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## New Auto Policy Positive for the sector & listed companies

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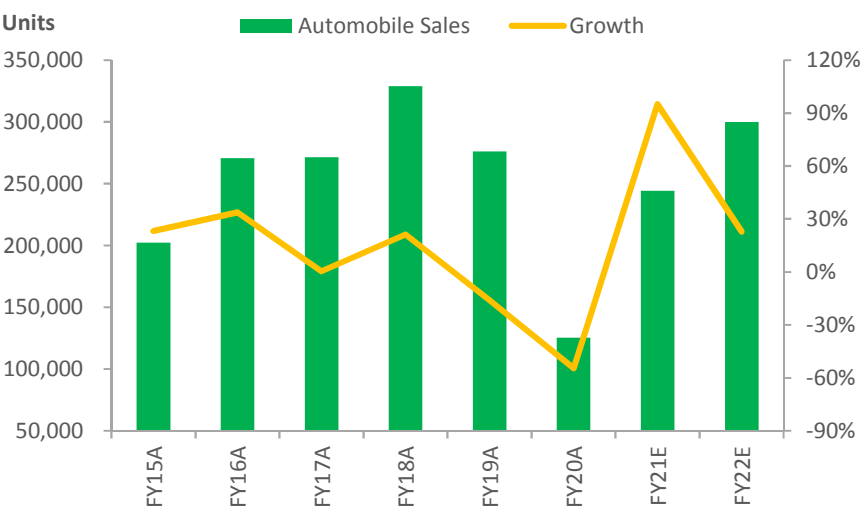
# Incentives across the board specially for small segment cars

## Official price revision (Upto 1000cc Category)

Model	Old price	Revised Price	Difference
Alto VX	1,198,000	1,113,000	85,000
Alto VXR	1,433,000	1,335,000	98,000
Alto VXL	1,633,000	1,521,000	112,000
Wagon R VXR	1,640,000	1,530,000	110,000
Wagon R VXL	1,730,000	1,610,000	120,000
Wagon R AGS	1,890,000	1,760,000	130,000
Cultus VXR	1,780,000	1,655,000	125,000
Cultus VXL	1,970,000	1,830,000	140,000
Cultus AGS	2,130,000	1,975,000	155,000
Picanto MT	1,899,000	1,781,000	118,000
Picanto AT	2,049,000	1,922,000	127,000

Source: Topline Research

## Pakistan Car Sales vs Growth



Source: PAMA, News reports, Topline Research

- Government of Pakistan (GoP) in recently announced FY22 budget offered major incentives for the auto sector which combined with some other expected measures is likely to become part of upcoming Auto Policy for 2022-2026. The key idea behind offering the incentives is to (1) increase cars affordability specially of the smaller segment cars, (2) improve share of energy efficient and environment friendly Electric & Hybrid cars and (3) enhance the overall market size by increasing car manufacturing to 300k units in FY22 and to 500k units by FY26. Car sales in FY21 is likely to clock in at 242k units, up 93% YoY.
- Notable features of the measures introduced in the budget include abolishment of 2.5% Federal Excise Duty (FED) along with reduction in Sales tax from 17% to 12.5% for cars with engine capacity of up to 1000cc, offering a total relief of 7% to customers.
- The current regime will largely sow benefits for small car makers specifically PSMC and Lucky Motor Corporation for their offerings in “1000cc and below” category. Official price reductions in the aforementioned category range between Rs85-Rs155k (see table on left), which should help boost their volumes.
- In order to offer more incentives for introduction of new models in small car segment category, FBR has also reduced customs duty on import of non-localized CKD (completely knocked down) units from 30% to 15% and localized CKD units from 46% to 30% for cars up to 850cc. This benefit will be granted to any new make or model certified by the Engineering Development Board for two years from the date of issuance of certificate or up to 30<sup>th</sup> June 2024, whichever is earlier.
- Moreover, FED on 1,001 – 2,000cc segment has also been reduced from 5% to 2.5%. Cars above 2,001cc will also be taxed at a lower rate of 5% from 7.5%. Resulting in a reduction in automobile prices across the board by up to 7%.

# Incentives for EV/Hybrid Vehicles also in limelight

- Additional Customs Duty (ACD) on CKD kits of 7% and ACD and Regulatory Duty (RD) of 7% and 15% respectively on Completely Built Unit (CBUs) of cars up to 850cc have been exempted for two years. This will help companies settle dispute of ACD against which the listed players had taken a stay order. Exemption of RD on CBU will also help companies introduce new models for test marketing before launching it officially for local production.
- Key incentives are likely to be introduced for Hybrid and Electric vehicles in upcoming Auto Policy. For Hybrid vehicles, government has announced reduced custom duty of 4% on parts of Hybrid Vehicles from 30%.
- For Electric vehicles, government has announced reduction of customs duty on CBUs to 10% from 25% for commercial importers and to 5% from 12.5% for imports by local manufacturers. Similarly, reduced duty of 1% on EV parts, 10% on non-localized CKD and 1% GST on EV cars have been proposed. Plants and machinery for manufacturing of EV parts has also been exempted from custom duty.
- Government has offered a very liberal policy for manufacturing of Electric vehicles, as they want customers to gradually shift from Internal Combustion Engine (ICE) to Hybrid and then to Electric vehicles. As part of this policy, government is likely to set target of 30% share of Electric vehicles in total car manufacturing by 2030.

## Summary of Likely Measures in Auto Policy

GST reduced from 17% to 12.5%, FED of 2.5% exempted on cars upto 1000cc

FED reduced by 2.5% from 1001-3000cc cars

Custom duty reduced from 30% to 15% on CKD (non-localized parts) - new models of upto 850cc cars

Custom duty reduced from 46% to 30% on CKD (localized parts) - new models of upto 850cc cars

Exemption of ACD on CKD and ACD/RD on CBU units for two years for upto 850cc cars

Custom duty on Hybrid cars parts to reduce from 30% to 4%

Custom duty on Electric Vehicles to reduce from 12.5% to 5% for import by local manufacturers

Reduced duty of 1% on Electric Vehicle Parts, 10% duty on non-localized parts and 1% GST on EV cars

Auto assemblers to pay Kibor + 3% to customers against late deliveries beyond 60 days of car booking (kibor + 2% last year)

Reduced financing rates for first time car owners

Concessionary duties for new entrants under ADP (2021-26) to continue for five years from manufacturing certificate by EDB or up to 30th June, 2026

**Source: Finance Act 2021, PakWheels, Topline Research**

# How upcoming policy is different from ADP 2016-21?

## List of New Entrants after ADP 2021-26

Company	Foreign Principal Company
KIA Lucky Motors	Kia Motors Company
Hyundai Nishat Motors	Hyundai Motor Company
United Motors	Luoyang Dahe, Yangste Motor
Master Motors	Changan
Sazgar Engineering	BAIC International Development
MG Motors	JW-SEZ Group and SAIC motors
Regal Automobile	DFSK Motor Co
Al-Futtaim Automotive	Renault s.a.s
KA Hanteng Motor Company	Hanteng Automobile
Premier Motors	Volkswagen
Sinopak E-Motors	Anhui Xingkelon Coach
Al-Haj Automotive	Proton

Source: EDB, Topline Research

- In the last Auto Development Policy (ADP) 2016-21, government's main focus was to offer major incentives to new entrants and reduce entry barriers in the form of concessional rates to manufacturers in the greenfield category.
- This policy is likely to continue for five years as concessional rates to new entrants will continue from issuance of manufacturing certificate by Engineering Development Board (EDB) or up to 30<sup>th</sup> June, 2026 which ever is earlier. We have already seen influx of new players (JVs with foreign partners like KIA, Hyundai, Changan) and we expect this to continue going forward.
- This time around, the focus also remain mainly on the affordability of cars specially in the small category segment so people can afford cars & upgrade from motorbikes to cars.
- It is noteworthy that cars per capita in Pakistan still remain very low at around 20 cars per 1000 people, significantly lower than regional peers. Furthermore, price differential between an entry level bike and car is huge that is a 660cc engine capacity car is at least 10 times more expensive than a 70cc motorbike with price differential of over Rs1mn.
- Furthermore, major incentives have been announced for environment friendly cars including Hybrid and Electric Vehicles.
- Focus on consumer protection is likely to be further strengthened in the upcoming policy as auto manufacturers delaying car deliveries by over 60 days will be liable to pay kibar+3% on deposited amount. Reimbursement details will have to be submitted by auto manufacturers to EDB, ensuring strict enforcement which remained an issue previously.
- Age limit for import of passengers cars & SUVs were maintained at 3 & 5 years, respectively. This is likely to continue in new auto policy.

# Our take on new Auto Policy and Investment Perspective

Pakistan Car sales over the years

Automobiles	Size (Units)	Growth	Policy Rate (Avg)	GDP
FY02A	43,452	15%	10%	3%
FY03A	67,026	54%	8%	6%
FY04A	99,986	49%	8%	8%
FY05A	134,769	35%	8%	7%
FY06A	168,117	25%	9%	6%
FY07A	189,377	13%	10%	5%
FY08A	176,316	-7%	10%	2%
FY09A	95,874	-46%	14%	3%
FY10A	145,518	52%	13%	2%
FY11A	156,203	7%	14%	3%
FY12A	235,726	51%	12%	4%
FY13A	180,057	-24%	10%	4%
FY14A	164,315	-9%	10%	5%
FY15A	202,472	23%	9%	5%
FY16A	270,723	34%	6%	6%
FY17A	271,618	0%	6%	6%
FY18A	329,008	21%	6%	6%
FY19A	276,230	-16%	10%	1%
FY20A	125,283	-55%	12%	1%
FY21E	242,113	93%	7%	4%
Average		15%		4%

Source: SBP, PAMA, News report, Topline Research

- We believe that government has offered very liberal incentives for the auto sector specially for those operating in small segment category. Muhammad Faisal, COO, Lucky Motors and Ali Jamali, CEO Indus Motors in their recent interviews with PakWheels also praised government's initiatives for the auto sector.
- We expect auto sales to touch ~300k units in FY22, a growth of 23% as targeted by the government. Achieving 500k units target by FY26 will require a host of factors like stable currency, low interest rates and high GDP growth as auto sector is cyclical in nature. Total auto sales needs to grow by at least 13% each year to reach target of 500k units by FY26. To recall, auto sector failed to achieve production target after ADP 2016-21 despite entry of new players due to low economic growth, COVID-19 and huge currency devaluation.
- We believe that manufacturers who will be able to introduce new cars specially up to 1000cc category will be key winners. Graduations to Hybrid and Electric Vehicles will be gradual as these cars and their parts are generally 30-50% expensive than ICE (Internal Combustion engine) cars. However, these products will remain value accretive for companies due to incentives offered.
- Within the listed space, we like Pak Suzuki (PSMC) and Indus Motors (INDU). KIA Lucky Motors, subsidiary of Lucky Cement (LUCK) will also be key beneficiary of the said policy. PSMC and KIA offer small category cars of upto 1000cc category which are subject to reduced taxes and duties. KIA is also planning to launch new model, KIA Stonic, which is a 1000cc sub combat SUVs. Similarly new product offering from PSMC can not be ruled out.
- INDU can also gradually rollout any of its Hybrid variants which are very popular internationally. It is already importing CBU units of Toyota Cross in Hybrid Crossover SUV category, which can be later be introduced for local production to avail incentives.

# Company wise demand projections for Auto-sector

Sales Forecast	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
<b>INDU</b>	<b>56,943</b>	<b>63,977</b>	<b>59,911</b>	<b>63,068</b>	<b>65,399</b>	<b>28,378</b>	<b>58,701</b>	<b>66,919</b>	<b>76,288</b>
Growth	67%	12%	-6%	5%	4%	-57%	107%	14%	14%
Mkt Share	28%	24%	22%	19%	24%	23%	24%	23%	23%
<b>PSMC</b>	<b>98,879</b>	<b>127,785</b>	<b>114,044</b>	<b>144,070</b>	<b>130,002</b>	<b>65,815</b>	<b>90,426</b>	<b>113,033</b>	<b>129,987</b>
Growth	27%	29%	-11%	26%	-10%	-49%	37%	25%	15%
Mkt Share	49%	47%	42%	44%	47%	53%	37%	38%	38%
<b>HCAR</b>	<b>23,622</b>	<b>25,726</b>	<b>39,163</b>	<b>51,494</b>	<b>44,234</b>	<b>16,390</b>	<b>28,986</b>	<b>33,334</b>	<b>36,667</b>
Growth	0%	9%	52%	31%	-14%	-63%	77%	15%	10%
Mkt Share	12%	10%	14%	16%	16%	13%	12%	11%	11%
<b>KIA</b>						<b>7,000</b>	<b>23,500</b>	<b>32,900</b>	<b>37,835</b>
Growth							236%	40%	15%
Mkt Share							10%	11%	11%
<b>Hyundai Nishat</b>						-	<b>5,900</b>	<b>8,850</b>	<b>9,735</b>
Growth								50%	10%
Mkt Share							2%	3%	3%
<b>Used Car Import &amp; Imported CBU</b>	<b>23,028</b>	<b>53,235</b>	<b>58,500</b>	<b>70,376</b>	<b>36,595</b>	<b>7,700</b>	<b>20,000</b>	<b>21,000</b>	<b>22,050</b>
Growth	-21%	131%	10%	20%	-48%	-79%	160%	5%	5%
Mkt Share	11%	20%	22%	21%	13%	6%	8%	7%	7%
<b>Master Motors - Changan</b>							<b>6,000</b>	<b>8,100</b>	<b>9,720</b>
Growth								35%	20%
Mkt Share							2%	3%	3%
<b>DFSK - Prince</b>							<b>4,600</b>	<b>5,980</b>	<b>7,475</b>
Growth								30%	25%
Mkt Share							2%	2%	2%
<b>FAW</b>							<b>1,000</b>	<b>1,100</b>	<b>1,210</b>
Growth								10%	10%
Mkt Share							0%	0%	0%
<b>MG Motors</b>							<b>2,000</b>	<b>3,800</b>	<b>4,750</b>
Growth								90%	25%
Mkt Share							1%	1%	1%
<b>Al-Haj (Proton)</b>							<b>500</b>	<b>750</b>	<b>863</b>
Growth								50%	15%
Mkt Share								0%	0%
<b>Sazgar</b>							-	<b>900</b>	<b>1,530</b>
Growth									70%
Mkt Share								0%	0%
<b>Others</b>							<b>500</b>	<b>750</b>	<b>938</b>
Growth								50%	25%
Mkt Share							0%	0%	0%
<b>Total Automobile Sales</b>	<b>202,472</b>	<b>270,723</b>	<b>271,618</b>	<b>329,008</b>	<b>276,230</b>	<b>125,283</b>	<b>242,113</b>	<b>297,416</b>	<b>339,047</b>
<b>Growth</b>	<b>23%</b>	<b>34%</b>	<b>0%</b>	<b>21%</b>	<b>-16%</b>	<b>-55%</b>	<b>93%</b>	<b>23%</b>	<b>14%</b>

Source: PAMA, Topline Research



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Market Weight

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### Sector’s Proposed Weight in Portfolio

> Weight in KSE-100 Index

= Weight in KSE-100 Index

< Weight in KSE-100 Index

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