

Sales Update

Strong sales momentum continues in August

- In August 2021, Auto industry sales rose a staggering c.85% yoy to c.21,750 units (down c.15% mom), on account of robust demand for vehicles of PSMC (doubled yoy). On a mom basis, however, sales for HCAR cushioned the decline, being the only OEM to witness growth in August (up a sharp 40%).
- Among **INDU** models, Yaris and Corolla volumes rose an average c.70% yoy, amid healthy sales of the Corolla. Fortuner volumes remained strong during the month (up 4.7x yoy and c.40% mom) at c.570 units. INDU recently announced plans to establish a Hybrid plant, with an estimated investment of US\$100mn over the next three years.
- PSMC** recorded the highest yoy growth among peers (volumes doubled), to c.12,000 units. The robust growth in sales is led by triple-digit growth in Alto, Wagon R and Cultus, while Ravi and Bolan rose an average 80% yoy. Volumes for the Swift declined c.20% yoy, which is attributed to the phasing out of the model (announced last year). According to channel checks, Cultus sales are likely to decline in the coming months amid closing of bookings of the VXL and AGS models on account of semiconductor chip shortages.
- HCAR** sold c.3,200 units in August, up 40% yoy (same mom growth), led by Civic and City sales of c.2,700 units. The rise in sales is likely due to the commencement of deliveries of the new City near the end of August. City sales will lift overall volumes for HCAR amid impressive City bookings, ahead of the launch. BR-V sales surged c.80% yoy to c.500 units (low base).
- Tractor industry** recorded sales of c.3,300 units, up c.20% yoy despite multiple price hikes in the last 12 months (higher farm income could absorb higher prices). MTL volumes declined c.10% yoy, while AGTL sales doubled yoy to c1,300 units (low base). We expect tractor sales to resume the uptrend in the coming months, as farmer income continues to expand amid elevated commodity prices and renewed government focus on the Agri-sector.

August witnessed a sharp yoy rise in sales largely due to the improved macroeconomic environment, where lockdowns were completely lifted in August last year. The impressive industry growth is likely to remain intact following the incentives announced in the FY22 Budget, where further incentives in the highly awaited Auto policy is a key trigger for the sector. However, the recent macro developments (sharp PKR devaluation amid worsening CAD) pose a key threat to the growth of volumes in the coming quarters, in our view. We therefore prefer INDU (TP of PKR1,625/sh) and MTL (TP of PKR1,460/sh) as our top picks.

Auto Sales Volume

	Aug-21	yoy	mom	2MFY21	yoy		Aug-21	yoy	mom	2MFY21	yoy
Industry Performance						INDU	5,639	71%	-16%	12,354	61%
Industry Sales	21,751	85%	-13%	46,669	81%	Corolla	1,942	124%	-16%	4,262	104%
Cars	17,899	81%	-13%	38,568	77%	Yaris	2,025	19%	-25%	4,725	15%
LCVs & Pickups	3,852	107%	-9%	8,101	104%	Hilux	1,100	79%	-14%	2,377	95%
Tractors	3,316	17%	-23%	7,647	7%	Fortuner	572	373%	37%	990	306%
Trucks	553	148%	0%	1,104	95%	PSMC	12,062	101%	-21%	27,243	118%
2/3 wheelers	149,605	7%	12%	283,031	-5%	Bolan	1,097	78%	15%	2,047	65%
Company wise						Ravi	1,256	87%	-19%	2,808	128%
PSMC	12,062	101%	-21%	27,243	118%	Cultus	2,845	103%	-32%	7,058	223%
INDU	5,639	71%	-16%	12,354	61%	Wagon R	1,679	129%	-21%	3,810	101%
HCAR	3,230	43%	40%	5,537	11%	Swift	154	-21%	-32%	379	-15%
MTL	2,014	-9%	-31%	4,940	-2%	Alto	5,031	111%	-18%	11,141	103%
AGTL	1,302	106%	-7%	2,707	31%	HCAR	3,230	43%	40%	5,537	11%
HINO	86	43%	1%	171	34%	Civic & City	2,726	38%	60%	4,426	4%
GHNI	345	143%	25%	621	79%	BR-V	504	81%	-17%	1,111	60%

Source: PAMA, IMS Research

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Ratings Guide*	Criteria
Buy	Total return expectation of $\geq 15\%$ or expected to outperform the KSE-100 index
Neutral	Total return expectation of $> -5\%$ or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: (i) PKR depreciation against Yen and US\$, (ii) adverse regulatory measures, (iii) competition from new players, and (iv) decline in sales due to strict lockdown measures.

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