

June 08, 2009

Pakistan Market**Car Assemblers: FY10 budget expectations****MORNING BRIEFING**

KSE100 Index: Closing 6894.62 ↑ (+16.48)

After witnessing a decline of 50% in volumetric sales in 10MFY09, local car assemblers are expecting some relief in the upcoming budget. These include possible abolishment of federal excise duty and reduction in withholding tax (WHT). In today's report, we present expected budgetary measures in Budget FY10 for the auto sector along with the sector's outlook.

Abolishment of federal excise duty

In the Budget FY09, government had increased federal excise duty from 1% to 5% resulting in considerable increase of the unit price. Local car assemblers have suggested eliminating the excise duty. We believe this proposed measure is likely to be approved by the government.

Reduction in WHT on registration

Fixed amount of withholding tax (WHT) was imposed on sale of cars and LCVs at registration stage in Budget FY09. We expect it to be reduced to provide some support to declining auto sales.

Age limit on old CBUs

Car importers have proposed to increase the age limit on import of old CBUs from 3 to 10 years. With the current age limit, local auto assemblers are able to charge exuberant prices. We believe government will increase age limit from 3 to 5 years to pressurize local auto companies to reduce prices.

Impact: Neutral to positive

Reduction in withholding tax and abolishment of federal excise duty would favor local auto assemblers as it will reduce unit price, hence boosting auto demand. However, increase in age limit on import of old CBUs is likely to put pressure on the local car assemblers to reduce their prices, hence negatively affecting their gross margins.

Outlook: 'Under-Weight' maintained

Economic slowdown, high car prices, political tensions and

high rates of car financing have severely affected auto sales in the outgoing fiscal year. We expect car sales to show a negative growth of 47-49% in FY09.

Going forward, local car sales are expected to grow at a CAGR of 12% over FY10-12 amid expected economic recovery, positive government policies, improvement in political situation and resumption of auto financing facility driven by improved liquidity. Moreover, relatively stable rupee and declining steel prices are expected to enhance sector's gross margins.

At current levels we are 'Under-weight' on the sector. We have a 'Hold' stance on Indus Motor (INDU) whereas recommend 'Sell' on Pak Suzuki (PSMC). INDU is currently trading at a PE of 9.2x and 8.3x on FY09E and FY10F earnings, while PSMC is trading at 9.9x and 6.5x on 2009E and 2010F earnings.

Car Assemblers: Key Statistics

	09E	10F	11F
Profit growth (%)	-48%	25%	44%
Return on equity	6%	7%	10%
PER	9.5	7.6	5.3
Price/Book value	0.6	0.6	0.5
Dividend yield (%)	3.9%	5.4%	8.1%

Source: JS Research

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Also in focus**Government of Punjab to inject Rs10bn in BOP**

Government of Punjab, the major shareholder of the Bank of Punjab (BOP), has decided to inject capital of Rs10bn in the bank after it reported depressed results for the year ended 2008. The bank posted a loss of Rs10.1bn on account of severe deterioration in asset quality. As a result, BOP's equity fell from Rs19bn in Dec 2007 to Rs3.7bn in Dec 2008, making such injection necessary for BOP to remain a viable concern and meet the necessary capital requirements.

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