

March 20, 2023

Pakistan Automobile Assembler

PSMC PA: CY22 LPS clocked in at PKR77.0 – Below expectations

PSMC has announced its 4QCY22 financial results today, where the company has posted loss of PKR3,830mn (LPS: PKR46.5) vs. profit of PKR489mn (EPS: PKR5.9) SPLY. The result is below from our expectation due to higher than expected finance cost.

- Company has recorded highest ever loss of PKR6,337mn (LPS: PKR77.0) in CY22 against profit of PKR2,679mn (EPS: 32.6) in CY21.
- During 4th quarter, revenue stood at ~PKR60.0bn compared to PKR43.7bn in SPLY, up by ~37% YoY. The increase in revenue is mainly attributable to upward price revision whereas volumes are down by 7% YoY.
- Gross margins clocked in at ~9.8% in 4QCY22 vs. 3.6% reported in SPLY, possibly due to increase in car prices, lower freight charges and significant cost cutting measures.
- Finance cost of the company increased significantly by 13.5x YoY in 4QCY22 possibly due to increase in mark-up cost on late deliveries, exchange loss and demurrage charges.
- Other income of the company decreased by 37% YoY possibly due to decline in short term investment amid lower order book.
- Company recorded tax expense of PKR3,402mn in 4QCY22 vs. PKR221mn in SPLY, up by 15.4x YoY.

PSMC (PKR mn)	4QCY22	4QCY21	3QCY22	YoY	QoQ	CY22	CY21	YoY
Net sales	60,042	43,709	29,800	37%	101%	202,467	160,082	26%
Cost of sales	54,128	42,156	28,239	28%	92%	190,782	151,912	26%
Gross profit	5,914	1,553	1,561	281%	279%	11,685	8,170	43%
GM %	9.8%	3.6%	5.2%			5.8%	5.1%	13%
Selling/distribution expenses	1,067	931	505	15%	111%	3,218	2,943	9%
Administrative expenses	679	429	797	58%	-15%	2,957	2,481	19%
Other income	583	932	1,065	-37%	-45%	3,212	2,223	44%
Other expenses	189	48	(68)	294%	NM	144	349	-59%
Financial cost	4,974	368	4,798	NM	4%	11,614	737	NM
Profit/ (Loss) before tax	(428)	710	(3,465)	NM	NM	-3,143	3,795	NM
Taxation / (Reversal)	3,402	221	(976)	NM	NM	3,194	1,116	186%
Profit/ (Loss) after tax	(3,830)	489	(2,489)	NM	NM	(6,337)	2,679	NM
EPS/ (LPS)	(46.5)	5.9	(30.3)			(77.0)	32.6	

Source: Company accounts, Insight research

REP-147

Type INSL <GO> to reach our research page on Bloomberg.

Analyst certifications and important disclosures are in the end.

Asad Ali^{AC}

Asad.ali@insightsec.com.pk

+92-21-32462541 Ext 113



IMPORTANT DISCLAIMER AND DISCLOSURES

Disclaimer: This report has been prepared by **Insight Securities (Private) Ltd**, hereinafter referred as 'ISL') and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Statements regarding future prospects may not be realized while all such information and opinions are subject to change without notice. ISL recommends investors to independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

Investments in capital markets are subject to market risk and ISL accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment or rely upon their own judgment and acumen before making any investment. The views expressed in this document are those of the ISL Research Department and do not necessarily reflect those of ISL or its directors.

ISL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their clients. ISL, as a full-service firm, has/intends to have business relationships, including investment-banking relationships, with the companies in this report. Investors should be aware of that the ISL may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision. This report may not be reproduced, distributed or published by any recipient for any purpose whatsoever without prior written approval by ISL. Action may be taken for unauthorized reproduction, distribution or publication.

ISL Stock Rating System: ISL employs a 3-tier rating mechanism i.e 'BUY', 'HOLD' and 'SELL', which is based upon the level of expected annualized return for a specific stock. When total annualized return (capital gain + dividends) exceeds 22%, a 'BUY' rating is assigned. A 'SELL' rating is issued whenever total annualized return is less than negative 5% and for return in between the 2 ranges, 'HOLD' rating is meted out. An 'Under Review' stance is given if ISL research stance depends upon the outcome of an uncertain event having significant impact on the valuations. Different securities firms use a variety of rating terms/systems to describe their recommendations. Similar rating terms used by other securities companies may not be equivalent to ISL rating system.

Time horizon is usually the annual financial reporting period of the company (unless otherwise mentioned in the report). Ratings are updated daily and can therefore change daily. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations.

Target price risk disclosures: Any inability to compete successfully in the markets may harm the business. This could be a result of many factors which may include (but not limited to) geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage/offset certain of these exposures.

Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate



ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES

Analyst Certification: The research analyst(s), if any, denoted by AC on the cover of this report, who exclusively reports to the research department head, primarily involved in the preparation, writing and publication of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst(s) which accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or its close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

Disclosure of Financial Interest: ISL or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities of the subject company) in the securities of the subject company. Under normal course of business, ISL, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issues described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. ISL or its employees may trade contrary to the recommendation given by ISL Research through this report or any other. ISL may be providing, or have provided within the previous twelve months, significant advice or brokerage services to the subject company. ISL may have, within the past twelve months, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all, the entities mentioned in this report or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company. Close relative of one of the Research Analysts in ISL is currently under employment in the middle management of HBL (a stock covered by ISL), as branch manager. Apart from this, ISL or any other of its officers and directors have neither served as a director/officer in any company under ISL research coverage in the past 3 years nor received any compensation from the subject company in the past 12 months.

ISL Research Dissemination Policy: ISL endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Insight Securities (Pvt.) Limited

Suite 509, Business and Finance Centre,
I. I. Chundrigar Road , Karachi, Pakistan
+92-21-32462541-44