

Pak Suzuki Motor Company Limited

Result Review

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

Pakistan Research

CY21 EPS clock in at PKR 32.56, DPS at PKR 6.50

- PSMC announced its CY21 financial results today, where the company posted an EPS of PKR 32.56. The result was below our expectation primarily due to lower-than-expected gross margins. Furthermore, higher than expected distribution and finance cost also dented the bottom-line. Along with the result, the company announced a final cash dividend of PKR 6.50/share.
- Net sales increased by 109% YoY to PKR 160bn during CY21. This growth is mainly attributable to recovery in volumetric sales to 155,106 units, up 104% YoY.
- Gross margin during the year expands to 5.1% as compared to 4.7% in SPLY, mainly on account of multiple price increases during the period.
- Distribution expenses increased by 79% YoY to PKR 2.943bn, mainly due to increase in topline. Similarly, admin expenses increase by 39% to 2.481bn.
- Finance cost went down by 72% YoY to PKR 737mn during CY21 as a result of a reduction in company's overall borrowings.
- On quarterly basis, EPS declined by 52% to PKR 5.94 during 4Q. This is primarily due to lower gross profit margin, which contracts to 3.6% vs 8.2% in SPLY on the back of 8% YoY currency devaluation and higher steel prices. Moreover, higher admin expense (+102% YoY) and higher effective tax rate of 31% vs 28% in SPLY, further dragged the earnings.
- We have a "BUY" recommendation on PSMC. Our Dec-22 PT of PKR 280/share provides an upside of 37% along with a dividend yield of 4.9%.

Key Data

PSX Ticker	PSMC
Target Price (PKR)	280
Current Price (PKR)	203
Upside/(Downside) (%)	37%
Dividend Yield (%)	4.9%
Total Return (%)	42%
12-month High (PKR)	370
12-month Low (PKR)	189
Outstanding Shares (mn)	82.30
Market Cap (PKR mn)	16,705
Year End	December

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QCY20	4QCY21	YoY	CY20	CY21	YoY
Net Sales	26,638	43,709	64%	76,720	160,082	109%
Cost of Sales	24,463	42,156	72%	73,419	151,912	107%
Gross Profit	2,175	1,553	-29%	3,302	8,171	147%
Distribution expense	631	931	48%	1,640	2,943	79%
Admin expense	212	429	102%	1,791	2,481	39%
Other income	385	932	142%	704	2,223	216%
Other expenses	35	48	37%	49	349	619%
Finance costs	265	368	39%	2,665	737	-72%
Profit before tax	1,403	710	-49%	(2,186)	3,795	NM
Taxation	393	221	-44%	(596)	1,116	NM
Net Income	1,009	489	-52%	(1,589)	2,679	NM
EPS	12.26	5.94	-52%	(19.31)	32.56	NM

Source: Company Financials, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
EPS	15.77	(35.49)	(19.31)	32.56	39.64	45.24
EPS Growth	-66%	-325%	-46%	269%	22%	14%
DPS	-	-	6.50	9.91	11.31	12.78
PER	12.64	(5.62)	(10.32)	6.12	5.03	4.41
Dividend Yield	1.6%	0.0%	0.0%	3.3%	5.0%	5.7%
EV/EBITDA	3.63	72.48	(0.35)	0.88	1.37	1.43
P/B	0.56	0.63	0.67	0.61	0.55	0.50
ROE	4.4%	-11.3%	-6.5%	9.9%	11.0%	11.4%

Source: Company Financials, 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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of PKR 280/share which results in an upside of 37% along with a dividend yield of 4.9%. Our investment case on PSMC is based on (1) growth in topline as a result of increase in automobile sales (2) Gross margins to expand from CY21 onwards (3) cheaper valuation based on earnings growth.

Risks

Key upside risks to our investment thesis are: 1) higher than anticipated increase in raw material cost, 2) slowdown in demand 3) higher than expected PKR depreciation and 4) unfavourable government policies.

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)						
	CY18A	CY19A	CY20A	CY21A	CY22F	CY23F
Net sales	119,854	116,548	76,720	160,082	169,936	179,660
Cost of sales	112,809	114,563	73,419	151,912	159,452	168,144
Gross Profit	7,045	1,985	3,302	8,171	10,484	11,516
SG & A	5,008	5,090	3,431	5,424	5,905	6,235
Operating Profit	2,037	(3,105)	(129)	2,747	4,579	5,280
Other income	566	245	704	2,223	864	813
Other charges	154	0	49	349	377	416
Finance cost	363	2,088	2,665	737	406	358
Profit before tax	2,083	(4,952)	(2,186)	3,795	4,660	5,319
Taxation	785	2,031	-596	1,116	1,398	1,596
Profit after tax	1,298	(2,920)	(1,589)	2,679	3,262	3,723

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	15,655	15,686	13,039	16,031	16,355	16,685
Other LT assets	2,173	3,684	7,824	8,024	8,102	8,187
Non-Current Assets	17,828	19,515	20,987	24,178	24,581	24,996
Current assets	43,682	58,145	45,718	66,279	62,360	64,302
Total Assets	61,510	77,660	66,704	90,457	86,941	89,299
Non-Current liabilities	-	-	-	-	-	-
Current liabilities	32,276	51,709	42,355	63,088	56,743	56,177
Total Liabilities	32,276	51,709	42,355	63,088	56,743	56,177
Equity	29,233	25,951	24,349	27,369	30,198	33,122
Total Equity & liabilities	61,510	77,660	66,704	90,457	86,941	89,299

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	1,298	(2,920)	(1,589)	3,019	3,282	3,744
Non-cash Charges	1,657	3,042	3,617	3,057	3,228	3,292
Operating Cash flows	464	(10,251)	22,715	6,480	8,139	8,714
FCFF	(17,144)	(16,043)	36,291	28,490	(3,335)	2,238
Net borrowings	11,310	21,101	(19,790)	(11,194)	-	(89)
FCFE	(6,059)	2,114	14,563	16,979	(3,619)	1,898
Net change in cash	(7,674)	1,752	14,551	16,979	(4,072)	1,077
Closing cash	1,515	3,269	17,819	9,797	5,475	4,028

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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