

Day Break

Friday, 16 November 2018

COMPANY UPDATE

Indus Motor Company Limited

Automobile Assembler

Recommendation	BUY
Target Price:	1,662.0
Last Closing: 15-Nov-18	1,390.2
Upside:	19.5
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-19

Market Data

Bloomberg Tkr.	INDU PA		
Shares (mn)	78.6		
Free Float Shares (mn)	13.4		
Free Float Shares (%)	17.0%		
Market Cap (PKRbn USDmn)	109.3	812.8	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(14.1)	(18.0)	(23.4)
Lo	1,030.6	1,030.6	1,030.6
Hi	1,570.2	1,645.1	1,942.0

Key Company Financials

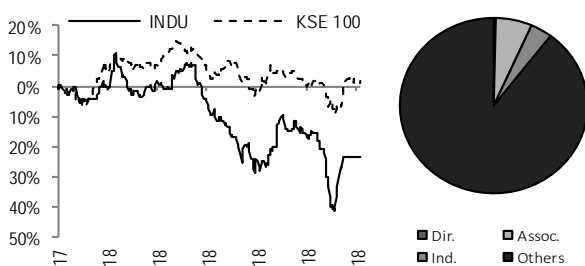
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	140.2	121.9	130.5	138.5
Net Income	15.8	12.9	13.5	14.5
EPS (PKR)	200.7	163.7	172.0	185.0
DPS (PKR)	140.0	115.0	120.0	130.0
Total Assets	63.9	81.9	75.0	79.7
Total Equity	36.7	40.6	44.7	49.0

Key Financial Ratios

ROE (%)	42.9	31.7	30.3	29.7
P/E (x)	6.9	8.5	8.1	7.5
P/B (x)	23.5	3.0	2.7	2.4
DY (%)	10.1	8.3	8.6	9.4

Relative Price Performance



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 vehicles in Pakistan.

Source: Bloomberg, PSX & IGI Research

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Automobile Assemblers

INDU: Swimming with the tide; "BUY" maintained

- We revisit our investment case on the scrip after incorporating financial accounts for 1QFY19 and changes in our assumption accordingly. For, the 1QFY19 the company reported earnings of PKR 3.51bn (PKR 44.6/share), led by strong growth in volumetric sales.
- We have trimmed down our earnings estimates by 5% for FY19/FY20 and increasing thereof by 2-5% for FY21 onwards. Our revised earnings estimates are PKR (163/171/185)/share for FY19E/FY20F/FY21F.
- We still prefer INDU as our top pick in IGI Auto universe with our revised rolled over Dec-19 target price of PKR 1,662.6/share offering +20% upside from its last closing. The company is currently trading at FY19E P/E of 8.3x and offers an estimated dividend yield of 8.5%.

We revisit our investment case on the scrip after incorporating financial accounts for the 1QFY19, changes in exchange rate and tweaking our volumetric assumptions. For the 1QFY19 the company reported earnings of PKR 44.6/share, down by a mere 3%YoY while announcing dividend of PKR 32.5/share. Overall, the stock underperformed by 19% against the benchmark index, as negative sentiments loomed the entire auto sector (ban on non-filers/ exchange rate volatility). We have trimmed down our earnings estimates by 5% for FY19/FY20 and increasing thereof by 2-5% for FY21 onwards. Our revised earnings estimates are PKR (163/171/185)/share for FY19E/FY20F/FY21F. Our target prices for Dec-19 is revised downwards by 8% to PKR 1,662/share.

Profitability inched down by 3%YoY to PKR 44.6/share for 1QFY19

During the 1QFY19 the company's profitability decreased by 3%YoY to PKR 3.51bn (EPS: 44.63). Although volumes increased slightly by +2%YoY, nevertheless weak margins owing to PKR depreciation eroded the profitability. However, with the liquidity tied up in investments and deposits, this provided some cushion to the earning with other income contributing PKR 13.3/share. Maintaining an average payout of ~70%, the company announced cash dividend of PKR 32.5/share during the quarter.

Exhibit:

INDU 1QFY19 Result Highlights

PKRmn (Period end=Jun)	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	34,991	31,220	12%	40,020	-13%
Cost Of Sales	29,932	25,777	16%	33,222	-10%
Gross Profit	5,060	5,443	-7%	6,798	-26%
Selling & Dist.	319	311	3%	374	-15%
Admin.	290	279	4%	454	-36%
Operating Profit	4,444	4,850	-8%	5,851	-24%
Other Income	1,053	856	23%	1,222	-14%
Finance Cost	101.49	152.67	-34%	171	-41%
Profit Before Tax	5,020	5,168	-3%	6,426	-22%
Taxation	1,512	1,539	-2%	2,290	-34%
Profit After Tax	3,508	3,629	-3%	4,136	-15%
EPS	44.6	46.1		52.6	
DPS	32.5	30.0		45.0	

Source: IGI Research, Company accounts, PSX

No of shares(mn): 78.6

Net sales up by +12%YoY to PKR 34bn for 1QFY19; Recovery in sales expected with a possibility of launch in early 2020

The company attained sales volume of 15.42k units during the 1QFY19, declining by 7% on sequential basis, while inching up +2%YoY. In particular, sales in high margins segment that of Hilux and Fortuner declined by 20%/58%YoY while Corolla sales remained steadfast and maintained its contribution of 80% on average in sales mix. With ban on non-filer becoming effective, we expect volumes to take a hit in the near term. In addition, we have tweaked our volumetric assumption and cut down our projection by 15-20% for FY19. More so, emerging headwinds such as active competition and increasing policy rate (auto-financing) will provide knee-jerk reaction to the company's sales.

However, any major comeback such as launch of new Corolla model (possibility in late 2019) provides impetus to the volumetric growth and hence the topline. In this regard, the management is taking initiatives to enhance its capacity (76k units) to accommodate any rise in demand.

Exhibit:

Corolla launch during the years

Generation	International Launch Year	Pakistan
9th	2000-2006	2002-2007
10th	2006-2013	2008-2014
11th	2013-Present	2014-present
12th	2018	2020 (expected)

Source: IGI Research, Company accounts, Toyota Global

Gross margins to restrain; pricing to provide limited cushion

Volatility in exchange rate (starting mid-Dec-17) persisted during the last quarter, keeping margins sensitive, which decreased by 250bpsYoY to 14.66%. The company in this regard have announced price hikes in sequence to curb any rising costs. Taking cue from the briefing, (company to absorb 100% cost increase for Nov 2018 while 50% to be absorbed for Dec-2018 delivery) we anticipate margins to hover around 14%-15% for FY19, factoring in any further PKR depreciation (14%/6% for FY19/FY20) and the ensuing limited pricing power arising from competition in the later years.

Downwards revision in earnings by 5% for FY19E/FY20F

We have trimmed down our earnings estimates by 5% each for FY19/FY20 and increasing thereof by 2-5% for FY21 onwards. Our revised earnings estimates are PKR (163/171/185)/share for FY19E/FY20F/FY21F. Decline in volumetric sales and margins will keep profitability growth restricted in short to medium term.

Recommendation

We still prefer INDU as our top pick in IGI Auto universe with our revised rolled over Dec-19 target price of PKR 1,662/share offering +20% upside from its last closing. The company is currently trading at FY19E P/E of 8.5x and offers an estimated dividend yield of 8.3%.

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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 – 2019

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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