

August 12, 2010

Pakistan Market

Auto sales: Weak beginning to FY11

MORNING BRIEFING



KSE100 Index: Closing 9875.68 ↓ (-16.64)

FY11 for local auto assemblers has started off on a dismal note with July auto (Cars + LCVs) sales coming down by 34%MoM, after strong volumes were witnessed in the previous month due to pre-buying ahead of the increase in GST. A decline in sales of all major assemblers was witnessed, with Pak Suzuki (PSMC) and Indus Motor's (INDU) sales down 48%MoM and 14%MoM, respectively. Looking ahead, we see substantial risk to our volume estimates for FY11 owing to expectations of weaker farmer income post the havoc created by the recent floods. Moreover, the sharp appreciation of the Japanese Yen against Pak Rupee recently should result in weak margins for the companies, particularly in 1QFY11. With INDU and PSMC trading at one year forward looking PE of 6.4x and 6.1x, respectively, we maintain our 'Hold' stance on both the scrips.

Auto sales for the month of July 2010

Units	Jul-10	Jun-10	MoM % Δ	Jul-10	Jul-09	YoY % Δ
Indus Motor	4,999	5,793	-14%	4,999	3,586	39%
Pak Suzuki	4,503	8,693	-48%	4,503	4,966	-9%
Dewan Motor	40	202	-80%	40	128	-69%
Honda Car	1,272	1,728	-26%	1,272	1,140	12%
Industry LCV/car	10,942	16,663	-34%	10,942	9,896	11%
Industry cars	8,946	12,891	-31%	8,946	7,614	17%

Source: PAMA

July auto sales down 34%MoM

Auto sales have sharply declined by 34%MoM owing to

1. June 2010 being a beneficiary of strong volumes (up 25%MoM) on account of pre buying ahead of a 1ppt increase in GST in the Budget FY11.
2. Partly, flooding in the country since July 22nd, which has weakened demand. This is reflective from a significant decline in lower end cars, for which lead time is almost zero (day).

Amongst major auto assemblers, the greatest fall in sales was experienced by PSMC (↓48%) followed by Honda Car (↓26%)

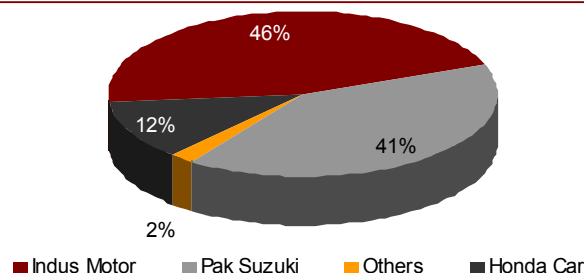
and INDU (↓14%). PSMC lost its market leader status (a phenomenon last occurring in April 2009), with its share falling to 41% compared to 52% in June 2010. As a result, INDU presently holds the major market share of 46%, up 11ppts from last month.

Break up of auto sales

Units	Jul-10	Jun-10	Δ%
1300CC and above cars	5,884	6,920	-15%
1000CC cars	1,335	2,661	-50%
800CC - 1000CC cars	1,727	3,310	-48%
LCVs	1,996	3,772	-47%
Total	10,942	16,663	-34%

Source: PAMA

Market share in July 2010

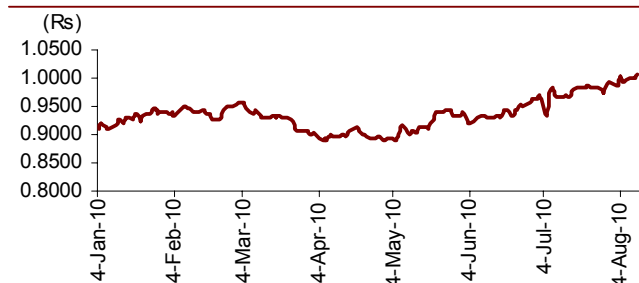


Source: PAMA

Yen appreciates 4.3% in FY11

The Japanese Yen has gained against the US dollar recently owing to weaker than anticipated US economic data and talks of further quantitative easing measures to be taken by the FED. Similarly, the Yen has gained 4.3% against Pak Rupee in FY11 so far, and is currently trading at Rs1.0056. We believe, the recent appreciation of Yen, will bode negative for the margins of the local auto assemblers, particularly in 1QFY11, due to their heavy reliance on imported parts from Japan. However, the actual impact of Rupee/Yen parity is dependent upon the timing of the opening of Letter of Credit's (L/Cs) for imports and their subsequent payments.

JPY vs PKR since Jan 2010



Source: SBP

Floods implications on the auto sector

Based on discussions with the managements of various auto companies, a slow down in agricultural growth following the recent floods in the country is likely to dent demand of vehicles by 20-25%. Indus Motor and Honda Car are expected to bear the brunt of this, owing to a higher share of 1300CC (and above) vehicles in their product mix for which a significant chunk of the demand is derived from rural areas.

Recommendation: 'HOLD' on both INDU & PSMC

INDU and PSMC are trading at an one year forward looking PE of 6.4x and 6.1x respectively, and we maintain our 'Hold' stance on both the scrips.

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