

# Day Break

Monday, 17 February 2020

## COMPANY UPDATE

### Indus Motor Company Limited

Automobile Assembler

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	1,403.0
Last Closing: 14-Feb-20	1,027.0
Upside:	36.6
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 11M

#### Market Data

Bloomberg Tkr.		INDU PA
Shares (mn)		78.6
Free Float Shares (mn)		13.4
Free Float Shares (%)		17.1%
Market Cap (PKRbn   USDmn)	80.7	523.1
Exchange		KSE 100
<b>Price Info.</b>	90D	06M
Abs. Return	(14.4)	2.7
Lo	1,000.0	924.5
Hi	1,244.7	1,390.5

#### Key Company Financials

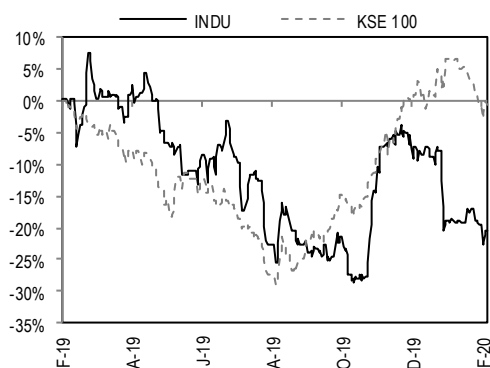
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	158.0	105.6	125.5	136.3
Net Income	13.7	6.7	8.6	10.0
EPS (PKR)	174.5	85.6	109.3	127.9
DPS (PKR)	108.0	56.4	72.1	84.3
Total Assets	50.4	57.5	63.9	81.9
Total Equity	40.0	45.8	48.8	52.2

#### Key Financial Ratios

ROE (%)	46.4	35.7	15.7	18.2
P/E (x)	5.9	12.0	9.4	8.0
P/B (x)	2.2	2.0	1.8	1.7
DY (%)	10.5	5.5	7.0	8.2

#### Relative Price Performance



Source: Bloomberg, PSX &amp; IGI Research

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## Automobile Assemblers

### INDU: Earnings to decline 65%/y to PKR 15.2/share for 2QFY20

- ✓ INDU is scheduled to announce its 2QFY20 financial result on 19<sup>th</sup> Feb-20, wherein we expect company to report profitability of PKR 1.2bn (EPS: PKR 15.2), down 65%/y/y. More so, we also expect company to pay out cash dividend of PKR 10.0/share for the 2QFY20.
- ✓ We have a “BUY” call on the scrip based on our Dec-20 target price of PKR 1,403/share offering +37% upside from its last closing. The company is currently trading at FY20 P/E of 12x, offering a dividend yield of 5.5%.

#### Earnings estimated to drop by 65%/y/y to PKR 15.2/share

INDU is scheduled to announce its 2QFY20 financial result on 19<sup>th</sup> Feb-20, wherein we expect company to post earnings of PKR 1.2bn (EPS: PKR 15.2), marking a hefty decline of 65%/y/y. For the six-month period earnings may decrease by 64%/y/y to PKR 32.0/share. We expect company to pay out cash dividend of PKR 10.0/share for the 2QFY20 taking total payout to PKR 17.0/share for the 1HFY20.

#### ....declining sales volumes and weak margins to blame

The substantial decline in profitability is primarily due to drop in volumes, weak margins, and fall in other income, we think. Net sales are estimated to drop 47% on year to PKR~22bn, arising from ~57% drop in total volumes, wherein Corolla sales exhibited 58%/y/y decline followed by 50%/y/y drop in Hilux and Fortuner sales. However, increase in car prices by 26% on average provided some cushion to the top line. We estimate gross margins to taper down to ~9%, resulting from 16% PKR depreciation and lower sales volume in high margin segment. Furthermore, low cash tied up in investments and decline in advances may put a lid on interest income, estimated to decrease by 41%/y/y to PKR 0.62bn.

#### Exhibit: INDU 2QFY20 Result Highlights

PKRmn (Period end =Jun)	2QFY20E	2QFY19	Y/Y	1HFY20E	1HFY19	Y/Y
Net Sales	21,912	41,547	-47%	42,628	76,538	-44%
Cost Of Sales	19,948	36,458	-45%	38,656	66,389	-42%
Gross Profit	1,964	5,089	-61%	3,972	10,149	-61%
Selling & Dist.	315	307	3%	715	627	14%
Operating Profit	1,301	4,367	-70%	2,536	8,812	-71%
Other Income	617	1,045	-41%	1,312	2,098	-37%
Profit Before Tax	1,680	5,019	-67%	3,459	10,039	-66%
Taxation	487	1,615	-70%	948	3,127	-70%
Profit After Tax	1,193	3,404	-65%	2,511	6,912	-64%
EPS	15.2	43.3		32.0	87.9	
DPS	10.0	25.0		17.0	57.5	

#### Key Indicators

Unit Sold (Ths)	7.5	17.2	14.2	32.6
Gross Profit Margins	9.0%	12.2%	9.3%	13.3%
Effective Tax Rate	29.0%	32.2%	27.4%	31.1%

Source: IGI Research, Company accounts, PSX

No of shares(mn): 78.6

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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**Time Horizon:** Dec – 2020

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

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