

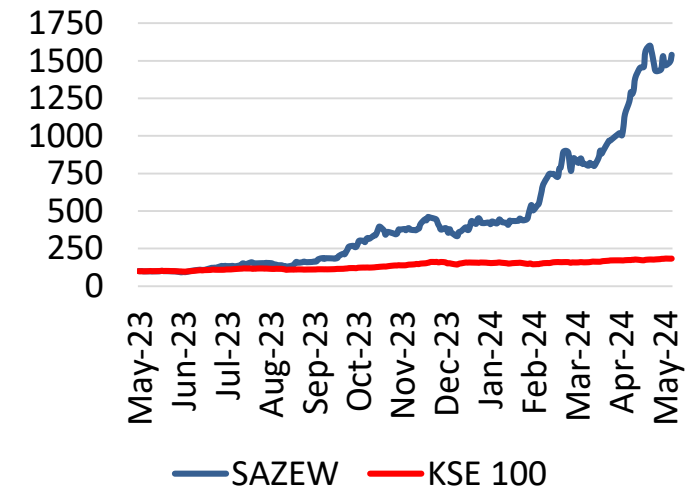
# Sazgar Engineering Works Ltd.

## Corporate Briefing Session 3QFY24 – Key Takeaways

22 May 2024

- **3QFY24 results.** EPS: PKR 50.23 (vs PKR 7.36 in 3QFY23) | DPS: PKR 8.00 (vs PKR nil in 3QFY23).
- **Gross profit up 261% Q/Q and 567% Y/Y.** The phenomenal improvement in SAZEW's top-and-bottom line is due to the increase in sales of Haval H6 models. The expansion in margins can be attributed to the increasing volumes as HAVAL is well received by consumers.
- **First batch of Haval Jolion to be released in Jun-24.** SAZEW indicated that they received a positive response after opening the pre-bookings for Haval Jolion model as well.
- **Haval H6 HEVs constitute a major proportion of sales mix.** The company revealed that Haval HEVs made up about 80% of the total sales of Haval variants. Management also indicated that Haval models exhibited a sustained or slightly higher resale value.
- **First EV license for rickshaws granted.** Management takes pride in announcing that it received the first registration license in Punjab for Electric Auto Rickshaw. Additionally, these rickshaws are 80% localized, with the remaining 20% comprising of imported EV batteries.
- **Localization tough due to low capacity utilization.** SAZEW has a total capacity of 24,000 units in the four-wheeler segment, but the capacity utilization stands at 15%. The low volumes and demand makes localization expensive due to lack of economies of scale.
- **No near-term outlook to introduce models under PKR 5 MN segment.** Management believes that the margins are thin and consumers are price sensitive in the small car segment. Out of a purely business decision, the company is keen to progress within the SUV segment.

### Total Return Comparison



Source: Zakheera, Optimus Research

Hamdan Ahmed

hamdan.ahmed@optimus.pk

+9221 3529 6888 x 2306

REN: REP-107



SEE IMPORTANT DISCLOSURES AT THE END OF THE REPORT

- **Exploration of new export markets for auto rickshaws.** SAZEW takes pride in exporting auto rickshaws to Japan, Afghanistan, and the Middle East. Management indicated their eagerness to expand to new markets.
- **EV segment will remain a niche market for the near future.** While EVs are the future, they will stay a niche product in the Pakistan market, owing to a poor charging infrastructure and unaffordable prices.
- **Introduction of ORA and TANK CBU units.** SAZEW introduced two new CBU vehicles: ORA, a pure EV, and Tank 500, an HEV vehicle. Management aims to test these CBU units in the market before localizing their CKD assembling in the country.
- **Outlook.** Management expects the volumes and margins to sustain on the back of introduction of new Haval Jolian, consumer preference for Haval H6 and gradual recovery of overall auto industry.

## Earnings Snapshot

PKR MN	3QFY24	2QFY24	1QFY24	4QFY23	3QFY23	Q/Q	Y/Y	9MFY24	9MFY23	Y/Y
<b>Net sales</b>	<b>20,054</b>	<b>6,486</b>	<b>8,044</b>	<b>5,386</b>	<b>8,013</b>	<b>209%</b>	<b>150%</b>	<b>34,584</b>	<b>12,788</b>	<b>170%</b>
Cost of sales	(14,244)	(4,878)	(6,534)	(4,323)	(7,032)	192%	103%	(25,656)	(11,301)	127%
<b>Gross profit</b>	<b>5,810</b>	<b>1,608</b>	<b>1,510</b>	<b>1,063</b>	<b>981</b>	<b>261%</b>	<b>492%</b>	<b>8,928</b>	<b>1,487</b>	<b>500%</b>
Selling/distribution expenses	(475)	(266)	(290)	(175)	(198)	79%	140%	(1,031)	(413)	150%
Administrative expenses	(106)	(84)	(74)	(92)	(49)	26%	116%	(264)	(148)	78%
<b>Operating profit</b>	<b>5,229</b>	<b>1,258</b>	<b>1,146</b>	<b>795</b>	<b>734</b>	<b>316%</b>	<b>612%</b>	<b>7,633</b>	<b>926</b>	<b>724%</b>
Financial charges	(30)	(36)	(36)	(35)	(42)	-17%	-29%	(102)	(133)	-23%
Other income	165	107	80	13	14	54%	1079%	352	18	1856%
Other charges	(371)	(93)	(81)	(48)	(48)	299%	673%	(545)	(54)	909%
<b>Profit before tax</b>	<b>4,993</b>	<b>1,236</b>	<b>1,109</b>	<b>725</b>	<b>658</b>	<b>304%</b>	<b>659%</b>	<b>7,338</b>	<b>756</b>	<b>871%</b>
Taxation	(1,959)	(481)	(451)	(254)	(213)	307%	820%	(2,891)	(232)	1146%
<b>Profit after tax</b>	<b>3,034</b>	<b>756</b>	<b>659</b>	<b>471</b>	<b>445</b>	<b>301%</b>	<b>582%</b>	<b>4,449</b>	<b>524</b>	<b>749%</b>
<b>EPS</b>	<b>50.20</b>	<b>12.50</b>	<b>10.89</b>	<b>7.80</b>	<b>7.36</b>			<b>73.59</b>	<b>8.67</b>	
<b>DPS</b>	<b>8.00</b>	<b>-</b>	<b>-</b>	<b>4.00</b>	<b>-</b>			<b>8.00</b>	<b>-</b>	
Gross Margins	29%	25%	19%	20%	12%			26%	12%	
Net Margins	15%	12%	8%	9%	6%			13%	4%	
Effective tax rates	39%	39%	41%	35%	32%			39%	31%	

Source: Company Accounts, Optimus Research

## Analyst Certification

The research analyst for this report, Hamdan Ahmed, certifies that: (1) all of the views expressed in this report accurately reflects his personal views about the subject and (2) no part of any research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analysts in this report.

## Disclaimer

This report has been prepared by Optimus Capital Management (Pvt.) Ltd. [Optimus] and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation or any offer to buy. While reasonable care has been taken to ensure that the information contained in this report is not untrue or misleading at the time of its publication, Optimus makes no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Optimus and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. Optimus as a firm may have business relationships, including investment banking relationships with the companies referred to in this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report and Optimus accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. At the same time, it should be noted that investments in capital markets are also subject to market risks. This report may not be reproduced, distributed or published by any recipient for any purpose.