

Day Break

Tuesday, 16 January 2018

Sector Update

Sym.	Target Price	P/E 2018	D/Y 2018	Recom.
INDU	2,291.9	9.5	7.3%	BUY
HCAR	622.1	9.2	4.4%	BUY
PSMC	499.5	12.8	1.3%	HOLD

Company	Price Increase	Average Price (Pkrmn)
INDU		
Corolla	2-3%	2.11
Hilux	3-5%	3.09
HCAR		
City	3-4%	1.86
Civic	2%	2.47
PSMC		
Mehran	1%	0.71
Wagon R	2%	1.09
Ravi	1%	0.71
Bolan	1%	0.74

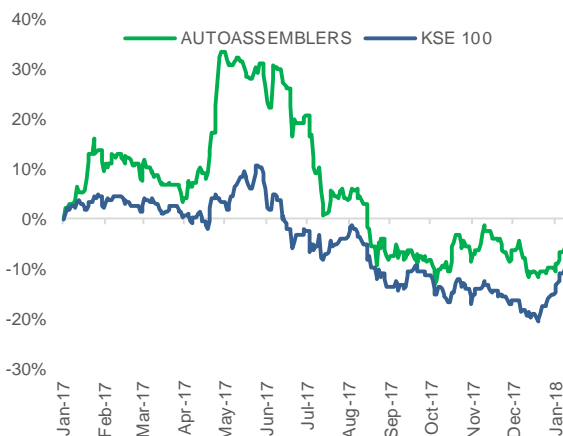
Automobile Assembler

Earnings revised on price hike; INDU stands out amongst its peers

- Following PKR depreciation against USD by 5% in Dec-17, auto manufacturers have increased the prices of their units to reflect rise in imported costs
- For INDU, the price hike during the fiscal year will result in earnings impact of +4% (EPS: PKR 184.69) from our previous estimate (EPS: PKR 178.13) for FY18E
- Similarly, for HCAR the increase in price will have an upward revision of +14% for the next three years
- For PSMC the price increase witnessed during the start of CY18 was almost in line with our base assumption having price hike of 2-3%/unit. However, we have slightly revised upwards our earnings for PSMC on average by +4% for the next three years
- We have a 'BUY' call on INDU with Dec-18 based target price of PKR 2,292/share, offering +31% upside from its last closing. The company is currently trading at FY18E P/E of 9.5 x and offers a dividend yield of 7.3%

Following PKR depreciation against USD by 5% in Dec-17, auto manufacturers have increased the prices of their units to reflect rise in imported costs. INDU, HCAR and PSMC have increased their prices on average by 4%, 3% and 2% respectively. We have revised earnings estimates for our coverage companies (INDU, PSMC and HCAR) after incorporating price increase across different units. Based on the revised earnings we see INDU and HCAR to be beneficial while PSMC, having limited price pass-over capacity to have minimal impact.

Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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Increase in prices resulting in earnings impact of +4% for FY18; valuation up by +4%

INDU on average has increased its prices by 3%/unit for Corolla variants, while 3-5%/unit hike was witnessed in Hilux variants. To recall, INDU increased the prices last year for its new face-lift model, while later in the beginning of 1HFY18, a price hike was further seen following slight PKR depreciation. The recent price hike will result in earnings impact of +4% (EPS: PKR 184.69) from our previous estimate (EPS: PKR 178.13) for FY18E. Similarly, we have tweaked our earnings projections based on the revised prices, which will result in upward revision of +10.6% on average for the next three years, thereby increasing our valuation by +4% to PKR 2,292/share.

Price increase tweaking earnings projections; valuation to uphold BUY call

HCAR increased the prices of Civic and City variants on average by 2%-3%/unit. For the current FY18E, our earnings estimates will revise slightly by 0.5% to PKR 56.95/share from PKR 56.68/share owing to price impact visible in 4QFY18. However, going forward our earnings forecast will see upward revision of +14% on average for the next three years. Our revised target price will have an increase of +16% to PKR622.2/share from the previous target price of PKR 536.4/share.

Price hike almost in-line with our estimates; valuation revised slightly

For PSMC, the price increase witnessed during the start of CY18 was almost in line with our base assumption having price hike of 2-3%/unit. However, we have slightly revised upwards our earnings for PSMC on average by +4% for the next three years. Our target price comes at around PKR 499.6/share, up by +2% from the last target price of PKR 489.6/share.

Recommendation:

We have a **'BUY'** call on INDU with Dec-18 based target price of PKR 2,292/share, offering +31% upside from its last closing. The company is currently trading at FY18E P/E of 9.5 x and offers a dividend yield of 7.3%.

Exhibit:

Auto assemblers projected financials

Company	Heads	FY16A	FY17A	FY18E	FY19F	FY20F
INDU	EPS	145.7	165.4	184.7	181.7	174.1
	Gross Margins	16%	18%	17%	16%	15%
	Trading Margins	34%	36%	38%	38%	38%
	Vol. (kunits)	63,977	59,911	62,400	64,272	64,272
HCAR	EPS	24.9	43.0	57.0	63.5	56.1
	Gross Margins	15%	15%	14%	14%	12%
	Trading Margins	33%	33%	32%	32%	32%
	Vol. (kunits)	25,759	35,304	49,200	52,272	52,920
PSMC*	EPS	71.0	33.7	50.1	48.4	43.7
	Gross Margins	14%	10%	10%	10%	9%
	Trading Margins	21%	21%	21%	21%	21%
	Vol. (kunits)	154,249	127,656	145,920	149,592	153,372

Source: Company financials, IGI Research, *FY=CY15 onwards

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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):

DCF (Discounted Cash Flow)

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