

Auto Sector Update

Shifting Gears: Auto Market's Path to Growth

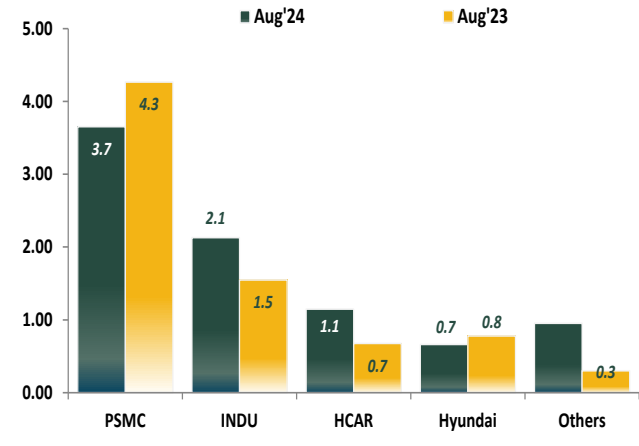
In August 2024, the Pakistan Automotive Manufacturers Association (PAMA) showed positive trends across various segments. For 2MFY25, overall car sales including LCVs and SUVs surged by 36% year-over-year, reaching 17,288 units, marking a strong recovery from a low base in the SPLY. On a month-over-month basis, sales increased by 1%, highlighting steady progress, resilience and gradual growth in the industry.

This slight uptick is driven by improved consumer confidence, which has been bolstered by recent rate cuts and a drop in inflation. These positive factors helped sustain consumer interest and contribute to consistent sales momentum in the market.

As per PAMA's sales figures for August 2024:

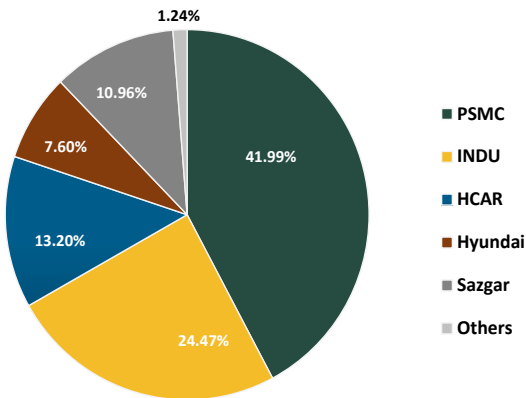
- The passenger cars recorded a 9% year-over-year growth, with 6,417 units sold, up from 5,909 units in the same period last year. Compared to July 2024, the segment saw a 10% increase (m/m), likely driven by renewed consumer interest or favorable market conditions following a period of subdued demand.
- The light commercial vehicle (LCV)/Pickup & SUVs segment saw a cumulative 37% year-over-year increase, with 2,282 units sold. In contrast, there was a 16% month-over-month decrease, likely due to preemptive purchases in the prior month.
- The tractor remained under pressure with a significant year-over-year decline of 33%, with 2,670 units sold. However, on a month-over-month basis, sales surged by 83%, driven by increased demand during the Kharif farming season.
- The trucks segment displayed an impressive year-over-year growth of 87%, with 249 units sold, while month-over-month sales remained flat, reflecting a minor 1% decline. The segment likely benefited from increased transportation needs.
- The bus segment had a more modest performance. Although overall sales increased by 50% year-over-year, reaching 51 units, there was a 9% decline in sales on a month-over-month basis.
- The motorcycle industry recorded strong growth, with a total of 104,234 units sold, marking an 18% year-over-year increase and a 23% month-over-month rise. The increase can be attributed to the affordability of motorcycles amid rising fuel prices and the growing demand for economical transport options.
- The three-wheeler segment saw moderate growth, with 1,643 units sold, a 51% year-over-year increase and a stable 1% month-over-month rise.

Monthly Sales - YoY (in'000)



Source: PAMA, HMFS Research

Four Wheeler's Market Share - 2MFY25



Source: PAMA, HMFS Research

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INDU: In August 2024, INDU's market share increased to 24.47%, fueled by a 28% m/m rise in sales. On a y/y basis, sales surged by 38%, reflecting the company's recovery from last year's challenging economic conditions. The growth was largely attributed to the strong performance of key models, such as the Corolla Yaris and Corolla Cross, which saw a 42% month-over-month increase. Meanwhile, the Toyota Hilux registered a modest 1% growth during the same period. Looking ahead, INDU's decision to invest PKR 1.1bn in further localizing parts and components by 2026 is a strategic move aimed at reducing reliance on imports. This localization effort is expected to mitigate currency risks and enhance cost efficiencies, potentially bolstering the company's margins over the long term. Coupled with plans to export models to the Oceanian market, these initiatives are expected to boost profitability and further strengthen INDU's market position in the coming months.

HCAR: In August 2024, Honda Atlas Cars Pakistan Limited (HCAR) reported a 23% m/m increase in sales, reaching a total of 1,148 units. This rise was primarily driven by a 36% increase in Honda City sales. On a year-over-year basis, HCAR experienced a remarkable 70% growth, with Honda City sales more than doubling and contributing 93.5% to the total sales. Additionally, HCAR's investment in a new hybrid vehicle production facility in Pakistan aims to enhance local HEV manufacturing and intensify competition in the hybrid market.

SAZEW: In August 2024, SAZEW reported a solid 16% month-over-month sales increase, with sales growing 2.2 times year-over-year. Haval also saw a 15% month-over-month rise, with 949 units sold. In the three-wheeler segment, SAZEW's sales remained stable at 1,643 units, reflecting a slight 1% increase month-over-month. However, the segment experienced a notable 51% year-over-year growth. Moreover, the company's reliance on CKD kit imports has enabled cost-efficient local assembly, contributing to competitive pricing and sustained growth.

Outlook

Looking ahead, the automotive industry in Pakistan faces a cautious but optimistic future. The anticipated IMF bailout and efforts to stabilize the economy are expected to provide relief to the sector, while an expected ~150bps rate cut in the upcoming Monetary Policy Committee (MPC) meeting could make auto financing more attractive. The industry's recovery may also be bolstered by declining inflation rates and a potential reduction in fuel prices, which could stimulate consumer demand. Additionally, the industry is focusing more on expanding exports, further driving growth and diversification in the industry.

The rise of electric vehicles (EVs) is poised to significantly impact the industry. With BYD Pakistan introducing EVs and targeting up to 50% electrification of vehicles by 2030, along with Dewan Farooque Motors starting EV production and Ghandhara Automobiles focusing on hybrid electric vehicles (HEVs), the shift towards new energy vehicles (NEVs) is expected to drive innovation and growth in the sector.

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Sales	2MFY25	2MFY24	YoY	Aug-24	Aug-23	YoY	Jul-24	MoM
Top Listed Automobiles Companies' Sales								
PSMC	8,123	6,712	21%	3,653	4,268	-14%	4,470	-18%
INDU	3,793	2,916	30%	2,129	1,548	38%	1,664	28%
HCAR	2,079	1,168	78%	1,148	674	70%	931	23%
SAZEW	1,778	433	311%	953	298	220%	825	16%
Cars	12,274	9,611	28%	6,417	5,909	9%	5,857	10%
Cars & LCV's								
LCV's + SUVs	5,014	3,060	64%	2,282	1,670	37%	2,732	-16%
Total	17,288	12,671	36%	8,699	7,579	15%	8,589	1%
Tractors								
AGTL	2,307	2,577	-10%	1,452	1,555	-7%	855	70%
MTL	1,823	4,068	-55%	1,218	2,412	-50%	605	101%
Total	4,130	6,645	-38%	2,670	3,967	-33%	1,460	83%
Trucks								
Isuzu	342	109	214%	180	66	173%	162	11%
Hino	49	24	104%	20	10	100%	29	-31%
Master	91	158	-42%	44	53	-17%	47	-6%
JAC	18	7	157%	5	4	25%	13	-62%
Total	500	298	68%	249	133	87%	251	-1%
Buses								
Hino	16	26	-38%	8	20	-60%	8	0%
Master	72	14	414%	33	10	230%	39	-15%
Isuzu	19	24	-21%	10	4	150%	9	11%
Total	107	64	67%	51	34	50%	56	-9%
Motorcycles								
Atlas Honda	160,738	137,083	17%	90,483	75,071	21%	70,255	29%
Pak Suzuki	3,549	2,679	32%	1,906	1,722	11%	1,643	16%
Yamaha	645	1,625	-60%	343	950	-64%	302	14%
Others	24,295	20,519	18%	11,502	10,575	9%	12,793	-10%
Total	189,227	161,906	17%	104,234	88,318	18%	84,993	23%
Three Wheelers								
SAZEW	3,267	1,850	77%	1,643	1,089	51%	1,624	1%

Source: PAMA, HMFS Research

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<i>SELL</i>	<i>More than 15% Downside</i>
Note: All fair value estimates are for a twelve month time horizon unless specified otherwise in the report Upside/Downside represents the difference between the stated "Fair Value" & the prevailing "Market Price" Total Return is based on both the Capital Gains return & the Dividend Yield & is exclusive of all applicable taxes	