

# Day Break

Tuesday, 22 August 2017

## COMPANY UPDATE

### INDUS MOTOR COMPANY LIMITED

AUTOMOBILE ASSEMBLER

|                         |                            |
|-------------------------|----------------------------|
| <b>Recommendation</b>   | <b>BUY</b>                 |
| Target Price:           | 2,352.2                    |
| Last Closing: 21-Aug-17 | 1,635.5                    |
| Upside:                 | 43.8                       |
| Valuation Methodology:  | Discounted Cash Flow (DCF) |

Time Horizon: Dec-17

#### Market Data

|                            |         |         |         |
|----------------------------|---------|---------|---------|
| Bloomberg Tkr.             | INDU PA |         |         |
| Shares (mn)                | 78.6    |         |         |
| Free Float Shares (mn)     | 13.3    |         |         |
| Free Float Shares (%)      | 16.9%   |         |         |
| Market Cap (PKRbn   USDmn) | 128.6   | 1,220.0 |         |
| Exchange                   | KSE 100 |         |         |
| <b>Price Info.</b>         | 90D     | 180D    | 365D    |
| Abs. Return                | (18.3)  | (3.2)   | 44.8    |
| Lo                         | 1,629.7 | 1,580.2 | 1,122.3 |
| Hi                         | 2,001.5 | 2,044.3 | 2,044.3 |

#### Key Company Financials

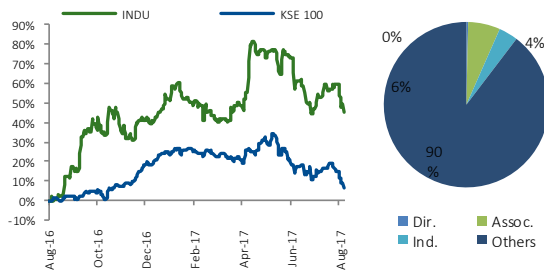
Period End: Jun

| PKRbn         | FY16A | FY17E | FY18F | FY19F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 108.8 | 111.2 | 127.4 | 129.2 |
| Net Income    | 11.45 | 13.1  | 14.4  | 14.7  |
| EPS (PKR)     | 145.7 | 166.5 | 183.2 | 187.6 |
| DPS (PKR)     | 100.0 | 100.0 | 120.0 | 122.0 |
| Total Assets  | 57.5  | 62.2  | 71.4  | 76.4  |
| Total Equity  | 27.6  | 32.9  | 37.8  | 43.0  |

#### Key Financial Ratios

|         |      |      |      |      |
|---------|------|------|------|------|
| ROE (%) | 41.5 | 39.8 | 38.1 | 34.3 |
| P/E (x) | 11.2 | 9.8  | 8.9  | 8.7  |
| P/B (x) | 4.7  | 3.9  | 3.4  | 3.0  |
| DY (%)  | 6.1  | 6.1  | 7.3  | 7.5  |

#### Relative Price Performance & Shareholding



#### About the Company

The Company was incorporated as a public limited company in Pakistan in December 1989 and started commercial production in May 1993. The company is the sole distributor of Toyota and Daihatsu vehicles in Pakistan.

Source: Bloomberg, PSX & IGI Research

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## Automobile Assembler

### Lower volumes to dent 4Q profitability; EPS 36.1/share down by 31.8%QoQ

- INDU is schedule to announce its full year FY17 financial result on 24<sup>th</sup> August-17. For the 4QFY17 alone, we estimate company to post earnings of PKR 2.8bn or PKR 36/share, down by 31.8%QoQ.
- As per Pakistan Autoassembler and Manufactures Association (PAMA) data compiled during the 4QFY17 suggests a volumetric decline in the sales of Corolla, Fortuner and Hilux variants. The company's overall sales volume during the year dropped to 59,911 units, down by 6.4%YoY.
- The cumulative earnings for the FY17 stand at PKR 13.1 bn (14.2% YoY) with the effect of super tax (3%) bringing EPS to historical high of PKR 166.5. The pre-tax income for the year inclined to PKR 19.6 bn by 12.6% YoY having declined by 18.5% in the 4QFY17.
- We anticipate sales in the forthcoming year (FY18) to pick up once a smooth production flow (debottlenecking) materializes and with the launch of Corolla face-lift model.
- We recommend a 'BUY' call on the scrip with our Dec-17 target price of PKR 2,352/share, offering +43.8% upside from its last closing. The company is currently trading at FY18 P/E of 8.9x and offers a dividend yield of 7.3%.

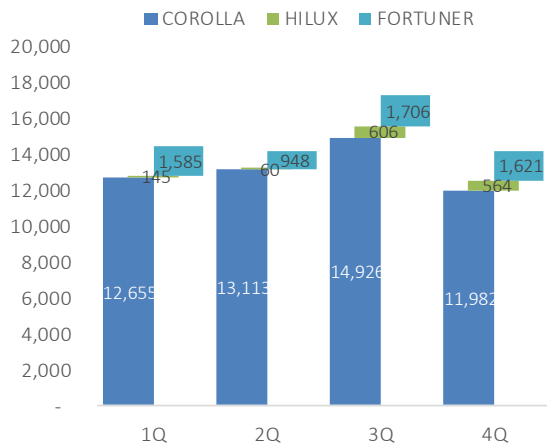
#### Lower Corolla volumes drive 4QFY17 earnings down by 31.8%QoQ

INDU is schedule to announce its full year FY17 financial result on 24<sup>th</sup> August-17. For the 4QFY17 alone, we estimate company to post earnings of PKR 2.8bn or PKR 36/share, down by 31.8%QoQ. We attribute lower earnings during the quarter to volumetric slowdown witnessed across all variants and onetime provision of Super-tax. Moreover, we expect volatile exchange rate movement and rising steel prices to keep gross margins rather tricky during quarter. Nevertheless, incorporating 4Q earnings brings company's full year earnings to PKR 13.2bn or PKR 166.5/share. Moreover, we expect company to declare cash dividend of PKR 20/share taking full year pay-out to PKR 100/share.

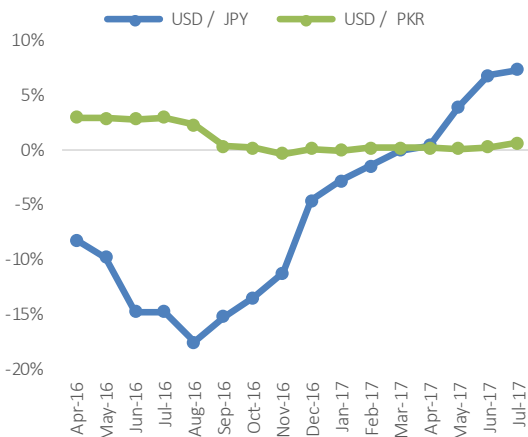
#### 4QFY17 sales to drop by 18.6% QoQ to PKR 26.8 bn

As per Pakistan Autoassembler and Manufactures Association (PAMA) data compiled during the 4QFY17 suggests a volumetric decline in the sales of Corolla, Fortuner and Hilux variants. During the quarter, company sold 11,982 units of Corolla, registering a volumetric decline of 19.7% QoQ (-15.1% YoY). We attribute this decline in sales of Corolla to customers retaining their purchase and shifting their bookings to face-lift model, recently launched in Aug-17. For Fortuner, end of peak sales post launch in 3QFY17 and increasing competition from both local and imported SUVs have started to effect sales volumes. For the quarter under review, Fortuner sales dropped to 560 units down from 606 units registered in 3QFY17, down by 8.2%QoQ. Similarly, in case of Hilux, the sales volume also dropped by 5% QoQ to 1,621 units in 4QFY17. As a result company's overall sales volume during the year dropped to 59,911 units, down by 6.4%YoY.

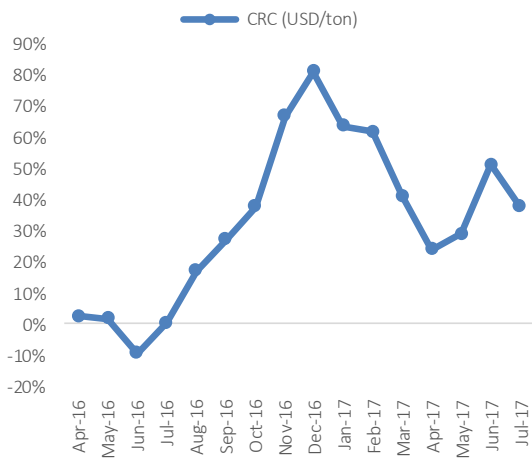
**Exhibit: INDU Quarterly Sales (FY17)**



**Exhibit: Exchange Rate Movement**



**Exhibit: Steel Price Movement**



Source: PAMA, Bloomberg & IGI Research

**Gross Margins to sharpen at 18.6% for 4QFY17**

With respect to exchange rate and steel prices minute variations were witnessed during the period. The steel prices came under slightest dip (1% QoQ on average) for 4QFY17 after witnessing an increase (8.9% QoQ) in the 3QFY17. Also, the exchange rates on average remained volatile at 104.8 PKR/USD and 1.06 PKR/JPY for 4QFY17. The gross margins for the period clocked in at 18.6% with trading margins estimated at 36.5% thereby contributing 6% in the sales mix.

**FY17 earnings to climb up by 14.2% YoY to PKR 13.1 bn**

The cumulative earnings for the FY17 stand at PKR 13.1 bn (14.2% YoY) with the effect of super tax (3%) bringing EPS to historical high of PKR 166.5. The pre-tax income for the year inclined to PKR 19.6 bn by +12.6% YoY having declined by 18.5% in the 4QFY17. Although the overall unit sales dived down to 59,911 units (6.4% YoY) the high profitability is due to significant increase in the number of Fortuner sales (3x YoY) with Hilux sales keeping intact at 10%.

In terms of dividends we expect INDU to plow out PKR 100/share for full year taking into consideration the estimated payout (PKR 20/share) for 4QFY17 and the cumulative dividends (PKR 80 /share) announced for the last three quarters.

**Outlook**

We anticipate sales in the forthcoming year (FY18) to pick up once a smooth production flow (debottlenecking) materializes and with the launch of Corolla face-lift model. To keep up with the rising demand and alleviate backlogs INDU is set to increase its capacity to 60,000 up by 6000 units having made investments of USD 40 Mn. Moreover, with the rising number of vehicles (CBU) being imported and locally assembled SUVs INDU will face tough competition to keep its sales upbeat in the high-end margin segment

**Recommendation**

We recommend a 'BUY' call on the scrip with our Dec-17 target price of PKR 2,352/share, offering +43.8% upside from its last closing. The company is currently trading at FY18 P/E of 8.9x and offers a dividend yield of 7.3%.

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| Recommendation | Rating System                                                                                              |
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**Time Horizon:** Dec - 2017

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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