

Flash Note

Friday, 22 April 2016

Automobile Assemblers

INDU: 3QFY16 Profitability down by 10%YoY, Accompanied by PKR 20/share Dividend

- Indus Motors Limited (INDU) reported its 3QFY16 earnings of PKR 2.95bn (EPS PKR 37.56) down by 10%YoY. On a quarterly basis, earnings showed a flattish growth. This brings 9MFY16 total earnings to PKR 8.9bn (or PKR 112.56/share) up by +38%YoY.
- Result was accompanied with a PKR 20.0/share dividend, bringing 9MFY16 total pay-out to PKR 60.0/share.
- For the period under review, company's net sales improved by +7%QoQ growth owing to a) +8%QoQ growth in unit sales to 17k units (15.7k Corolla, 1.2k Hilux, 0.15k Fortuner). However, company reported higher cost, up by +8%QoQ – owing to recent rebound in commodity prices in our view. As a result overall gross margin of the company contracted by 36bpsQoQ to +15.7% compared to +16.1% 2QFY16.

Recommendation

INDU is currently trading at a forward FY16F P/E multiple of 6.1x and offering a dividend yield of 8.4%. Based on our Dec-16, target price of PKR 1,020/share the scrip offers minimal 7% upside at current levels. We recommend a 'HOLD'.

Exhibit: Financial Highlights

| PKRmn | 3QFY16 | 3QFY15 | YoY | 2QFY16 | QoQ | 9MFY16 | 9MFY15 | YoY |
|--------------------|--------|--------|------|--------|------|--------|--------|------|
| Net Revenue | 28,346 | 29,077 | -3% | 26,476 | 7% | 79,680 | 68,175 | 17% |
| Gross Profit | 4,448 | 4,953 | -10% | 4,251 | 5% | 12,892 | 9,599 | 34% |
| Dist and Admin | 311 | 274 | 14% | 180 | 72% | 708 | 929 | -24% |
| Other Income | 809 | 821 | -1% | 777 | 4% | 2,384 | 2,147 | 11% |
| EBIT | 4,339 | 4,886 | -11% | 4,282 | 1% | 12,888 | 9,489 | 36% |
| Finance Cost | 12 | 20 | -41% | 20 | -42% | 52 | 41 | 25% |
| Tax | 1,375 | 1,587 | -13% | 1,307 | 5% | 3,994 | 3,024 | 32% |
| Profit After Tax | 2,953 | 3,279 | -10% | 2,955 | 0% | 8,842 | 6,423 | 38% |
| EPS (PKR) | 37.56 | 41.72 | | 37.60 | | 112.49 | 81.72 | |
| DPS (PKR) | 20.00 | 20.00 | | 20.00 | | 60.00 | 40.00 | |
| Key Ratios | | | | | | | | |
| Gross Margin | 16% | 17% | | 16% | | 16% | 14% | |
| Net Margin | 10% | 11% | | 11% | | 11% | 9% | |
| Effective Tax Rate | 32% | 33% | | 31% | | 31% | 32% | |

Source: IGI Research, Company Financials

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Analyst Certification

The analyst[^] hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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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
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

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