

Day Break

Monday, 11 September 2017

COMPANY UPDATE

INDUS MOTOR COMPANY LIMITED
AUTOMOBILE ASSEMBLER

Recommendation	BUY
Target Price:	2,352.2
Last Closing: 8-Sep-17	1,725.1
Upside:	36.3
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)	135.6 1,286.8
Exchange	KSE 100
Price Info.	90D 180D 365D
Abs. Return	(14.2) 4.1 44.8
Lo	1,629.7 1,580.2 1,166.5
Hi	1,970.0 2,044.3 2,044.3

Key Company Financials

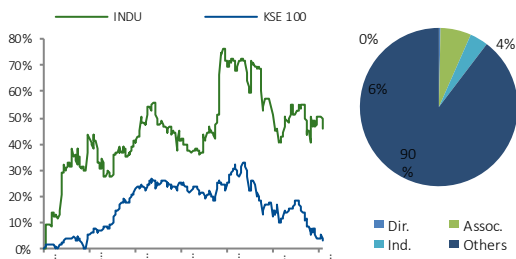
Period End: Jun

PKRbn	FY16A	FY17A	FY18E	FY19F
Total Revenue	108.8	112.3	127.4	129.2
Net Income	11.45	13.0	14.4	14.7
EPS (PKR)	145.7	165.4	183.2	187.6
DPS (PKR)	100.0	115.0	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	39.6	38.1	34.3
P/E (x)	11.8	10.4	9.4	9.2
P/B (x)	4.9	4.1	3.6	3.2
DY (%)	5.8	6.7	7.0	7.1

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

INDU: Higher sales volume to keep bottom line intact

- Indus Motor Company Limited (INDU) held its analyst briefing on 09th Sep-17 to discuss financial results for FY17 and future prospects of the company. The company reported earnings of PKR 13.0bn (or EPS PKR 165.4) up by +14% YoY. The company also declared cash dividend of PKR 35.0/share along with the result, taking full year cash dividend to PKR 115.0/share.
- For the 4QFY17 the company reported earnings of PKR 2.8bn down by 33.91% QoQ (5.73% YoY).
- We maintain a **"BUY"** call on INDU with Dec-17 based target price of PKR 2,352/share, offering +36% upside. The company is currently trading at FY18E P/E of 9.4x and offers a dividend yield of 7.0%.

Earnings for the year to clock in at PKR 13.0bn (or EPS PKR 165.4) up by +14% YoY

Indus Motor Company Limited (INDU) held its analyst briefing on 09th Sep-17 to discuss financial results for FY17 and future prospects of the company. The company reported earnings of PKR 13.0bn (or EPS PKR 165.4) up by +14% YoY led by a) improvements in gross margin hovering at 18% (+135 bps YoY) due to high margin sales (Hilux and Fortuner) and, b) increase in the other income by +13% at PKR 3.6 bn. However, the company reported a volumetric decline of 6.2% at 60,586 units, primarily attributed to slowdown in Corolla / Hilux sales (-8.31% YoY/-1.06%YoY). The company also declared cash dividend of PKR 35.0/share along with the result, taking full year cash dividends to PKR 115.0/share.

Earnings for 4QFY17 down by 33.8% QoQ (5.73% YoY) to PKR 35.1/share

For the 4QFY17 the company reported earnings of PKR 2.8bn down by 33.9% QoQ (5.73% YoY) owing to a) decrease in sales volume of Corolla/Hilux/ Fortuner by 20%/5%/7% QoQ, b) imposition of super tax of 3% and, c) volatile exchange rate movements (on average 111.82 USD/JPY and 1.06 PKR/JPY v/s 107.89 USD/JPY and 1.03 PKR/JPY for 4QFY16).

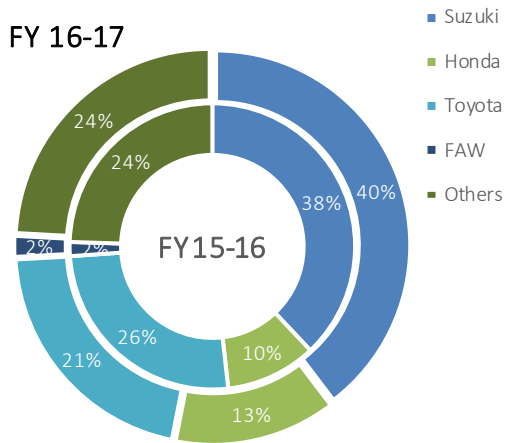
Exhibit:

INDU Result Highlights

PKRmn	4QFY17	4QFY16	YoY	QoQ	FY17	FY16	YoY
Net Sales	27,928	29,079	-4%	-15%	113,422	108,023	5%
Cost Of Sales	23,314	24,239	-4%	-12%	92,450	91,027	2%
Gross Profit	4,614	4,839	-5%	-27%	19,822	17,731	12%
Selling & Dist.	383	353	8%	9%	1,228	1,061	16%
Admin.	315	277	14%	10%	1,053	931	13%
Operating Profit	3,832	4,138	-7%	-32%	17,364	15,596	11%
Other Income	1,070	781	37%	19%	3,593	3,164	14%
EBIT	4,575	4,581	0%	-25%	19,539	17,475	12%
Profit Before Tax	4,411	4,556	-3%	-26%	19,141	17,397	10%
Taxation	1,654	1,948	-15%	-8%	6,140	5,943	3%
Profit After Tax	2,757	2,608	6%	-34%	13,001	11,455	13%
EPS (PKR)	35.1	33.2			165.4	145.7	
DPS (PKR)	35.0	40.0			115.0	100.0	

SOURCE: IGI Research, Company accounts, PSX notifications

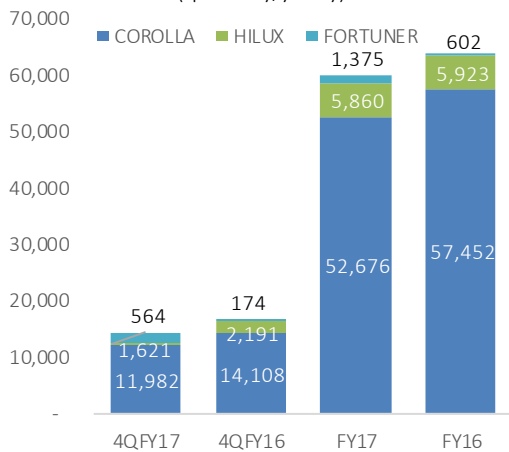
Exhibit: Industry Sales Composition (% of total sales)



Major highlights of analyst briefing as stated by the management:

- The company is expanding its capacity from 55,000 units to 67,000 units, with overtime the capacity will add up to roughly 12,000 units further.
- The de-bottlenecking process is set to finish by January-2018, hence smooth production is expected later in FY18.
- The company faced capacity constraints plus efficiency loss due to which it suffered a loss in sales as evident from the yearly sales. In particular, 8-10 days of transport strike impacted production of CKD units.
- For the newly launched face-lift model, the company is receiving positive response, in particular 1.3 GLi/XLi and 1.6 Altis variants being the most preferred one by the customers.
- Out of total sales last year, the portion attributed to consumer financing was 32-35%, expected to go up to 40% on account of lower interest rates.
- The trading segment of the company remained stable with spare parts being the sales driver for the last year.
- The company wants to reduce delivery time currently standing on average at 3 months.

Exhibit: Sales mix (quarterly/yearly) - units



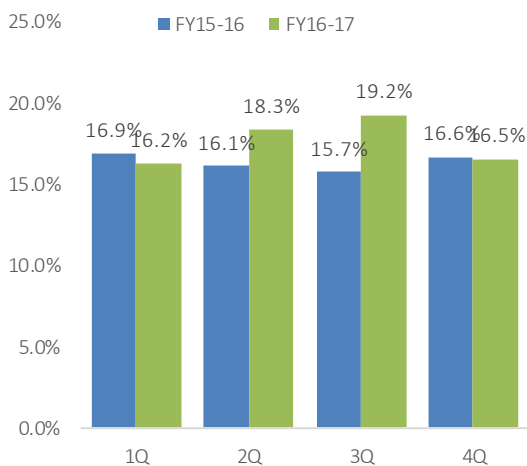
Outlook

We anticipate sales in the forthcoming year (FY18) to pick up once a smooth production flow materializes (later half of the year) and with the launch of Corolla face-lift model. In terms of foreign currency risk, stated that incase of USD depreciation exceeds 10% from current level then the company is likely to Passover the impact on end consumer. Moreover, we believe recent ~6%/unit increase in price will keep gross margins relatively intact and should be able to mitigate adverse exchange rate movement in short-term.

Recommendation

We maintain a **“BUY”** call on INDU with Dec-17 based target price of PKR 2,352/share, offering +36% upside. The company is currently trading at FY18E P/E of 9.4 x and offers a dividend yield of 7.0%.

Exhibit: Gross Margins (Quarterly) - %



Source: PAMA, Bloomberg & IGI Research

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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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