

Day Break

Wednesday, 13 September 2017

Sector Update

| Sym. | Target Price | P/E 2018 | D/Y 2018 | Recom. |
|------|--------------|----------|----------|--------|
| INDU | 2,352.2 | 9.4 | 7.00% | BUY |
| HCAR | 556.9 | 9.6 | 2.70% | HOLD |
| PSMC | UR | - | - | - |

| Industry | Aug-17 | MoM | Aug-16 | YoY |
|---------------|---------|-----|---------|------|
| PASS. CARS | 18,665 | 14% | 15,170 | 23% |
| TRUCKS/BUSES | 861 | 9% | 715 | 20% |
| PICK-UP/JEEPS | 3,430 | 6% | 2,483 | 38% |
| TRACTOR | 5,138 | 11% | 2,391 | 115% |
| 2/W | 163,092 | 9% | 127,423 | 28% |
| 3/W | 6,966 | 31% | 5,670 | 23% |
| Total | 198,152 | 10% | 153,852 | 29% |

Automobile Assembler

Passenger car volumes bounce back to growth trajectory for month of Aug-17; INDU leading the chart

- As per latest data released by Pakistan Automotive Manufacturers Association (PAMA), industry sales increased by +10%MoM (+29%YoY) to 198.15k units, supported by strong auto demand. Segment-wise 3/W witnessed highest growth of +31% MoM (+23%YoY), followed by passengers cars tuning up by +14% MoM (+23% YoY).
- All three major OEMs registering growth led by INDU registered a volumetric growth of +20% MoM to 5,541 units, whereby sales of newly launched Corolla showed a healthy trend, witnessing a growth of +23% MoM (+5%YoY) to 4,782 units. PSMC's passenger car volumes showed a healthy growth of +14%MoM (+32%YoY) to 11.8k units in Aug-17 primarily led by sales of Mehran, Wagon R and Swift leaping up by +38%/+14%/+51% MoM to 3.9k/2.2k/434 units respectively.
- We maintain a "BUY" call on INDU with Dec-17 based target price of PKR 2,352/share, offering +36% upside. The company is currently trading at FY18E P/E of 9.4x and offers a dividend yield of 7.0%.

Industry sales keeping up the trend

As per latest data released by Pakistan Automotive Manufacturers Association (PAMA), industry sales increased by +10%MoM (+29%YoY) to 198.15k units, supported by strong auto demand. Segment-wise 3/W witnessed highest growth of +31% MoM (+23%YoY), followed by passengers cars tuning up by +14% MoM (+23% YoY). Within passenger cars segment, 800<x<1000 cc engine category witnessed growth of +22%MoM (+16%YoY). Similarly, 2/wheeler, Pick-up & Jeeps and Tractors sales showed progressive trend (9%/6%/1%) MoM.

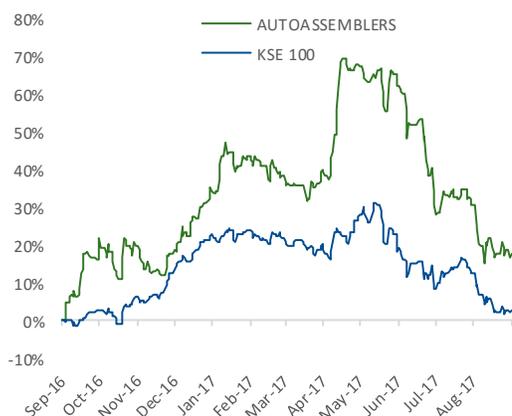
HCAR: Sluggish growth despite launch of new City

HCAR registered a growth with a slight uptick of +3%MoM (+47%YoY) despite launch of face-lift model of City. To state, sales of Civic and City crawled up by +3.3% MoM (+24.32%YoY) to 3,946 units. Similarly, BR-V sales pushed up by +4% MoM to 720 units after witnessing a decline in last month.

INDU: Newly launched Corolla beefing up the sales

INDU's volume witnessed growth of +20%MoM (+2%YoY) to 5,541 units, whereby sales of Corolla post-launch showed a healthy trend, witnessing a growth of +23% MoM (+5%YoY) to 4,782 units. INDU's Fortuner variant sales clocked in at 265units, down by 2%MoM (+4xYoY) whereas Hilux sales recorded growth of +4%MoM (+3%YoY) to 494 units.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

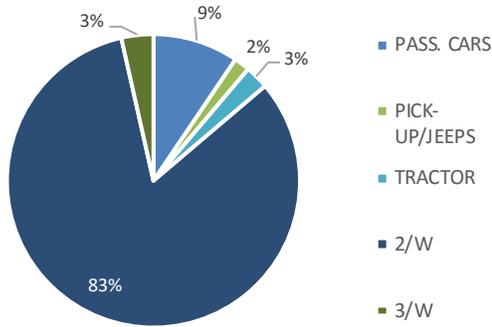
Analyst

Suleman Ashraf

suleman.ashraf@igi.com.pk

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

Exhibit: Automobile sales composition- Aug17



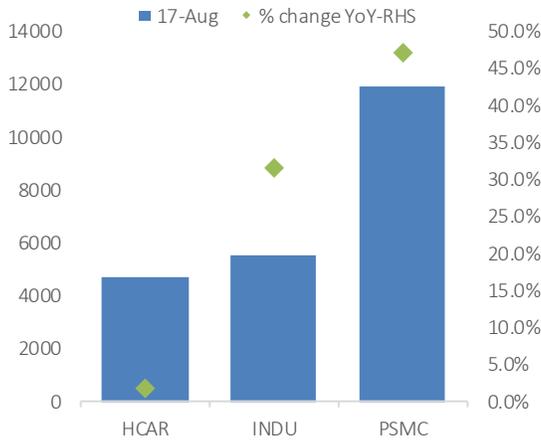
PSMC: Sales swing back to action

PSMC’s passenger car volumes showed a healthy growth of +14%MoM (+32%YoY) to 11.8k units in Aug-17 primarily led by sales of Mehran, Wagon R and Swift leaping up by +38%/+14%/+51% MoM to 3.9k/2.2k/434 units respectively. However, sales of recently launched Cultus witnessed a decline of 6% receding at 1,776 units. Similarly, sales of Bolan were also down by 6% MoM (-7% YoY) to 1,563 units with Ravi posting growth of +8% MoM (22% YoY) to 1,951 units.

Recommendation

We maintain an “Overweight” stance on Automobile Assembler, with INDU as our top pick. We maintain a **“BUY”** call on INDU with Dec-17 based target price of PKR 2,352/share, offering +36% upside. The company is currently trading at FY18E P/E of 9.4 x and offers a dividend yield of 7.0%.

Exhibit: Passenger car sales volume-Aug-17



Source: PAMA, Bloomberg & IGI Research

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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 - 2017

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

DCF (Discounted Cash Flow)

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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 |
| 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: 973 | muhammad.saad@igi.com.pk |
| Tanweer Kabeer | Research/Fund Select | Tel: (+92-21) 111-234-234 Ext: 966 | tanweer.kabeer@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 |
| Ejaz Rana | Regional Manager (Faisalabad) | Tel: (+92-41) 2540843-45 | ejaz.rana@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 # 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, Lahore
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Faisalabad Office

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

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan
Phone: (92-992) 408243 - 44

Peshawar Office

2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Phone: (92-91) 5253035, 5278448

Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area, Islamabad
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, Rahim Yar Khan
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Abbottabad Office

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