

October 12, 2009

**Pakistan Market****Auto sales decline 10%MoM in Sept. 2009****MORNING BRIEFING**

KSE100 Index: Closing 9768.63 ↑ (+27.76)

After posting 6 consecutive month-on-month growth, auto (Cars + LCVs) sales came out weak in September 2009 as it fell 10%MoM with car sales down 4%MoM amid the Holy month of Ramadan. With the exception of Honda Atlas (HCAR), all other assemblers saw their sales decline during the month. However, sales in the first quarter (Jul-Sept) FY10 jumped 13%YoY mainly due to Indus Motor's (INDU) abnormal growth of 108%YoY amid production phase out of Corolla's previous model in the corresponding period last year.

With INDU and Pak Suzuki (PSMC) trading at FY10E P/E of 10.8x and 10.3x respectively, we maintain our 'Sell' stance on both the scrips.

**Auto sales down 10% in Sept 2009**

Auto sales after witnessing 6 consecutive month-on-month growth, declined 10%MoM in September 2009 due to weak consumer buying during the Holy month of Ramadan. INDU was amongst the major losers as its sales declined by 15% largely due to decline in Corolla sales (86% share in INDU sales in 1QFY10 is Corolla) which came in at 2,655 units as compared to 3,172 units in August 2009, down 16%. Pak Suzuki followed suit with sales down 8%MoM, however, HCAR sales were up 2%MoM mainly due to a very low base.

Unit sales	Jul-Sept FY10	Jul-Sept FY09	%Δ	Sept 2009	Aug 2009	%Δ
Indus Motor	10,426	5,008	108%	3,137	3,703	-15%
Pak Suzuki	16,434	17,855	-8%	5,495	5,973	-8%
Dewan Motor	396	545	-27%	132	136	-3%
Honda Car	3,263	3,232	1%	1,070	1,053	2%
<b>Industry LCV/car sale</b>	<b>30,787</b>	<b>27,159</b>	<b>13%</b>	<b>9,874</b>	<b>11,017</b>	<b>-10%</b>
<b>Industry car sales</b>	<b>24,181</b>	<b>19,066</b>	<b>27%</b>	<b>8,126</b>	<b>8,441</b>	<b>-4%</b>

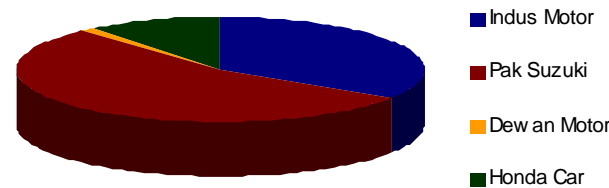
Source: PAMA, JS Research

**1QFY10 – Auto sales up 13%YoY and 20%QoQ**

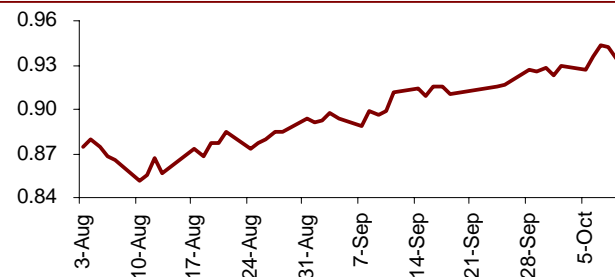
Auto sales during 1QFY10 increased by 13% primarily due to Indus Motor's abnormal growth of 108% amid production

phase out of the previous model of Corolla. HCAR sales depicted a rise of 1%YoY; however PSMC and DFML sales fell by 8% and 27%, respectively. Resultantly, INDU's market share rose by 1,543bps to 34% from last year while PSMC and HCAR market share fell to 53% and 11% respectively.

Moreover, on QoQ analysis, auto sales have risen by 20% in 1QFY10 led by 56% growth in PSMC sales. However, INDU sales witnessed a decline of 8%QoQ mainly due to seasonality.

**Graph: Market share in 1QFY10**

Source: PAMA, JS Research

**Graph: Rupee-Yen parity**

Source: JS Research

**Outlook: 'Under-Weight' maintained**

Strong agriculture income and low base effect has resulted into 6 consecutive higher month-on-month auto sales. However, we believe weak September sales were due to

slower than expected recovery in demand as evident from Sept. 2009 trade numbers (export down 14%, imports down 36%). Hence, auto sales are likely to remain depressed in the near term. As a result, FY10 YoY growth is expected to arrive at 12%, compared to 13%YoY growth realized in 1QFY10.

Moreover, sharp appreciation of yen against Pak Rupee (9% since the start of FY10) is a major concern for car assemblers. Cost pressure is also likely to aggravate due to weak dollar and in turn higher steel prices. We therefore maintain an 'Under-Weight' stance on the sector with 'Sell' recommendations on INDU and PSMC. The scrips are currently trading at FY10 P/E of 10.8x and 10.3x, respectively.

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**Also in focus****Remittances up 22% in September**

Foreign remittances were recorded at US\$806mn in September as against US\$660mn in the same period last year, a rise of 22%. This is the third consecutive record amount remitted in the first three months of the fiscal year. With release of the September data, first quarter remittances have risen to US\$2.3bn as against US\$1.9bn in the corresponding period last year, up 21%. Higher remittances for the month of September can be linked to the seasonal jump in the period leading up to the Eid holiday season.

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