

Day Break

Wednesday, 24 August 2016

Company Update

Indus Motor Company Limited

Automobile Assembler

Recommendation	HOLD
Target Price	1,075.3
Last Closing	1,122.3
Upside	-4%

Market Data

Bloomberg Tkr.	INDU PA
Shares (mn)	78.6
Market Cap (PKRbn USDmn)	88.2 842.3
Exchange	KSE 100

Price Info.	90D	180D	365D
Abs. Return	20.0	20.6	(7.9)
Low	899.7	899.7	899.7
High	1,189.8	1,189.8	1,230.0

Key Company Financials

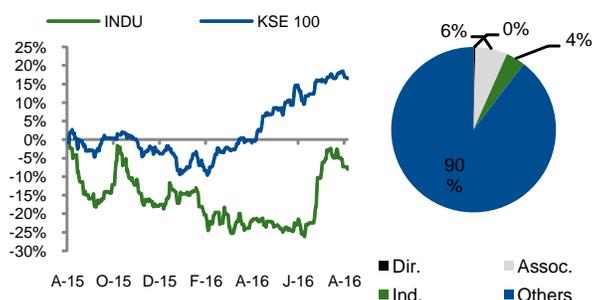
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	96.5	107.6	102.3	109.3
Net Income	9.1	11.2	8.6	8.8
EPS (PKR)	115.9	142.9	110.0	111.5
DPS (PKR)	80.0	80.0	60.0	60.0
Total Assets	50.4	50.0	48.4	50.5
Total Equity	24.0	29.0	32.9	37.0

Key Financial Ratios

ROE (%)	38%	39%	26%	24%
P/E (x)	9.7	7.9	10.2	10.1
P/B (x)	3.7	3.0	2.7	2.4
DY (%)	7.1	7.1	5.3	5.3

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

Volumetric Growth and Lower Steel Prices to Drive FY16 Earnings

- Indus Motor Company Limited's (INDU) board meeting is scheduled on 25th Aug-16 to announce financial results for FY16. We expect company to post earnings of PKR 11.2bn (EPS PKR 143) for the year ending FY16, up by +23%YoY.
- For the period of 4QFY16, we expect profitability to deflate by 11%YoY to PKR 2.4bn (EPS PKR 30.4), whereas gross margin is expected to contract by 84bpsYoY to 15.5%, mainly driven by +11%YoY appreciation of JPY against USD.
- INDU is currently trading at FY16/FY17 P/E multiple of 7.9x/10.2x. With our Dec-16 TP of PKR 1,075/share, the stock seems fairly valued at current market price, hence we recommend 'HOLD' call on the scrip.

Earnings to rise by +23%YoY to PKR 143/share in FY16

Indus Motor Company Limited's (INDU) board meeting is scheduled on 25th Aug-16 to announce financial results for FY16. We expect company to post earnings of PKR 11.2bn (EPS PKR 143) for the year ending FY16, up by +23%YoY, owing to a) +12%YoY rise in volumes to 64kunits primarily due to growth in Corolla sales, b) +120bps increase in gross margin led by 35%YoY slump in international steel prices from USD 593/ton in FY15 to USD 438/ton in FY16. We also expect INDU to announce cash dividend of PKR 20/share along with the result, taking full year payout to PKR 80/share for FY16.

For the period of 4QFY16, we expect profitability to deflate by 11%YoY to PKR 2.4bn (EPS PKR 30.4), whereas gross margin is expected to contract by 84bpsYoY to 15.5%, mainly driven by +11%YoY appreciation of JPY against USD.

Exhibit: Sale Volume

	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Corolla	14,108	15,160	-7%	57,452	51,398	12%
Hilux	2,191	1,477	48%	5,923	4,823	23%
Fortuner	174	165	5%	602	722	-17%
Total	16,473	16,802	-2%	13,465	12,563	7%

Source: IGI Research and PAMA

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Outlook

Going forward, we expect attrition in earnings and margins on the back of a) recovery in steel prices as CRC currently stands at USD 517/ton (+18% FYTD) after bottoming out at USD 361/ton in Nov-15, b) sharp appreciation of JPY against USD to 100.13 (+3%FYTD), and c) 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.

Exhibit: Financial Highlights

PKRmn	4QFY16E	4QFY15	YoY	FY16E	FY15	YoY
Gross Sales	33,680	33,875	-1%	129,680	116,339	11%
Net Sales	27,930	28,342	-1%	107,610	96,516	11%
Gross Profit	4,342	4,645	-7%	17,235	14,244	21%
S & D Exp	215	67	223%	922	996	-7%
Admin Exp	219.2	217.4	1%	872.9	798.7	9%
Other Exp	350.0	425.0	-18%	1,377.0	1,171.9	18%
Other Income	785	760	3%	3,141	2,907	8%
EBIT	4,343	4,696	-8%	17,203	14,184	21%
Finance Cost	12	11	11%	63	52	22%
PBT	4,332	4,686	-8%	17,168	14,133	21%
PAT	2,391	2,688	-11%	11,233	9,110	23%
EPS (PKR)	30.42	34.20		142.91	115.91	
DPS (PKR)	20.0	40.0		80.0	80.0	
<i>Key Ratios</i>						
Gross Margins	16%	16%		16%	15%	
Net Margin	9%	9%		10%	9%	
Effective Tax rate	45%	43%		35%	36%	

Source: IGI Research and Company Financials

Recommendation

INDU is currently trading at FY16/FY17 P/E multiple of 7.9x/10.2x. With our Dec-16 TP of PKR 1,075/share, the stock seems fairly valued at current market price, hence we recommend '**HOLD**' call on the scrip.

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Recommendation	Rating System
Buy	If return on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If return on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If return on aforementioned security(ies) is more than -10%, from its last closing price(s)

Valuation Methodology

The analyst[^] has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

Time Horizon

- Dec - 2016

Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Changes in Exchange rate

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