Pakistan Automobile Parts & Accessories

PTL PA: Margins set to normalize amid lower rubber prices

We recommend "BUY" stance on PTL with Jun'24 DCF based TP of PKR34/sh, providing an upside of 44%. Our liking for the stock emanates from the following facts i) Rising demand from OEMs (bikes and tractors), ii) Strong presence in the replacement market, iii) Margins to normalize amid lower rubber prices, iv) TERF and LTFF based loan to provide cushion against higher interest rate, v) Potential to grow export sales and xi) Newly installed calendar line to unlock value.

As cars have become dearer in Pakistan, people are compelled to use motorbikes for their daily transportation. Moreover, lack of reliable public transports followed by rise in petrol prices are contributing further impetus to higher two/three wheelers demand. Therefore, in current scenario, PTL remains our top pick as company has strong presence in both OEM and replacement for two/three-wheeler tyre market which positions PTL to be a prime beneficiary of higher two/three-wheeler sales.

Key risks to our valuation thesis include: i) Lower than expected sales due to the economic slowdown, ii) Inability to pass on cost side pressures, iii) Increased competition from smuggled tyres and imports, iv) Unavailability of raw material amid import restrictions, v) Higher than expected increase in energy prices and vi) Changes in regulatory regime

Topline to remain upbeat amid multiple headwinds

In FY22, company's topline witnessed a growth of ~26% to clock in at PKR20.4bn vs. PKR16.2bn in FY21, depicting a 5-year CAGR of ~19%. However, despite higher revenue, profitability witnessed a decline of ~51% mainly due to lower gross margins amid higher raw material prices and finance cost. Whereas, in 9MFY23, company's revenue remained flat amid lower volumetric sales which were offset by higher product prices. While profitability plunged by 63% amid higher cost inventory followed by inflationary pressures and abrupt rise in finance cost. However, abrupt fall in rubber prices in late 2022 and timely procurement have helped company in improving its margins in 3QFY23. To highlight, company has posted an unprecedented surge in gross margins of ~17% in 3QFY23 vs. average of 10.5% in 1HFY23.

In recent scenario, as import restrictions ease off, there will be an increase in OEM production. This increase in production will translate into higher demand for tires in the market, allowing the company to ramp up its production. Similarly, smooth import of raw materials will also aid in swift production. Moreover, company has a decent market share in two/three wheelers tyre segment, even a modest increase in overall industry volumes could translate into a significant rise in the company's revenue.

Rising demand from OEM sales

Every year, Pakistan witnesses a large influx of two and three wheelers on its roads. In CY22, auto industry sold 1.5mn units of two/three wheelers.

Panther Tyres Limited

BUY | HOLD | SELL

We recommend **'BUY'** with Jun'24 DCF based target price of **PKR34**, providing 44% upside.

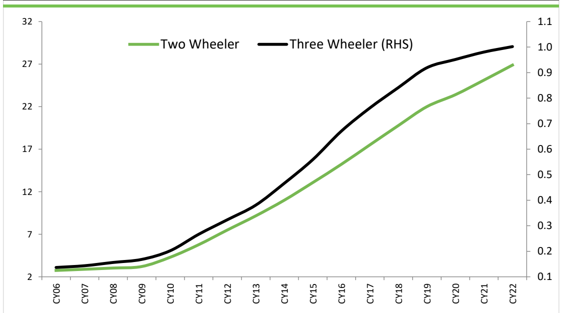
Current Price		23.6
Market cap	PKR b	4.0
Market cap	US$ m	14
Free Float Market cap	US$ m	3.54
30-day Avg. turnover	m Shares	0.62
30-day Avg. turnover	PKR m	13.50
52 wk range	PKR	14.7-36.3
Shares Outstanding	m	168
Free float	%	25%
Major Sponsors		Mian Iftikhar Ahmed
Bloomberg Ticker		PTL PA

Financials (PKR m)	FY22	FY23F	FY24F
Revenue	20,460	20,406	23,674
Cost of Sales	18,217	17,581	20,019
Gross Profit	2,244	2,826	3,655
Finance Cost	650	1,157	821
Profit Before tax	667	448	1,587
Profit After tax	420	311	968

Key Ratios	FY22	FY23F	FY24F
EPS	2.50	1.85	5.76
DPS	1.0	0.0	0.0
Gross Margins	11.0%	13.8%	15.4%
P/E	16.9	12.7	4.1
P/B	1.03	0.55	0.51
ROE	6.1%	4.4%	12.4%

Source: Company Accounts, Insight Research

Registered Vehicles: Two wheelers and three wheelers (in mn)



Source: Economic survery, Insight Research

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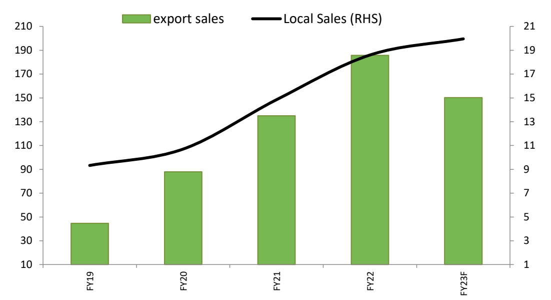
Meanwhile, number of registered two and three-wheeled vehicles in Pakistan grew from 7.8mn in CY12 to 27.1mn in CY22, depicting a CAGR of ~14% over the last ten years. For a lower-income country with rise population, motorbikes are the preferred mode of travel, especially due to their affordability and low maintenance. Moreover, E-Commerce platforms have created prospects for employment in food/product delivery and ride sharing services (Bykea, Foodpanda, etc) which further fuel up the demand. Thus, with these favorable demographics, the country's per capita consumption of tyres and tubes is expected to increase in foreseeable future. where PTL with its decent market presence in the two and three-wheeler segment, is well-positioned to capitalize on it.

Revenue mix (PKRbn)

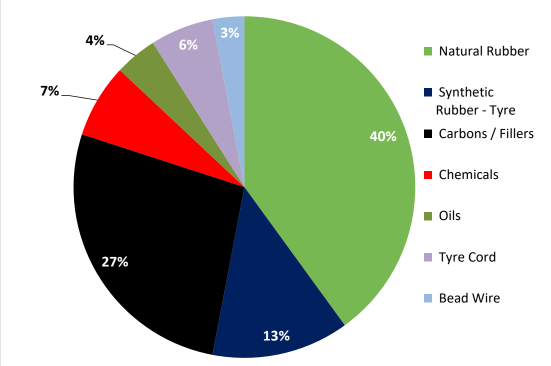


Source: Company accounts, Insight research

Gross margins reverting back to normal

PTL's gross margins in last 5-years averaged ~15%. However, company's gross margins plunged by ~500bps to clock in at ~10% during FY22. The decline in margins is mainly attributable to higher prices of rubber in international market, coupled with increase in freight cost and PKR devaluation. To note, raw material accounts for ~78% of company's total COGS. whereas, natural, synthetic and butyl rubber accounts for 54% of PTL's total raw material. Recent decline in natural rubber prices coupled with increase in product prices has aided PTL's margins. This is evident in 3QFY23, where PTL's gross margins reached an all-time high of 17%.

Tyre Composition (%)

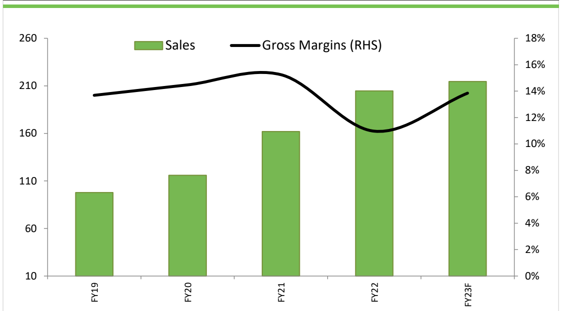


Source: Company accounts, Insight Research

Rubber prices fell sharply from its recent high

During FY22-FY23, commodity prices across the board witnessed an upward rally, as the global economy recovered from the COVID-19 pandemic. The upswing in commodity prices was mainly due to reopening of economies and pent-up demand. Whereas, supply side remained curtailed due to lockdowns. However, sudden surge in demand struggled to keep pace with supply, which created an upward pressure on prices. Correspondingly, natural and synthetic rubber prices also witnessed an increase in tandem with these broader trends. Moreover, as natural rubber demand rebounded strongly from major importers like China, supplies on the other hand remained weak due to delay in farming activities. However, in current scenario, slowdown in the global economy coupled with elevated inflation has engendered a decline in commodity prices. While, natural and synthetic rubber prices have also been affected by these trends. Moreover. slowdown in the automotive industry has reduced demand for both natural and synthetic rubber. To note, natural rubber prices plunged by 34% from its high of US$2/kg.

PTL: Revenue (PKRbn) vs. Gross Margins (%)



Source: Company accounts, Insight research

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- 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

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