

Pak Suzuki Motor Company Limited

Result Preview

PSX: PSMC Bloomberg: PSMC: PA Reuters: PKSJ. KA

Pakistan Research

CY21 EPS likely to clock in at PKR 36.69, DPS at PKR 5.5

- PSMC's board meeting is scheduled on 22nd March 2022, to consider its financial results for CY21, where we expect the company to post an EPS of PKR 36.69 as compared to LPS of 19.31 in CY20. Along with the result, company is also expected to announce final cash dividend of PKR 5.50/share.
- Net sales are likely to go up 114% YoY to PKR 164.37bn during CY21. This growth is mainly attributable to recovery in volumetric sales where the company sold 155,106 units as compared to 76,063 units in CY20, depicting a growth rate of 104% YoY.
- Gross margin during the year is expected to remain 5.3%, up 1% YoY mainly on account of multiple price increases during the period.
- Distribution expenses during CY21 are likely to increase 63% YoY to PKR 2.67bn, mainly due to increase in topline.
- Finance costs is likely to decrease by 83% YoY to PKR 453mn during CY21 as a result of an 89% reduction in company's borrowing.
- On quarterly basis, PSMC is expected to post an EPS of 10.7, down 18% YoY during 4Q. Despite 80% YoY increase in topline, company's gross margin is likely to contract by 3.7% YoY due to 8% YoY currency devaluation and higher steel prices. Furthermore, higher admin expenses (+158%) and other expenses (+34%) are also expected to drag earnings.
- We have a "BUY" recommendation on PSMC. Our Dec-22 PT of PKR 280/share provides an upside of 40% along with a dividend yield of 5.0%.

Key Data

PSX Ticker	PSMC
Target Price (PKR)	280
Current Price (PKR)	199
Upside/(Downside) (%)	40%
Dividend Yield (%)	5.0%
Total Return (%)	46%
12-month High (PKR)	370
12-month Low (PKR)	189
Outstanding Shares (mn)	82.30
Market Cap (PKR mn)	16,402
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QCY20	4QCY21E	YoY	CY20	CY21E	YoY
Net Sales	26,638	48,002	80%	76,720	164,376	114%
Cost of Sales	24,463	45,850	87%	73,419	155,605	112%
Gross Profit	2,175	2,153	-1%	3,302	8,771	166%
Distribution expense	631	667	6%	1,640	2,679	63%
Admin expense	212	549	158%	1,791	2,601	45%
Other income	35	118	239%	704	1,805	156%
Other expenses	385	515	34%	49	419	764%
Finance costs	265	83	-69%	2,665	453	-83%
Profit before tax	1,403	1,228	-12%	(2,186)	4,313	NM
Taxation	393	399	2%	(596)	1,294	NM
Net Income	1,009	829	-18%	(1,589)	3,019	90%
EPS	12.26	10.07	-18%	(19.31)	36.69	NM
DPS	-	5.50	-	-	5.50	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
EPS	15.77	(35.49)	(19.31)	36.69	39.88	45.50
EPS Growth	-66%	-325%	-46%	290%	9%	14%
DPS	3.16	-	-	5.50	9.97	11.37
PER	12.64	(5.62)	(10.32)	5.43	5.00	4.38
Dividend Yield	1.6%	0.0%	0.0%	2.8%	5.0%	5.7%
EV/EBITDA	3.63	72.48	(0.35)	0.83	1.31	1.37
P/B	0.56	0.63	0.67	0.60	0.54	0.50
ROE	4.4%	-11.3%	-6.5%	11.0%	10.9%	11.3%

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 280/share which results in an upside of 40% along with a dividend yield of 5.0%. 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)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net sales	119,854	116,548	76,720	164,376	169,936	179,660
Cost of sales	112,809	114,563	73,419	155,605	159,452	168,144
Gross Profit	7,045	1,985	3,302	8,771	10,484	11,516
SG & A	5,008	5,090	3,431	5,280	5,905	6,235
Operating Profit	2,037	(3,105)	(129)	3,491	4,579	5,280
Other income	566	245	704	1,805	895	845
Other charges	154	0	49	419	378	418
Finance cost	363	2,088	2,665	453	406	358
Profit before tax	2,083	(4,952)	(2,186)	4,313	4,689	5,349
Taxation	785	2,031	-596	1,294	1,407	1,605
Profit after tax	1,298	(2,920)	(1,589)	3,019	3,282	3,744

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
PPE	15,655	15,686	13,039	16,031	16,355	16,685
Other LT assets	2,173	3,684	7,824	8,024	8,102	8,187
Non-Current Assets	17,828	19,515	20,987	24,178	24,581	24,996
Current assets	43,682	58,145	45,718	66,279	62,360	64,302
Total Assets	61,510	77,660	66,704	90,457	86,941	89,299
Non-Current liabilities	-	-	-	-	-	-
Current liabilities	32,276	51,709	42,355	63,088	56,743	56,177
Total Liabilities	32,276	51,709	42,355	63,088	56,743	56,177
Equity	29,233	25,951	24,349	27,369	30,198	33,122
Total Equity & liabilities	61,510	77,660	66,704	90,457	86,941	89,299

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	CY18A	CY19A	CY20A	CY21E	CY22F	CY23F
Net Income	1,298	(2,920)	(1,589)	3,019	3,282	3,744
Non-cash Charges	1,657	3,042	3,617	3,057	3,228	3,292
Operating Cash flows	464	(10,251)	22,715	6,480	8,139	8,714
FCFF	(17,144)	(16,043)	36,291	28,490	(3,335)	2,238
Net borrowings	11,310	21,101	(19,790)	(11,194)	-	(89)
FCFE	(6,059)	2,114	14,563	16,979	(3,619)	1,898
Net change in cash	(7,674)	1,752	14,551	16,979	(4,072)	1,077
Closing cash	1,515	3,269	17,819	9,797	5,475	4,028

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

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