

Pak Suzuki Motor Company Limited

Result Preview

PSX: PSMC Bloomberg: PSMC: PA Reuters: PKSU. PSX

Pakistan Research

2QCY22 EPS likely to clock in at PKR 0.5 down 90% YoY

- PSMC's board meeting is scheduled on 25th August 2022, to consider its financial results for 2QCY22, where we expect the company to post an EPS of PKR 0.5 as compared to PKR 5.1 in 2QCY21.
- Top line during 2Q is expected at PKR 54.7bn, up 83% YoY, on the back of highest ever quarterly sales of 51K units up (73% YoY). "Alto" and "Swift" remained the main contributor in volume growth with increase 107% and 1255%, respectively. Furthermore, price increase during the quarter is also expected to contribute positively to the top line.
- Gross margin during the period is estimated to contract 1.4pps YoY to 4.4%, down from 5.8% in SPLY due to increased cost of raw materials emanating from devaluation of PKR against USD and higher freight charges.
- Other income is expected to increase by 172% YoY to clock in at 674mn from 248mn during SPLY mainly due to high cash reserves coupled with high interest rates.
- On the contrary, finance cost is expected to rise 16.6x YoY to PKR 741mn in 2Q. We anticipate that the mark up on late deliveries to keep finance cost elevated in this quarter, limiting the company's bottom-line growth.
- Effective tax rate during the quarter is expected to clock in at 93%, due to the adjustment of 10% super tax on CY21 profits.
- On sequential basis, PSMC is expected to return to profitability in 2Q (taking 1HCY22 loss at PKR 5.1/share), on the back of a 15% increase in revenue and a 1.6pps increase in gross margin due to multiple price increases in this quarter.
- We have a "SELL" recommendation on PSMC. Our Dec-22 PT of PKR 169/share provides a downside of 5%.

Key Data

PSX Ticker	PSMC
Target Price (PKR)	169
Current Price (PKR)	178
Upside/(Downside) (%)	-5%
Dividend Yield (%)	-
Total Return (%)	-5%
12-month High (PKR)	370
12-month Low (PKR)	189
Outstanding Shares (mn)	82.30
Market Cap (PKR mn)	14,732
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QCY21	2QCY22	YoY	1HCY21	1HCY22	YoY
Net Sales	30,013	54,785	83%	66,110	102,521	55%
Cost of Sales	28,267	52,394	85%	62,156	98,780	59%
Gross Profit	1,746	2,391	37%	3,955	3,740	-5%
Distribution expense	555	877	58%	1,266	1,609	27%
Admin expense	667	767	15%	1,333	1,507	13%
Other income	248	674	172%	867	1,202	39%
Other expenses	111	32	-72%	194	35	-82%
Finance costs	42	741	1659%	293	1,772	506%
Profit before tax	590	631	7%	1,686	(17)	NM
Taxation	171	588	244%	489	400	-18%
Net Income	419	43	-90%	1,197	(417)	NM
EPS	5.1	0.5	-90%	14.5	(5.1)	NM

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	(35.5)	(16.7)	32.6	0.7	6.2	21.4
EPS Growth	NM	-53%	NM	-98%	737%	247%
DPS	-	-	6.5	-	1.2	4.3
PER	(5.2)	(11.0)	5.7	251.5	30.0	8.6
Dividend Yield	-	-	4%	-	1%	2%
EV/EBITDA	66.0	(0.6)	(1.0)	0.3	2.0	0.7
P/B	0.6	0.6	0.6	0.6	0.6	0.5
ROE	-11%	-6%	10%	0%	2%	6%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Pak Suzuki Motor Company Limited (PSMC) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0%.

Investment Thesis

We have a 'SELL' recommendation on the stock based on our Dec-22 PT of PKR 169/share which results in a downside of 5%. Our investment case on PSMC is based on (1) Depressed earning on the back of modest growth in sales volume (2) Gross margins to contract in CY22 and CY23.

Risks

The key upside risks to our investment case are 1) lower than anticipated increase in raw material cost, 2) higher than expected demand 3) lower than expected PKR depreciation and 4) Favourable government policies to promote auto sector.

Company Description

Pak Suzuki Motor Company Limited (PSMC) manufactures, assembles, and markets automobiles and motorcycles in Pakistan. It operates through two segments, Automobile and Motorcycles. It also trades in vehicles and spare parts. The company was incorporated in 1983 and is headquartered in Karachi, Pakistan. PSMC is a subsidiary of Suzuki Motor Corporation.

Financial Highlights - PSMC

Income Statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
Net sales	116,548	76,720	160,082	176,731	175,442	187,657
Cost of sales	114,563	73,121	151,912	170,404	169,554	179,997
Gross Profit	1,985	3,599	8,171	6,327	5,888	7,660
SG & A	5,090	3,431	5,424	5,342	5,391	5,594
Operating Profit	(3,105)	169	2,747	985	497	2,066
Other income	245	704	2,223	2,481	1,367	1,635
Other charges	0	49	349	57	162	273
Finance cost	2,088	2,665	737	2,713	946	790
Profit before tax	(4,952)	(1,888)	3,795	623	757	2,638
Taxation	2,031	-510	1,116	563	250	870
Profit after tax	(2,920)	(1,378)	2,679	61	507	1,767

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
PPE	15,686	13,039	15,544	16,990	16,715	16,444
Other LT assets	2,173	3,684	7,847	9,270	9,454	9,531
Non-Current Assets	19,515	21,010	24,927	26,557	26,359	26,169
Current assets	58,145	45,638	67,063	76,290	64,413	69,915
Total Assets	77,660	66,647	91,990	102,846	90,771	96,084
Non-Current liabilities	-	-	-	-	-	-
Current liabilities	51,709	42,355	65,164	76,495	63,912	67,458
Total Liabilities	51,709	42,355	65,164	76,495	63,912	67,458
Equity	25,951	24,292	26,826	26,352	26,859	28,626
Total Equity & liabilities	77,660	66,647	91,990	102,846	90,771	96,084

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	(2,920)	(1,378)	2,679	61	507	1,767
Non-cash Charges	3,042	3,617	3,451	3,886	3,353	3,299
Operating Cash flows	(10,251)	22,622	4,759	(10,893)	5,363	5,305
FCFF	(16,044)	36,566	17,051	(9,202)	(7,037)	6,105
Net borrowings	21,101	(19,790)	(10,932)	(262)	(89)	(178)
FCFE	2,113	14,831	5,598	(9,727)	(7,779)	5,397
Net change in cash	1,751	14,551	5,452	(10,262)	(7,779)	5,397
Closing cash	3,268	17,819	23,271	13,009	5,231	10,628

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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