

March 05, 2009

Pakistan Market**Car Assemblers record losses in Jul-Dec 2008****MORNING BRIEFING**

KSE100 Index: Closing 5815.43 ↑ (+218.94)

The four major car assemblers in Pakistan, Indus Motor (INDU), Pak Suzuki (PSMC), Honda Atlas (HCAR) and Dewan Farooq Motors (DFML) recently announced their Jul-Dec 2008 results. According to which, the sector has recorded cumulative losses of Rs709mn as against profits of Rs2bn last year. Although PSMC & INDU earnings declined sharply, they were still able to maintain a positive bottomline.

Slacking demand & cost pressures behind losses

Rising car prices, substantial reduction in car financing facilities, slowing economy and political impasse led to substantial decline of 41% in volumetric sales. Higher product prices gave some support to the top line as rupee sales fell by only 29% however cost of sales in comparison only declined by 23%. Raw materials costs swelled as yen appreciated by 44% against Pakistani rupee along with increase in average international steel prices of 39%. Resultantly, gross margins dropped by 850bps to stand at negative 0.8% from positive 7.7% in the corresponding period last year.

Combined Profits	Jul-Dec 2008	Jul-Dec 2007	%Δ
Sales Vol. (units)	52,266	88,087	-41%
Net Sales (Rs mn)	35,763	50,496	-29%
Gross Profit (Rs mn)	(272)	3,890	NM
Gross Margin	-0.8%	7.7%	
Profit before tax (Rs mn)	(813)	3,127	NM
Profit after tax (Rs mn)	(709)	2,032	NM
Net Margin	-2.0%	4.0%	

Source: Company accounts

Indus and Pak Suzuki manage positive earnings

The two leading car assemblers PSMC and INDU posted positive earnings for the period in discussion. PSMC suffered gross losses of Rs399mn as they were unable to pass on their increase in cost due to slacking demand. However increase in other income by 77% covered up their gross losses helping PSMC post positive earnings of Rs26mn. Moreover, Indus Motor posted a profit of Rs163mn, a fall of

88% compared to Jul-Dec 2007. They were unable to sustain their net sales as it fell by 23% compared to corresponding period last year while a decline of 50% in other income also contributed massively in the fall of the profitability of the company.

Honda and Dewan in losses again

Half year ended Dec 2008 proved a terrible period for the relatively smaller car assemblers as HCAR and DFML both posted negative earnings for the period. DFML suffered gross loss and loss after tax of Rs474mn and Rs708mn as net sales declined by 73% as they manage to sell only 912 units compared to 4,642 units in the corresponding period last year. HCAR posted a loss after tax of Rs190mn for the period July-Dec 2008 after a decline in net sales by 5% and a massive surge in operating expenses over the corresponding period last year.

Company (EPS)	Jul-Dec 2008	Jul-Dec 2007	%Δ
Pak Suzuki	0.32	9.54	-97%
Indus Motor	2.07	17.32	-88%
Honda Atlas	(1.33)	(0.15)	NM
Dewan Farooque	(9.19)	(0.97)	NM

Source: Company accounts

Outlook: 'Under-weight' maintained

We maintain our 'Underweight' stance on local car assemblers due to falling demand and increased cost of production. However, we have upgraded our 'Hold' recommendation to 'Buy' for Indus Motor due to sharp fall in its stock prices and decline in risk free rate. Our 'Sell' recommendation on Pak Suzuki remains intact.

atif.zafar@js.com
92 (21) 111-574-111 (ext. 3118)

Also in focus**Refineries: 10% duty to increase profits by 13-15%**

According to the local newspaper report, Ministry of Petroleum has agreed to increase deemed duty (part of refinery margin) on diesel from 7.5% to 10%. However, the refineries would get only the additional benefit if oil prices stay at or below US\$80 per barrel. This decision is positive for the refineries as oil is forecasted to range between US40-70 per barrel at least for next 3 years, according to the Thomson Reuters Oil Poll. Currently, in absolute terms, the 7.5% deemed duty at US\$42 per barrel crude oil is US\$3.7 per barrel. Hence, at current oil prices, increase in deemed would improve earnings by 13-15%. We maintain our 'Buy' stance on ATRL and NRL.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 2799005
Fax: +92 (21) 2800163
js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 2799541-44
Fax: +92 (21) 2800165
tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 2799513
Fax: +92 (21) 2800166
junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 2799005
Fax: +92 (21) 2800166
Ilyas.ahmed@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG & THOMSON REUTERS