

Day Break

Wednesday, 26 October 2016

Company Update

Indus Motor Company Limited

Automobile Assembler

Recommendation	SELL
Target Price	1,263.4
Last Closing	1,516.7
Upside	-17%

Market Data

Bloomberg Tkr.		INDU PA	
Shares (mn)		78.6	
Market Cap (PKRbn USDmn)	119.2	1,137.7	
Exchange		KSE 100	
Price Info.	90D	180D	365D
Abs. Return	28.0	58.7	32.2
Low	1,122.3	899.7	899.7
High	1,606.7	1,606.7	1,606.7

Key Company Financials

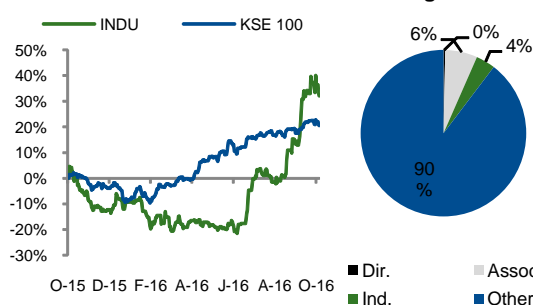
Period End: Jun

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	108.8	98.3	94.1	94.6
Net Income	11.5	9.8	8.1	7.7
EPS (PKR)	145.7	124.1	103.1	98.0
DPS (PKR)	100.0	81.0	68.0	64.0
Total Assets	57.5	53.0	51.7	53.2
Total Equity	27.6	31.0	33.8	36.4

Key Financial Ratios

	FY16A	FY17E	FY18F	FY19F
ROE (%)	41%	31%	24%	21%
P/E (x)	10.4	12.2	14.7	15.5
P/B (x)	4.3	3.8	3.5	3.3
DY (%)	6.6	5.3	4.5	4.2

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

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Automobile Assemblers

Strong JPY and Recovery in Steel Prices to Weigh on 1QFY17 Earnings

- The Board of Directors of Indus Motor Company (INDU) are scheduled to meet on 27th Oct-16 to approve financial results of 1QFY17. We estimate profitability to clock in at PKR 2.6bn (PKR EPS 33.1) for 1QFY17, depicting a decline of 11%YoY.
- The company is likely to face margin attrition of 196bpsYoY (173bpsQoQ) to clock in at 14.9% during 1QFY17, owing to bottoming out of international steel (CRC up by +19%YoY/+2%QoQ) coupled with the sharp appreciation of JPY against PKR (up by +16%YoY/+5%QoQ).
- INDU is currently trading at FY16/FY17 P/E multiple of 12.2x/14.7x. With our Jun-17 TP of PKR 1,273/share, we recommend 'SELL' call on the scrip.

Earnings to decline by 11%YoY to PKR 33.1/share in 1QFY17

The Board of Directors of Indus Motor Company (INDU) is scheduled to meet on 27th Oct-16 to approve financial results of 1QFY17. We estimate profitability to clock in at PKR 2.6bn (PKR EPS 33.1) for 1QFY17, depicting a decline of 11%YoY. However, on quarterly basis, earnings are expected to remain flat compared to earnings of PKR 2.6bn (EPS PKR 33.2) in 4QFY16. We expect the company to pay cash dividend of PKR 20.0/share, along with the result.

Exhibit: Financial Highlights

PKRmn	1QFY17E	4QFY16	QoQ	1QFY16	YoY
Net Sales	24,950	29,079	-14%	24,858	0%
Gross Profit	3,721	4,839	-23%	4,193	-11%
Operating Profit	3,252	4,209	-23%	3,788	-14%
EBIT	3,790	4,581	-17%	4,266	-11%
Finance Cost	19	26	-25%	20	-2%
Post-tax Profits	2,602	2,608	0%	2,934	-11%
EPS (PKR)	33.1	33.2		37.3	
DPS (PKR)	20.0	40.0		20.0	
Key Ratios					
Gross Margins	14.9%	16.6%		16.87%	
Net Margin	10.4%	9.0%		11.8%	
Effective Tax rate	31%	43%		31%	

Source: IGI Research and Company Financials

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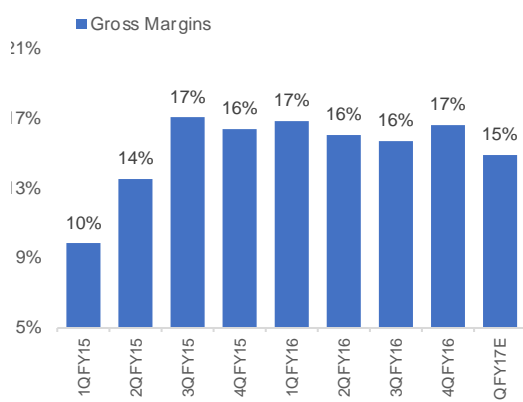
INDU Quarterly Sales

Units	1QFY17	4QFY16	QoQ	1QFY16	YoY
Corolla	12,655	14,108	-10%	13,512	-6%
Hilux	1,585	2,191	-28%	1,097	44%
Fortuner	145	174	-17%	158	-8%
Total	14,385	16,473	-13%	14,767	-3%

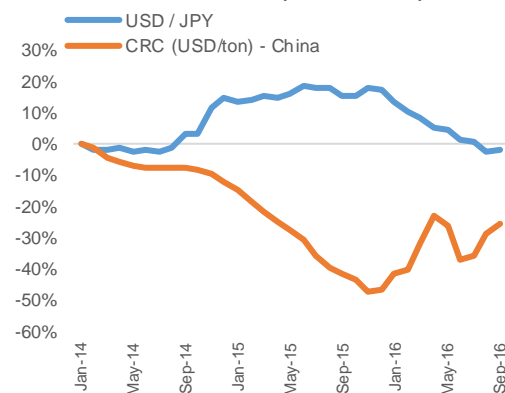
Sales slowed down by 3%YoY to 14.4k units

As per sales figures released by Pakistan Automobile Manufacturers Association (PAMA), the company's total sales decreased by 3%YoY to 14.4k units as sales of Corolla came down by 6%YoY to 12.7k units facing competition from HCAR's new 10th Generation Civic model launched in Jul-16. However, the premium variant, Hilux registered growth of +44%YoY to 1.6k units, owing to the uptick in demand of the two newly launched variants of Hilux (Vigo GX Plus and VIGO TRD).

On quarterly basis, sales volume contracted by 13%QoQ owing to combination of cyclical factors of Ramadan, Eid Holidays and company specific factors. Corolla sales declined by 10%QoQ owing to demand shift towards HCAR's new 10th Generation Civic Model and Hilux sales also witnessed slowdown by 28%QoQ on the back of inflated one off sales of 1.3k units in Jun-16 (compared to average of 418units for the rest of FY16).

INDU Quarterly Gross Margins**Gross Margins likely to cut by 196bpsYoY to 14.9% in 1QFY17**

The company is likely to face margin attrition of 196bpsYoY (173bpsQoQ) to clock in at 14.9% during 1QFY17, owing to bottoming out of international steel (CRC up by +19%YoY/+2%QoQ) coupled with the sharp appreciation of JPY against PKR (up by +16%YoY/+5%QoQ). Moreover, on quarterly basis, we expect the effective tax rate to revert back to normalized levels providing uptick in earnings during 1QFY17 (EPS impact of 6/share) compared to inflated effective tax rate of 43% in preceding quarter as super tax for FY16 was recognised in 4QFY16.

JPY and CRC movement (base Jan-14)**Outlook**

Going forward, we expect attrition in earnings and margins on the back of a) 10%/7% decline in Corolla sales in FY17/FY18, owing to aging 11th Generation Corolla model and shift of demand to HCAR's new 10th Generation Civic Model, and b) recovery in steel prices as CRC currently stands at USD 531/ton (+28% CYTD) after bottoming out at USD 361/ton in Nov-15.

Recommendation

INDU is currently trading at FY16/FY17 P/E multiple of 12.2x/14.7x. With our Jun-17 TP of PKR 1,273/share, we recommend 'SELL' call on the scrip.

Source: PAMA, Bloomberg, Company Acc.

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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 more than -10%, from its last closing price(s)

Time Horizon: Jun - 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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