

November 26, 2009

**Pakistan Market****PSMC: 2009 EPS revised down to Rs5.6 / 'Sell'****MORNING BRIEFING**

KSE100 Index: Closing 9204.57 ↓ (-29.13)

Depressed sales and heightened cost pressures were to primarily blame for a 67% decline in 9M2009 earnings of Pak Suzuki Motor Company (PSMC). Profit for the period stood at Rs212mn (EPS of Rs2.6) as against earnings of Rs637mn (EPS of Rs7.7) in the corresponding period last year. However, in 3rd quarter alone, the company's profits were up by 33%YoY to Rs51mn, though down 24% on QoQ basis. With below than expected 9M2009 result, we are revising down our 2009E earnings estimate by 41% to Rs5.6 per share. Consequently, trading at a 2009E PE of 16.2x, we maintain our 'Sell' recommendation on the scrip.

**Rupee volatility drive down earnings by 67%YoY**

Despite an average increase of 22% in car prices by PSMC, a 56% fall in volumetric sales drove down net sales by 46%YoY to Rs17.8bn in 9M2009. With rupee depreciating against yen and US\$ by 25% & 16%, respectively, cost of production/car was up 22%YoY. Resultantly, gross profit was down 47% with gross margins declining by 5bps to 2.9%. Other Income also remained depressed during the period, down 39%YoY to Rs432mn leading to a 67% fall in the profits of the company.

Considering the 3rd quarter alone, the state of affairs slightly improved as profits were up 33%YoY. This was mainly due to a 21% increase in average car prices whereas cost of production/car rose by only 18%. Hence, gross profit arrived at Rs176mn as against gross loss of Rs23mn last year. Other income, however registered a decline of 29%. Resultantly, net margin was up only 13bps compared to a 249bps improvement in gross margins.

**Net sales for 4Q to increase on sequential basis**

The October sales painted a positive picture for PSMC as sales were up 18%MoM. Despite weak volumes expected in Nov and Dec (customers opting to delay their purchases until after the New Year), nominal sales are expected to increase by 7% thanks to Rs5-15k increase in car prices. Additionally, PSMC had rolled out 5 units of Suzuki Swift in October which is expected to be launched during the second half of January.

This is expected to improve PSMC's market share going forward, due to its anticipated untapped 1300CC hatch bag positioning.

**2009 EPS revised to Rs5.6 / 4Q earnings intact**

With below than expected 9M2009 result, we are revising down full year 2009 earnings by 41% to Rs5.6/share from Rs9.4/share earlier. However, we keep our fourth quarter earnings estimate intact and expect earnings to grow 4x over the previous quarter to Rs3/share at the back of easing cost pressures and rise in car prices.

**Recommendation: 'Sell'**

Persistent yen appreciation and rise in steel prices remain a cause for concern for the industry. On the other hand, monetary easing will be the key in stimulating car sales. With PSMC trading at 2009E of 16.2x, we maintain our 'Sell' recommendation on the scrip.

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**Pak Suzuki Motor Company**

<b>Market Price:</b> Rs90.49	<b>Kats Code:</b> PSMC
<b>Market Cap:</b> Rs7.5bn (US\$89.2mn)	<b>Bloomberg Code:</b> PSMC PA
<b>1-yr Avg. Daily Volume:</b> 0.1mn shares, Rs7.9mn (US\$0.1mn)	<b>Reuters Code:</b> PKSU.KA
<b>1-year High/Low:</b> Rs103.94/38.86	

**Also in focus****US to release US\$525mn before 31 Dec 09**

US ambassador Anne W Patterson said yesterday, that the US government would release US\$525mn before 31 Dec, 2009. This includes US\$175mn for direct budgetary support and US\$350mn as proceeds of Coalition Support Fund (CSF) out of the total outstanding amount of US\$1.1bn. Moreover, the US is expected to release US\$800mn under the recently approved Kerry-Lugar Bill by March 2010. These inflows are expected to boost the forex reserves that currently stand at US\$14.3bn.

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