

Day Break

Monday, 22 May 2017

COMPANY UPDATE

INDUS MOTOR COMPANY LIMITED

AUTOMOBILE ASSEMBLER

Recommendation	BUY
Target Price:	2,472.4
Last Closing: 19-May-17	1,989.9
Upside:	24.2
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)	156.4 1,492.3
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	16.0 26.6 105.2
Lo	1,580.2 1,481.3 899.7
Hi	2,044.3 2,044.3 2,044.3

Key Company Financials

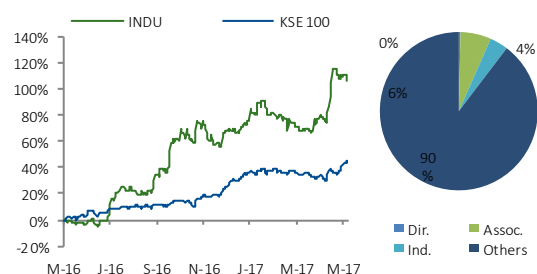
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	108.8	117.0	119.2	121.3
Net Income	11.45	13.5	13.8	14.1
EPS (PKR)	145.7	172.2	176.0	179.3
DPS (PKR)	100.0	110.0	124.0	126.0
Total Assets	57.5	63.7	67.0	71.3
Total Equity	27.6	33.3	37.4	41.6

Key Financial Ratios

ROE (%)	41.5	40.6	37.0	33.9
P/E (x)	13.7	11.6	11.3	11.1
P/B (x)	5.7	4.7	4.2	3.8
DY (%)	5.0	5.5	6.2	6.3

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, KSE 100 & IGI Research

IGI Research

IGI Research

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Automobile Assemblers

INDU: Host of Positives to Unlock Upside Potential, Lift to “BUY”

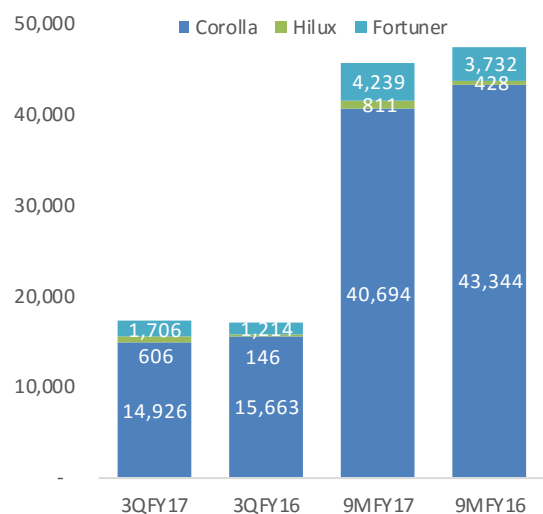
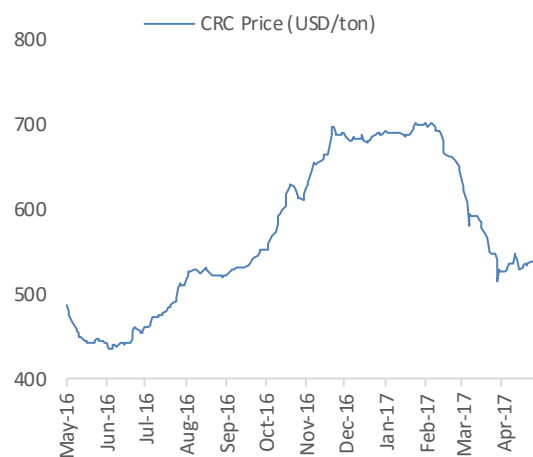
- INDU's management in its analyst briefing held on 18th May-17 disclosed that Corolla's facelift model will be launched in 1QFY18. BMR to be completed by 3QFY18 which will increase the double shift capacity to 65,000 unit from 55,000 units currently.
- We expect INDU's earnings to post 3Yr CAGR of +7.2% from FY17-FY19F. We have revised our earnings estimate for INDU based on our assumption of a) increase in price of Corolla, b) improved volumes of Corolla post Aug-17 model launch, c) increase in production capacity to 65,000 units on double shift from 55,000 units post debottlenecking of paint shop (expected completion in 3QFY18), d) higher proportion of trading sales and, e) sustainable margins of 17-19% during FY17-19F on the back of increased sales of Fortuner and Hilux (high margin products),
- We reiterate our stance on INDU with our revised target price of PKR 2,472/share (up by +33% from previous PKR 1,852/share). The scrip offers an upside of +24% from its last closing, hence we recommend a “BUY” call. INDU is currently trading at forward FY18F P/E of 11.3x and offers a dividend yield of 6.2%.

Corolla facelift model launch in 1QFY18, management unveils in Analyst briefing

INDU's management in its analyst briefing held on 18th May-17 disclosed that Corolla's facelift model will be launched in 1QFY18 (our channel checks from dealers suggest Jul-Aug 2017). According to the company website, prices of Corolla Xli, Gli and Gli A/T have been increased for Aug-17 onwards deliveries by 4.2%, 4.0% and 4.2% to PKR 1.729mn, PKR 1.859mn and PKR 1.934mn, respectively. Although we still await official price increase for Altis and Atlis Grande variants, we expect prices to increase by 4-5%.

Furthermore, key highlights of the analyst briefing included the following:

- The company is focusing on shifting its production mix towards high margin products which include Hilux and Fortuner as the company foresees higher demand for SUV segment (increasing current capacity of 32 units/day of SUV to 50 units/day)
- BMR is to be completed by 3QFY18 which will increase the double shift capacity to 65,000 units from 55,000 units currently
- The company expects Dewan Motors to launch their new model in CY17 while Kia and Hyundai are expected enter the market by CY18
- During 9MFY17, nearly 42,000 units of used cars were imported compared to 44,838 units imported in 9MFY16
- Current car financing stands at 30-35% of the total units sold and company expects auto financing to play important role to drive volumes

Exhibit: INDU volumes in 3QFY17 (units)**Exhibit:** CRC Price (USD/ton)

Investment case revised; INDU's earnings to post 3Yr CAGR of +7.2% during FY17-FY19F

We expect INDU's earnings to post 3Yr CAGR of +7.2% from FY17-FY19F. We have revised our earnings estimate for INDU based on our assumption of a) increase in price of Corolla, b) improved volumes of Corolla post Aug-17 model launch, c) increase in production capacity to 65,000 units on double shift from 55,000 units post debottlenecking of paint shop (expected completion in 3QFY18), d) higher proportion of trading sales and, e) sustainable margins of 17-19% during FY18-21F on the back of increased sales of Fortuner and Hilux (high margin products), we have raised our earnings estimate by 25-30% over FY17-19F. Hence, our revised Dec-17 target price comes at PKR 2,472/share (up by +33% from previous PKR 1,852/share) offering +24% upside from its last closing.

3QFY17 Review: Company reported earnings of PKR 53.05/share, up by +41%YoY

INDU reported earnings of PKR 4.2bn (EPS PKR 53.05) in 3QFY17, up by +41%YoY compared to PKR 2.9bn (EPS PKR 37.56) in the same period last year. We attribute this substantial growth in earnings to a) +41%/+4.2xYoY increase in sale of Hilux/Fortuner on the back of new model launch in Jan-17, b) improved gross margins of 19.2% during 3QFY17 owing to increased Hilux and Fortuner sales (high margin products) and, c) +73%YoY rise in trading income to PKR 1.96bn. However, finance cost increased by +9xYoY to PKR 116mn on the back of interest payments made due to late deliveries. The company announced cash dividend of PKR 30/share along with the result taking 9MFY17 cumulative dividend to PKR 80/share.

Exhibit:

Financial Highlights

PKRmn	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Net Sales	32,944	28,346	16%	84,343	79,680	6%
Gross Profit	6,333	4,448	42%	15,208	12,892	18%
Distribution Exp.	350	311	13%	845	708	19%
Admin Exp.	288	245	18%	738	654	13%
Other Income	899	809	11%	2,524	2,384	6%
Finance Cost	116	12	899%	234	52	354%
PBT	5,976	4,327	38%	14,730	12,842	15%
PAT	4,170	2,953	41%	10,244	8,847	16%
EPS	53.05	37.56		130.34	112.56	
DPS	30.00	20.00		80.00	60.00	
Ratios						
GP Margin	19.2%	15.7%		18.0%	16.2%	
NP Margin	12.7%	10.4%		12.1%	11.1%	
Tax Rate	30.2%	31.8%		30.5%	31.1%	

Source: IGI Research & Company Financials

No of Shares: 78.6mn

Recommendation

We reiterate our stance on INDU with our revised target price of PKR 2,472/share (up by +33% from previous PKR 1,852/share) incorporating increased prices of new facelift model of Corolla and adjusting our sales volumes assumption. The scrip offers an upside of +24% from its last closing, hence we recommend a "BUY" call. INDU is currently trading at forward FY18F P/E of 11.3x and offers a dividend yield of 6.2%.

Source: PAMA, Bloomberg & IGI Research

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Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

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)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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