

Auto Assemblers | Preview | 1QCY23

Cost pressures to erode sector's profitability



Muhammad Saad Imran

saad.imran@ismailiqbal.com

(+92 21) 34302184 Ext: 407

Cost pressures to erode sector's profitability

April 18th, 2023

IIS Auto Car Universe (INDU, HCAR & PSMC) is projected to post LAT of PKR 2.2bn in Mar'23 quarter as against the loss of PKR 1.7bn in the Dec'23 quarter.

Revenue is expected to dive by 30% QoQ to PKR 92.4bn despite multiple price revisions during the quarter primarily led by decline in volumetric sales. The sales of our universe companies fell to just 22,011 units during the quarter from 46,648 units in the previous quarter (-52.8%).

The industry encountered a number of challenges this quarter where not only surging inflation and incompatible interest rates curtailed demand but also the supply side remained largely impacted and resulted in extensive non-production days during the quarter. Despite SBP withdrawing prior permission for the import of goods from Jan 2nd, 2023, the import of only essential goods was being allowed on priority basis. Consequently, the industry was consistently running short on CKD kits and other raw materials.

On the cost side, in order to combat cost pressures, the industry witnessed multiple price revisions during the quarter. PKR witnessed a massive devaluation of 20% against the greenback during the quarter, meanwhile the government not only increased the general sales tax by 100 bps to 18% but also enhanced the sales tax on cars of 1400cc and above to 25%.

ATLH (two wheeler in our universe) is projected to post EPS of 8.1 as compared to EPS of 11.3 in the last quarter. Topline is expected to arrive at PKR 34.4bn down 2% QoQ as the company sold 246,921 units during the quarter down 9% QoQ, the lowest since 1QFY20 (235,116 units), excluding COVID-19 period. Gross margin is expected to come down to 4% (-2.7 ppts QoQ) amid cost pressures. Other income is expected to go up by 23% QoQ to owing to attractive deposit rates. We also expect dividend of PKR 11.5/sh.

IIS Auto Assemblers Cars OEMs - Mar'23 Estimates

EPS	Mar-23	Dec-22	QoQ	Mar-22	YoY
HCAR	-3.44	5.68	nm	1.38	nm
PSMC	-33.80	-46.54	-27%	-5.59	504%
INDU	13.20	16.93	-22%	65.11	-80%

IIS Auto Assemblers Two Wheelers - Mar'23 Estimates

EPS	Mar-23	Dec-22	QoQ	Mar-22	YoY
ATLH	8.14	11.35	-28%	13.17	-38%

Source: Company Accounts, IIS Research

IIS Auto Assemblers Cars OEMs - Mar'23 Estimates

PKR'mn	Mar-23	Dec-22	QoQ	Mar-22	YoY
Sales	92,392	132,575	-30%	146,727	-37%
Gross Margin (%)	0.9%	5.4%		5.4%	
Other Income	3,889	4,362	-11%	4,333	-10%
Profit after Tax	-2,235	-1,689	32%	4,854	nm

Source: Company Accounts, IIS Research

IIS Auto Assemblers Two Wheelers - Mar'23 Estimates

PKR'mn	Mar-23	Dec-22	QoQ	Mar-22	YoY
Sales	34,396	35,214	-2%	35,857	-4%
Gross Margin (%)	4%	7%		8%	
Other Income	1,331	1,085	23%	708	88%
Profit after Tax	1,010	1,409	-28%	1,634	-38%

Source: Company Accounts, IIS Research

Across the board decline in volumetric sales

April 18th, 2023

INDU is expected to post profitability of PKR 1.04bn translating into EPS of PKR 13.2 as compared to EPS of 16.93 in the last quarter. Topline of the company is expected to arrive at PKR 46.8bn down 6% QoQ owing to decline in volumetric sales (-23%) in both segments. In our view, company might post negative gross margin for the third straight quarter (-1.1% expected this quarter) owing to inflated costs pressures. Other income, this time too, will support the bottom-line and is expected to arrive at PKR 3.2bn, that too down by 6% QoQ owing to condensed short term investments. Lastly, we also expect an interim cash dividend of PKR 7.0/sh.

HCAR is expected to LPS of PKR 3.4 in Mar'23 as compared to EPS of PKR 5.7 in the last quarter. Topline is expected to remain flat at PKR 23.3bn (+1.3% QoQ). Sales volumes witnessed a 6% decline to 5,175 units (lowest decline in our universe). Cost pressures are expected to drag gross margin to 3.8% (7.8% in the last quarter). We also expect final cash dividend of PKR 1.0/sh.

PSMC has been in the midst of a disarray with the company posting hefty losses in the previous two quarters. This quarter too, it is not anticipated to be an exception as we expect the company to post LPS of PKR 33.8. The topline of the company is expected to arrive at PKR 22.3bn plummeting by 63% QoQ owing to 70% decline in volumetric sales of the company to just 9,551 units, the lowest since 2QFY13 (9,189 units), excluding COVID-19 period. Gross margin as a result is expected to come down to 2.0% from 9.8% in the last quarter. Other income too, is expected to slip by 56% QoQ to PKR 259mn on the back of contracting liquid assets of the company.

Quarterly Volumes	Mar-23	Dec-22	QoQ	Mar-22	YoY
HCAR	5,175	5,477	-6%	10,462	-51%
City/Civic	3,475	3,861	-10%	9,210	-62%
BR-V/HR-V	1,700	1,616	5%	1,252	36%
PSMC	9,551	31,732	-70%	36,716	-74%
Cultus	1,090	3,320	-67%	3,170	-66%
Wagon R	1,253	2,356	-47%	5,287	-76%
Alto	3,130	18,331	-83%	20,853	-85%
Swift	1,448	5,020	-71%	0	nm
Ravi	1,201	1,458	-18%	4,085	-71%
Bolan	1,429	1,247	15%	3,321	-57%
INDU	7,285	9,439	-23%	18,495	-61%
Corolla/Yaris	3,929	5,650	-30%	14,569	-73%
Fortuner/Hilux	3,356	3,789	-11%	3,926	-15%
ATLH	246,921	272,638	-9%	340,329	-27%

Source: PAMA, IIS Research

Income Statement Snapshots – Mar'23

 April 18th, 2023

INDU Financial Snapshot 3QFY23					
Income Statement	Mar-23	Dec-22	YoY	Mar-22	QoQ
Net sales	46,822	49,585	-6%	68,223	-31%
Cost of sales	47,343	50,075	-5%	62,991	-25%
Gross profit	-521	-491	6%	5,231	nm
Operating profit	-1,501	-1,406	7%	4,270	nm
Other Income	3,253	3,454	-6%	3,183	2%
EBIT	1,598	1,971	-19%	7,082	-77%
PBT	1,548	1,921	-19%	7,065	-78%
PAT	1,037	1,331	-22%	5,118	-80%
EPS	13.2	16.9		65.1	
DPS	7.0	10.2		26.0	
Gross Margin	-1.1%	-1.0%		7.7%	

HCAR Financial Snapshot 4QMY23					
Income Statement	Mar-23	Dec-22	YoY	Mar-22	QoQ
Sales	23,258	22,949	1%	30,768	-24%
Cost of sales	22,378	21,159	6%	29,375	-24%
Gross profit	880	1,790	-51%	1,393	-37%
Operating profit	335	1,250	-73%	463	-28%
Other income	377	325	16%	623	-40%
EBIT	-335	1,498	nm	883	nm
EBT	-369	1,180	nm	823	nm
Net income	-491	811	nm	196	nm
EPS	-3.4	5.7		1.4	
DPS	1.0	0.0		7.0	
Gross Margin	3.8%	7.8%		4.5%	

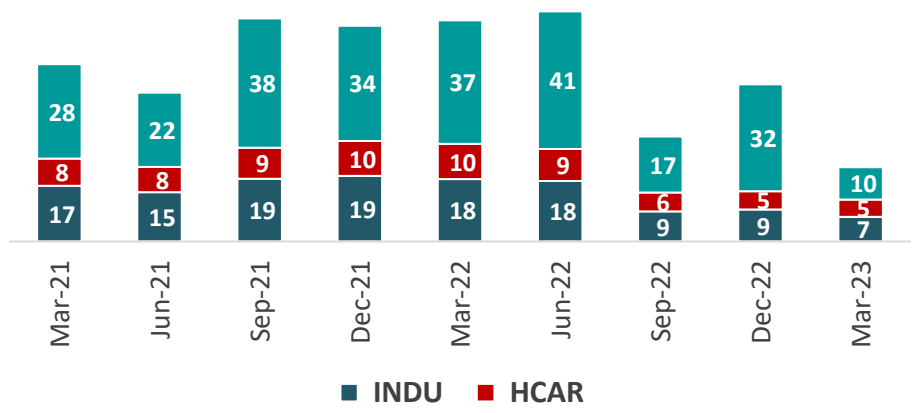
PSMC Financial Snapshot 1QCY23					
Income Statement	Mar-23	Dec-22	YoY	Mar-22	QoQ
Sales	22,312	60,042	-63%	47,736	-53%
Cost of sales	21,873	54,128	-60%	46,387	-53%
Gross profit	438	5,914	-93%	1,349	-68%
Operating profit	-610	4,123	nm	-126	383%
Other income	259	583	-56%	527	-51%
EBIT	-367	4,545	nm	383	nm
EBT	-4,152	-428	870%	-648	541%
Net income	-2,782	-3,830	-27%	-460	504%
EPS	-33.8	-46.5		-5.6	
DPS	0.0	0.0		0.0	
Gross Margin	2.0%	9.8%		2.8%	

ATLH Financial Snapshot 4QMY23					
Income Statement	Mar-23	Dec-22	YoY	Mar-22	QoQ
Sales	34,396	35,214	-2%	35,857	-4%
Cost of sales	33,008	32,854	0%	33,063	0%
Gross profit	1,388	2,360	-41%	2,794	-50%
Operating profit	493	1,476	-67%	1,678	-71%
Other income	1,331	1,085	23%	708	88%
EBIT	1,519	2,231	-32%	2,197	-31%
EBT	1,507	2,217	-32%	2,175	-31%
Net Income	1,010	1,409	-28%	1,634	-38%
EPS	8.1	11.4		13.2	
DPS	11.5	0.0		15.0	
Gross Margin	4.0%	6.7%		7.8%	

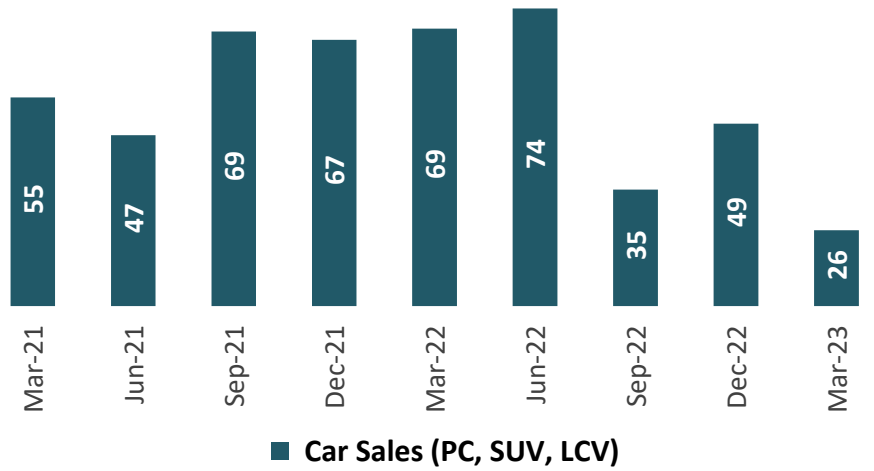
Quarterly Sales Trend

April 18th, 2023

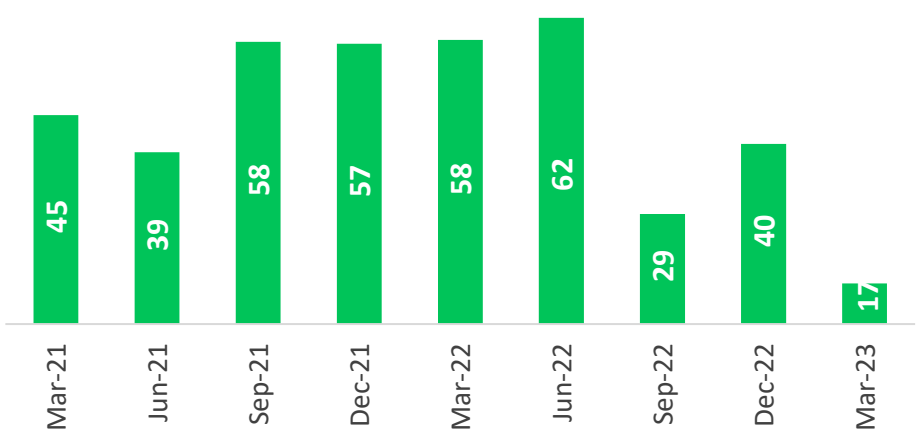
Listed Players' Car Sales ('000)



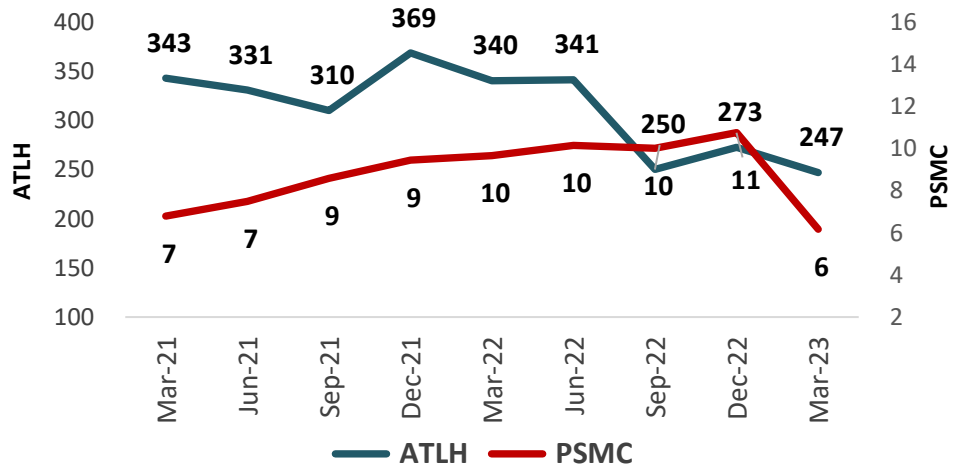
Total Industry Car Sales ('000)



Passenger Car Sales ('000)



Motorcycle Sales ('000)



April 18th, 2023

Disclaimer

Ismail Iqbal Securities (Pvt.) Limited does not warrant the timeliness, sequence, accuracy or completeness of this information. In no event will Ismail Iqbal Securities (Pvt.) Limited be liable for any special, indirect, incidental, or consequential damages without limitation which includes lost revenues, lost profits, or loss of prospective economic advantage resulting from the use of the information or for any omission or inaccuracies resulting from the use of information from this market.

Disclosures

Ismail Iqbal Securities (Pvt.) Limited, hereinafter referred to as IISPL, acts as a market maker in the security(ies) mentioned in this report. IISPL, its officers, directors, associates or their close relatives might have financial interests in the security(ies) mentioned in this report, including a significant financial interest (1% of the value of the securities of the subject company). IISPL is doing business, or seeking to do business, with the company(ies) mentioned in this report, and therefore receives/has received/intending to receive compensation from these company(ies) in a non-research capacity. IISPL has previously or might in the future trade or deal in the subject company in a manner contrary to the recommendation in this report, due to differences of opinion between the research department and sales desk or traders, and investment time period differences.

The analyst associated with the writing of this report either reports directly to the research department head or is the department head. The department head in turn reports directly to the Chief Executive Officer of IISPL. The analyst's compensation is not determined by nor based on other business activities of IISPL.

Research reports are disseminated through email or mail/courier to all clients at the same time. No class of client or internal trading person gets this report in advance of other clients. Due to factors outside of IISPL's control including speed of the internet, some clients may receive the report before others.

Monetary compensation of research analysts is neither determined nor based on any other service(s) that IISPL offers, and the compensatory evaluation is not influenced nor controlled by anyone belonging to a non-research department. Further, the research analysts are headed by the Head of Research, whose reports' recommendations are based on the following conditions:

<u>Condition</u>	<u>Stance</u>
Total Return > 15%	BUY
Total Return > -10% & <=15%	HOLD
Total Return <-10%	SELL

Investors should carefully read the definitions of all ratings used within every research report. In addition, research reports carry an analyst's independent view and investors should ensure careful reading of the entire research reports and not infer its contents from the rating ascribed by the analyst. Ratings should not be used or relied upon as investment advice. An investor's decision to buy, hold or sell a stock should depend on said individual's circumstances and other considerations.

Valuation Methodology

To arrive at our period end target prices, IISPL uses different valuation methodologies including:

Discounted cash flow (DCF, DDM)

Relative Valuation (P/E, P/B, P/Setc.)

Equity & Asset return based methodologies (EVA, Residual Income etc.)

Analyst Disclaimer

The author(s) of this report hereby certifies that this report accurately reflects her/his/their own independent opinions and views as of the time this report went into publication and that no part of her/his/their compensation was, is or will be affected by the recommendation(s) in this report.

The research analyst or any of her/his/their close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or their close relatives have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or her/his/their close relatives have not traded in the subject security in the past 7 days and will not trade for 5 days post publication of the report.