Pak Suzuki Motor Company (PSMC)

2Q2018 EPS of Rs4.78, -43% YoY; 1H2018 EPS Rs15.77, -35% YoY;

Below expectations

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Margins shrink by 2.7ppts YoY to 5.7% in 2Q2018 due to PKR devaluation

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PSMC: Financial Highlights

Rsmn	2Q2018	2Q2017	YoY	QoQ	1H2018	1H2017	YoY
Net Sales	30881	22938	35%	-2%	62392	46829	33%
Cost of Sales	29132	21017	39%	1%	58026	42004	38%
Gross Profit	1749	1921	-9%	-33%	4365	4825	-10%
Distribution Expenses	642	675	-5%	-20%	1446	1382	5%
Admin expenses	517	416	24%	4%	1016	736	38%
Other operating Expenses	54	74	-27%	-45%	152	215	-29%
Other operating Income	213	260	-18%	21%	389	445	-13%
Operating profit	748	1016	-26%	-46%	2141	2937	-27%
Finance Cost	20	13	47%	-73%	93	41	125%
Profit before Tax	729	1002	-27%	-45%	2049	2896	-29%
Taxation	335	317	6%	-19%	750	904	-17%
Profit after Tax	394	685	-43%	-56%	1298	1992	-35%
EPS (Rs)	**4.78**	**8.33**			**15.77**	**24.20**	

Source: PSX, Topline Research

- Pak Suzuki (PSMC) reported its 2Q2018 earnings wherein the company posted PAT of Rs394mn (EPS Rs4.78, down 43% YoY). The earnings are below expectations as the margin compression was higher than anticipated.
- Net sales of the company grew by 35%YoY to Rs30.1bn due to twin effect of price increases as well as volumetric growth of 25.5% YoY.
- Volume wise, Wagon-R led the growth chart, rising by 66% YoY, followed by Swift (up 37% YoY), and Ravi (up by 33% YoY). Volumetric growth remained strong, reaching 37,621 units cumulatively in 2Q2018, as demand for smaller passenger cars from ride hailing services continued.

Margins shrink by 2.7ppts YoY to 5.7% in 2Q2018 due to PKR devaluation

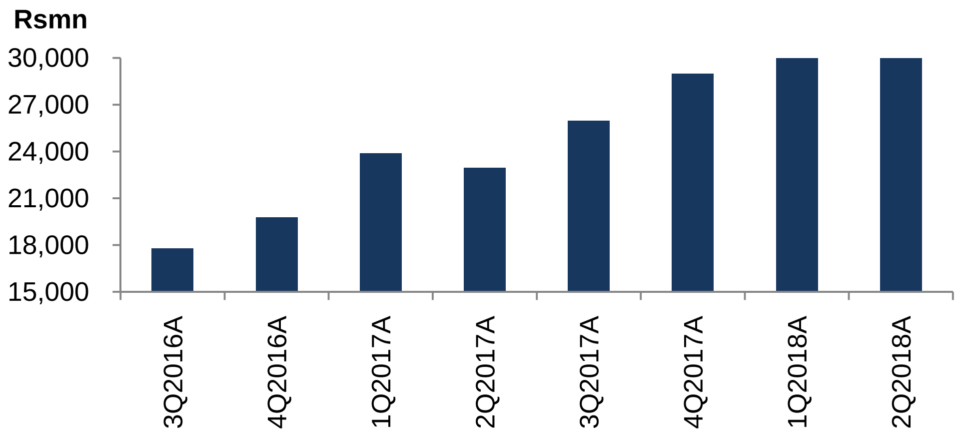
- Cost of sales grew 39% YoY, outpacing the robust revenue growth, leading to significant gross margin erosion. Gross profit fell by 9% YoY, pulling down gross margin by 2.7ppts YoY to 5.7% in 2Q2018. Margin compression can be attributed to higher raw material costs (Steel prices up by 22% YoY) as well as PKR depreciation (PKR down by ~15% from Dec 2017 to Jun 2018) combined with the inability of the company to effectively pass over the impact to customers.
- Earnings were further dragged down due to 24% YoY higher administrative cost as well as an effective tax rate of 46% due to incorporation of super-tax, in our view.
- For the 1H2018, earning growth declined by 35% YoY despite 22% YoY volumetric growth, as gross margins fell due to aforesaid factors to 7.0% in 1H2018 compared to 10.3% in 1H2017.
- We outline 1) further unfavorable movement in exchange rate & commodity prices, 2) regulatory changes, 3) increased competition from existing and new players and 4) disruptions in operations of principal company, as key risks for the company.

PSMC: Key Numbers

	2013A	2014A	2015A	2016A	2017A
EPS	22.5	23.4	71.0	33.7	46.5
Earnings Growth	89%	4%	204%	-53%	38%
PE at Rs351	15.6	15.0	4.9	10.4	7.6
Dividend Yield	1%	1%	4%	2%	5%
ROE	10%	10%	25%	11%	13%
PBV	1.6	1.5	1.2	1.1	1.0

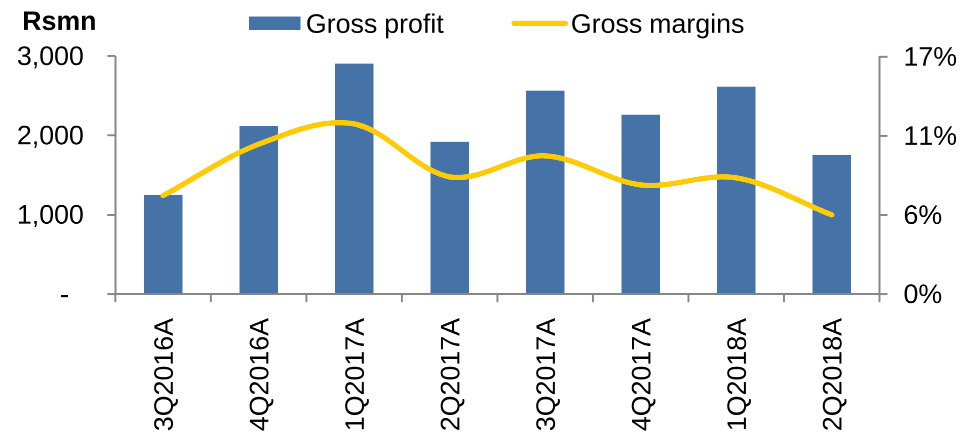
Source: Company Accounts, Topline Research

PSMC: Quarterly Sales



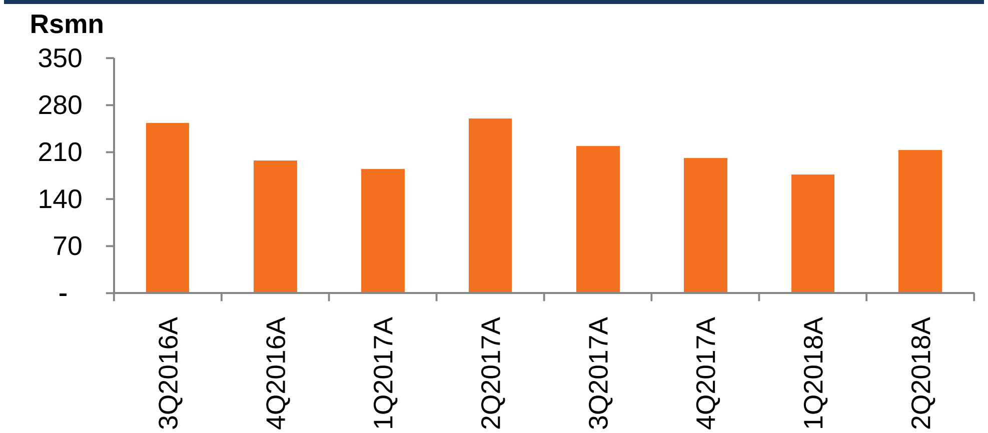
Source: Company Accounts, Topline Research

PSMC: Quarterly Gross Profit & Gross Margins



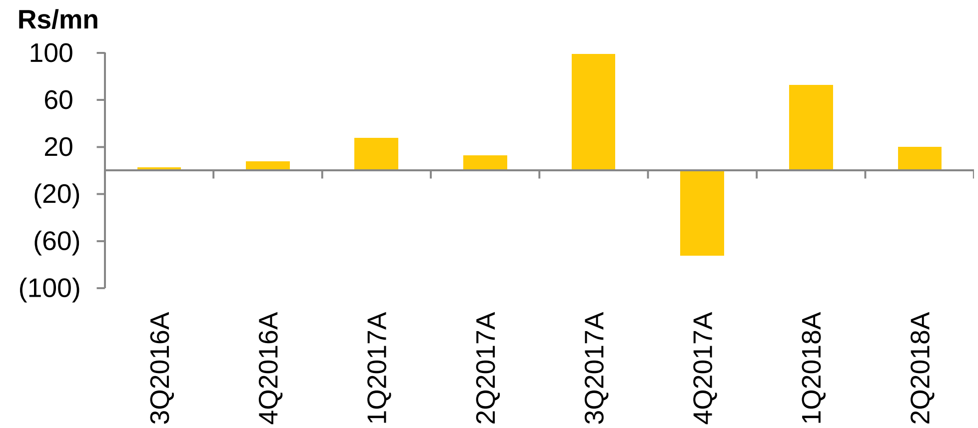
Source: Company Accounts, Topline Research

PSMC: Quarterly Other Income



Source: Company Accounts, Topline Research

PSMC: Quarterly Finance Charges



Source: Company Accounts, Topline Research

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Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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