

Pak Suzuki Motor Company Limited

Result Review

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

Pakistan Research

2QCY22 EPS clocked in at PKR 5.3 up 6% YoY

- PSMC's announced its 2QCY22 financial result today, wherein the company posted an EPS of PKR 5.3, up 6% YoY as compared to an EPS of PKR 5.1 in SPLY. The result exceeds our expectation owing to higher net sales and other income. This takes 1HCY22 LPS to PKR 0.21.
- The company's top line increased 116% YoY to PKR 64.9bn during 2Q, owing to 73% YoY increase in volumetric sales and multiple price increase during the quarter.
- Gross margin during the period contracts to 4.4%, down from 5.8% in SPLY owing to higher input costs and PKR devaluation.
- Other income during the quarter increased by 319% YoY to PKR 1.0bn from 248mn during SPLY primarily due to higher interest rates. On the other hand, other expenses during the quarter have decreased by 83% due to a reversal of provision of impairment losses in 2Q.
- Finance costs for the quarter clocked in at PKR 811mn, an increase of 18.3x YoY. As per our understanding, the mark-up on late deliveries has kept this quarter's financing costs elevated.
- The effective tax rate during the quarter was 68% (lower than our estimate of 93%).
- On a sequential basis, PSMC returned to profitability in 2Q (taking 1HCY22 loss at PKR 0.21/share), due to a 1.6pps increase in gross margin on the back of multiple price increases and a 97% QoQ increase in other income.
- 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 Highlights (PKR mn)

| | 2QCY21 | 2QCY22 | YoY | 1HCY21 | 1HCY22 | YoY |
|--------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| Net Sales | 30,013 | 64,889 | 116% | 66,110 | 112,625 | 70% |
| Cost of Sales | 28,267 | 62,028 | 119% | 62,156 | 108,415 | 74% |
| Gross Profit | 1,746 | 2,860 | 64% | 3,955 | 4,210 | 6% |
| Distribution expense | 555 | 914 | 65% | 1,266 | 1,646 | 30% |
| Admin expense | 667 | 741 | 11% | 1,333 | 1,481 | 11% |
| Other income | 248 | 1,037 | 319% | 867 | 1,564 | 80% |
| Other expenses | 111 | 19 | -83% | 194 | 22 | -88% |
| Finance costs | 42 | 811 | 1825% | 293 | 1,842 | 530% |
| Profit before tax | 590 | 1,399 | 137% | 1,686 | 751 | -55% |
| Taxation | 171 | 956 | 459% | 489 | 768 | 57% |
| Net Income | 419 | 443 | 6% | 1,197 | (17) | NM |
| EPS | 5.09 | 5.38 | 6% | 14.54 | (0.21) | 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 | CY22E | 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 | CY22E | 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) | | | | | | |
|-----------------------------|-----------------|---------------|---------------|-----------------|----------------|---------------|
| | CY19A | CY20A | CY21A | CY22E | CY23F | CY24F |
| Net Income | (2,920) | (1,378) | 2,679 | (68) | 496 | 1,759 |
| Non-cash Charges | 3,042 | 3,617 | 3,451 | 3,886 | 3,353 | 3,299 |
| Operating Cash flows | (10,251) | 22,622 | 4,759 | (11,022) | 5,352 | 5,297 |
| FCFF | (16,044) | 36,566 | 17,051 | (10,015) | (7,048) | 6,096 |
| Net borrowings | 21,101 | (19,790) | (10,932) | (262) | (89) | (178) |
| FCFE | 2,113 | 14,831 | 5,598 | (9,856) | (7,790) | 5,388 |
| Net change in cash | 1,751 | 14,551 | 5,452 | (10,391) | (7,790) | 5,388 |
| Closing cash | 3,268 | 17,819 | 23,271 | 12,880 | 5,091 | 10,479 |

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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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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

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