PSMC Update

- Given the unfolding post-Covid scenario, along with recent volumetric growth, we believe that Pak Suzuki (PSMC) still has some upside on offer. We apprise investors regarding the same in this piece and Recommend ‘Hold’ with a revised TP of Rs325.
- The revision is based on stronger-than-anticipated volumetric outlook for CY21 (high demand for the Alto, Wagon-R and LCV variants), where we expect ~48% YoY growth for the year.
- Moreover, gross margins for 4QCY20 and CY21 are anticipated to recover to 7-9% on the back of relatively stable outlook of the local currency, coupled with price increases in Oct-2020.
- Additionally, the company’s finance costs are expected to decline by 83% YoY in CY21 (EPS impact ~Rs18/sh).

We revise our target price for Pak Suzuki (PSMC) to Rs325 from Rs245, and recommend Hold on the stock. The stock is currently trading at CY21F P/E of 7.0x vs. average 10-year multiple of ~10.0x. At last closing price, the stock offers upside of 22% from last closing.

The revision is based on stronger-than-anticipated volumetric outlook for the company for CY21 (high demand for the Alto, Wagon-R and LCV variants), where we expect ~48% YoY growth for the year. From there, we have assumed growth of 7-8% for our forecasted horizon.

Moreover, gross margins for 4QCY20 and CY21 are anticipated to recover to 7-9% on the back of relatively stable outlook of the local currency, coupled with price increases in Oct-2020, particularly for the Suzuki Alto which accounts for ~40% of the company’s volumes. Moreover, the company has significantly reduced its inventory size by ~40% QoQ in 3QCY20 to Rs22bn from Rs36bn, which would imply fresh inventory purchases at a more favourable PKR/US$ parity, which bodes well for its margins.

The recent auto financing trend also reflects a pickup in demand, whereas PSMC having a good chunk of its sales in the urban segment stands to benefit. With interest rates expected to stay on the lower side during CY21, demand for auto financing would most likely sustain. Moreover, the higher prices of wheat and sugarcane would likely improve demand from the rural segment.

Additionally, the company’s finance costs are expected to decline by 83% YoY in CY21 (EPS impact ~Rs18/sh), given that the company has almost completely eliminated its debt obligations from commercial banks by 3QCY20 (from Rs32bn to Rs30mn!), whereas the remaining Rs13bn loan is from the parent company at 0.98% (LIBOR + 0.2%).

One risk for the company remains the new entrants, such as the recently launched Changan Alsvin which could pose some threat to the Cultus model, despite one being a sedan and the other a hatchback (same price range). On the plus side, the remaining time for launch under the ADP16-21 is less than five months at the time of this report.

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KATS Code: PSMC
Bloomberg Code: PSMC PA
Market Price: Rs267.00
December 2021 Target Price: Rs325
Valuation Methodology: FCFE
Market Cap: Rs22bn, US$137mn
1-yr ADTO: 0.5mn shares**,** Rs108mn, US$0.7mn
1-yr High / Low: Rs267.00 / 124.21
Estimated free float: 22mn shares (26%)

A counter point is that once the five year relaxation period of the ADP16-21 ends (under which new entrants get concessionary customs' duties), PSMC will be at a level playing field with the new entrants and be in a more favourable position to compete.

PSMC: Key Statistics

(Rs mn)	CY18A	CY19A	CY20E	CY21F	CY22F
Sales	119,854	116,548	77,455	113,836	125,686
COGS	112,809	114,563	74,405	104,839	116,343
Gross profit	7,045	1,985	3,050	8,997	9,343
Gross Margins	*5.9%*	*1.7%*	*3.9%*	*7.9%*	*7.4%*
Finance Costs	363	2,088	2,509	426	251
PBT	2,083	(4,952)	(2,796)	4,356	4,616
PAT	1,298	(2,920)	(2,036)	3,093	3,277
EPS (Rs)	15.77	(35.49)	(24.74)	37.58	39.82
DPS (Rs)	3.2	-	-	5.6	6.0
P/E (x)	23.9	NM	NM	7.1	6.7
P/B (x)	1.1	0.7	0.7	0.8	0.7
Div Yield (%)	0.8%	0.0%	0.0%	2.1%	2.2%

Source: JS Research, Company accounts

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