

## Pak Suzuki Motor Company Limited

### Key Takeaways

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

Pakistan Research

## PSMC: 1QCY22 Analyst Briefing Key Takeaways

- Pak Suzuki Company held its corporate briefing today to discuss 1QCY22 results and future outlook. Earlier, the company reported a net loss of PKR 5.59, mainly on account of lower gross margin and higher finance cost.
- According to the company, the primary reason for gross margin contraction during 1Q was increased cost of production whereas the impact of price increase was not fully materialized during the quarter.
- Regarding the higher finance cost of PKR 1bn booked during 1Q, the management apprised that this mainly relates to compensation for late deliveries. As per the company, this figure will vary in future quarters. Just to recall, the company is required to pay late delivery charges for vehicles that are not delivered within 60 days after booking. Concerning the PKR 1bn charge, the company has confirmed that the amount was incorrectly charged in the motorcycle segment rather than the automobile segment. The company has stated that they will correct the error and upload the corrected financials to the exchange as soon as possible.
- PSMC's present capacity utilization is 82% and the management has no intentions to improve the capacity in the foreseeable future.
- The updated localization levels of the company's different models in terms of value are Swift (35%), Cultus (51%), Wagon-R (60%), Alto (62%), Bolan (72%) and Ravi (68%). In the Motorcycle segment the company has a 35% localization of its GS-150 model.
- According to the company, the new SBP regulation to reduce the tenor of auto financing by two years will have a 2-5% negative impact on company sales. The current share of Auto financing in company's sales is almost 35 – 40%.
- The management has stated that the new Swift model is well received by customers. The company had initially estimated 2,000 bookings per month, but in the first two months, the company was able to book 6,500+ units of 'Swift'.
- Regarding the volatility in exchange rate, the management has stated that it is currently not using any hedging tools to protect itself from PKR depreciation, due to restriction from SBP to use any hedging tools for exchange rate risk.
- Concerning the new auto policy under which the government is providing incentives for car exports, the management has stated that it does not intend to export any of its models in the near future.
- The company is evaluating the local HEV market and plans to introduce new products in this area in the near future.

### Key Data

PSX Ticker	PSMC
Target Price (PKR)	216
Current Price (PKR)	176
Upside/(Downside) (%)	+23%
Dividend Yield (%)	-
Total Return (%)	+23%
12-month High (PKR)	370
12-month Low (PKR)	165
Outstanding Shares (mn)	82
Market Cap (PKR mn)	14,485
Year End	December

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 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 216/share which results in an upside of 23%. 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) unfavorable 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)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net sales	116,548	76,720	160,082	174,452	165,158	180,508
Cost of sales	114,563	73,121	151,912	167,248	156,950	170,241
<b>Gross Profit</b>	<b>1,985</b>	<b>3,599</b>	<b>8,171</b>	<b>7,204</b>	<b>8,208</b>	<b>10,268</b>
SG & A	5,090	3,431	5,424	5,743	5,303	5,502
<b>Operating Profit</b>	<b>(3,105)</b>	<b>169</b>	<b>2,747</b>	<b>1,462</b>	<b>2,906</b>	<b>4,766</b>
Other income	245	704	2,223	1,993	1,030	1,119
Other charges	0	49	349	258	287	404
Finance cost	2,088	2,665	737	2,825	710	712
<b>Profit before tax</b>	<b>(4,952)</b>	<b>(1,888)</b>	<b>3,795</b>	<b>299</b>	<b>2,939</b>	<b>4,768</b>
Taxation	2,031	-510	1,116	88	864	1,402
<b>Profit after tax</b>	<b>(2,920)</b>	<b>(1,378)</b>	<b>2,679</b>	<b>211</b>	<b>2,075</b>	<b>3,366</b>

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	81,355	59,909	63,833
<b>Total Assets</b>	<b>77,660</b>	<b>66,647</b>	<b>91,990</b>	<b>107,911</b>	<b>86,267</b>	<b>90,003</b>
Non-Current liabilities	-	-	-	-	-	-
Current liabilities	51,709	42,355	65,164	81,409	57,690	58,474
<b>Total Liabilities</b>	<b>51,709</b>	<b>42,355</b>	<b>65,164</b>	<b>81,409</b>	<b>57,690</b>	<b>58,474</b>
Equity	25,951	24,292	26,826	26,502	28,577	31,528
<b>Total Equity &amp; liabilities</b>	<b>77,660</b>	<b>66,647</b>	<b>91,990</b>	<b>107,911</b>	<b>86,267</b>	<b>90,003</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	CY19A	CY20A	CY21A	CY22E	CY23F	CY24F
Net Income	(2,920)	(1,378)	2,679	211	2,075	3,366
Non-cash Charges	3,042	3,617	3,617	3,886	3,353	3,299
<b>Operating Cash flows</b>	<b>(10,251)</b>	<b>22,622</b>	<b>4,924</b>	<b>(10,346)</b>	<b>8,017</b>	<b>6,486</b>
<b>FCFF</b>	<b>(16,044)</b>	<b>36,566</b>	<b>17,051</b>	<b>(1,457)</b>	<b>(14,107)</b>	<b>3,882</b>
Net borrowings	21,101	(19,790)	(10,932)	(262)	(89)	(178)
<b>FCFE</b>	<b>2,113</b>	<b>14,831</b>	<b>5,598</b>	<b>(3,713)</b>	<b>(14,697)</b>	<b>3,201</b>
Net change in cash	1,751	14,551	5,452	(4,248)	(14,697)	2,786
<b>Closing cash</b>	<b>3,268</b>	<b>17,819</b>	<b>23,271</b>	<b>19,023</b>	<b>4,325</b>	<b>7,111</b>

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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