

September 11, 2009

Pakistan Market

Car sales up 11%MoM – 6th consecutive rise

MORNING BRIEFING



KSE100 Index: Closing 8996.19 ↓ (-88.79)

Car Sales continued on the recovery path as August 2009 sales depicted a growth of 11%MoM, a sixth consecutive month on month rise, as revealed by Pakistan Automotive Manufacturing Association (PAMA) yesterday. Decline in car prices, higher taxes on imported cars and economic stability are attributed to higher car sales

previous model for the launch of new generation Corolla in both July and August 2008. Hence, if we remove Corolla from our analysis, car sales are actually down 7%YoY. Subsequently, INDU sales are down 51%YoY on a normalized basis as compared to actual 173% growth. Moreover, PSMC sales are down 6%YoY while HCAR sales were up 4%YoY.

are pushing cost pressure on the upside and still remain a major concern for car assemblers. Hence margins are expected to remain thin in the near term. We therefore maintain an 'Under-Weight' stance on the sector with 'Hold' recommendations on INDU and PSMC. The scrips are currently trading at FY10 P/E of 11.0x and 8.6x.

Moreover, in 2MFY10 car sales have jumped by 44%YoY. Along with low base effect, production phase out anomaly for the launch of new model of Corolla last year helped magnify growth. Hence, if we remove sales of corolla from our analysis, car sales are down 7%. With Indus Motor (INDU) and Pak Suzuki (PSMC) trading at FY10F P/E of 11.0x and 8.6x, we maintain our 'Hold' recommendation on the scrips while maintaining our 'Under-Weight' stance on the sector.

PSMC car sales notch up 20%MoM

PSMC car sales outpaced others in the month of August with its sales up 20%MoM. PSMC has been the major beneficiary of reduction in 5% FED as its lower end car sales are more sensitive to decline in prices as compared to others. Moreover, PSMC initiatives for reducing prices in 850CC below segment and availability of Suzuki Auto Finance Arrangement Program also helped shore up sales. However, INDU only managed to sell 3,703 units, only 3% more than last month while Honda Car sales dropped 8%MoM.

Unit sales	Aug 2009	July 2009	%Δ
Indus Motor	3,703	3,586	3%
Pak Suzuki	5,973	4,966	20%
Dewan Motor	136	128	6%
Honda Car	1,053	1,140	-8%
Industry LCV/car sale	11,017	9,896	11%
Industry car sales	8,441	7,614	11%

Source: PAMA, JS Research

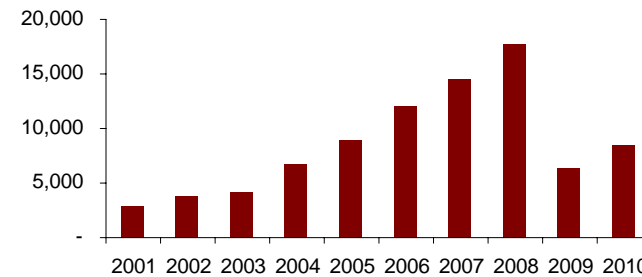
Car sales down 7%YoY on adjusted basis

Though car sales are up 44%YoY in 2MFY10, growth is a bit misleading as INDU was in the process of phasing out its

Unit sales	Actual			W/O Corolla sales		
	Jul-Aug FY10	Jul-Aug FY09	%Δ	Jul-Aug FY10	Jul-Aug FY09	%Δ
Indus Motor	7,289	2,666	173%	993	2,027	-51%
Pak Suzuki	10,939	11,626	-6%	10,939	11,626	-6%
Dewan Motor	264	375	-30%	264	375	-30%
Honda Car	2,193	2,100	4%	2,193	2,100	4%
Industry LCV/car sale	20,913	17,122	22%	14,617	16,483	-11%
Industry car sales	16,055	11,177	44%	9,759	10,538	-7%

Source: PAMA, JS Research

Graph: Car sales trend during August (units)

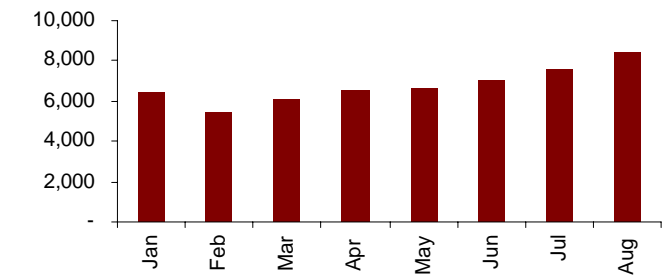


Source: PAMA, JS Research

Outlook: 'Under-Weight' maintained

With car sales posting sixth consecutive month-on-month rise, recovery in the sector is inevitable. However for recovery, we believe, monetary easing is the key factor. Historically it has been witnessed that car sales are more responsive to liberal auto financing rather than car prices. Moreover, with a rebound in steel prices and yen appreciation against rupee

Graph: Car sales trend in 2009 (units)



Source: PAMA, JS Research

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Also in focus

Remittance recorded at US\$780.5mn in Aug 09

Worker remittances were recorded at US\$780.5mn in August 2009, an increase of 31.8%YoY. This is the second consecutive record amount remitted in the country after a previous high of US\$744.9mn recorded in Jul 09. Thus in 2MFY10 an amount in excess of US\$1.5bn has been remitted into the country.

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