



26 October 2026

SAZEW: 1QFY27 EPS expected to clock in at PKR 68.5, down by 6% YoY

Sazgar Engineering Works Limited

PSX: SAZEW | Bloomberg: SAZEW PA | Reuters: SAEW.PSX

- SAZEW is expected to announce its 1QFY27 results, where we expect the company to report an EPS of PKR 68.5, down 6% YoY and 53% QoQ. Alongside the result, we expect a cash dividend of PKR 15/share.
- Net sales are expected to rise 17% YoY to PKR 39.4bn in 1QFY27 (SPLY: PKR 33.8bn), down 48% QoQ following an exceptionally strong 4QFY26. The increase in sales tax on hybrid variants from 8.5% to 18%, with retail prices held unchanged, is expected to reduce ex-tax realizations on hybrid variants by 8% YoY, while ICE variants remain unaffected. Consequently, four-wheeler revenue is projected to grow by just 15% YoY despite a 30% increase in average selling prices. Total volumes were reported at 10,872 units, up 22% YoY, driven entirely by three-wheelers, with sales recorded at 7,735 units, up 45% YoY.
- Four-wheeler volumes were reported at 3,137 units in 1QFY27, down 12% YoY and 52% QoQ. Decline is mainly driven by the lower sales of HEV/PHEV in this quarter due to increase in sales tax. We estimate the company sold only ICE variants in the first two months of FY27, with the mix shifting back towards hybrids in Sep'26 after the 18% sales tax SRO was notified.
- Gross margin is expected to compress significantly to 20.9% in 1QFY27 versus 25.2% in SPLY, as COGS rise 23% against 17% revenue growth. Following the expiry of the concessionary duty regime, customs duties on non-localised and localised CKD kits have increased from 10% to 30% and 25% to 45%, respectively, effective 1QFY27. This is expected to raise landed kit costs by an estimated 17% for ICE and 13% for HEV/PHEV variants, with hybrid-specific components retaining preferential rates. Sales tax absorption is expected to create a further 2% drag on blended margins during the quarter. The near-term impact is partly cushioned by the consumption of PKR 42bn in inventory carried into 1QFY27. Accordingly, we project a primary margin of 22%, down from 25.4% in 4QFY26, before normalising to 19% for FY27 as impact of higher custom duties on CKDs kicks in.
- Other income is expected to decline 22% YoY to PKR 0.4bn on a lower average cash balance, while finance cost more than doubles to PKR 168mn. The reduction in super tax is expected to lower the effective tax rate to 37% from 39% previously, partly cushioning the earnings impact, with PAT projected to decline 6% YoY to PKR 4.1bn.
- We maintain our 'BUY' recommendation on the stock based on our June'27 target price (TP) of PKR 2,658/share, which provides an upside of 83% along with a dividend yield of 5%.

Key Data

PSX Ticker	SAZEW
Target Price (PKR)	2,658
Current Price (PKR)	1,455
Upside/(Downside) (%)	83%
Dividend Yield (%)	5%
Total Return (%)	88%
12-month High (PKR)	2,487
12-month Low (PKR)	1,412
Outstanding Shares (mn)	60
Market Cap (PKR mn)	87,955

Source: PSX, Akseer Research

Financial Estimates (PKR mn)	1QFY26	1QFY27E	YoY
Sales	33,824	39,463	17%
Cost of goods sold	25,303	31,209	23%
Gross profit	8,521	8,254	-3%
Distribution and Marketing cost	964	1,184	23%
Administrative expenses	206	244	18%
Operating expenses	1,171	1,428	22%
Operating Profit	7,351	6,826	-7%
Other Income	514	402	-22%
Other operating expense	542	487	-10%
Operating profit before finance cost	7,322	6,741	-8%
Finance cost	79	168	112%
Profit before taxation	7,243	6,573	-9%
Taxation/Levies	2,826	2,432	-14%
Profit after taxation	4,417	4,141	-6%
EPS	73	69	-6%
DPS	15	15	

Source: Company Accounts, Akseer Research

Key Financial Ratios	FY24A	FY25A	FY26A	FY27E	FY28F	FY29F
EPS (PKR)	131	270	391	345	301	367
EPS Growth	697%	106%	44%	-11%	-13%	23%
DPS (PKR)	20	52	70	69	75	110
PER	22.08	5.38	3.73	4.21	4.85	3.95
Dividend Yield	1.4%	3.6%	4.8%	4.8%	5.2%	7.6%
P/B	8.70	3.71	2.04	1.47	1.20	0.99
ROE	122%	97%	71%	41%	28%	28%

Source: Company Accounts, Akseer Research

Valuation Basis

Our TP has been computed using the Discounted Cash Flow (DCF) framework, with a risk-free rate of 11.5%, beta of 1.3x, and a market risk premium of 6.0%, arriving at a cost of equity of 19.0%.

Investment Thesis

Our investment case on SAZEW is based on (1) it's plug-in portfolio and its expansion plan for upcoming CKD models, (2) strengthening HAVAL's market position translating into higher sales and (3) its ability to endure margin pressures through higher production efficiency, scaling localization, and adjustments to regulatory duty structures.

Risks

Key downside risks to our investment thesis include (1) the government's decision not to reverse the GST increase on hybrids, leaving SAZEW to continue absorbing the levy and compressing ex-tax realizations, (2) a faster-than-expected exhaustion of the PKR 42bn low-cost inventory carried into 1QFY27, which would bring forward the full impact of the higher CKD duty structure on margins, intensifying competition from Chinese NEV manufacturers in the SUV segment, (4) delays in the implementation of AIDEP 2026-31, and (5) execution or cost overruns on the PKR 22bn capacity expansion, alongside a rising finance cost burden as the company draws further debt.

Company Description

Sazgar Engineering Works Limited (SAZEW) is Pakistan's leading three-wheeler manufacturer and a fast-growing player in the four-wheeler segment through its partnership with GWM. The company locally assembles Haval HEV/PHEV models and has expanded its NEV portfolio with the TANK-500 Hi4-T HEV/PHEV, while the GWM Cannon PHEV is also planned for local assembly. Following the discontinuation of its home-appliances business in September 2025, SAZEW is now fully focused on automotive operations. The company is expanding its four-wheeler production capacity to 54,000 units annually and continues to strengthen its manufacturing footprint, dealership network, and export presence.

Financial Highlights - SAZEW

Income Statement (PKR mn)	FY24A	FY25A	FY26A	FY27E	FY28F	FY29F
Sales	57,642	108,695	191,715	264,702	263,190	301,273
Operating expenses	41,996	77,052	145,240	219,444	224,357	255,357
Gross profit	15,646	31,642	46,476	45,258	38,833	45,916
Distribution and Marketing cost	1,811	3,474	6,193	8,603	8,554	9,791
Administrative expenses	383	560	977	1,172	1,348	1,523
Operating expenses	2,194	4,035	7,170	9,775	9,902	11,315
Operating Profit	13,452	27,607	39,306	35,483	28,931	34,601
Other Income	832	1,355	2,651	1,608	3,940	5,100
Other operating expense	1,000	1,993	2,857	2,579	2,103	2,515
Operating profit before finance cost	13,285	26,970	39,100	34,512	30,768	37,186
Finance cost	169	230	454	1,327	1,964	1,885
Profit before taxation	13,116	26,739	38,646	33,185	28,804	35,301
Taxation/Levies	5,180	10,403	15,041	12,279	10,658	13,062
Profit after taxation	7,936	16,336	23,605	20,907	18,147	22,240

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)	FY24A	FY25A	FY26A	FY27E	FY28F	FY29F
PPE	4,560	7,940	23,022	31,029	36,472	36,645
Other LT assets	49	83	120	128	136	145
Non-current assets	4,609	8,023	23,142	31,157	36,608	36,790
Current assets	24,617	33,714	58,512	76,893	87,848	104,587
Total assets	29,226	41,737	81,654	108,051	124,456	141,377
Non-current liabilities	875	943	6,838	11,202	12,518	8,793
Current liabilities	18,247	17,086	31,800	37,108	38,587	43,665
Total liabilities	19,122	18,029	38,639	48,310	51,105	52,458
Equity	10,104	23,708	43,016	59,741	73,351	88,919
Total equity & liabilities	29,226	41,737	81,654	108,051	124,456	141,377

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)	FY24A	FY25A	FY26A	FY27E	FY28F	FY29F
Net income	7,936	16,336	23,605	20,907	18,147	22,240
Non-cash charges	771	92	12,684	4,328	591	1,025
Operating cash flows	7,448	16,764	11,476	26,667	19,918	24,235
FCFF	5,466	13,048	4,161	17,227	12,114	21,041
Net borrowings	175	196	5,102	6,771	2,000	4,250
FCFE	5,291	12,852	941	23,998	14,114	16,791
Closing cash	7,299	16,186	14,050	34,262	44,347	55,056

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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