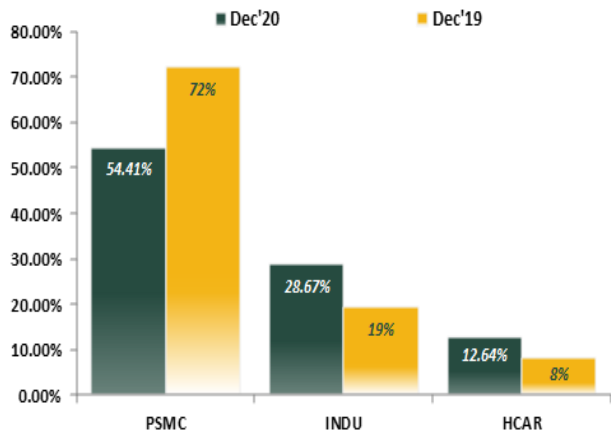


Auto Sector Update

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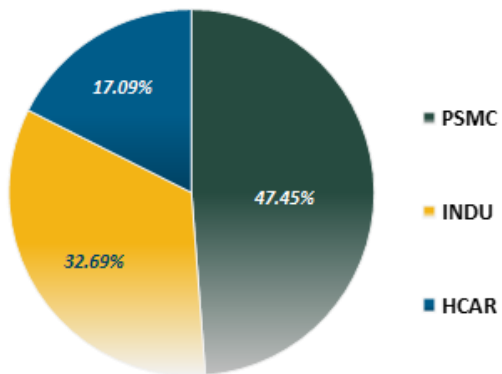
Slow but Steady

Market Share - YoY



Source: PAMA

Monthly Market Share - 6MFY21



Source: PAMA

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The official automobile production and sales data has been released by PAMA (Pakistan Automotive Manufacturers Association) for the month of Dec'20. Y/Y overall sales comparison continues to show a sustained growth of 15% for Cars, LCVs and 4x4s, however recording a slight contraction of 4% on a M/M basis, as sales were hampered by the year end effect.

Passenger car sale was recorded at 11,247 units displaying a Y/Y improvement of 13% (from 9,987 units SPLY) whereas a M/M decline of 6% (against 11,914 units during last month) was observed. After observing a spike in Y/Y sale of 100% in the previous month, LCVs and 4x4 continued their strong upwards trajectory with a healthy growth of 28% Y/Y in Dec'20 with 2,709 units sold. Tractor sales remained flat in Dec'20 with only a 3% increase in sales M/M, however still performing exponentially better than the previous year with a growth of 188% Y/Y. Truck sales improved by 14% M/M and 15% Y/Y with 291 units sold in Dec'20 against 255 units in Nov'20 and 254 units in SPLY. Whereas Buses continued to experience a contraction in their sales, declining by 16% on a Y/Y and 15% on a M/M basis. Motorcycle sales remained strong on a Y/Y basis with 22% spike in sales, nevertheless continued to contract by 7% on a M/M basis.

HCAR sales reported a strong rebound on a Y/Y basis of 76%, nonetheless still succumbed to the year-end effect with M/M sales declining by 21% to stand at 1,764 units sold in Dec'20 against 1,005 units in Dec'19 and 2,237 units in Nov'20. This same trend reflected in Honda Civic and City's combined sales, with a Y/Y increase of 72.96%, whereas a M/M decline of 26.77%. BR-V managed to report positive growth on basis 57.52% M/M and 94.21% Y/Y with only 235 units sold in Dec'20.

INDU sales continued to shrink on a M/M basis, recording a decline of 19%, nonetheless still showing significant improvement from SPLY with a spike of 72% Y/Y. Toyota Corolla sales were relatively flat in Dec'20, growing only by 5.34% M/M, moreover underperforming previous year's volumes as sales contracted 13.91% Y/Y with just 1,795 units sold in Dec'20. Yaris's volumes also displayed a sharp contraction of 38.41% M/M in Dec'20 with only 1,440 units sold. Similarly, Fortuner and Hilux also performed poorly as their volumes shrunk by 22.92% and 9.80% M/M respectively.

PSMC underperformed its previous years' volumes by 13% Y/Y, however unlike its peers displayed a slight improvement of 12% M/M.

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	6MFY21	6MFY20	YoY	Dec-20	Dec-19	YoY	Nov-20	MoM
Cars & LCV's								
PSMC	37,936	44,698	-15%	7,594	8,732	-13%	6,803	12%
INDU	26,139	14,175	84%	4,001	2,332	72%	4,942	-19%
HCAR	13,666	8,143	68%	1,764	1,005	76%	2,237	-21%
Cars	67,026	59,094	13%	11,247	9,987	13%	11,914	-6%
LCV's + 4x4's	12,928	8,400	54%	2,709	2,113	28%	2,619	3%
Total	79,954	67,494	18%	13,956	12,100	15%	14,533	-4%
Tractors								
AGTL	6,198	5,881	5%	345	140	146%	903	-62%
MTL	15,538	9,228	68%	2,975	1,005	196%	2,331	28%
Orient	29	125	-77%	-	8	-100%	-	0%
Total	21,765	15,234	43%	3,320	1,153	188%	3,234	3%
Trucks								
Isuzu	789	777	2%	111	146	-24%	110	1%
Hino	343	716	-52%	87	90	-3%	75	16%
Master	425	198	115%	72	15	380%	58	24%
JAC	93	13	615%	21	3	600%	12	75%
Total	1,650	1,704	-3%	291	254	15%	255	14%
Buses								
Hino	100	181	-45%	13	35	-63%	15	-13%
Master	114	93	23%	10	10	0%	17	-41%
Isuzu	83	99	-16%	28	16	75%	28	0%
Total	297	373	-20%	51	61	-16%	60	-15%
Motorcycles								
Atlas Honda	618,040	515,173	20%	106,030	85,030	25%	108,005	-2%
Pak Suzuki	10,574	10,865	-3%	1,855	1,898	-2%	2,091	-11%
Dawood Yamaha	-	622	-100%	-	135	-100%	-	0%
Yamaha	10,524	12,913	-19%	1,791	2,202	-19%	1,910	-6%
Others	311,733	260,247	20%	47,440	39,601	20%	56,931	-17%
Total	950,871	799,820	19%	157,116	128,866	22%	168,937	-7%

Source: PAMA

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Outlook

The sector seems to be headed in an overall positive direction, however HCAR, INDU and PSMC are certain to face a tough time ahead amidst ever-increasing competitive pressure from the Koreans and the Chinese. HCAR and INDU evidently are already feeling the heat as the volumes of their major products remain constrained whereas Hyundai Tucson continues on an upwards trajectory.

HCAR, has been experiencing strong competitive pressure from KIA and Hyundai in its Civic segment. Now more entrants seem to be threatening to cannibalize its market share as Cheaper Compact and Crossover SUV options arrive in the market, with the Chinese. Moreover, Changan's Alsvin has also arrived into the market as a challenger in City's segment.

INDU, due to its financial stability, strong brand image and a loyal consumer base, may not face the same intensity of competitive pressure as its peers. However, due to Yaris' failure to capture the market, new products like Changan Alsvin may endanger its dominance in the industry.

PSMC, with its weak financials, low value for money and mistimed product portfolio revamp seems to be completely unprepared for the incoming competition in the industry from the new Chinese players. However for the short-medium term it faces minimal competition therefore giving it some time to regroup, re-evaluate and strategize. Currently Changan Alsvin and Karvaan appear to be a threat to its major Cultus and Bolan segments.

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- Relative Valuation (P/E, P/B, P/S etc.)
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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