

Day Break

Monday, 28 October 2019

COMPANY UPDATE

Indus Motor Company Limited

Automobile Assembler

Recommendation	BUY
Target Price:	Dec/20 1,196.0
Last Closing:	25-Oct-19 931.2
Upside:	28.4
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 14M

Market Data

Bloomberg Tkr.	INDU PA
Shares (mn)	78.6
Free Float Shares (mn)	13.4
Free Float Shares (%)	17.1%
Market Cap (PKRbn USDmn)	73.2 469.9
Exchange	KSE ALL
Price Info.	90D 06M 12M
Abs. Return	(18.3) (29.4) (30.9)
Lo	924.5 924.5 924.5
Hi	1,150.0 1,348.3 1,398.2

Key Company Financials

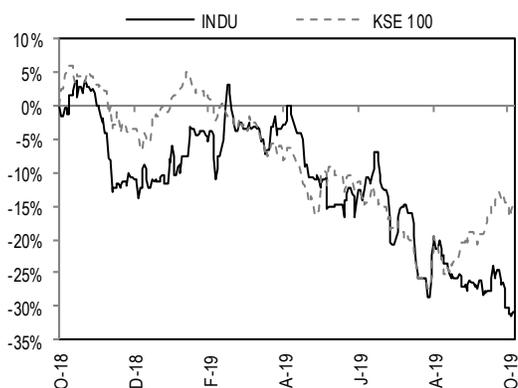
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	158.0	105.6	115.7	125.5
Net Income	13.7	6.6	8.1	9.4
EPS (PKR)	174.5	83.8	102.6	119.3
DPS (PKR)	108.0	55.3	67.6	78.6
Total Assets	64.8	58.3	65.1	74.3
Total Equity	40.0	45.8	48.6	51.8

Key Financial Ratios

ROE (%)	46.4	35.7	15.3	17.1
P/E (x)	5.3	11.1	9.1	7.8
P/B (x)	2.0	1.8	1.6	1.5
DY (%)	11.6	5.9	7.3	8.4

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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Automobile Assemblers

INDU: Earnings to lose steam; expecting a drop of 68%YoY to PKR 14.1/share for 1QFY20

- INDU is scheduled to announce its 1QFY20 financial result on 29th Oct-19, wherein we expect company to post earnings of PKR 1.1bn (EPS: PKR14.1), a hefty decline of 68%YoY, stemming from 57% drop in volumes, subdued margins and falling support from other income
- We have a "BUY" call on the scrip, based on our roll over Dec-20 target price of PKR 1,196.0/share, offering +28% upside from its last closing. The company is currently trading at FY20E P/E of 11.1x and offers a dividend yield of 6.0%.

INDU: Earnings estimated to drop by 68%YoY to PKR 14.11/share

INDU is scheduled to announce its 1QFY20 financial result on 29th Oct-19, wherein we expect company to post earnings of PKR 1.1bn (EPS: PKR14.11), marking a hefty decline of 68%YoY. In addition, we also expect company to pay out cash dividend of PKR 10/share for the 1QFY20.

....declining sales volumes and weak margins to blame

The substantial decline in profitability is primarily due to drop in volumes, weak margins, and falling support from other income, we think. Net sales are estimated to drop by 43%YoY to PKR~20bn, arising from ~57% drop in total volumes, wherein Corolla sales exhibited 58%YoY drop. However, increase in car prices by 33% on average provided some cushion to the top line. We estimate gross margins to taper down to ~8%, resulting from 28% PKR depreciation and lower sales volume in high margin segment. In addition, increase in depreciation expense by almost two-folds may also add up to rise in costs, trimming margins by ~200bps. Furthermore, low cash tied up in investments and decline in advances may put a lid on interest income, estimated to decrease by 36%YoY to PKR 0.67bn.

Exhibit:

INDU 1QFY20 Result Highlights

PKRmn (Period end =Jun)	1QFY20E	1QFY19	YoY	FY19	FY18	YoY
Net Sales	19,835	34,991	-43%	157,996	139,715	13%
Cost Of Sales	18,287	29,932	-39%	138,805	115,831	20%
Gross Profit	1,548	5,060	-69%	19,192	23,885	-20%
Selling & Dist.	238	319	-25%	1,404	1,284	9%
Admin.	244	290	-16%	1,410	1,524	-7%
Operating Profit	1,008	4,444	-77%	16,143	20,883	-23%
Other Income	669	1,053	-36%	4,307	3,901	10%
Finance Cost	14	101	-86%	67	80	-16%
Profit Before Tax	1,562	5,020	-69%	18,976	22,999	-17%
Taxation	453	1,512	-70%	5,261	7,227	-27%
Profit After Tax	1,109	3,508	-68%	13,715	15,772	-13%
EPS	14.1	44.6		174.5	200.7	
DPS	10.0	32.5		115.0	140.0	

Key Indicators

Unit Sold (Ths)	6.7	15.4	-57%	65.4	63.1	4%
Gross Profit Margins	7.8%	14.5%		12.2%	17.1%	
Effective Tax Rate	29%	30%		27.7%	31.4%	

Source: IGI Research, Company accounts, PSX

No of shares(mn): 78.6

Recommendation

We have a "BUY" call on the scrip, based on our roll over Dec-20 target price of PKR 1,196.0/share, offering +28% upside from its last closing. The company is currently trading at FY20E P/E of 11.1x and offers a dividend yield of 6.0%.

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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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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

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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