

Pak Suzuki Motor Company Limited
Result Preview

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

Pakistan Research

1QCY22 EPS likely to clock in at PKR 11.97 up 27% YoY

- PSMC's board meeting is scheduled on 26th April 2022, to consider its financial results for 1QCY22, where we expect the company to post an EPS of PKR 11.97 as compared to PKR 9.45 in 1QCY21.
- Top line during 1QCY22 is expected to clock in PKR 51bn up 41% YoY, on the back of higher volumetric sales and 8% increase in price.
- PSMC's volumetric sales increased by 33% to 46k units in 1QCY22, led by the 'Alto' and 'Wagon R', which increased by 63% and 56%, respectively.
- Gross margin during the period is estimated to clock in at 5.9%, down from 6.1% in 1QCY21 due to the increase in cost originating from PKR depreciation and rising steel prices.
- Distribution expenses during 1QCY21 are likely to increase 29% YoY to PKR 919mn, mainly resulting from higher sales volume
- Finance cost during 1QCY22 is expected to decrease by 74% due to reduction in borrowing.
- We have a "BUY" recommendation on PSMC. Our Dec-22 PT of PKR 261/share provides an upside of 28% along with a dividend yield of 5.9%.

Key Data

PSX Ticker	PSMC
Target Price (PKR)	261
Current Price (PKR)	207
Upside/(Downside) (%)	28%
Dividend Yield (%)	5.9%
Total Return (%)	34%
12-month High (PKR)	370
12-month Low (PKR)	189
Outstanding Shares (mn)	82.30
Market Cap (PKR mn)	16,789
Year End	December

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QCY21E	1QCY22E	YoY
Net Sales	36,098	51,063	41%
Cost of Sales	33,889	48,413	43%
Gross Profit	2,209	2,649	20%
Distribution expense	710	919	29%
Admin expense	666	713	7%
Other income	619	533	-14%
Other expenses	83	97	17%
Finance costs	250	65	-74%
Profit before tax	1,096	1,388	27%
Taxation	318	402	27%
Net Income	778	985	27%
EPS	9.45	11.97	27%
DPS	-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	CY19A	CY20A	CY21A	CY22F	CY23F	CY24F
EPS	(35.49)	(16.75)	32.56	48.33	29.60	55.44
EPS Growth	NM	-53%	-294%	48%	-39%	87%
DPS	-	-	6.50	12.08	7.40	13.86
PER	(6.28)	(13.32)	6.85	4.61	7.53	4.02
Dividend Yield	0.0%	0.0%	2.9%	5.4%	3.3%	6.2%
EV/EBITDA	83.24	0.12	(0.61)	(0.04)	0.47	0.07
P/B	0.71	0.76	0.68	0.61	0.58	0.51
ROE	-11.3%	-5.7%	10.0%	13.1%	7.7%	12.8%

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 261/share which results in an upside of 28% along with a dividend yield of 5.9%. 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	178,816	166,467	183,442
Cost of sales	114,563	73,121	151,912	169,011	159,313	172,934
Gross Profit	1,985	3,599	8,171	9,804	7,153	10,508
SG & A	5,090	3,431	5,424	5,252	4,859	4,910
Operating Profit	(3,105)	169	2,747	4,552	2,295	5,598
Other income	245	704	2,223	1,974	1,779	1,647
Other charges	0	49	349	443	295	486
Finance cost	2,088	2,665	737	362	328	296
Profit before tax	(4,952)	(1,888)	3,795	5,634	3,450	6,463
Taxation	2,031	-510	1,116	1,656	1,014	1,900
Profit after tax	(2,920)	(1,378)	2,679	3,977	2,436	4,563

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	68,881	68,196	71,850
Total Assets	77,660	66,647	91,990	95,437	94,555	98,019
Non-Current liabilities	-	-	-	-	-	-
Current liabilities	51,709	42,355	65,164	65,169	62,845	62,356
Total Liabilities	51,709	42,355	65,164	65,169	62,845	62,356
Equity	25,951	24,292	26,826	30,269	31,710	35,664
Total Equity & liabilities	77,660	66,647	91,990	95,437	94,555	98,020

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	3,977	2,436
Non-cash Charges	1,657	3,042	3,617	3,617	3,237	3,353
Operating Cash flows	464	(10,251)	22,622	4,924	3,191	3,794
FCFF	(17,143)	(16,044)	36,566	17,051	(3,461)	(2,410)
Net borrowings	11,310	21,101	(19,790)	(10,932)	(262)	(89)
FCFE	(6,058)	2,113	14,831	5,598	(3,978)	(2,731)
Net change in cash	(7,673)	1,751	14,551	5,452	(4,513)	(3,725)
Closing cash	1,516	3,268	17,819	23,271	18,758	15,033

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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