Autos Jun'20 earnings preview

NEXT CAPITAL

Automobile Assembler — Underweight

August 6, 2020

Pakistan Equities

Automobile Assembler

Key Points

- While presenting result expectations for our Auto sector universe for the quarter ended Jun'20, where top line of the sector during the quarter is expected to decline 71%YoY and gross profit margins are likely to decline 4.1ppts.
- We expect Indus Motor Company Limited (INDU) to record 82%YoY decline in its 4QFY20 earnings with a PAT of PKR633mn (EPS PKR8.06). For FY20, the company is expected to report a PAT of PKR5,617mn registering a decline of 59% over FY19. INDU is also expected to announce a final cash dividend of PKR3.5/share.
- For Pak Suzuki Motor Company Limited (PSMC) we expect the company's PAT to arrive at PKR-1,166mn in 2QCY20 as compared to PKR-545mn of 2QCY19. For 1HCY20 we expect the company to register a loss after tax of PKR2,107mn (LPS PKR25.61)
- We have an underweight stance on the sector.

Jun'20 results preview

Earnings of our automobile universe (INDU, PSMC and HCAR) are likely to take a significant hit during the quarter ended Jun'20. Lockdown throughout the country that was imposed towards the end of Mar'20 has severely affected unit sales. Unit sales of the companies under our coverage stood at 12,919 units during the quarter compared to 54,612 units of the same period last year and 30,645 units of the preceding quarter. The bottom line of INDU is expected to remain green whereas PSMC is likely to register losses. HCAR has already announced the quarter results where the company posted significant loss. Combined Loss After Tax (LAT) of our Auto universe is expected to clock in at PKR1,044mn for the quarter ended Jun'20 compared to a profit of PKR3,155mn of the same period last year. Gross profit for the quarter is expected to be lower by 89% whereas gross margins are likely at 2.5% compared to 6.7% of the same period last year.

Indus Motor Company (INDU)

INDU for the quarter ended 4QFY20, is expected to register a PAT of PKR633mn (EPS PKR8.06) as compared to a PAT of PKR3,458mn (EPS PKR43.99) during 4QFY19, an 82%YoY decline. The expected decline in profitability can be attributed to low unit sales along with inability of the company to pass on the cost pressures to the end consumers. Top line of the company is expected to arrive 74%YoY lower on the back of low unit sales. Unit sales for the quarter under review stood at 3,078 units posting a decline of 81%YoY/72%QoQ. Gross profit in absolute terms in likely to taper off by 82%YoY whereas gross margins are forecasted to decline by 3ppts. Along with the result INDU is also expected to announce a final cash dividend of PKR3.5/share.

Pak Suzuki Motor Company (PSMC)

PSMC has been incurring losses for the past six quarters and 2QCY20 is expected to be no different. We anticipate the company to record a loss of PKR1,166mn (LPS PKR14.17) as compared to a loss of PKR545mn (LPS of PKR6.62) of 2QCY20. The company's top line is likely to decline by 70%YoY mainly on the back depressed unit sales. Lockdown that was imposed towards the end of Mar'20 continued into April on the back of which units sales were down to 7,512 units a 75%YoY/45%QoQ decline. Due to the challenging environment we expect the company to post a gross loss of PKR180mn. Finance cost is expected to remain elevated on the back of short term borrowings to meet working capital requirements.

Outlook

Although the lockdown has been lifted and economic actives are gradually recovering to pre-corona levels, we believe challenges for the automobile sector remain intact. Changing buying patterns, higher selling prices owed to cost pressures and dismal performance of the corporate and other businesses will keep units sales in check. Moreover, margins of the OEMs will remain under pressure as reduced buying power will restrict them to completely pass on the cost pressures to end consumers. However, the significant decline in interest rate is a major positive that could provide vital support the sector. With an underweight stance on the sector.

Key Data

Mkt. Cap. (USDmn)	1,970.8
Mkt. Cap. (PKRbn)	331.5
Index Weightage (KSE-100)	3.3%
Number of Listed Companies	12

Source: PSX, Next Research

Jun'20 Sector Estimates

	EPS	YoY	QoQ	DPS
INDU (4QFY20)	8.06	-82%	-76%	3.50
PSMC (2QCY20)	(14.17)	NM	NM	-

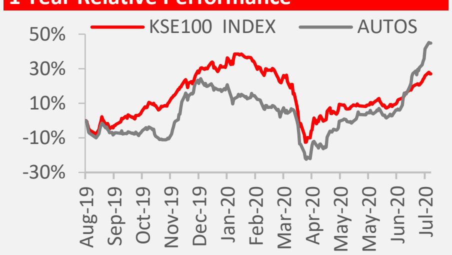
Source: Company Accounts, Next Research

Cumulative Sector Estimates

	EPS	YoY	DPS
INDU (FY20)	71.46	-59%	26.50
PSMC (1HCY20)	(25.61)	NM	-

Source: Company Accounts, Next Research

1 Year Relative Performance



Source: PSX, Next Research

Taimoor Asif
+92-21-35222204
taimoor.asif@nextcapital.com.pk

NEXT CAPITAL

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Disclaimer

This information and opinion contained in this report have been compiled by our research department from sources believed by it to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. All opinions and estimates contained in the document constitute the department's judgment as of the date of this document and are subject to change without notice and are provided in good faith but without legal responsibility.

This report is not, and should not be construed as, an offer to sell or a solicitation of an offer to buy any securities. Next Capital Limited (the company) or persons connected with it may from time to time have an investment banking or other relationship, including but not limited to, the participation or investment in commercial banking transactions (including loans) with some or all of the issuers mentioned therein, either for their own account or the ac- count of their customers. Persons connected with the company may provide or have provided corporate finance and other services to the issuer of the securities mentioned herein, including the issuance of options on securities mentioned herein or any related investment and may make a purchase and/or sale, or offer to make a purchase and/or sale of the securities or any related investment from time to time in the open market or otherwise, in each case either as principal or agent.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. NCEL expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

Next Capital Limited, its respective affiliate companies, associates, directors and/or employees may have investments in securities or derivatives of securities of companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

Rating System

Next Capital Limited employs a three tier rating system depending upon sector's proposed weight in the portfolio as compared to sectors weight in KSE-100 index, as follows:

Rating	Sector's proposed weight in the portfolio
Over Weight	> Weight in KSE 100 index
Market Weight	= Weight in KSE 100 Index
Under Weight	< Weight in KSE 100 Index

Next Capital Limited also employs a three tier rating system, depending upon expected total return (R) of the stock, as follows:

Rating	Expected Total Return
Buy	R ≥ 15%
Neutral	0% ≥ R < 15%
Sell	R < 0%

Where;
R = Expected Dividend Yield + Expected Capital Gain
R' is before tax
Investment horizon is between six months to twelve months

Ratings are updated regularly based on the latest developments in the economy/sector/company, changes in stock prices, and changes in analyst's assumptions.

Karachi Head Office
2nd Floor Imperial Court Building,
Dr.Ziauddin Ahmed Road,
Karachi75530 , Pakistan

☏: +92-21-111-639-825
🖷: +92-21-35632321

Lahore Office
63-A, Agora Eden City
DHA Phase VIII,
Lahore, Pakistan

☏: +92-42-37135843-8
🖷: +92-42-37135840

Research
☏: 92-21-111-639-825 (Ext:109, 129)
✉: research@nextcapital.com.pk

Sales and Trading
☏: 92-21-111-639-825 (Ext: 106)
✉: equitysales@nextcapital.com.pk

Corporate Finance & Advisory
☏: 92-21-111-639-825 (Ext: 131)
✉: cf@nextcapital.com.pk

www.nextcapital.com.pk