

Day Break

Thursday, 25 April 2019

COMPANY UPDATE

Indus Motor Company Limited

Automobile Assembler

Recommendation	BUY
Target Price: 31-Dec-19	1,662.9
Last Closing: 24-Apr-19	1,309.1
Upside:	27.0
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

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)	102.9	726.4	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	5.1	(1.9)	(31.0)
Lo	1,200.9	1,161.1	1,030.6
Hi	1,390.5	1,398.2	1,896.6

Key Company Financials

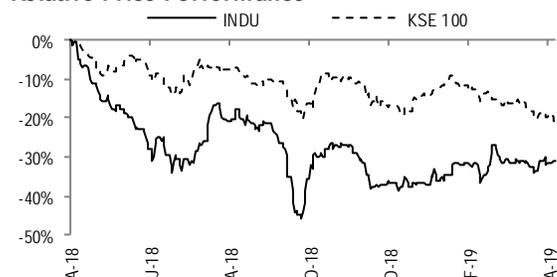
Period End: Jun

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	140.2	152.4	163.1	173.0
Net Income	15.8	14.7	15.4	16.6
EPS (PKR)	200.7	186.9	196.3	210.9
DPS (PKR)	140.0	130.4	137.0	147.1
Total Assets	64	82	84	89
Total Equity	37	41	46	51

Key Financial Ratios

ROE (%)	42.9	35.7	33.7	32.6
P/E (x)	6.5	7.0	6.7	6.2
P/B (x)	22.1	2.8	2.5	2.2
DY (%)	10.7	10.0	10.5	11.2

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: Earnings to lose steam; expecting a drop of 23%YoY (PKR 42.1/share) for 3QFY19

- INDU is scheduled to announce its 3QFY19 financial result on 26th Apr-19, wherein we expect company to post earnings of PKR 3.31bn (EPS: PKR42.1) down by 23%YoY on the back of weak margins, despite +4.0%YoY increase in total sales
- We expect INDU to pay out cash dividend of PKR 25/share for the quarter, taking total payout to PKR 82.5/share for the 9MFY19
- We have a **"BUY"** call on the scrip, based on our Dec-19 target price of PKR 1662.9/share, offering +27% upside from its last closing. The company is currently trading at FY19E P/E of 7.00x and offers a dividend yield of 10.0%.

INDU: Weak margins and low support from investments to keep earnings subdued

INDU is scheduled to announce its 3QFY19 financial result on 26th Apr-19, wherein we expect company to post earnings of PKR 3.31bn (EPS: PKR42.1) down by 23%YoY on the back of weak margins, despite +4.0%YoY increase in total sales. Within sales segment, Corolla led the growth in volumes with +16%YoY increase while Hilux and Fortuner sales took a downshift of 50%/31%YoY. With total volumes increasing by +4%YoY to 16.9k units we estimate net sales to rise by +10%YoY to PKR 40.6bn (incorporating ~20%YoY price hike on average) during 3QFY19. However, despite price and volumetric increase margins are expected to deteriorate by 480bps YoY to ~13% attributed to PKR depreciation and low sales in high margin segment. Furthermore, support to the earnings may also be limited owing to decrease in other income (low cash tied up in investments and decline in advances) by 11%YoY. Lastly, we expect INDU to pay out cash dividend of PKR 25/share, for the quarter, taking total payout to PKR 82.5/share for the 9MFY19.

Exhibit:

INDU 3QFY19 Result Highlights

PKRmn (Period end=Dec)	3QFY19E	3QFY18	YoY	9MFY19E	9MFY18	YoY
Net Sales	40,604	36,869	10%	117,143	100,083	17%
Cost Of Sales	35,440	30,424	16%	101,829	82,609	23%
Gross Profit	5,164	6,445	-20%	15,313	17,474	-12%
Selling & Dist.	454	329	38%	1,081	910	19%
Operating Profit	4,224	5,726	-26%	13,036	15,420	-15%
Other Income	811	909	-11%	2,909	2,679	9%
Profit Before Tax	4,656	6,061	-23%	14,695	16,574	-11%
Taxation	1,350	1,789	-25%	4,477	4,938	-9%
Profit After Tax	3,306	4,272	-23%	10,218	11,636	-12%
EPS	42.1	54.4		130.0	148.0	
DPS	25.0	32.5		82.5	95.0	
Key Indicators						
Unit Sold (Ths)	16.94	16.29	3.9%	49.57	46.43	7%
Gross Profit Margins	12.72%	17.48%	(476)	13.07%	17.46%	(440)
Effective Tax Rate	29.0%	29.5%	(52)	30.5%	29.8%	70

Source: IGI Research, Company accounts, PSX

No of shares(mn): 78.6

Recommendation

We have a **"BUY"** call on INDU, based on our Dec-19 target price of PKR 1662.9/share, offering +27% upside from its last closing. The company is currently trading at FY19E P/E of 7.00x and offers a dividend yield of 10.0%.

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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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