Sector Study | Trucks & Buses

Dec19

PACRA
PAKISTAN CREDIT RATING AGENCY

The Pakistan Credit Rating Agency Limited

Macro | Overview

Increase in Additional Customs Duty on all input materials from 2% to 7%

Real GDP growth is projected at 2.8% in FY20 as the government tightens fiscal and monetary policies

3% Value Added Tax introduced on imported raw material effected the cash flows of the industry

Pakistan's rupee depreciated around 31% against USD during FY19

High auto financing further discouraging activity in commercial market.

Commercial Truck and Bus market reduced by 33% in FY 2019 (PAMA)

Pakistan | Trucks and Buses | Industry | Overview

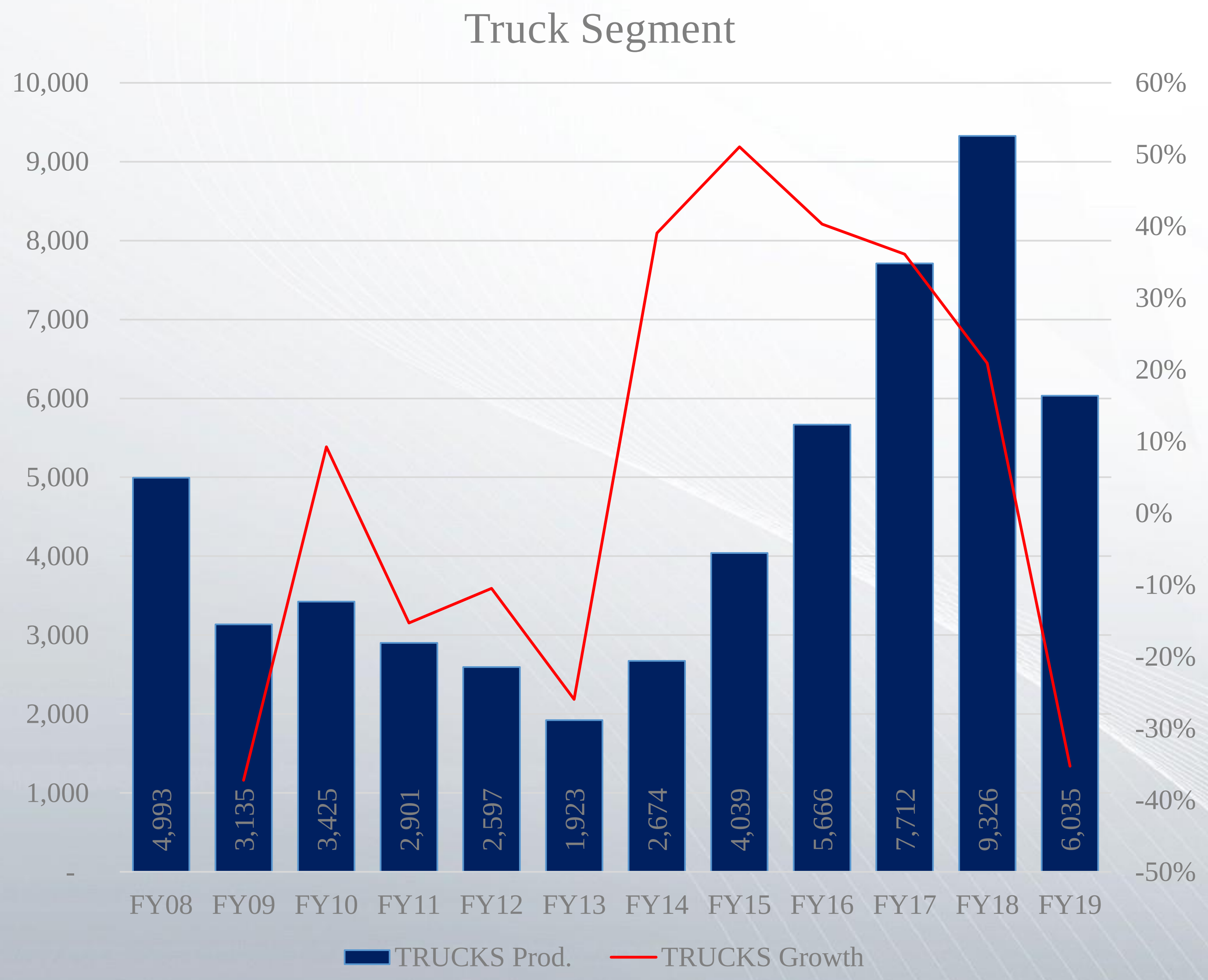
	Year	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	Mean	Median	Volatility	V/M
Trucks	Prod.	3,135	3,425	2,901	2,597	1,923	2,674	4,039	5,666	7,712	9,326	6,035	4,536	3,732	2,275	50.2%
	Sale	3,136	3,620	2,942	2,394	1,948	2,663	4,111	5,550	7,499	9,331	5,828	4,531	3,866	2,245	49.5%
	Difference	(1)	(195)	(41)	203	(25)	11	(72)	116	213	(5)	207	5	(134)	30	
	Prod. Growth	-37.2%	9.3%	-15.3%	-10.5%	-26.0%	39.1%	51.0%	40.3%	36.1%	20.9%	-35.3%				
	Sales Growth	-41.4%	15.4%	-18.7%	-18.6%	-18.6%	36.7%	54.4%	35.0%	35.1%	24.4%	-37.5%				
Buses	Prod.	657	628	490	568	522	558	575	1,070	1,118	803	913	754	643	246	32.7%
	Sale	685	657	515	609	510	577	569	1,017	1,130	762	935	763	671	244	31.9%
	Difference	(28)	(29)	(25)	(41)	12	(19)	6	53	(12)	41	(22)	(9)	(29)	2	
	Prod. Growth	-42.7%	-4.4%	-22.0%	15.9%	-8.1%	6.9%	3.0%	86.1%	4.5%	-28.2%	13.7%				
	Sales Growth	-42.7%	-4.1%	-21.6%	18.3%	-16.3%	13.1%	-1.4%	78.7%	11.1%	-32.6%	22.7%				
Total	Prod.	3,792	4,053	3,391	3,165	2,445	3,232	4,614	6,736	8,830	10,129	6,948	5,290	4,334	2,453	46.4%
	Sale	3,821	4,277	3,457	3,003	2,458	3,240	4,680	6,567	8,629	10,093	6,763	5,294	4,479	2,411	45.5%
	Difference	(29)	(224)	(66)	162	(13)	(8)	(66)	169	201	36	185	(5)	(145)	42	
	Prod. Growth	-38.2%	6.9%	-16.3%	-6.7%	-22.7%	32.2%	42.8%	46.0%	31.1%	14.7%	-31.4%				
	Sales Growth	-41.6%	11.9%	-19.2%	-13.1%	-18.1%	31.8%	44.4%	40.3%	31.4%	17.0%	-33.0%				
Pick Up	Prod.	16,158	15,768	19,142	20,929	14,517	17,477	28,189	35,836	24,265	29,414	24,453	22,292	21,142	6,151	27.6%
	Sale	15,397	16,496	17,746	21,472	15,042	17,635	27,656	35,759	23,804	29,136	25,362	22,236	21,397	6,099	27.4%
	Difference	761	(728)	1,396	(543)	(525)	(158)	533	77	461	278	(909)	56	(255)	52	
	Prod. Growth	-24.3%	-2.4%	21.4%	9.3%	-30.6%	20.4%	61.3%	27.1%	-32.3%	21.2%	-16.9%				
	Sales Growth	-27.8%	7.1%	7.6%	21.0%	-29.9%	17.2%	56.8%	29.3%	-33.4%	22.4%	-13.0%				

Truck segment is most volatile segment in auto industry

Bus segment is relatively stable commercial segment

Truck Segment | Overview

Major importing countries of the world



Pakistan Truck Industry has witnessed growth on a timeline basis, especially in the past five years due to demand arising from increased economic activity. However, trucks production witnessed a dip to 6,035 units in FY19 from 9,675 units in FY18 on account of following factors:

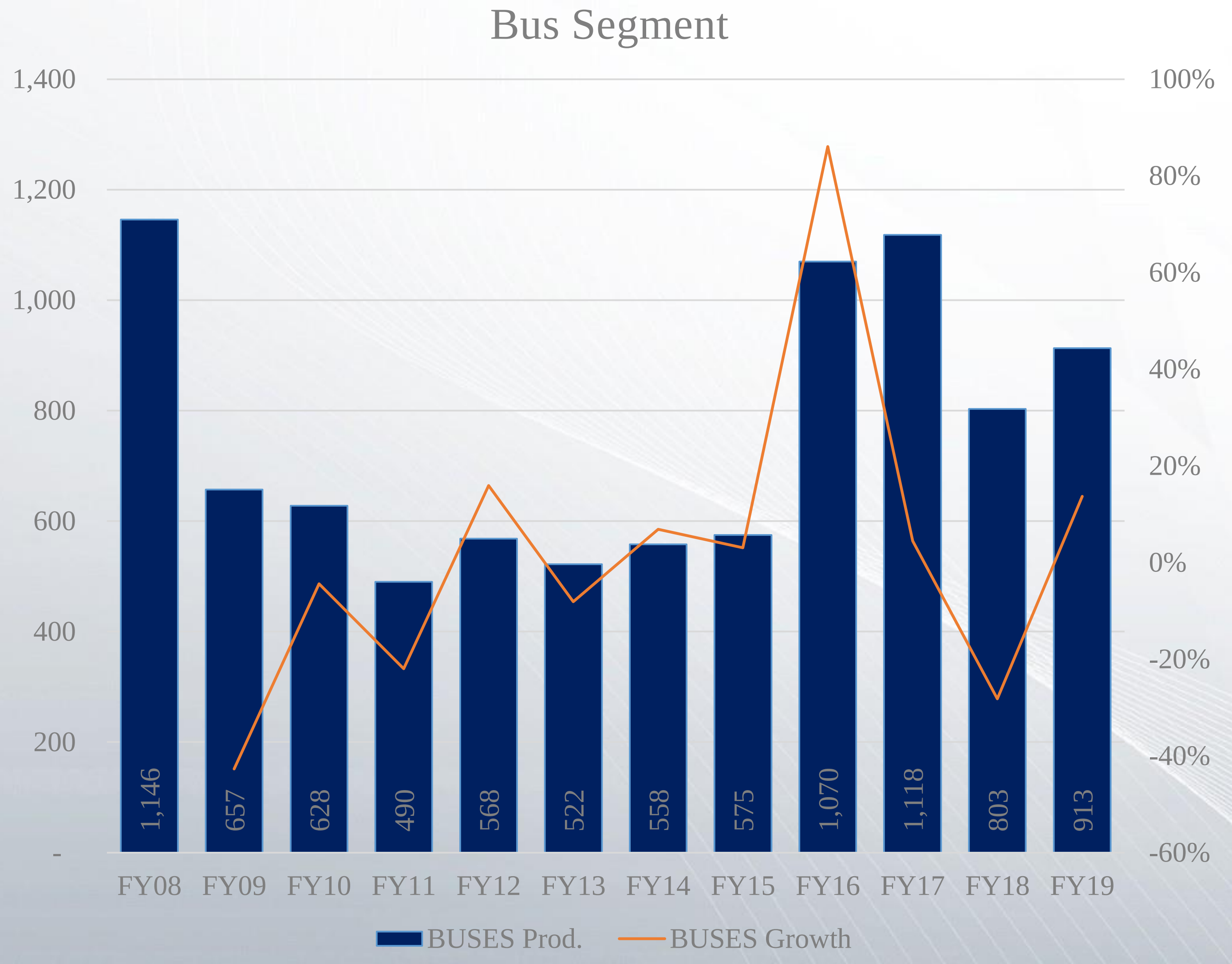
Major decrease in economic activities during the year

Increase in prices of trucks due to rupee devaluation

Increased auto financing cost due to increase in policy rate.

Bus Segment | Overview

Major importing countries of the world



Bus production segment has witnessed a uncertain demand in the recent past on account of following factors:

Changing preferences of public to have transport of their own

Availability of locally manufactured two wheelers at affordable rates

Demand on intercity routes is not as much to affect the production volumes significantly

Industry | Demand Drivers

Demand Drivers of Truck

Oil & Gas Transportation Needs (~%)

Government Institutions and armed forces (~%)

Commercial sectors (~%)

Additionally, CPEC route is expected to bring manifolds increase in demand for trucks.

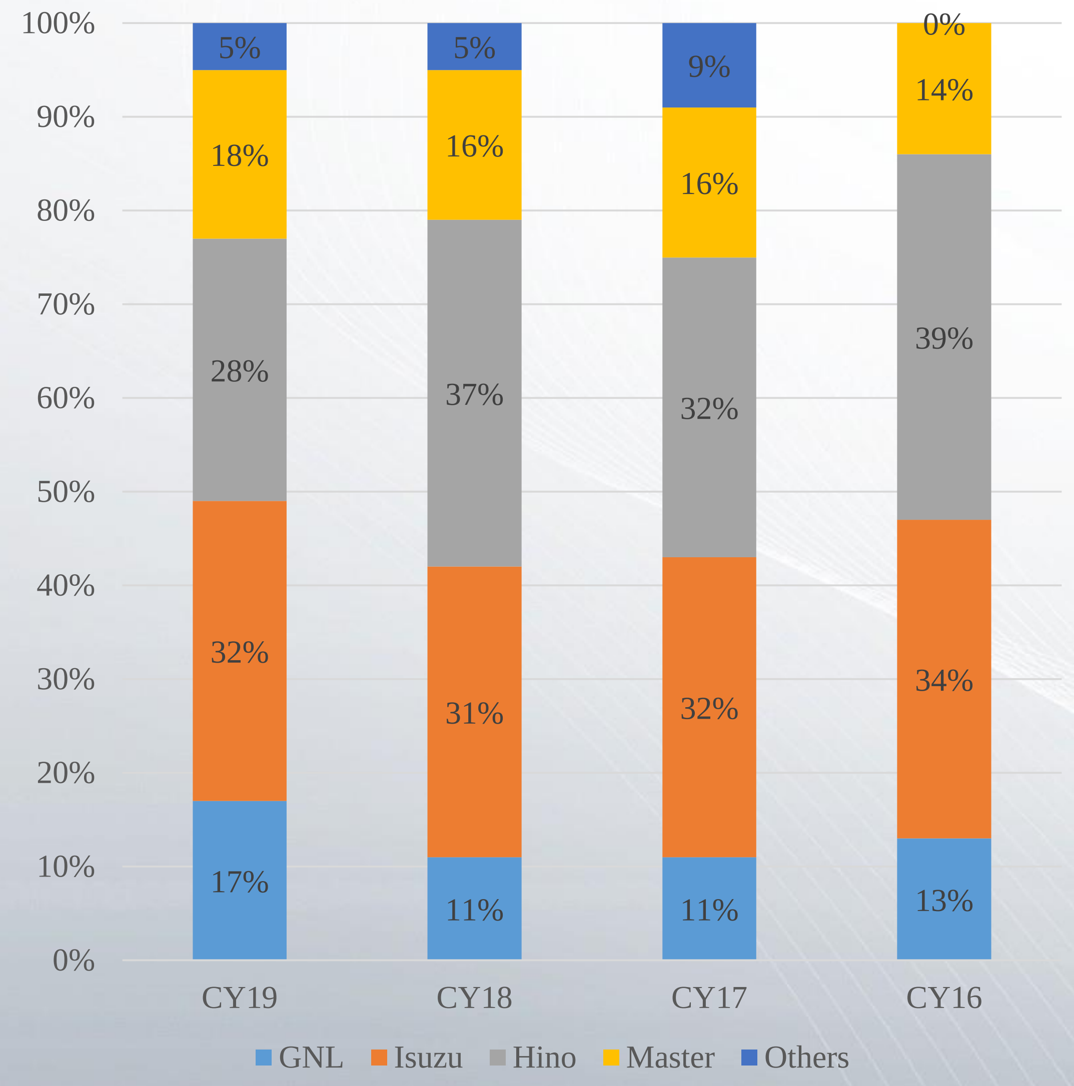
Major importing countries of the world

Inter-city private bus transport services e.g. Daewoo

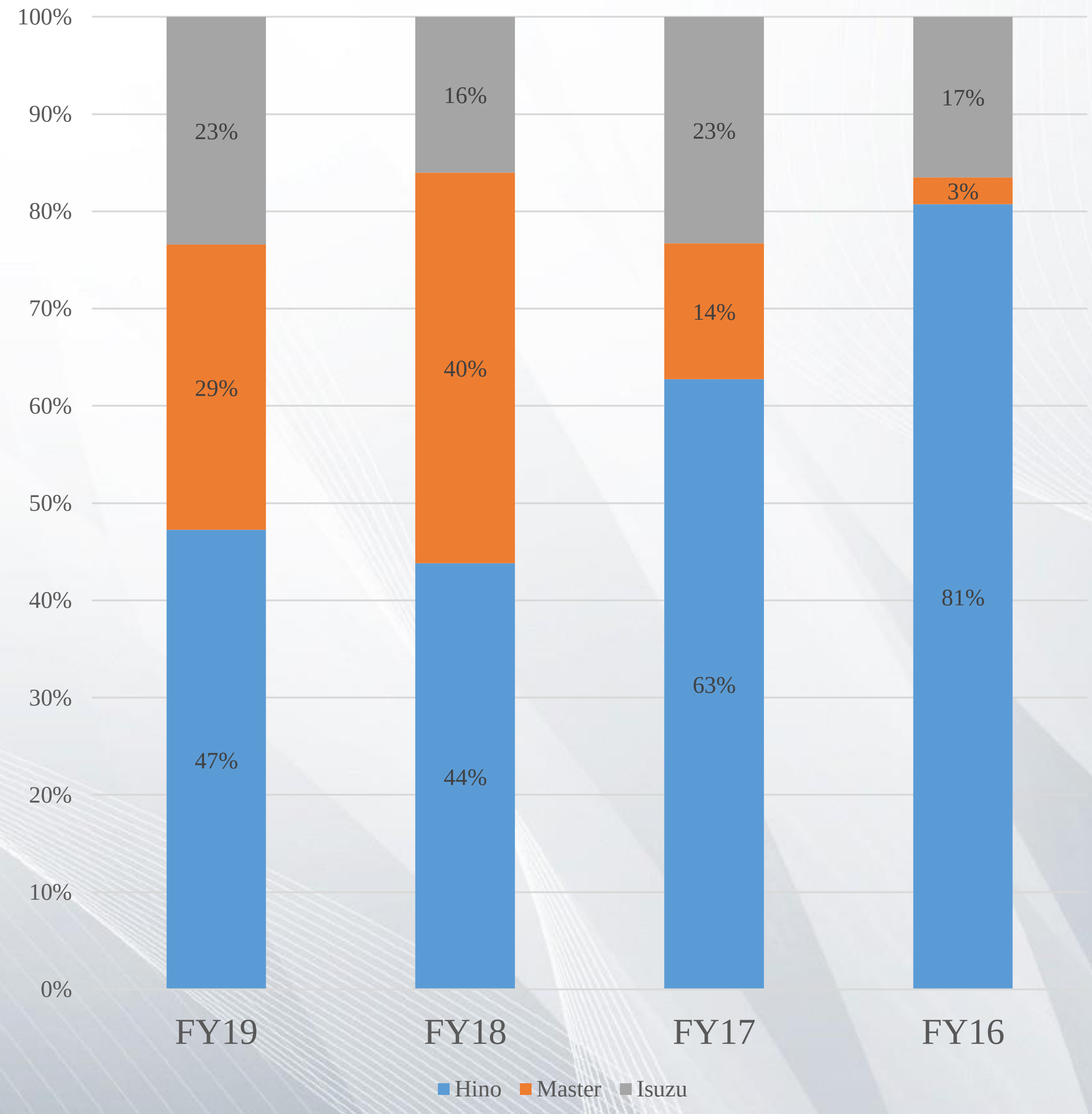
Public Sector projects (~%)

Industry | Market Share

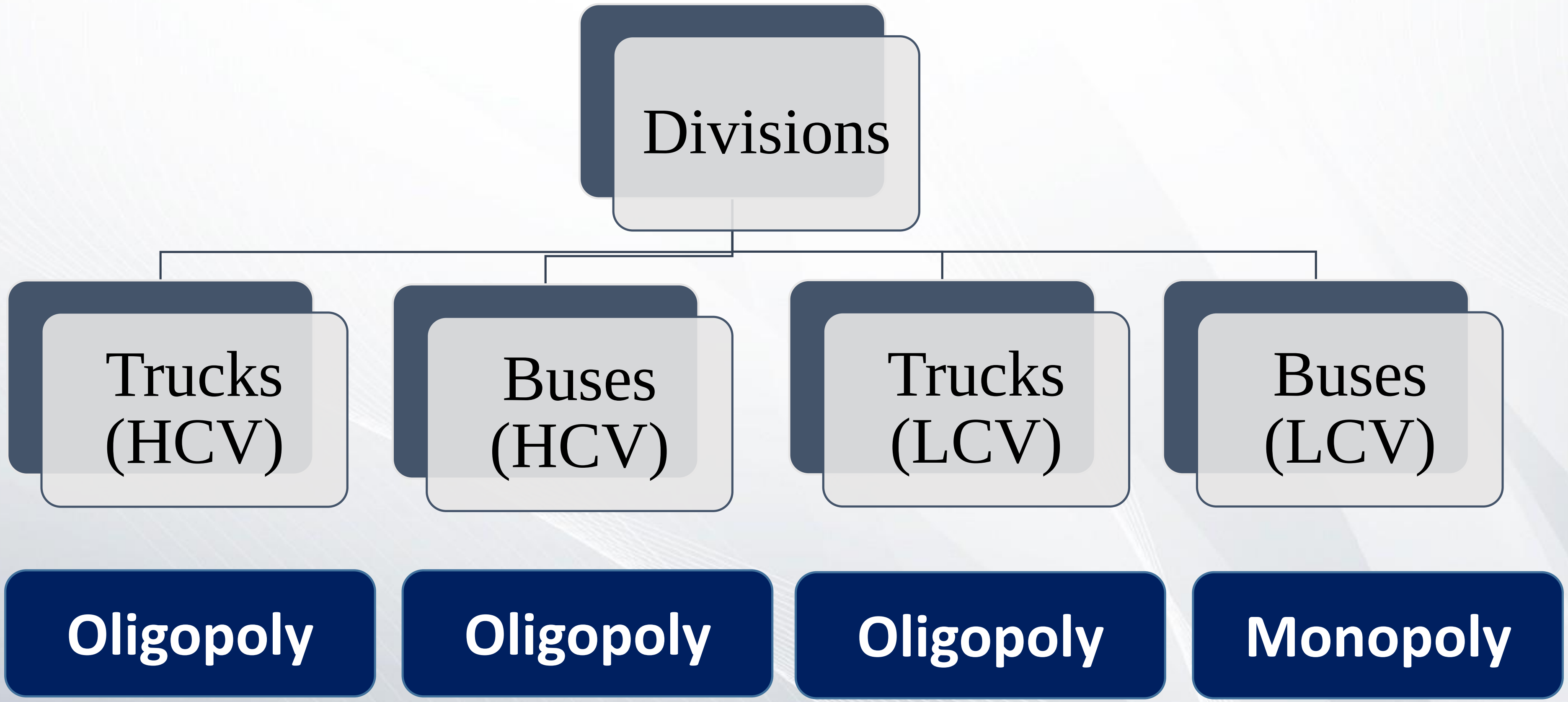
Trucks



Buses



Pakistan | Industry Segment | Structure



Industry | Supply Side

Trucks & Buses Assemblers in Pakistan		
Listed on PSX	**Members of Pakistan Automotive Manufacturers Association (PAMA)**	**Non-members of PAMA**
Hinopak Motors Ltd.	Hinopak Motors Ltd.	Dysin Automobiles Ltd. (distributor)
Ghandhara Industries Ltd.	Ghandhara Industries Ltd.	Afzal Motors (Pvt) Ltd. (assemblers)
Ghandhara Nissan Ltd.	Ghandhara Nissan Ltd.	Al-Haj FAW motors (Pvt.) Ltd. (distributor & assembler)
	Master Motor Corporation Ltd.	

Pakistan | Duty Structure | Finished Products

Duty structure in FY19

Category	Custom Duty	Additional	Sales Tax	Income Tax	Additional	RD
Passenger Cars	16%	4% - 17%	17%	5.5%	3%	10%
Light Truck	16%	4% - 17%	17%	5.5%	3%	10%
Truck and Buses	3%	4% - 17%	17%	5.5%	3%	15%
Farm	20%	4% - 17%	17%	5.5%	3%	0%

Duty structure in FY18

Category	Custom Duty	Additional	Sales Tax	Income Tax	Additional	RD
Passenger Cars	16%		17%	5.5%		20%
Light Truck	16%	1.0%	17%	5.5%		20%
Truck and Buses	3%	1.0%	17%	5.5%		35%
Farm	20%	1.0%	17%	5.5%		0%

RISK

- Increase in interest rate has direct negative impact on demand of motor cars financing and hence Auto sales
- Devaluation of local currency
- Oil pipeline will impact demand for prime movers
- ML1 project under CPEC will act as a contra of trucks and buses

Pakistan | Auto Sector | Opportunities

OPPORTUNITIES

- Improvement in infrastructure will drive growth in light commercial vehicles, trucks and buses segment
- Positive impact to be driven from CPEC projects
- Collaboration of International OEMs with local conglomerates for setup in Pakistan will increase the landscape of opportunities for auto sector

Bibliography

- Company financial statements
- Trade Map
- PAMA statistical data
- PACRA in-house database

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