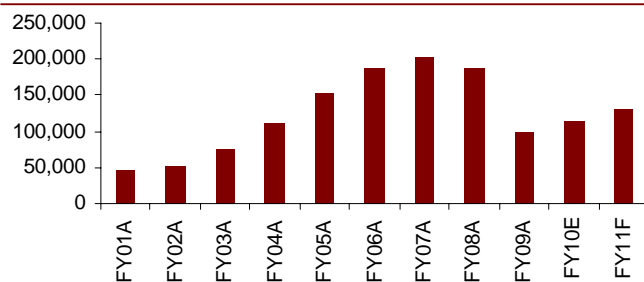


Auto & Allied: Snapshot

With macro-economic consolidation, we witnessed auto sales react impressively as highlighted from 5MFY10's growth of 8%YoY. Expected monetary easing in the near future by the Central Bank coupled with higher agriculture growth is likely to further boost automobile demand. While the bulk of the positives have already been accounted for in the auto assemblers' price, we understand, auto allied stocks which are less liquid are likely to benefit from the surge in demand. We believe General Tyre (GTJR), Transmission Engineering (TREI) and Atlas Battery (ATBA) are well set to post impressive returns.

Graph: Auto sales trend (units)



Source: PAMA, JS Research

GTJR: Mkt. Capitalization Rs1.4bn, Free Float 20%

General Tyre posted positive earnings in 1QFY10 after a dismal FY09 when the company had suffered from all-time high oil prices and rupee devaluation (FY09: loss per share of Rs0.28). With improved revenues (up 22%YoY) on the back of better auto sales and reduced cost pressures, the 1QFY10 result showed remarkable improvement in earnings. The company posted profits of Rs67mn (EPS of Rs1.12) as compared to losses of Rs58mn (Loss per share of Rs0.97) in the corresponding period last year. Highlighted in its 1QFY10 results, a higher sale figure could have been achieved had it not been for production losses in July 2009 due to floods. Auto sales are up 8% in 5MFY10 and with further recovery in

auto demand following expected monetary easing, volumes are likely to improve going forward. Moreover, the company has also raised prices for its products in Oct 2009.

General Tyre has traded on an average historical PBV and PE of 1.3x and 11.3x, respectively. To provide a comparison, other regional tyre companies are trading at a one year forward looking PBV of 2.2x and a PE of 14.9x. Currently, the scrip is trading at FY10 PBV (based on Sept 30, 2009 book value) of 1.2x and a PE of 5.3x (if 1QFY10 annualized), which is at 45% and 65% discount to the region, respectively. Average traded volumes during the past 6 months have been 89k shares.

TREI: Mkt. Capitalization Rs35mn, Free Float 70%

Transmission Engineering is a supplier of components and powered equipment to the automobile industry. FY09 proved to be a gloomy year for Transmission Engineering too, as it had for other auto related industries. However, with improving economic fundamentals, the company has witnessed recovery in profitability in 1QFY10, when it booked profits of Rs3.2mn (EPS of Rs0.29) as against losses Rs173k (loss per share of Rs1.80) in the corresponding period last year. Net sales which rose 8%YoY during the period are expected to augment further, as the company looks to add European customers alongside its US customer base.

The company expects a full year revenue of Rs200mn which appears optimistic considering it has earned only Rs26mn so far. We do opine though, that there is substantial room for improvement in revenue in the Motorcycle and Trucks business segment. During 5MFY10, motorcycle sales have gone up 36%YoY, while trucks sales have yet to pick up. Historically, the scrip has traded at a PBV and a PE of 5.2x and 3.0x respectively, while it is currently trading at 4.9x (PBV based on Sept 30, 2009 book value) and a PE of 2.7x (1QFY10 earnings annualized). The scrip in 2009 has so far given a return of 27% compared to the markets' 57%. Average daily volumes during the past 6 months have been 18k shares.

ATBA: Mkt. Capitalization Rs1.5bn, Free Float 25%

Atlas Battery is a manufacturer of dry charged hard rubber batteries and Polypropylene. The company is better known for its brand, 'AGS'. Atlas Battery in 1QFY10 recorded earnings of Rs69mn (EPS of Rs9.91) versus Rs23mn (EPS Rs3.24) in the corresponding period last year, up 205%YoY owing to higher revenues and improved margins. Correlated with the auto industry's sales, Atlas battery is likely to see its net sales rise in tandem with growth in the sector. However, rising costs are expected to pose some pressure on its gross margins.

In the past, the scrip has traded at an average PBV and PE of 1.7x and 9.2x, respectively. Regionally, car battery companies are trading at a one year forward looking PBV of 3.2x and a PE of 16.5x. The scrip is currently available at a PBV and PE of 1.7x (Sept 30, 2009 book value) and 5.3x (1QFY10 earnings annualized), respectively. Hence, ATBA is trading at 47% and 68% discount to the region, respectively. Average daily volumes in the past 6 months have been 12k shares.

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