

Day Break

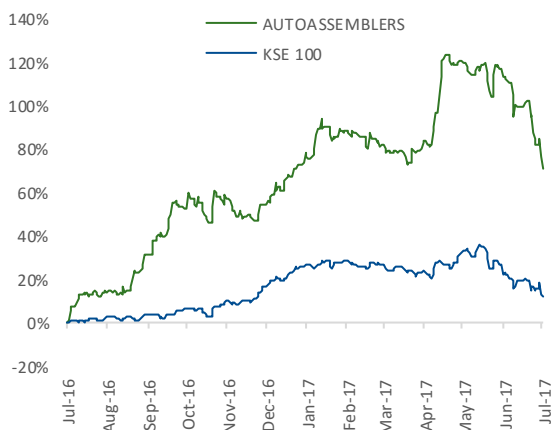
Wednesday, 12 July 2017

Sector Update

Sym.	Target Price	P/E 2018	D/Y 2018	Recom.
INDU	2,472.4	9.3	7.60%	BUY
HCAR	721.5	14.1	2.10%	HOLD
PSMC	740.5	16.0	1.30%	HOLD

Industry	Jun-17	MoM	Jun-16	YoY
PASS. CARS	12,870	-26%	13,638	-6%
TRUCKS / BUSES	722	-20%	752	-4%
PICK-UP/JEEPS	2,592	-20%	2,890	-10%
TRACTOR	4,446	-21%	4,011	11%
2/W	120,567	-19%	114,010	6%
3/W	3,120	-52%	5,353	-42%
Total	144,317	-21%	140,654	3%

Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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Automobile Assembler

FY17 OEM sales ended on +18%YoY growth, with tractor sales leading the growth chart

- As per the latest Pakistan Automotive Manufacturers Association (PAMA), total OEM sales showed an impressive growth of +18%YoY to end the FY17 at 1.9mn units compared to 1.6mn units in FY16. During the year tractors recorded the highest sales of +58%YoY to reach sales volume of 54.8k units (34.6k units in FY16).
- For the month of Jun-17 alone, OEM sales are down by 21%MoM to 144.3k units, with nearly all segments showing monthly decline. Whereby Passenger car segment printed a 26%MoM decline, owing to slowdown in sales of Corolla, Wagon R and Cultus variants.
- We remain positive on passenger car sales, primarily owing to expected pick-up in INDU corolla variant sales post facelift and strong demand expected to continue for Honda City post launch of facelift back in Apr-17. On tractors continuation of government farmer income support via lower sales tax and credit availability we view tractors sales to remain strong going forward. For commercial vehicles, trucks and buses growth is likely to stay strong on account of increasing commercial transportation (CPEC/infrastructure led projects).

FY17 OEM sales ended on +18%YoY growth...

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Exhibit:

Monthly PAMA Sales

UNITS	Jun-17	May-17	MoM	YoY	FY17	FY16	YoY
=>1300	5,491	8,293	-34%	-14%	93,865	87,321	7%
800<x<1000	3,946	5,246	-25%	-12%	57,178	67,658	-15%
1000<x<1300	3,433	3,940	-13%	22%	34,679	26,166	33%
PASS. CARS	12,870	17,479	-26%	-6%	185,722	181,145	3%
TRUCK/BUS	722	904	-20%	-4%	8,629	6,567	31%
PICK-UP/JEEPS	2,592	3,242	-20%	-10%	27,338	36,534	-25%
TRACTOR	4,446	5,663	-21%	11%	54,800	34,618	58%
2/W	120,567	149,313	-19%	6%	1,556,338	1,308,847	19%
3/W	3,120	6,542	-52%	-42%	68,742	49,661	38%
TOTAL	144,317	183,143	-21%	3%	1,901,569	1,617,372	18%

...with tractor sales leading the growth chart

During the year tractors recorded the highest sales of +58%YoY to reach sales volume of 54.8k units (34.6k units in FY16). In other segments passenger cars recorded a growth of +3%YoY to reach 185k units with mid-engine category (1000<x<1300) leading the growth chart. 3/W, 2/W and Commercial (Buses and Trucks) also recorded impressive growth of +38%, +19% and +31% respectively. For the month of Jun-17 alone, OEM sales are down by 21%MoM to 144.3k units, with

Exhibit: **Passenger Cars Volumes - Yearly (units)**

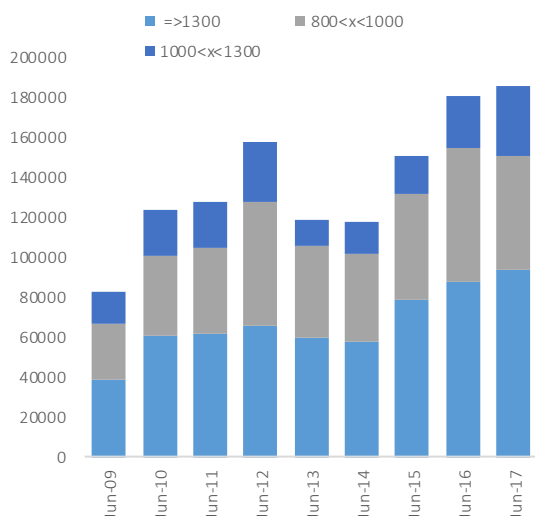
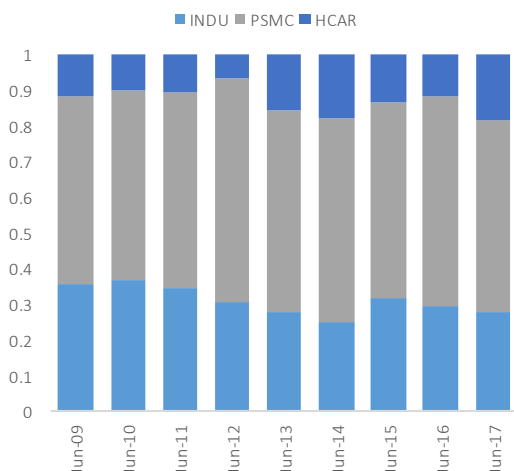


Exhibit: **Market share Passenger Cars - Yearly (%)**



nearly all segments showing monthly decline. Whereby Passenger car segment printed a 26%MoM decline, owing to slowdown in sales of Corolla, Wagon R and Cultus variants.

Company-wise:

Company-wise sales break up reveal monthly decline in all three major passenger car assemblers (HCAR, INDU and PSMC). Sales for INDU dropped to 3,599units down by 27%MoM (or down by 34%YoY). INDU flagship model Corolla sales dropped on a monthly basis to 3,009units (which is almost 3Yr monthly low) as monthly booking halts in anticipation of facelift model expected to be launched by mid Aug-17. Similarly, sales of Hilux/Revo also took a hit on a monthly basis down by 41%MoM (down by 73%YoY). For HCAR sales of Civic and City variant dropped by 44%MoM as PAMA adjusted sales volume for newly launched Honda BRV (SUV) from Apr-17 onwards. For PSMC both Cultus and Wagon R variant recorded sales decline of 12% and 14% MoM despite recent launch of new Cultus variant in Apr-17. Sales of Swift variant recorded a growth of +29%MoM, whereas Ravi, Bolan and Mehran all recorded a decline owing to discontinuation of Rozgar Scheme last year.

Commercial / Tractor: Supported by increased volumes of Trucks; MTL and GHNI posting double digit growth in FY17

Under the commercial segment, overall trucks and buses sale recorded a healthy a growth of +31%YoY to 8,629 units during FY17. However, category sales were down on a monthly basis by 20%MoM to 722units. Under the trucks/buses section, Gandhara Industries Limited (GHNI) manufacturers of M/HDV posted a growth of +85%YoY to 2,903 units in FY17 while Millat Tractors Limited (MTL) witnessed substantial increase of +63%YoY 34.5k units.

Exhibit:

Variant-wise Sales

UNITS	Jun-17	May-17	MoM	YoY	FY17	FY16	YoY
CIVIC + CITY	2,108	3,784	-44%	9%	36,944	25,726	44%
BRV	756	876	-14%	0%	2,159	-	0%
HCAR	2,864	4,660	-39%	49%	39,103	25,726	52%
COROLLA	3,009	4,220	-29%	-26%	52,676	57,452	-8%
FORTUNER	239	113	112%	185%	1,375	602	128%
TOYOTA HILUX	351	596	-41%	-73%	5,860	5,923	-1%
INDU	3,599	4,929	-27%	-34%	59,911	63,977	-6%
WAGON R	1,665	1,927	-14%	37%	17,671	9,709	82%
CULTUS	1,768	2,012	-12%	11%	17,006	16,450	3%
SWIFT	374	289	29%	-2%	4,245	4,143	2%
RAVI	1,246	1,657	-25%	-16%	17,944	29,825	-40%
BOLAN	1,265	1,861	-32%	-24%	19,245	30,154	-36%
MEHRAN	2,681	3,385	-21%	-5%	37,933	37,504	1%
PSMC (PC)	8,999	11,131	-19%	-2%	114,044	127,785	-11%
PSMC 2W	1,753	1,485	18%	29%	18,478	17,476	6%
PSMC (Total)	10,752	12,616	-15%	2%	132,522	145,261	-9%

Source: PAMA, Company Accounts

Exhibit:

Commercial / Tractor

UNITS	Jun-17	May-17	MoM	YoY	FY17	FY16	YoY
HINO	304	368	-17%	-56%	6,807	6,874	-1%
GHNL	11	41	-73%	-77%	702	804	-13%
GHNI	337	325	4%	47%	2,903	1,566	85%
Trucks/Buses	652	734	-11%	-33%	10,412	9,244	13%
AGTL	1,516	2,211	-31%	38%	19,833	12,755	55%
MTL	2,900	3,413	-15%	0%	34,506	21,111	63%
Tractors	4,416	5,624	-21%	10%	54,339	33,866	60%

Outlook

We remain positive on passenger car sales, primarily owing to expected pick-up in INDU corolla variant sales post facelift and strong demand expected to continue for Honda City post launch of facelift back in Apr-17. On tractors continuation of government farmer income support via lower sales tax and credit availability we view tractors sales to remain strong going forward. For commercial vehicles, trucks and buses growth is likely to stay strong on account of increasing commercial transportation (CPEC/infrastructure led projects).

Recommendation

We have a **“Buy”** call on INDU **“Hold”** call on PSMC and HCAR. For our coverage companies HCAR, INDU and PSMC the Automobile Assembler is trading at CY18 forward P/E of 11.7x offering 4.4% dividend yield. We have an overweight stance on overall sector.

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Time Horizon: Dec - 2017

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