

Indus Motor Company Limited
Result Preview

PSX: INDU Bloomberg: INDU:PA Reuters: INDM: KA

Pakistan Research

2QFY23 earnings to clock in at PKR 20.5/share, DPS at 10.0

- INDU's board meeting is scheduled on February 10, 2023 to consider 2QFY23 financial result. We expect the company to announce an EPS of PKR 20.5, down 66% YoY. This will take 1HFY23 earnings to PKR 37.0/share, down 71% YoY. Along with the result, company is expected to announce an interim cash dividend of PKR 10.0/share in addition to PKR 8.2/share already announced in 1QFY23.
- The company's topline is likely to plunge 42% YoY to PKR 40.4bn during 2Q, mainly on account of 51% YoY decline in volumetric sales. To highlight, Corolla and Yaris sale volumes declined by 63% YoY during the period under review.
- INDU's gross margin during 2Q is likely to turn negative at -1.4% owing to higher production cost as a result of PKR devaluation against USD.
- Other income is expected to increase by 66% YoY to PKR 4.2bn on the back of higher cash base coupled with elevated interest rates.
- Effective tax rate during 2Q is likely to remain 33% vs 28% in SPLY which will further restrict the bottomline growth.
- On sequential basis, INDU's earnings are likely to recover by 24% QoQ mainly on account of recovery in gross margins.
- We have a "BUY" recommendation on INDU. Our Dec-23 PT of PKR 974/share provides an upside of 15% along with a dividend yield of 5%.

Key Data

PSX Ticker	INDU
Target Price (PKR)	974
Current Price (PKR)	860
Upside/(Downside) (%)	+ 15%
Dividend Yield (%)	+ 5%
Total Return (%)	+ 20%
12-month High (PKR)	1,535
12-month Low (PKR)	800
Outstanding Shares (mn)	79
Market Cap (PKR mn)	67,579
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Net Sales	69,633	40,392	-42%	135,185	77,641	-43%
Cost of Sales	64,368	40,939	-36%	122,848	80,545	-34%
Gross Profit	5,264	(547)	NM	12,336	(2,905)	-124%
Distribution Cost	418	404	-3%	874	776	-11%
Admin. cost	463	606	31%	929	1,056	14%
Other Income	2,502	4,165	66%	4,549	9,328	105%
Other expenses	411	171	-58%	897	295	-67%
Finance cost	30	28	-8%	59	47	-20%
Profit before tax	6,444	2,410	-63%	14,127	4,248	-70%
Taxation	1,694	795	-53%	3,952	1,337	-66%
Net Income	4,750	1,614	-66%	10,175	2,911	-71%
EPS	60.4	20.5	-66%	129.5	37.0	-71%
DPS	30.0	10.0		64.5	18.2	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	64.7	163.2	201.0	101.9	176.3	164.7
EPS Growth	-62.9%	152.4%	23.2%	-49.3%	73.0%	-6.6%
DPS	30.0	103.5	93.8	46.0	79.0	74.0
PER	13.1	5.2	4.2	8.3	4.8	5.1
Dividend Yield	3.5%	12.2%	11.1%	5.4%	9.3%	8.7%
EV/EBITDA	10.7	7.0	7.4	11.4	6.7	7.3
P/B	1.6	1.4	1.2	1.1	1.0	0.9
ROE	12.3%	26.6%	29.3%	13.7%	20.9%	17.6%

Source: Company Financials, Akseer Research

Aftab Awan
aftab.awan@aphacapital.com.pk

Valuation Basis

Our PT for Indus Motor Company (INDU) has been computed using free cash flow to equity (FCFE) method. We have used a risk-free rate of 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23%.

Investment Thesis

We have 'BUY' recommendation on INDU. Our December-23 price target (PT) of PKR 974/share provides an upside of 15% along with a dividend yield of 5%. Our investment case on INDU is based on 1) accumulation of huge cash & cash equivalents resulting in higher other income amid rising interest rates 2) gradual recovery in sales volumes from FY24 onwards and 3) Being the first OEM to tap local HEV market providing an added trigger.

Risks

Key risks to our investment thesis are 1) higher than anticipated increase in raw material cost, 2) Further slowdown in demand 3) more than anticipated PKR depreciation and 4) unfavourable government policies.

Company Description

Indus Motor Company manufactures and markets Toyota brand vehicles in Pakistan. The main product offerings include several variants of the flagship 'Corolla' in the passenger cars category, 'Hilux' in the light commercial vehicles segment and 'Fortuner' Sports Utility Vehicle. IMC was incorporated in 1989 as a joint venture company between certain Hous of Habib Companies, Toyota Motor Corporation and Toyota Tsusho Corporation.

Financial Highlights - INDU

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY24F
Net sales	86,167	179,162	275,506	179,897	213,254	236,761
Cost of sales	78,716	162,508	257,101	180,608	202,733	223,003
Gross Profit	7,451	16,654	18,404	-711	10,521	13,758
SG & A	2,854	3,084	4,343	4,972	5,315	5,587
Operating Profit	7,373	18,333	25,567	12,074	20,806	19,463
Other income	3,205	5,579	12,936	18,570	16,884	12,567
Other charges	429	817	1,430	814	1,285	1,276
Finance cost	86	134	114	116	124	136
Profit before tax	7,287	18,199	25,453	11,957	20,682	19,326
Taxation	2,205	5,371	9,651	3,946	6,825	6,378
Profit after tax	5,082	12,829	15,802	8,012	13,857	12,949

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY24F
PPE	16,502	15,770	15,040	19,252	24,642	25,690
Non-Current Assets	16,661	19,194	23,834	28,860	35,146	37,177
Current assets	63,617	114,712	190,132	118,581	119,418	127,170
Total Assets	80,279	133,906	213,965	147,441	154,564	164,348
Non-Current liabilities	483	596	281	597	597	597
Current liabilities	38,626	84,959	159,673	88,153	87,628	90,279
Total Liabilities	39,109	85,704	159,954	88,749	88,225	90,876
Equity	41,169	48,201	54,011	58,692	66,339	73,472
Total Equity & liabilities	80,279	133,906	213,965	147,441	154,564	164,348

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY24F
Net Income	5,082	12,829	15,802	8,012	13,857	12,949
Non-cash Charges	2,839	3,123	3,380	1,830	2,338	2,681
Operating Cash flows	24,756	49,615	76,848	(46,939)	11,720	14,678
FCFF	19,301	47,351	74,162	(52,921)	4,054	11,018
Net borrowings	399	266	(466)	316	0	0
FCFE	19,640	47,523	73,626	(52,683)	3,970	10,927
Net change in cash	(2,111)	869	4,754	359	6,217	12,721
Closing cash	1,171	2,040	6,794	7,153	13,370	26,091

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net