18	-11.1%	36.76	35.77	2.76%
Gross Profit Margins	5.9%	10.5%	(458)	7.13%	12.15%	(502)

Source: IGI Research, Company accounts, PSX

No of shares(mn): 142.8

INDU: Volumetric growth and better sales mix to drive earnings by +5%YoY to PKR 49.9/share for 2QFY19

We expect company to post earnings of PKR 3.92bn (EPS: PKR49.92) up by +5.0%YoY as sales volume witnessed a rise of +14.4%YoY to 17.21k units during 2QFY19. Within sales segment Corolla and Hilux witnessed positive growth of +17%/+10%YoY, while sales of Fortuner collapsed by 24%YoY. We estimate net sales to climb by +24%YoY to PKR 39.6bn for 2QFY19 attributed to increase in volumes and price hikes. However, despite price increase margins may dwindle by 300bps YoY to ~15%. On cumulative basis, for the 1HFY19, profitability is expected to remain flat at PKR 7.4bn (EPS: PKR 94.55) on the back of combined effect of 8.3%YoY increase in volumes and other income (+24%YoY), partially countered by decreased gross margins (down by 300 bps YoY/ 14.70%). Lastly, we expect INDU to pay out cash dividend of PKR 35/share, for the quarter, taking total payout to 67/share for the 1HFY19.

Exhibit:

INDU 2QFY19 Result Highlights

PKRmn (Period end=Jun)	2QFY19E	2QFY18	YoY	1HFY19E	1HFY18	YoY
Net Sales	39,684	32,099	24%	74,675	63,318	18%
Cost Of Sales	33,763	26,408	28%	63,694	52,185	22%
Gross Profit	5,921	5,690	4%	10,980	11,133	-1%
Selling & Dist.	445	270	65%	764	581	31%
Admin.	405	404	0%	695	683	2%
Operating Profit	4,988	4,949	1%	9,433	9,799	-4%
Other Income	1,150	913	26%	2,203	1,770	24%
Profit Before Tax	5,605	5,345	5%	10,625	10,513	1%
Taxation	1,682	1,609	4%	3,193	3,149	1%
Profit After Tax	3,924	3,735	5%	7,432	7,364	1%
EPS	49.92	47.53		94.55	93.69	
DPS	35.00	32.50		67.50	62.50	

Key Indicators

Unit Sold (Ths)	17.21	15.05	14.4%	32.63	30.13	8.29%
Gross Profit Margins	14.92%	17.73%	(281)	14.70%	17.58%	(288)

Source: IGI Research, Company accounts, PSX

No of shares(mn): 78.6

PSMC: CY18 earnings depicting bleak performance; a drop of 59%YoY to PKR 19.00/share

PMSC profitability is expected to plunge by 77%YoY to PKR 171mn (EPS: PKR 2.08) for the 4QCY18, attributed to decline in volumes (5%YoY) and depressed margins (drop of 240bpsYoY to 5.40%). The decline in margins is due to PKR depreciation and high proportion of sales in low-margin segment. Other non-operational factors such as high finance cost (PKR 80mn owing to short term borrowings) and high taxation charges (turnover tax rate) may also drag down earnings substantially in our view. On cumulative basis, for CY18, profitability is expected to aggregate at PKR 1.56bn (EPS: PKR 19.00), highlighting a drastic drop of 59%YoY. We expect company to announce cash dividend of PKR 4.00/share for the whole year.

Exhibit:

PSMC 4QCY18 Result Highlights

PKRmn (Period end=Dec)	4QCY18E	4QCY17	YoY	CY18E	CY17	YoY
Net Sales	29,944	29,009	3%	118,963	101,812	17%
Cost Of Sales	28,326	26,747	6%	111,289	92,159	21%
Gross Profit	1,618	2,262	-28%	7,674	9,653	-20%
Selling & Dist.	687	834	-18%	2,761	2,804	-2%
Admin.	365	478	-24%	2,025	1,600	27%
Operating Profit	567	950	-40%	2,889	5,249	-45%
Other Income	57	201	-71%	537	865	-38%
Profit Before Tax	545	1,145	-52%	3,036	5,619	-46%
Taxation	374	416	-10%	1,472	1,793	-18%
Profit After Tax	171	729	-77%	1,564	3,826	-59%
EPS	2.08	8.86		19.00	46.49	
DPS	4.00	19.00		4.00	19.00	
Key Indicators						
Unit Sold (Ths)	39.88	41.88	-4.8%	161.15	150.66	6.96%
Gross Profit Margins	5.40%	7.80%	(239)	6.45%	9.48%	(303)

Source: IGI Research, Company accounts, PSX

No of shares(mn): 82.3

Recommendation

We have a liking for INDU with a **“BUY”** call, based on Dec-19 target price of PKR 1,485.1/share, offering +20% upside. The company is currently trading at FY19E P/E of 7.54x and offers a dividend yield of 9.26%.

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Time Horizon: Dec – 2019

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Saddar Cantt.
Tel: (92-91) 5273035, 5223882

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

Ground Floor, Al Fatah Shopping Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258028

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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