

Indus Motor Company Limited
Result Preview

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

Pakistan Research

3QFY22 EPS likely to clock in at PKR 64.5, DPS at PKR 32.0

- INDU's board meeting is scheduled 25th April 2022, to consider 3QFY22 financial result, where we expect the company to announce an EPS of PKR 64.5, up 40% YoY. This will take 9MFY22 cumulative earnings to PKR 193.9/share, up 81% YoY. Along with the result, company is also expected to announce and interim cash dividend of PKR 32/share in addition to PKR 64.5/share already announced.
- The company's topline is expected to increase by 37% YoY during the quarter, owing to a 22% YoY increase in prices coupled with a 12% YoY increase in volumetric sales. Fortuner and Hilux sales increased by 39% YoY, while Corolla and Yaris volume witnessed an increase of 6% YoY.
- Gross margins for the quarter are estimated to contract by 70bps to 8.5%, mainly due to rise in raw material costs as a result of recent PKR devaluation along with increase in commodity prices.
- Distribution expense is expected to increase by 8% YoY to PKR 424mn on the back of higher volumes, while administrative expenses are expected to increase 12% YoY to PKR 470mn.
- Other income is likely to increase by 72% YoY to PKR 2.46bn on the back of higher cash base on account of a strong order book and higher interest rate.
- We have a "BUY" recommendation on INDU. Our Dec-22 PT of PKR 1,879/share provides an upside of 39% along with a dividend yield of 9.6%.

Key Data

PSX Ticker	INDU
Target Price (PKR)	1,879
Current Price (PKR)	1,350
Upside/(Downside) (%)	+39%
Dividend Yield (%)	9.6%
Total Return (%)	+49%
12-month High (PKR)	1,535
12-month Low (PKR)	1,051
Outstanding Shares (mn)	79
Market Cap (PKR mn)	106,110
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY21	3QFY22E	YoY	9MFY21	9MFY22E	YoY
Net Sales	51,514	70,699	37%	131,160	205,884	57%
Cost of Sales	46,768	64,660	38%	120,402	187,508	56%
Gross Profit	4,746	6,039	27%	10,758	18,376	71%
Distribution Cost	394	424	8%	966	1,298	34%
Admin. cost	418	470	12%	1,063	1,399	32%
Other Income	1,436	2,464	72%	3,893	7,013	80%
Other expenses	314	442	41%	716	1,338	87%
Finance cost	21	32	48%	80	90	13%
Profit before tax	5,036	7,137	42%	11,827	21,264	80%
Taxation	1,422	2,070	46%	3,411	6,022	77%
Net Income	3,614	5,067	40%	8,415	15,242	81%
EPS	45.98	64.47	40%	107.07	193.92	81%
DPS	30.00	32.00		67.00	96.50	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	174.49	64.66	163.21	257.23	253.00	299.40
EPS Growth	-13%	-63%	152%	58%	-2%	18%
DPS	115.00	30.00	103.50	129.00	127.00	150.00
PER	7.7	20.8	8.3	5.2	5.3	4.5
Dividend Yield	8.5%	2.2%	7.7%	9.6%	9.4%	11.1%
EV/EBITDA	6.3	14.5	8.9	5.9	5.8	4.8
P/B	2.6	2.6	2.2	1.9	1.6	1.4
ROE	34.2%	12.3%	26.6%	36.1%	30.2%	30.3%

Source: Company Financials, Akseer Research

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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 12%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have 'BUY' recommendation on INDU. Our December-22 price target (PT) of PKR 1,879/share provides an upside of 39% along with a dividend yield of 9.6%. Our investment case on INDU is based on 1) Highest dividend yield amongst the peers, 2) Accumulation of huge cash & cash equivalents of PKR 107bn (PKR 1,367/share) resulting in higher other income amid rising interest rates 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) slowdown in demand 3) higher than expected PKR depreciation and 4) unfavorable 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	157,996	86,167	179,162	274,620	256,089	285,712
Cost of sales	138,805	78,716	162,508	249,985	230,490	254,506
Gross Profit	19,192	7,451	16,654	24,635	25,599	31,205
SG & A	2,814	2,854	3,084	3,608	3,408	3,594
Operating Profit	19,043	7,373	18,333	28,601	28,132	33,272
Other income	4,307	3,205	5,579	9,372	7,715	7,748
Other charges	1,641	429	817	1,798	1,774	2,087
Finance cost	67	86	134	125	125	128
Profit before tax	18,976	7,287	18,199	28,477	28,007	33,144
Taxation	5,261	2,205	5,371	8,258	8,121	9,612
Profit after tax	13,715	5,082	12,829	20,218	19,886	23,533

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	13,805	16,502	15,770	19,389	22,957	27,181
Other LT assets	121	160	3,424	3,498	3,567	3,637
Non-Current Assets	13,925	16,661	19,194	22,887	26,523	30,817
Current assets	50,858	63,617	114,712	119,419	122,207	122,729
Total Assets	64,783	80,279	133,906	142,307	148,730	153,547
Non-Current liabilities	559	483	596	284	244	204
Current liabilities	24,179	38,626	84,959	85,931	82,483	75,580
Total Liabilities	24,738	39,109	85,704	86,365	82,877	75,934
Equity	40,045	41,169	48,201	55,942	65,854	77,613
Total Equity & liabilities	64,783	80,279	133,906	142,307	148,731	153,547

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	13,715	5,082	12,829	20,219	19,894	23,549
Non-cash Charges	2,121	2,839	3,086	3,492	4,203	4,973
Operating Cash flows	(11,506)	24,776	49,714	19,606	16,469	17,361
FCFF	(20,165)	19,321	47,486	12,578	8,789	8,256
Net borrowings	81	379	131	(312)	(40)	(40)
FCFE	(20,134)	19,640	47,523	12,177	8,660	8,126
Net change in cash	1,081	(2,111)	869	1,340	1,895	196
Closing cash	3,282	1,171	2,040	3,380	5,275	5,471

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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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