

Pak Suzuki Motor Company Limited

Result Review

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

Pakistan Research

1QCY22 LPS clocks in at PKR 5.59

- PSMC's announced its 1QCY22 result today, where the company posted a LPS of PKR 5.59 as compared to an EPS of PKR 9.45 in 1QCY21. The result was lower than our expectation. Main deviation came from lower than estimated gross profit margin, higher than expected finance cost and admin expenses.
- Topline during 1QCY22 clocks in at PKR 47.7bn up 32% YoY, on the back of higher volumetric sales and multiple price revisions.
- Gross margin during the period fell to 2.8%, as compared to 6.1% in 1QCY21 due to a sharp increase in cost of production led by PKR depreciation and higher steel prices.
- Distribution expenses increased 3% YoY to PKR 919mn during 1QCY21, while administrative expense increased by 11% YoY to PKR 740mn.
- Finance cost went up 3.12x to PKR 1.0bn in 1QCY22, this could be due to high exchange losses and high markup on late delivery.
- We have a "BUY" recommendation on PSMC. Our Dec-22 PT of PKR 259/share provides an upside of 27%, along with a dividend yield of 3.7%.

Key Data

| | |
|-------------------------|----------|
| PSX Ticker | PSMC |
| Target Price (PKR) | 259 |
| Current Price (PKR) | 204 |
| Upside/(Downside) (%) | 27% |
| Dividend Yield (%) | 3.7% |
| Total Return (%) | 30% |
| 12-month High (PKR) | 370 |
| 12-month Low (PKR) | 189 |
| Outstanding Shares (mn) | 82.30 |
| Market Cap (PKR mn) | 16,460 |
| Year End | December |

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

| | 1QCY21 | 1QCY22 | YoY |
|--------------------------|--------------|--------------|-----------|
| Net Sales | 36,098 | 47,736 | 32% |
| Cost of Sales | 33,889 | 46,387 | 37% |
| Gross Profit | 2,209 | 1,349 | -39% |
| Distribution expense | 710 | 732 | 3% |
| Admin expense | 666 | 740 | 11% |
| Other income | 619 | 527 | -15% |
| Other expenses | 83 | 4 | -96% |
| Finance costs | 250 | 1,031 | 312% |
| Profit before tax | 1,096 | (648) | NM |
| Taxation | 318 | (188) | NM |
| Net Income | 778 | (460) | NM |
| EPS | 9.45 | (5.59) | NM |
| DPS | - | - | |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | CY19A | CY20A | CY21A | CY22F | CY23F | CY24F |
|----------------|---------|---------|--------|--------|-------|-------|
| EPS | (35.49) | (16.75) | 32.56 | 30.16 | 28.93 | 54.95 |
| EPS Growth | NM | -53% | NM | -7% | -4% | 90% |
| DPS | - | - | 6.50 | 7.54 | 7.23 | 13.74 |
| PER | (5.75) | (12.18) | 6.27 | 6.76 | 7.05 | 3.71 |
| Dividend Yield | 0.0% | 0.0% | 3.2% | 3.7% | 3.5% | 6.7% |
| EV/EBITDA | 74.61 | (0.23) | (0.81) | (0.10) | 0.42 | 0.03 |
| P/B | 0.65 | 0.69 | 0.63 | 0.58 | 0.55 | 0.49 |
| ROE | -11.3% | -5.7% | 10.0% | 8.6% | 7.8% | 13.1% |

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 259/share which results in an upside of 27% along with a dividend yield of 3.7%. 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) | | | | | | |
|---------------------------|----------------|----------------|--------------|--------------|--------------|---------------|
| | CY19A | CY20A | CY21A | CY22F | CY23F | CY24F |
| Net sales | 116,548 | 76,720 | 160,082 | 175,489 | 166,467 | 183,442 |
| Cost of sales | 114,563 | 73,121 | 151,912 | 166,985 | 159,313 | 172,934 |
| Gross Profit | 1,985 | 3,599 | 8,171 | 8,505 | 7,153 | 10,508 |
| SG & A | 5,090 | 3,431 | 5,424 | 5,126 | 4,859 | 4,910 |
| Operating Profit | (3,105) | 169 | 2,747 | 3,378 | 2,295 | 5,598 |
| Other income | 245 | 704 | 2,223 | 1,900 | 1,697 | 1,587 |
| Other charges | 0 | 49 | 349 | 417 | 290 | 483 |
| Finance cost | 2,088 | 2,665 | 737 | 1,327 | 328 | 296 |
| Profit before tax | (4,952) | (1,888) | 3,795 | 3,516 | 3,373 | 6,406 |
| Taxation | 2,031 | -510 | 1,116 | 1,034 | 992 | 1,884 |
| Profit after tax | (2,920) | (1,378) | 2,679 | 2,482 | 2,381 | 4,523 |

Source: Company Accounts, Akseer Research

| Balance Sheet (PKR mn) | | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | CY19A | CY20A | CY21A | CY22F | 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 | 67,163 | 67,020 | 70,648 |
| Total Assets | 77,660 | 66,647 | 91,990 | 93,720 | 93,379 | 96,817 |
| Non-Current liabilities | - | - | - | - | - | - |
| Current liabilities | 51,709 | 42,355 | 65,164 | 64,947 | 62,845 | 62,356 |
| Total Liabilities | 51,709 | 42,355 | 65,164 | 64,947 | 62,845 | 62,356 |
| Equity | 25,951 | 24,292 | 26,826 | 28,773 | 30,534 | 34,461 |
| Total Equity & liabilities | 77,660 | 66,647 | 91,990 | 93,720 | 93,379 | 96,817 |

Source: Company Accounts, Akseer Research

| Cashflow Statement (PKR mn) | | | | | | |
|-----------------------------|-----------------|-----------------|---------------|---------------|----------------|----------------|
| | CY18A | CY19A | CY20A | CY21E | CY22F | CY23F |
| Net Income | 1,298 | (2,920) | (1,378) | 2,679 | 2,482 | 2,381 |
| Non-cash Charges | 1,657 | 3,042 | 3,617 | 3,617 | 3,578 | 3,353 |
| Operating Cash flows | 464 | (10,251) | 22,622 | 4,924 | 2,169 | 3,607 |
| FCFF | (17,143) | (16,044) | 36,566 | 17,051 | (3,907) | (2,833) |
| Net borrowings | 11,310 | 21,101 | (19,790) | (10,932) | (262) | (89) |
| FCFE | (6,058) | 2,113 | 14,831 | 5,598 | (5,106) | (3,154) |
| Net change in cash | (7,673) | 1,751 | 14,551 | 5,452 | (5,641) | (3,774) |
| Closing cash | 1,516 | 3,268 | 17,819 | 23,271 | 17,631 | 13,856 |

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

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