

July 13, 2009

Pakistan Market

Auto Sales FY09: Down 50%YoY

MORNING BRIEFING



KSE100 Index: Closing 7502.66 ↑ (+72.65)

Like most industries, FY09 proved to be a turbulent year for car assemblers as they felt the heat of economic slowdown, inflated commodity prices and political & security concerns. Recently released FY09 numbers by PAMA revealed that auto sales (Cars+LCVs) were down 47%YoY with cars alone down 50%.

However, year's tail-end performance has done enough to suggest revival has begun as June car sales were up 6%MoM - fourth consecutive MoM growth. We await monetary easing and relaxation of stringent car financing terms by banks to turn 'Over-Weight' on the sector. Hence, we have maintained 'Market-Weight' stance with 'Hold' recommendations on both Indus Motor (INDU) and Pak Suzuki (PSMC).

PSMC and INDU car sales down 56% and 29%YoY

PSMC and INDU, the two leading car manufacturers in Pakistan, saw car sales slump by 56% and 29% respectively for full year FY09. Honda Atlas and Dewan Motor followed suit as their sales were down 28% and 75% respectively. Passing on of rising cost pressures through numerous price hikes, imposition of 5% FED in budget FY09 and monetary tightening were key factors behind depressed sales.

Table: Auto sales (units)

Company Name	Jul-Jun FY09	Jul-Jun FY08	% Δ	Jun 2009	May 2009	% Δ
Indus Motor	34,146	47,845	-29%	3,889	3,589	8%
Pak Suzuki	50,584	114,270	-56%	3,966	3,701	7%
Dewan Motor	2,287	9,075	-75%	198	260	-24%
Honda Car	11,144	15,487	-28%	862	701	23%
Industry LCV/car sale	98,507	187,412	-47%	8,541	8,302	3%
Industry car sales	74,180	147,441	-50%	6,993	6,604	6%

Source: PAMA, JS Research

MoM sales show some ray of hope

June cars sales increased 6% - fourth consecutive MoM increase. INDU and PSMC posted growth of 8% and 7% respectively with Honda Atlas posting handsome growth of

23%. Improving liquidity & removal of 5% FED in budget FY10 are major reasons for improving car sales.

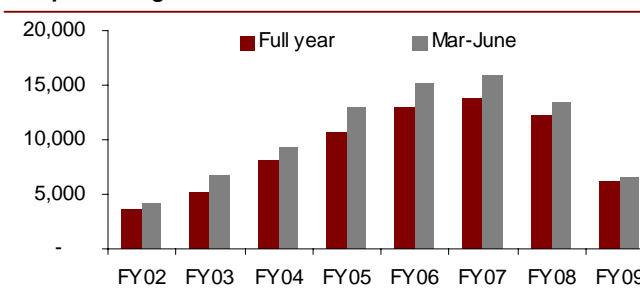
INDU increases market share to 35%

INDU endured the year better than others as it managed to increase its market share to 35% from 26% last year at the back of successful launch of new model of Corolla. Moreover, PSMC market share trimmed to 51% as economy car segment (1000 CC & below) took the worst hit. Corolla improved its presence in the 1300 CC and above segment to 69% while Suzuki Cultus (57%) and Suzuki Mehran (48%) maintained their hold in the 1000 CC and 1000 CC below segments respectively.

Outlook: 'Market-Weight' maintained

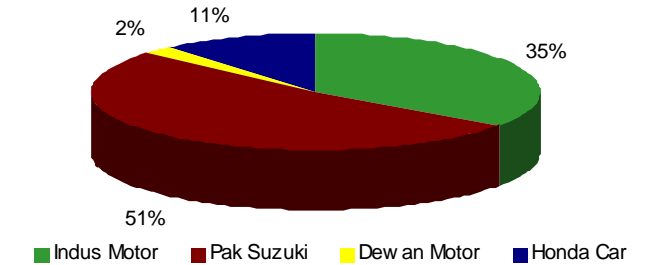
Though car sales have showed a positive MoM growth for the past four months, we believe a lot more have to be achieved to turn bullish on the sector. Average monthly car sales in these past four months have been only 6,550 units compared to 15,901 units for the corresponding period in 2007. Though elimination of FED and deferment of AIDP has been warmly welcomed, monetary easing would be the key to stimulate car sales. Going forward we are expecting 12% growth in car sales on the back of declining interest rate scenario and low base effect. We are maintaining 'Market Weight' stance on the sector with 'Hold' recommendations on INDU & PSMC. The scrips are currently trading at FY10F PE of 7.8x & 7.4x.

Graph: Average car sales trend



Source: PAMA, JS Research

Graph: Market share FY09



Source: PAMA, JS Research

Table: Key statistics

	Indus Motor		Pak Suzuki Motor	
	FY09E	FY10F	FY09E	FY10F
Earnings per share (EPS)	12.9	14.4	6.2	9.4
Price earning ratio (PER)	8.7	7.8	11.2	7.4
Dividend Yield (%)	3.6%	5.1%	4.3%	5.7%
Price/Book Value (PBV)	0.9	0.8	0.4	0.4
Return on Equity (ROE)	10.4%	10.7%	3.5%	5.1%

Source: JS Research

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