



Pak Suzuki Motor Co. (PSMC): We signal Buy ratings | CY13PE 4.2x

We estimate that PSMC will come with a share holder's friendly annual report for the year ended in Dec 31, which is expected to be announcing in mid of March. Company has reported a sale of 147,000 automobiles and 20,000 motorcycles in the full year CY12 which includes 20,000 automobiles and 4,000 motorcycles sales during 4th quarter, which is increased by 40% from the last quarter's sales.

In this report we have also covered segments such as matters of trade with India and its probable benefits to PSMC.

CY12 EPS forecast Rs 20.30/sh with a probable dividend of Rs 3/sh

We expect that PSMC may report CY12 EPS Rs 20.30/sh as sales price of automobiles have increased and also cost of manufacturing has slightly decreased.

We also expect a possible cash dividend for the year ended, because PSMC has not announced any dividend in the last three quarters, and mostly it announces the dividend at the end of calendar years. It is also to be noted that last year company has given 20% cash dividend, when company reported EPS of Rs.10 per share, wherein for this year we have estimated a maximum dividend of Rs 3.0/sh spelling a mere dividend yield of 3% thus making not so attractive for dividend connoisseurs.

Cumulative Quarterly Profit and Loss Statement

Pak Suzuki Motor Company

<i>Rs 000'</i>	Q4e	Q3	Q2	Q1
Net Sales	65,646,943	47,899,768	36,471,418	18,764,565
Cost of Sales	62,364,596	45,697,063	34,219,430	17,786,076
Gross Profit	3,282,347	2,202,706	2,251,988	978,489
Dist. and Admin Exp.	1,247,292	891,213	656,485	337,762
Other Income	506,887	426,887	332,264	126,736
Operating Profit	2,541,942	1,311,493	1,537,955	-189,716
Finance Cost	10,825	8,694	6,753	4,482
Profit Before Tax	2,531,117	1,610,201	1,863,466	788,773
Taxation	860,580	434,129	494,129	199,951
Profit After Tax	1,670,537	1,176,072	1,369,337	588,822
EPS	20.30	14.29	16.64	7.15

Research Dept. & company recordings

Performance of PSMC

Being a market leader with 57.7% market share by volume which is driven from the last seven months sale of local manufactured cars in Pakistan, company is on good track. As company has large manufacturing unit installed in Pakistan and currently it increased its capacity utilization to 71% which was 62% utilized in last year to meet the increasing demand by local public and government both, so we can say that PSMC may further increase its production to come up with future increasing demand.

7 months sale of local Assemble Cars

Company	Units	Market Share
Pak Suzuki	35849	57.7%
Indus Motors	15796	25.4%
Honda Atlas	10513	16.9%

source: www.pama.org.pk

Forecasted cumulative Profit and loss Statement for the CY12

We assume a cumulative gross margin of 5% for the calendar year, due to the devaluating of Japanese yen against Pakistan rupee, as most of spare parts are imported from Japan, whereas we estimated that distribution and administration expenses will slightly increase from 1.8 percent to 1.9 percent of sales due to increase in the freight charges due to increase in petroleum prices and appreciation of dollars against Pakistan Rupees.

We have estimated net sales as per the data available from valid source of Pakistan Automotive Manufacturers association (PAMA) for the local manufactured cars while we have estimated the sales for the imported products (APV and Jimny) according to their previously sales.

Cash Cows

The recorded data for the sales of PSMC shows that Mehran, Cultus and Bolan is driving the sales in term of volume, which shows that the demand of low price cars is high from the normal earning people in the Pakistan. Due to suspension of Alto production and discontinuation of Couré (Toyota) sales of Mehran car has increased because people's demand for the 1000cc-1200cc car is fulfilled by Mehran and Cultus Cars.

Current Scenario

We have found that company has started its first month of new CY with better sales, we have analysed that PSMC have sold 7400 units of vehicles during the Month of January and we assume that this number will continue increase in the coming months due to upcoming General Election in Pakistan and decreasing interest rate in the economy will further generate the demand of new cars. It is also expected that company has to receive a smart amount of cash in one time in month of March against a property sold previously, which will also boost the EPS for the First quarter of CY13.

Open Trade with India

We believe that liberal trade agreement with India will affect the local automobile manufactures specially PSMC, if govt allows to import spare parts from India then it will decrease cost of manufacturing because importing from India will be cheaper due to currency and freight charges. But If govt allows to import fully manufactured cars from India then overall local auto industry will face hard time because imported cars from India will be cheaper from Pakistani cars.

Liberal trade policy with India will be favourable for PSMC

But for Pak Suzuki it will be comparatively favourable because PSMC discontinued its production of Atlas cars in Pakistan and moved its production to India since July-12, when Government implemented Euro II standards regulations and Alto was not meeting the requirements. Company is expecting for the liberal trade policy with India so that company can Import Alto cars from India, because Alto was one of the bestselling car in Pakistan.

Valuation

PSMC is yielding CY12 PE of 5x and also probable CY13 PE of 4.2x. We signal BUY in PSMC which looks good among other peers.

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