

Pak Suzuki Motor Company (PSMC)

4Q2017 EPS Rs8.9, -19% YoY (-34% QoQ); 2017 EPS Rs46.5, +38% YoY

Final cash dividend of Rs18.6/share

Below expectations

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Margin contraction and higher tax incidence dent earning growth

PSMC: 4Q2017 Financial Highlights

Rsmn	4Q2017	4Q2016	YoY	QoQ	2017	2016	YoY
Net Sales	29,009	19,756	47%	12%	101,812	76,516	33%
Cost of sales	26,747	17,641	52%	14%	92,159	69,167	33%
Gross profit	2,262	2,115	7%	-12%	9,653	7,349	31%
Distribution expenses	834	506	65%	42%	2,804	2,004	40%
Administrative expenses	478	397	20%	24%	1,600	1,540	4%
Other operating expenses	82	103	-20%	-38%	414	334	24%
Other operating income	201	197	2%	-8%	865	1,040	-17%
Operating Profit	1,070	1,307	-18%	-36%	5,699	4,511	26%
Finance Cost	-72	8	NM	-173%	68	96	-29%
Profit before tax	1142	1,298	-12%	-28%	5,631	4,415	28%
Taxation	416	399	4%	-12%	1793	1,643	9%
Profit for the year	726	899	-19%	-34%	3,838	2,773	38%
EPS (Rs)	8.9	10.9			46.5	33.7	

Source: PSX, Topline Research

- Pak Suzuki (PSMC) announced 4Q2017 earnings of Rs726mn (EPS Rs8.9, down 19% YoY). This was below our expectations as margin contraction kept gross profit/margins of the company in check.
- Sales of PSMC improved by 47% YoY to Rs29bn in 4Q2017 driven by volumetric growth which is up 34% YoY.
- In terms of volumetric growth, 'Suzuki Wagon R remained the most impressive variant with volumes reaching to 8,352 units in 4Q2017, up 100% YoY. Followed by Mehran (+31%) and Cultus (+14%), where sales of the models were boosted by increasing demand from online ride apps and sustained low financing rates.

Margin contraction and higher tax incidence dent earning growth

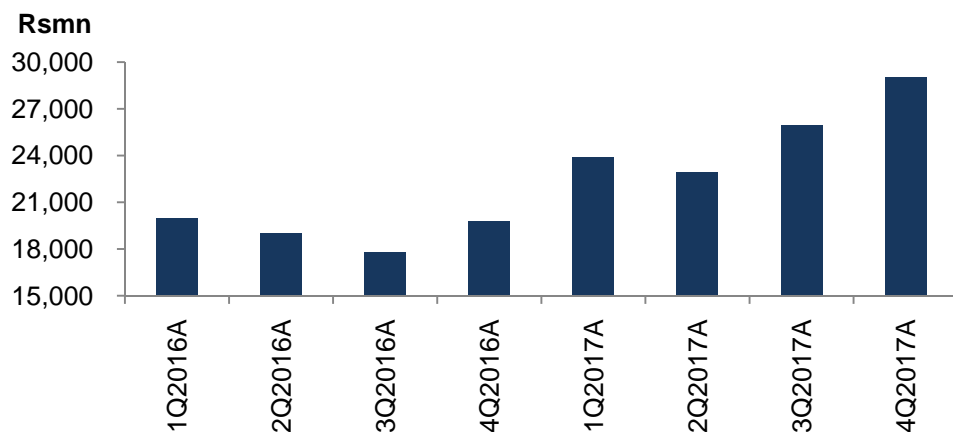
- Although, revenue were up 47%, gross profits rose only by 7% only as gross margins shrunk 2.9ppts to 7.8% in 4Q2017. We opine that margin decreased due to higher CRC prices (raw material), up 18% YoY. The company had not fully passed on the impact of higher raw material prices to the customers. Higher crude oil (up 14% YoY) led to higher transport /distribution cost which further dented profitability in outgoing quarter.
- Furthermore, bottom line growth in 4Q2017 was hampered by higher tax rates (4Q2017 effective tax of 36% vs. 31% last year) as has taken provisioning against higher tax due to lower dividend payout of 16% in 2016 against minimum 40% last year to avoid higher taxes as per management.
- In 2017, earning growth up 38% YoY primarily driven by volumetric growth of 19% YoY as company posted record unit sales of 130.8k. However, gross margin declined slightly by 12bps from 9.6% to 9.5% during the year due to change in product mix towards newer models.
- We flag 1) unfavorable movement in exchange rate (specifically PKR/JPY parity) & commodity prices, 2) regulatory changes which facilitate import of used cars, 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%	45%	-53%	38%
PE at Rs491.9	21.9	21.1	10.6	14.6	10.6
Dividend Yield	1%	1%	3%	1%	4%
ROE	10%	10%	25%	11%	13%
PBV	2.3	2.1	1.7	1.5	1.4

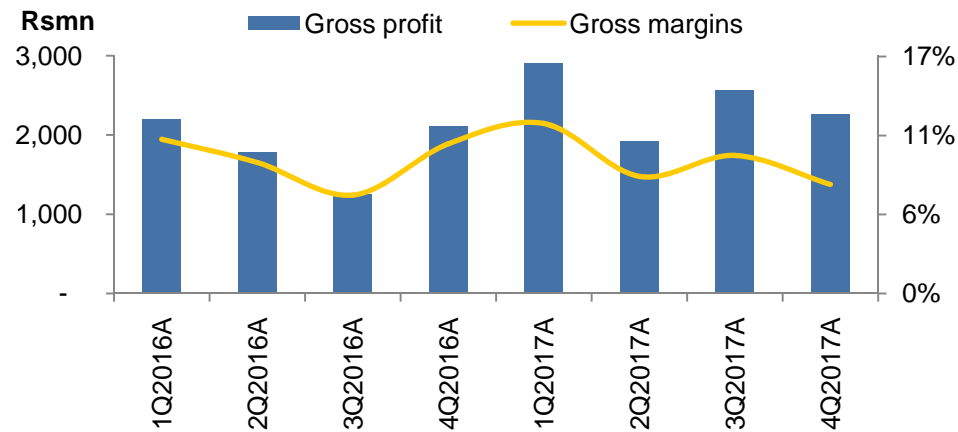
Source: Company Accounts, Topline Research

PSMC: Quarterly Sales



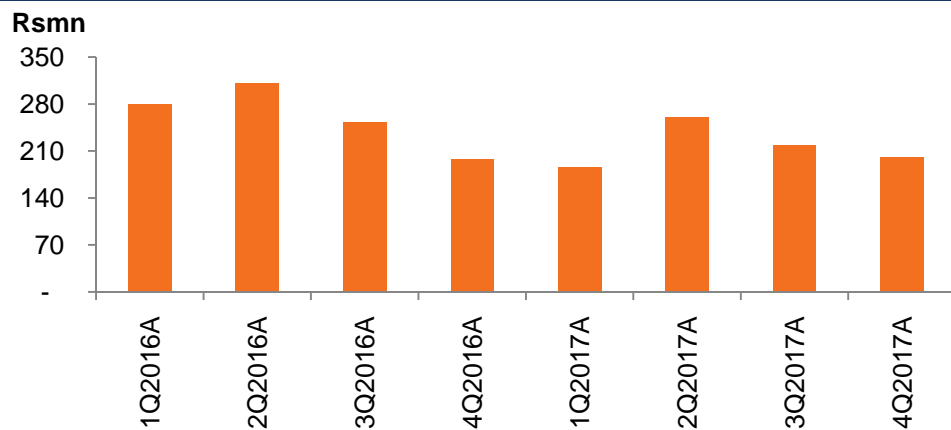
Source: Company Accounts, Topline Research

PSMC: Quarterly Gross Profit & Gross Margins



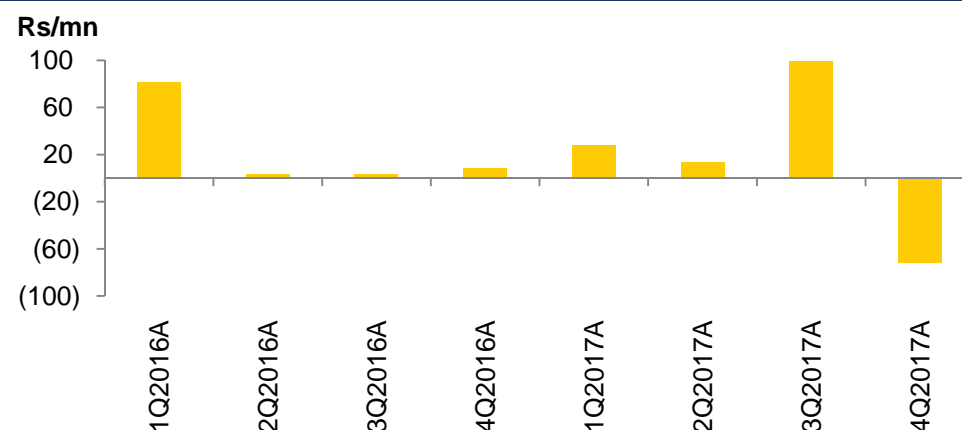
Source: Company Accounts, Topline Research

PSMC: Quarterly Other Income



Source: Company Accounts, Topline Research

PSMC: Quarterly Finance Charges



Source: Company Accounts, Topline Research

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