

Day Break

Tuesday, 02 October 2018

COMPANY UPDATE

Indus Motor Company Limited

Automobile Assembler

Recommendation	BUY
Target Price:	1,648.3
Last Closing: 2-Oct-18	1,395.0
Upside:	18.2
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

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)	109.6 890.2
Exchange	KSE ALL
Price Info.	90D 06M 12M
Abs. Return	10.0 (17.5) (17.7)
Lo	1,251.6 1,251.6 1,251.6
Hi	1,589.9 1,896.6 1,942.0

Key Company Financials

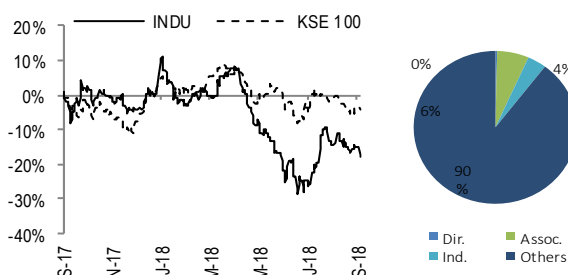
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	140.2	114.6	122.3	126.5
Net Income	15.8	13.2	14.0	14.2
EPS (PKR)	200.7	168.4	178.1	180.2
DPS (PKR)	140.0	118.0	125.0	126.0
Total Assets	63.9	81.9	71.9	76.4
Total Equity	36.7	40.7	44.9	49.1

Key Financial Ratios

ROE (%)	42.9	32.5	31.2	28.8
P/E (x)	7.0	8.3	7.8	7.7
P/B (x)	23.6	3.0	2.7	2.4
DY (%)	10.0	8.5	9.0	9.0

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: Moving beyond disruptions; capacity enhancement on the cards

- We revisit our investment case on the scrip after incorporating financial accounts for FY18 and changes in our assumption accordingly. For, the FY18 the company reported earnings of PKR 8.4bn (PKR 200.7/share), led by strong growth in volumetric sales.
- The stock has underperformed by 18% (CY18TD) against the benchmark index owing to negative sentiments arising from policy changes (ban imposed on non-filers to buy new cars both domestic and imported ones).
- All in all, our earnings estimates are marginally revised downward by 10-15% to PKR (168/178/180)/share for FY19E/FY20F/FY21F. As result our, our target price is decreased by 14.8% to PKR 1,648/share.
- We still prefer INDU as our top pick in IGI Auto universe with our revised Dec-18 target price of PKR 1634.6/share offering +18% 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 FY18 and changes in our assumption accordingly. For the FY18 the company reported earnings of PKR 8.4bn (PKR 200.7/share), led by strong growth in volumetric sales. But despite the impressive growth in earnings and consistent dividend payouts, stock has underperformed by 18% (CY18TD) against the benchmark index owing to negative sentiments arising from policy changes (ban imposed on non-filers to buy new cars both domestic and imported ones). However, as per the recent mini-budget proposal of revoking the ban, this will surely build up valuations and lift up sentiments for the entire auto sector. All in all, our earnings estimates are revised downwards by 10-15% to PKR (168/187/180)/share for FY19E/FY20F/FY21F. As result our, our target price is decreased by 14.8% to PKR 1648.3/share for Dec-18.

Profitability surged by +21%YoY to PKR 200.7/share for FY18

For the FY18 the company reported profitability of PKR 8.4bn up by +21%YoY, attributed to growth in sales volumes. Net sales increased by +25%YoY to PKR 140.2bn owing to increase in volumes and series of price hikes. Gross margins remained intact owing to price-pass over and increased sales in high margin segment. The company also announced cash dividend of PKR 45/share during 4QFY18, taking total payout to PKR 140/share.

Exhibit:

INDU Result Highlights

PKRmn (Period end=Jun)	4QFY18	4QFY17	YoY	FY18	FY17	YoY
Net Sales	40,020	27,928	43%	140,208	112,272	25%
Cost Of Sales	33,222	23,314	42%	115,831	92,450	25%
Gross Profit	6,798	4,614	47%	13,244	10,947	21%
Selling & Dist.	374	384	-3%	1,284	1,228	5%
Admin.	454	317	43%	1,524	1,053	45%
Operating Profit	5,851	3,828	53%	11,577	9,468	22%
Other Income	1,222	1,070	14%	3,901	3,593	9%
Finance Cost	171	164	4%	572	398	44%
Profit Before Tax	6,426	4,408	46%	22,999	19,141	20%
Taxation	2,290	1,654	38%	7,227	6,140	18%
Profit After Tax	4,136	2,754	50%	8,408	6,927	21%
EPS	52.6	35.0		200.7	165.4	
DPS	45.0	35.0		140.0	115.0	

Source: IGI Research, Company accounts, PSX

No of shares(mn): 78.6

Downwards revision in earnings by 10% for FY19E/FY19F/FY20F

Our earnings estimates are revised downwards by 10%-15% to PKR (168/178/180)/share for FY19E/FY20F/FY21F. Decline in volumetric sales will keep profitability subdued in short to medium term in case if the ban persists. However, if the ban revokes growth in volumes will recover.

We present impact on earnings estimates under different demand scenarios and the corresponding impact on target price.

Exhibit:

Impact on earnings estimates under different demand scenarios

Demand	FY19E	FY20F	FY21F	Target price
+20%	32%	17%	19%	20%
+10%	13%	9%	9%	10%
Base case	168.4	178.1	180.2	1,648.3
-10%	-8%	-8%	-10%	-9%
-20%	-22%	-17%	-19%	-19%

Net sales up by +25%YoY to PKR 140.2bn for FY18; Sales to get hit in short to medium term

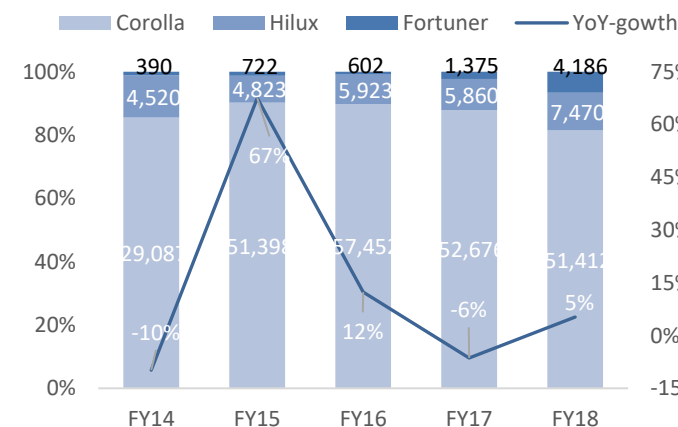
Subsequent price hikes during the 2HFY18 and strong growth in volumes fueled top line by +25%YoY to PKR 140.2bn. Increased in volumes emanated from Corollas' face-lift model and subsequent upgradations in high margin segment (Hilux and Fortuner) during the start of 3QFY18. In addition, hefty bookings of Hilux owing to elections season also bolstered rise in sales.

However, volumes may experience a bumpy ride courtesy of ban imposed on non-filers. Apart from that, sales in high margin segment will take a dip with election season getting over. With this said, top line may experience a downward shift substantially during the FY19. However, one can expect recovery in volumes with non-filer tax purchasers embracing filer status gradually. But despite that, aggressive competition will keep the growth tepid in the longer horizon.

High margin segment kept gross margins stabilized; slight disruption may occur

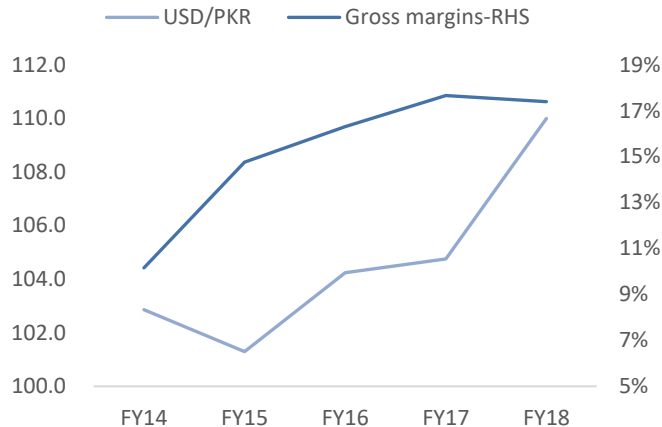
Volatility in exchange rate (starting mid-Dec-17) with PKR receding back from USD, kept margins sensitive. But, with company hitting back with subsequent price hikes and with surge in high margin volumes, gross margins hovered around 17.5%. We expect, margins to take a dip owing to cut in sales of high margins segment. In addition, with volatility in PKR to persist and international CRC prices picking up pace margins will remain sensitive.

Exhibit:
Sales mix and YoY-growth during the years (RHS)



Source: IGI Research, Bloomberg

Exhibit:
Exchange rate movement and gross margins



Another capacity expansion in the offing

The company is planning to undergo capex of PKR 3.3bn (42/share) to enhance its capacity further to 76k units. As per the management, the investment is planned to be made in various production areas to debottleneck and improve productivity which will yield benefits during the FY20-21. To recall, the company recently expanded its capacity to 65k units which became operationalized during the period, 3QFY18. The recent expansion initiative will serve to meet the growing demand during the upcoming years with the management eyeing an industry target of 500k units prior to 2025. More so, the expansion will also strive to keep company's production capacity in pace with new offerings on the hook amid competition seeping in.

Recommendation

We still prefer INDU as our top pick in IGI Auto universe with our revised Dec-18 target price of PKR 1,648.3/share offering +18% 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%.

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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)
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Time Horizon: Dec – 2018

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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