

Autos Sep'20 earnings preview

Automobile Assembler

Underweight

October 23, 2020

Key Points

- We present earnings expectations for our Auto sector universe (INDU, HCAR and PSMC) for the quarter ended Sep'20.
- The combined earnings of the sector are expected to show 3.8x change during the quarter mainly on the back of higher unit sales.
- The growth is mainly attributable to higher sales of INDU and HCAR. Volumetric sales of our coverage universe during the quarter clocked in at 36,635 units an increase 7%YoY/2.8xQoQ.
- The sector is likely register a strong rebound this quarter where the path to gradual recovery has started and we believe low interest rates to play a key role.
- However, we flag resurgence of COVID19 as a major risk and return to restriction similar to that of June'20 quarter could be devastating for the automobile sector.
- We maintain our underweight stance on the sector with INDU our top pick.

Earnings to rebound as sector dynamics turn positive

Net earnings of Next Auto Universe (INDU, HCAR, PSMC) are likely register a strong rebound during the quarter under review both on YoY and QoQ basis. The combined profit after tax (PAT) is likely to witness an increase to PKR2,537mn compared to PKR667mn of Sep'19 and a loss PKR1,934mn of June'20. The colossal rise in earnings is mainly attributed to recovery in unit sales backed by price hikes during the past one year.

Unit sales remained upbeat

Unit sales during the quarter under review have witnessed a significant increase over the same quarter last and the previous quarter. Combined sales of our universe improved to 36,635 units as compared to 34,308 units an increase of 7%YoY. Individually INDU and HCAR witnessed a strong recovery in sales where they posted an increase of 75%YoY and 67%YoY respectively. However, unit sales of PSMC took a hit during the quarter and were down 24%YoY.

Higher prices and volumes likely to boost revenue

Robust unit sales and higher prices in the quarter ended Sep'20 are likely to result in a significant increase in revenue of the sector that we expect will increase 31%YoY/2.8xQoQ. The massive rise on QoQ basis is on the back of lockdown during the quarter ended June'20 that restricted economic activities. INDU and HCAR are expected to witness a 65%YoY/69%YoY increase in their revenues whereas PSMC is likely to a decline due to significant decline in unit sales on YoY basis.

Gross profit to jump 92%YoY

We expect gross profit in absolute terms to increase to PKR5,748mn compared to PKR2,992mn of Sep'19 and a gross loss of PKR883mn of June'20. Moreover, gross margins are also likely to incline by 2.4ppts on YoY basis. The noteworthy increase in gross level margins on YoY basis is on the back of higher production, lower steel prices and price hikes, we believe. Further, the colossal increase compared to preceding quarter is mainly on the back of higher production leading to better absorption of fixed cost unlike June'20 quarter where manufacturing facilities were closed leading to higher fixed costs.

Outlook

Automobile sales are improving with each passing month and we believe the trend to continue going forward as full scale economic activities have resumed whereas other factors such as farmers income have improved considerably. Further, the stock of outstanding auto loans for bank employees have increased to PKR31,821mn in Sep'20 from PKR27,749mn of June'20 whereas outstanding stock of consumer financing for transport stands at PKR232bn in Sep'20 compared to PKR211 of June'20 indicating a significant uptick and we believe it to rise further that will provide an impetus to sales. Further, PKR has started to strengthen which could support margins in the upcoming quarters. However, resurgence of COVID19 remains a significant risk which could lead to restrictions and closure of economic activities. We maintain our underweight stance on the sector as we believe that at current prices, auto sector stocks have largely incorporated the anticipated growth potential in sales and earnings.

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Key Data

Mkt. Cap. (USDmn)	1,977
Mkt. Cap. (PKRbn)	320
Index Weightage (KSE-100)	3.1%
Number of Listed Companies	12

Source: PSX, Next Research

Sep'20 Sector Estimates

EPS	Sep'20	YoY	QoQ	DPS
INDU	32.71	95%	26.1x	12.50
HCAR	3.15	-12%	n/a	-
PSMC	(5.87)	n/a	n/a	-

Source: Company Accounts, Next Research

Cumulative Sector Estimates

	EPS	DPS
PSMC (9MCY20)	(35.79)	-
HCAR (1HMY21)	(0.43)	-

Source: Company Accounts, Next Research

1 Year Relative Performance



Source: PSX, Next Research

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Where;

$R = \text{Expected Dividend Yield} + \text{Expected Capital Gain}$

R' is before tax

Investment horizon is between six months to twelve months

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