

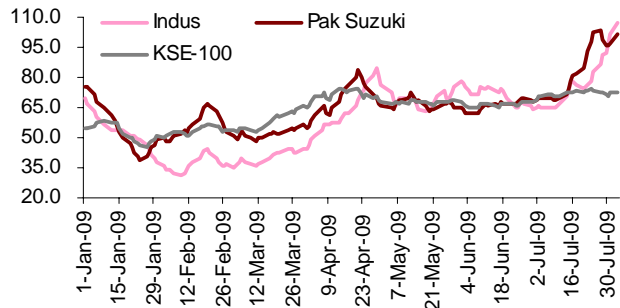
August 04, 2009

**Pakistan Market****Car assemblers: Downgraded to 'Under-weight'****MORNING BRIEFING**

KSE100 Index: Closing 7716.99 ↓ (-3.94)

Indus Motor (INDU) and Pak Suzuki Motor Company (PSMC) from their trough levels this year have witnessed extraordinary returns of 244% and 163%, outperforming the market by 206% and 107%. Improving sector fundamentals at the back of sales recovery and declining cost pressures have been a major reason behind such a strong rally.

However, we believe the positives have now been completely priced in. Resultantly, stock prices have exceeded our target prices for INDU and PSMC by 27% and 36% respectively. Hence, we are downgrading our stance on the scrips to 'Sell' from 'Hold' earlier. Consequently, we are also downgrading our outlook on the sector to 'Under-Weight'.

**Graph: Relative performance of INDU & PSMC vs Market**

Source: KSE, JS Research

INDU and PSMC are currently trading at forward looking earning multiples of 12.4x and 10.9x which are at 77% and 55% premium to the market. Historically the two scrips have traded at a discount of 37% and 5%. Upside risks to our valuations are 1) relaxation in financing schemes by banks, 2) major cut in car prices and 3) further assistance from the govt.

**Things to be wary of...****MoM growth in sales may well be deceptive**

For car assemblers FY09 turned out to be a turbulent year as car sales declined by 50%YoY led by economic slowdown,

inflated commodity prices and security concerns. Though, MoM growth witnessed in the past four months has given some ray of hope for the car assemblers, we believe a lot more has to be achieved in the shape of monetary easing and relaxation of stringent car financing terms by banks to stimulate car sales.

**Steel prices seen reversing from its trough**

Steel prices after dropping to 70% from its peak have started to gradually recover and are currently up 21% from trough prices. Persistent price escalation from here bodes negative for the car assembler's margins, as steel constitutes a major portion of the cost production.

**Depreciating rupee, another cause of concern**

As most of the high valued components are imported from parent company in Japan, Rupee/yen parity plays a pivotal role in driving gross margins. Yen has appreciated by 9% since Apr 06, 2009 which along with rising steel prices would squeeze margins of the car assemblers.

**Upside risks to our valuations****Banks to relax car financing facilities**

Though 6M KIBOR has come down 378bps since the start of the year, it has failed to drive car sales as banks have taken a conservative approach towards providing car financing at back of rising Non performing loans (NPLs). However, relaxation of financing facility is the upside risk to valuation.

**Major cut in car prices**

Reduction in car prices may help generate some volumetric sales which in turn will help auto stocks perform strongly. Strong volumetric growth in the past has resulted in auto stocks outperformance vis-à-vis the market.

**Further assistance from the government**

In recent times, government has been very kind to the car assemblers. Government has provided relief in the shape of removal of 5% FED, deferment of AIDP, removal of 35% LC Margin and reduction in depreciation rate on imported cars to

1%. Further relief in the shape of reduction in age limit on import of cars is a possibility. Such measures will be positive for the car assemblers.

**For more details please refer to our short report titled "Car Assemblers: Downgraded to Under-Weight" released earlier today.**

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**Also in focus****Lucky cement plans to invest in Africa plant**

According to Bloomberg, Lucky Cement is planning to invest in a plant in Africa by 2011 to take advantage of anticipated rising demand in the region. Lucky Cement's CEO Muhammad Ali Tabba in an interview however declined to comment on how much the company would invest in the new plant. The plant is said to be used for exports to Europe as well. Trading at FY10F PE of 5.2x, we reiterate our 'BUY' recommendation on the scrip.

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