

Day Break

Friday, 24 July 2020

Sector Update

Auto Assemblers result preview

PKR/share	4Q'20	YoY	3Q'20	QoQ
EPS				
INDU	6.3	-86%	34.1	-82%
HCAR	(1.6)	-197%	(0.2)	8.3x
PSMC	(15.6)	-52%	(11.4)	36%

DPS	4Q'20	4Q'19	1HCY/FY20	QoQ
INDU	3.0	27.5	26.0	115.0
HCAR	-	-	-	-
PSMC	-	-	-	-

Automobile Assemblers

Depressed volumes; problematic exchange rate and higher finance cost to hamper 4q earnings

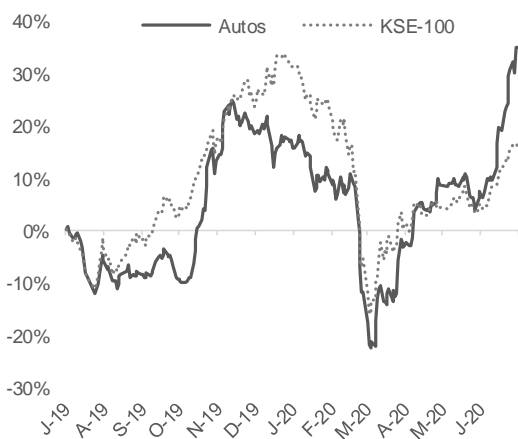
- ✓ Leading Automobile manufacturers including INDU, PSMC, and HCAR are all set to announce their financial result soon. Overall we anticipate Auto sector earnings decline by 1.6x q/q and 1.98x y/y respectively,
- ✓ We expect INDU to portray decline in its profit to PKR 492mn (EPS: PKR 6.3) down 82%/86 q/q and y/y respectively. We believe, decline in sales volume is the major problematic area for the deterioration in earnings (72% q/q and 80% y/y) respectively,
- ✓ HCAR is expected to post a loss of PKR 228mn for its 1qFY21, against a NLAT of PKR 28mn in 4qFY20 and a NPAT of PKR 242mn in the same period last year. Local sales are down to 2.3k units a 72% and 62% y/y and q/q decline respectively,
- ✓ PSMC is expected to post NLAT of PKR 1,284mn in 2QCY20. Massive decline in local sales followed by higher finance cost are the primary reasons for this decline.

Demand, Exchange rate and high financing cost worries put 4q earning under pressure

Leading Automobile manufacturers including INDU, PSMC, and HCAR are all set to announce their financial result soon. Overall we anticipate Auto sector earnings decline by 1.6x q/q and 1.98x y/y respectively. The deterioration in earnings should not come as a surprise considering;

- ✓ A 58% q/q and 76% y/y decline in sales mainly as volumes dried off due to Covid-19 worries and lockdown conditions
- ✓ Dull demand, combined with weaker PKR and late price increase, resulted in a significant squeeze in company's margins;

Relative Performance to KSE 100



Source: Bloomberg, PSX 100 & IGI Research

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Exhibit: Key Financial Highlights

	4q/20e	3q/20	4q/19	Chg.	
				q/q	y/y
EPS					
INDU	6.3	34.1	44.0	-82%	-86%
HCAR	(1.6)	(0.2)	1.7	8.3x	-197%
PSMC	(15.6)	(11.4)	(32.2)	36%	-52%
DPS					
INDU	3.0	10.0	27.5	-70%	-89%
HCAR	-	-	-		
PSMC	-	-	-		
Gross Profit Margins					
INDU	10.3%	12.1%	10.5%	-1.9%	-0.2%
HCAR	3.3%	5.6%	7.6%	-2.4%	-4.3%
PSMC	2.0%	3.2%	1.0%	-1.3%	1.0%
EBIT Margins					
INDU	6.9%	11.9%	10.2%	-4.9%	-3.3%
HCAR	-0.8%	4.1%	2.3%	n.m.	-3.1%
PSMC	-9.5%	-1.5%	-3.9%	n.m.	n.m.
Net Margins					
INDU	4.8%	8.1%	8.7%	-3.3%	-3.8%
HCAR	-3.6%	-0.2%	1.4%	n.m.	n.m.
PSMC	-17.4%	-5.3%	-8.5%	n.m.	n.m.

As automobile sector is reeling from the impact of Covid-19, auto sales (PC+LCVs) plummeted by 76%/57% y/y and q/q respectively. For FY20 auto sales were already on a downward trajectory thanks to a) high interest rate, b) weaker currency causing a significant rise in product prices, and c) higher financing costs. To recall, Pakistan automotive industry witnessed worst month for car sales and recorded zero sales during April 20 amid production halt due to country wide lockdown.

INDU: We expect INDU to portray decline in its profit to PKR 492mn (EPS: PKR 6.3) down 82%/86 q/q and y/y respectively. We believe, decline in sales volume is the major problematic area for the deterioration in earnings (72% q/q and 80% y/y) respectively. During the outgoing quarter, INDU sold a cumulative of ~3k units compared to ~11k and ~16k units q/q and y/y. Moreover, INDU during the quarter launched 'Yaris' variant under cars with engine size 1,300cc and above replacing its current variant of 1,300cc Corolla. The company managed to sell just about 1k units during the qtr. Moreover, with company having a debt-free balance sheet, changes in interest rates will have no change advantage. Nevertheless, this will take our FY20 earnings estimates to PKR 82.0bn (EPS: PKR 69.7) down by 60% compared to last year EPS of PKR 175. In conjunction with the result, we expect company to announce dividend of PKR 3.0/share taking full year dividend to PKR 26.0/share.

Exhibit: Indus Motor Company Limited (INDU) Financial Highlights								
Period end= Jun	4Q/20e	3Q/20	4Q/19	Growth		Period Average		
				q/q	y/y	FY2020e	FY2019a	FY2018a
Net Sales	10,186	33,055	39,922	-69%	-74%	86,016	157,996	140,063
Cost of Manu. & Trading	9,141	29,047	35,749	-69%	-74%	77,196	138,805	115,831
Gross Profit	1,045	4,008	4,173	-74%	-75%	8,820	19,192	24,232
Operating Income	508	3,121	3,245	-84%	-84%	5,871	16,143	21,231
EBIT	708	3,922	4,087	-82%	-83%	7,863	19,043	23,427
Finance Cost	15	16	(65)	-8%	-123%	69	67	80
Profit Before Tax	693	3,906	4,152	-82%	-83%	7,793	18,976	23,347
Tax	201	1,227	697	-84%	-71%	2,318	5,261	7,227
Net Income	492	2,679	3,455	-82%	-86%	5,475	13,715	16,119
EPS	6.3	34.1	44.0			69.7	174.5	205.1
DPS	3.0	10.0	27.5			26.0	115.0	140.0
Sales (gr. y/y)	-74%	-20%	0%			-46%	13%	25%
Cost of Manu. & Trading (gr. y/y)	-74%	-21%	8%			-44%	20%	25%
Net Income (gr. y/y)	-86%	-20%	-21%			-60%	-15%	24%
Gross Profit Margin	10.3%	12.1%	10.5%			10.3%	12.1%	17.3%
EBIT Margin	6.9%	11.9%	10.2%			9.1%	12.1%	16.7%
Effective tax rate	29%	31%	17%			30%	28%	31%
Net Margin	5%	8%	9%			6%	9%	12%
Total Sales	3,078	11,125	15,833			28,378	65,399	63,068
Sales Volume (gr. y/y)	-81%	-34%	-5%			-57%	4%	4%

HCAR: HCAR is expected to post a loss of PKR 228mn for its 1qFY21, against NLAT of PKR 28mn in 4qFY20 and a NPAT of PKR 242mn in the same period last year. Local sales are down to 2.3k units a 72% and 62% y/y and q/q decline respectively. We expect lower finance cost this quarter due to substitution of local currency loan with short term loan of USD 14mn from a related party (Asian Honda Motor Company) at 3.2% mark up. Going forward, the potential launch of the new 'City' variant by year end will act as a major catalyst for the stock.

Exhibit: Honda Atlas Cars Pakistan Limited (HCAR) Financial Highlights

Period end= Mar	1Q/21	4Q/20	1Q/20	Growth	
				q/q	y/y
Net Sales	6,486	15,655	17,880	-59%	-64%
Cost of Manu. & Trading	6,275	14,776	16,530	-58%	-62%
Gross Profit	211	880	1,350	-76%	-84%
Operating Income	(53)	620	975	-108%	-105%
EBIT	(53)	647	411	-108%	-113%
Finance Cost	130	150	54	-13%	2x
Profit Before Tax	(183)	497	356	-137%	-151%
Tax	(53)	526	114	-110%	-146%
Net Income	(235)	(28)	242	8x	-197%
EPS	(1.6)	(0.2)	1.7		
DPS	-	-	-		
Sales (gr. y/y)	-64%	-35%	-25%		
Cost of Manu. & Trading (gr. y/y)	-62%	-34%	-24%		
Net Income (gr. y/y)	-197%	-102%	-77%		
Gross Profit Margin	3.3%	5.6%	7.6%		
EBIT Margin	-0.8%	4.1%	2.3%		
Effective tax rate	29%	106%	32%		
Net Margin	-4%	0%	1%		
Total Sales	2,329	5,915	8,346		
Sales Volume (gr. y/y)	-72%	-49%	-33%		

PSMC: PSMC is expected to post NLAT of PKR 1,284mn in 2QCY20. Massive decline in local sales followed by higher finance cost are the primary reasons for this decline.

Exhibit: Pak Suzuki Motor Company Limited (PSMC) Financial Highlights

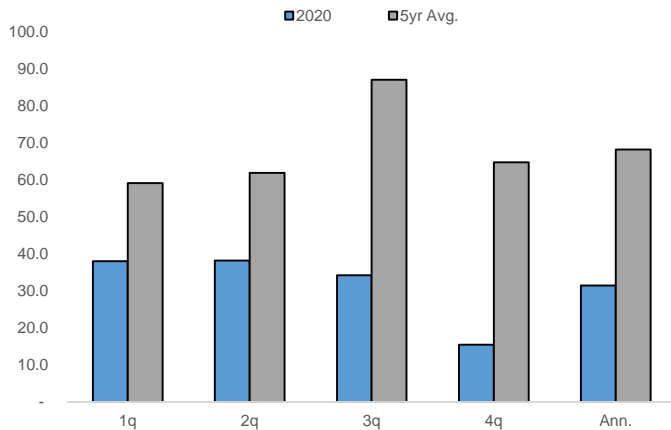
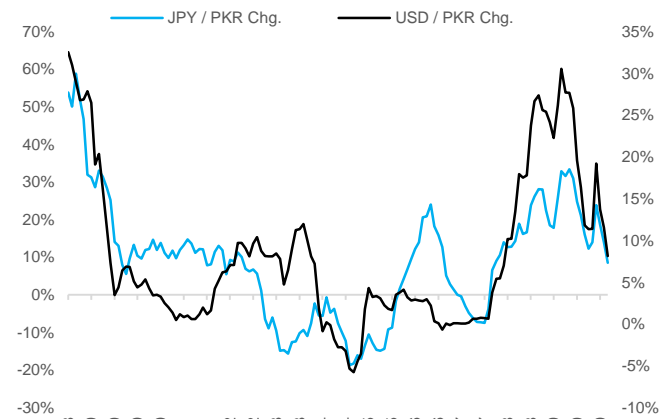
Period end= Dec	2Q/20e	1Q/20	2Q/19	Growth		Period Average		
				q/q	y/y	1HCY20e	1HCY19	1HCY18
Net Sales	7,370	17,741	31,040	-58%	-76%	25,111	65,487	62,392
Cost of Manu. & Trading	7,226	17,169	30,728	-58%	-76%	24,394	64,057	58,026
Gross Profit	144	573	312	-75%	-54%	717	1,430	4,365
Operating Income	(736)	(325)	(1,270)	2x	-42%	(1,061)	(1,521)	1,904
EBIT	(701)	(269)	(1,217)	3x	-42%	(969)	(1,418)	2,141
Finance Cost	1,000	1,055	380	-5%	3x	2,055	706	93
Profit Before Tax	(1,701)	(1,324)	(1,596)	28%	7%	(3,025)	(2,124)	2,049
Tax	420	384	1,053	9%	-60%	804	1,505	750
Net Income	(1,281)	(940)	(2,649)	36%	-52%	(2,221)	(3,629)	1,299
EPS	(15.6)	(11.4)	(32.2)			(27.0)	(44.1)	15.8
DPS	-	-	-			-	-	-
Sales (gr. y/y)	-76%	-48%	1%			-62%	5%	33%
Cost of Manu. & Trading (gr. y/y)	-76%	-48%	5%			-62%	10%	38%
Net Income (gr. y/y)	-52%	-4%	-773%			-39%	-379%	-35%
Gross Profit Margin	2.0%	3.2%	1.0%			2.9%	2.2%	7.0%
EBIT Margin	-9.5%	-1.5%	-3.9%			-3.9%	-2.2%	3.4%
Effective tax rate	-25%	-29%	-66%			-27%	-71%	37%
Net Margin	-17%	-5%	-9%			-9%	-6%	2%
Total Sales	9,176	18,377	35,912			83,116	153,354	165,795
Sales Volume (gr. y/y)	-74%	-57%	-16%			-46%	-8%	5%

Outlook

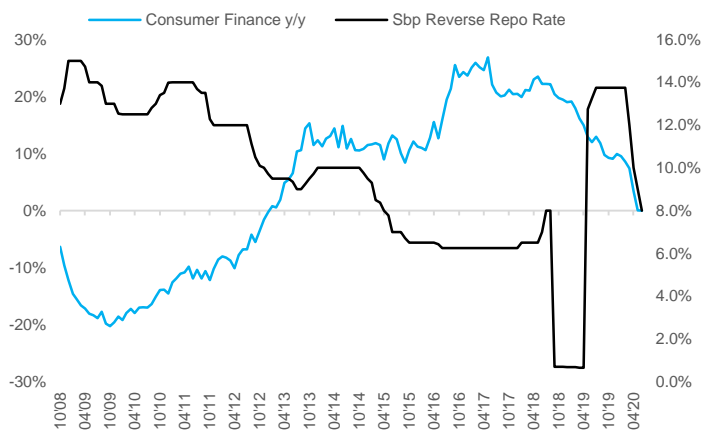
We believe, auto sales could potentially response to recent cut in policy rate by 625bps, however with 30-40% increase in product prices, recovery in sales is likely to take an extended-U form. Henceforth we are not optimistic in automobile assembler during the outgoing year Fy21.

Exhibit: FY2020 sales have halved compared to 5yr average annual sales volume

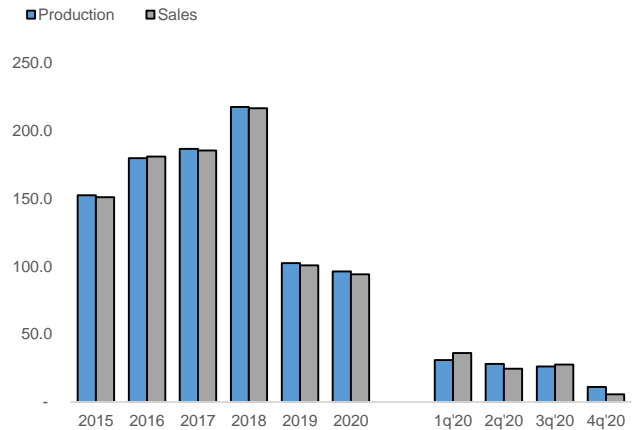
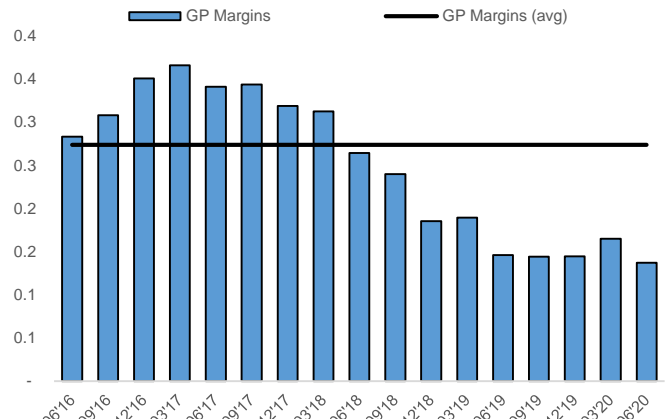
Average sales during the quarter of PC, Jeeps/SUVs & Pick-ups


Exhibit: PKR devaluation against USD and JPY...

Exhibit: Tight credit conditions have had impact on sales and on financing

Consumer finance has least responded to policy rate cuts


Exhibit: 4q FY2020 sales and production affected due to Lockdown (in Ths Units)

March and April saw a production halt at major manufacturers


Exhibit: ...has put pressure on companies GP margins


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