

# Flash Note

Monday, 24 April 2017

## Automobile Assemblers

### INDU: 3QFY17 earnings up by +41%YoY; on better sales mix and favorable currency movement

- Indus Motor Company Limited (INDU) announced 3QFY17 earnings of PKR 4.17bn (or PKR 53.1/share), up by +41% YoY. This brings 9MFY17 cumulative earnings for the company to PKR 10.24bn (or PKR 130.3/share).
- The company along with the result also declared cash dividend of PKR 30.0/share, taking 9MFY17 total payout to PKR 80.0/share.
- During the quarter, company's gross margins improved to +19.2% compared to last 18.3% reported in 2QFY17. We attribute better margin during the quarter due to favorable exchange rate movement during the quarter and better sales mix, with increasing share of high margin products (Variant - units, Hilux – 1,706 and Fortuner - 606).

Exhibit:

#### INDU Result Highlights

PKRmn (Period end=Dec)	3QFY17	3QFY16	YoY	9MFY17	9MFY16	YoY
Net Sales	32,944	28,346	16%	84,343	79,680	6%
Cost Of Sales	26,611	23,898	11%	69,136	66,788	4%
Gross Profit	6,333	4,448	42%	15,208	12,892	18%
Selling & Dist.	350	311	13%	845	708	19%
Admin.	287	245	18%	738	654	13%
Operating Profit	5,636	3,851	46%	13,532	11,458	18%
Other Operating Expenses	59	41	43%	93	73	28%
Other Income	899	809	11%	2,524	2,384	6%
EBIT	6,092	4,339	40%	14,964	12,893	16%
Finance Cost	116	12	n.m.	234	52	n.m.
Profit Before Tax	5,976	4,327	38%	14,730	12,842	15%
Taxation	1,806	1,375	31%	4,485	3,994	12%
Profit After Tax	4,170	2,953	41%	10,244	8,847	16%

EPS (PKR)	53.1	37.6		130.3	112.6
DPS (PKR)	30.0	20.0		80.0	60.0

#### KEY RATIOS

Units sold (Units)	17,238	17,023	1%	45,744	47,504	-4%
Gross Margins	19.2%	15.7%		18.0%	16.2%	
Effective Tax Rate	30.2%	31.8%		30.5%	31.1%	

SOURCE: IGI Research, Company accounts, PSX notifications

#### Recommendation

The scrip is currently trading at our Dec-17 based target price of PKR 1,923/share, inclusive of dividend yield 5%, stock offers ~10% upside from its last closing. The company is trading at a CY17E P/E of 11.9x. We recommend "BUY" call on INDU.

#### Analyst

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**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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