IGI Securities

Day Break

Wednesday, 06 June 2018

COMPANY UPDATE

Pak Suzuki Motor Company Limited
Automobile Assembler

Recommendation	**BUY**
Target Price:	499.5
Last Closing: 5-Jun-18	450.1
Upside:	11.0
Valuation Methodology:	Discounted Cash Flow (DCF)
Time Horizon:	Dec-18

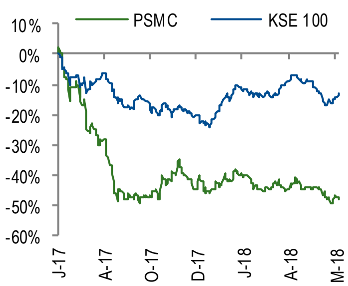
Market Data

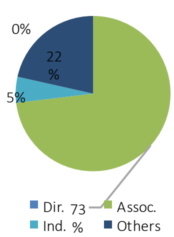
Bloomberg Tkr.			PSMC PA
Shares (mn)			82.3
Free Float Shares (mn)			21.7
Free Float Shares (%)			26.4%
Market Cap (PKRbn | USDmn)		37.0	319.9
Exchange			KSE 100
Price Info.	90D	06M	12M
Abs. Return	(6.9)	(13.8)	(48.2)
Lo	440.0	440.0	436.7
Hi	514.2	539.4	889.5

Key Company Financials
Period End: Dec

PKRbn	**CY17A**	**CY18E**	**CY19F**	**CY20F**
Total Revenue	101.8	104.3	106.1	108.7
Net Income	3.8	3.6	3.7	3.3
EPS (PKR)	46.5	43.9	45.6	39.9
DPS (PKR)	19.0	18.0	18.0	16.0
Total Assets	50.9	46.6	49.0	51.4
Total Equity	29.5	31.7	33.9	35.9
Key Financial Ratios				
ROE (%)	12.9	11.4	11.0	9.1
P/E (x)	9.7	10.3	9.9	11.3
P/B (x)	8.8	1.3	1.2	1.1
DY (%)	4.2	4.0	4.0	3.6

Relative Price Performance





About the Company

The Company was incorporated in Pakistan as a public limited company in August 1983. The Company started commercial production in January 1984, and is engaged in the assembling, manufacturing and marketing of Suzuki vehicles and spare parts.

Source: Bloomberg, PSX & IGI Research

Suleman Ashraf
Research Analyst
Suleman.ashraf@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 957

Automobile Assembler

PSMC: Triple whammy encircle

- Pak Suzuki Motor Company Limited (PSMC) has recently increased its prices across all its variants. To recall, the company increased its prices earlier during the start of the year followed by a price hike again in March.
- The company posted a profitability of PKR 0.91bn (EPS: PKR 10.9) during the 1QCY18 compared to PKR 1.31bn (EPS: PKR 15.9) in the same period last year, marking a decrease of 31%YoY
- We have incorporated the price increase and have adjusted our pricing assumption accordingly. In addition, our assumption also takes into account budgetary measures (super-tax/ corporate tax rate and ban on non-filers). All things considered, our revised earnings estimate for CY18E/CY19F/CY20F stands at PKR ~ (44/46/40)/share.
- We have a **"BUY"** call on scrip with our revised Dec-18 based target price of PKR 499.5/share, offering +11% upside from its last closing. The company is currently trading at CY18E P/E of 10.3 x and offers a dividend yield of 4.0%.

Pak Suzuki Motor Company Limited (PSMC) has recently increased its prices across all its variants. To recall, the company increased its prices earlier during the start of the year (CY18) followed by a price hike again in March. The move comes at a time when various factors such as frequent volatility in exchange rates (PKR depreciation), rising steel prices and recent budgetary measures (ban on non-filers) have loomed over the entire auto-sector. Overall, the stock has underperformed by 18% against the benchmark index during CY18TD with company's profitability falling by 31%YoY for the 1QCY18. We have incorporated the price increase and have adjusted our pricing assumption accordingly. In addition, our assumption also takes into account budgetary measures (super-tax/ corporate tax rate and ban on non-filers) along with 1QCY18 financial accounts. All things considered, our revised earnings estimate for CY18E/CY19F/CY20F stands at PKR ~ (44/46/40)/share resulting in slight upward revision in target price by 1% to PKR 499.5/share.

Fall in PKR against USD sparked series of price hike during 1HCY18

To recap, the company initially increased its prices (1-2%/unit) during the start of the year when PKR had already lost its value against USD by 5% back in Dec-17. More so, in the ensuing months, on international front, USD/JPY witnessed strong rally with JPY touching 105 against USD during Feb-18, thereby further exhibiting pressure on imported costs. Consequently, the impact was hit back with a second price increase (3%/unit) during the month of Mar-18. As of now, with PKR depreciated further by 4% against USD, the company tackled it with a third price hike; this time marking an increase of 4% on average per unit. We have incorporated the recent price in our estimates and kept our pricing assumption at ~2-3%/unit on average from CY19 onwards as we believe with competition to kick-in and macroeconomic situation in doldrums, this will leave company with limited pricing capability to pass-on it costs.

Exhibit:
Price hike over the period- 1HCY18

	Jan-18	Mar-18	Jun-18
Avg. Price increase/unit	2%	3%	4%
USD/PKR	110.2	110.7	115.7
USD/JPY	112.9	107.9	109.8

SOURCE: IGI Research, Bloomberg, PSMC

Exhibit:
Exchange rate movements

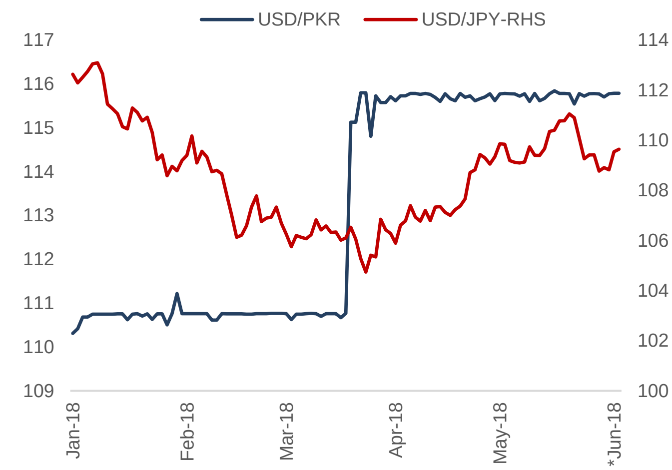
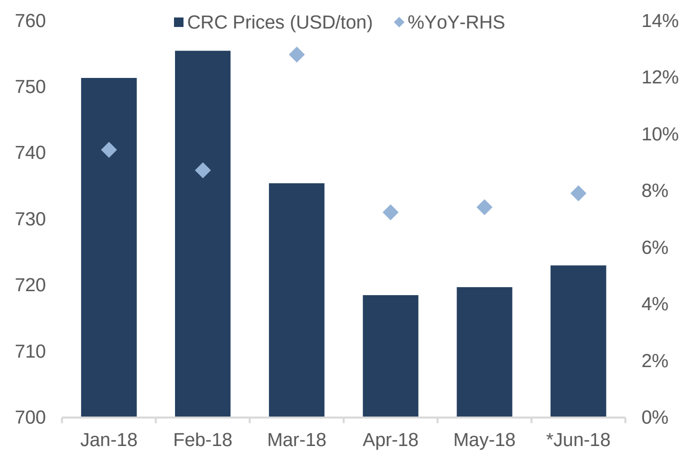


Exhibit:
CRC prices (USD/ton) and %- YoY change



Source: IGI Research, Bloomberg

** =Jun-18TD*

Budgetary measures: Ban on non-filers to impede volumetric sales in medium term

The ban imposed on non-filers for the purchase of new cars will restrict demand in the medium term with customers switching towards secondary markets (second hand-cars); hence we have cut down our sales assumption by ~3-4% for CY18E.
Furthermore, continuation of super tax will negatively impact our earnings for CY18E/CY19F by 7%/2%; however, with reduction in corporate tax rate by 1% each year this will provide some accretion (3-5%) to our earnings estimates from CY20F onwards.

Earnings to glide down post competition; gross margins to remain subdued

Accordingly we revise our earnings downwards by 13%/8% to PKR~ (44/46)/share for CY18E/CY19F. For CY20F-CY23 earnings will be revised upwards by 4% on average to PKR~ (40-38)/share. Nevertheless, aggressive competition would impede volumetric sales with earnings to witness major setback (decline of 13%YoY) from CY20 onwards.
Moreover, we expect gross margins to hover around ~8.3% for CY18E, compressing thereon by ~400bps YoY owing to rising raw material costs (increase in CRC prices /PKR depreciation) and limited price-pass over capacity.

Dwindling gross margins amid rising input costs crumbled profitability by 31%YoY to PKR 0.91bn (EPS: PKR 10.9) for 1QCY18

The company posted a profitability of PKR 0.91bn (EPS: PKR 10.9) during the 1QCY18 compared to PKR 1.31bn (EPS: PKR 15.9) in the same period last year, marking a decrease of 31%YoY. Although, the company witnessed a double digit growth in its volumes with net sales increasing by +32%YoY to PKR 32bn, this failed to reflect in corresponding increase in profitability primarily owing to changes in sales mix (low margin sales) and rising input costs. As such, gross margins decreased substantially by 400bps YoY to 8.30%, improving by a mere 50bps on sequential basis.

Recommendation

We have a **"BUY"** call on scrip with our revised Dec-18 based target price of PKR 499.5/share, offering +11% upside from its last closing. The company is currently trading at CY18E P/E of 10.3 x and offers a dividend yield of 4.0%.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

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
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@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) 35777863-70	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	mahtab.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 # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2 ,
Fax: (+92-21) 32429607

Lahore Office 5-F.C.C. Ground Floor, Syed Maratib Ali Road, Gulberg II Tel: (+92-42) 35777863-70, 35876075-76 Fax: (+92-42) 35763542	**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
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	**Rahim Yar Khan Office** Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871653-6, 5871652 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-992) 408243 - 44	**Abbottabad Office** Ground Floor, Al Fatah Shoppinig Center , Opp. Radio Station, Mansehra Road Tel: (+92-99) 2408243 - 44
Peshawar Office 2nd Floor, The Mall Tower, 35 The Mall Peshawar Cantt. Tel: (92-91) 5253035, 5278448	**Sialkot Office** Suite No. 10 & 11, 1st Floor, Soni Square, Mubarik Pura Tel: (+92-52) 3258437, 3258762

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009