

Indus Motor Company Limited
Result Review

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

Pakistan Research

3QFY22 EPS clocks in at PKR 65.11, up 42% YoY, DPS at PKR 26.0

- INDU announced its 3QFY22 financial result today, wherein the company posted an EPS of PKR 65.11, up 40% YoY. The result is slightly higher than our expectation primarily due to lower-than-expected gross margins and higher other income. Cumulative EPS for 9MFY22 settled at PKR 194.56/share, up 82% YoY. Along with the result, the company announced lower than expected interim cash dividend of PKR 26/share (payout 40%) taking cumulative dividend to PKR 64.5/share in 9MFY22.
- The company's topline increased 32% YoY to PKR 68.2bn during 3QFY22, owing to 12% YoY increase in volumetric sales and multiple price increases during the quarter.
- Gross margin during the quarter declined to 7.7% vs 9.2% in SPLY, mainly due to rise in raw material costs as a result of recent PKR devaluation along with increase in commodity prices.
- Distribution expense contracted 6% YoY to PKR 372mn, while administrative expenses increased by 41% YoY to PKR 590mn.
- Other income during the quarter increased 122% YoY to PKR 3.2bn on the back of higher return on the cash available with the company.
- On a Quarterly basis, EPS increased by 8% during 3QFY22. This can be attributable to 27% QoQ increase in other income and 11% QoQ decrease in distribution costs.
- 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 highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	51,514	68,223	32%	131,160	203,407	55%
Cost of Sales	46,768	62,991	35%	120,402	185,840	54%
Gross Profit	4,746	5,231	10%	10,758	17,568	63%
Distribution Cost	394	372	-6%	966	1,246	29%
Admin. cost	418	590	41%	1,063	1,519	43%
Other Income	1,436	3,183	122%	3,893	7,732	99%
Other expenses	314	370	18%	716	1,267	77%
Finance cost	21	17	-19%	80	76	-5%
Profit before tax	5,036	7,065	40%	11,827	21,192	79%
Taxation	1,422	1,947	37%	3,411	5,899	73%
Net Income	3,614	5,118	42%	8,415	15,292	82%
EPS	45.98	65.11	42%	107.07	194.56	82%
DPS	30.00	26.00		67.00	90.50	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	174.49	64.66	163.21	257.23	253.10	299.61
EPS Growth	-13%	-63%	152%	58%	-2%	18%
DPS	115.00	30.00	103.50	129.00	127.00	150.00
PER	7.7	20.9	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

Arshad Mansoor
arshad.mansoor@alphacapital.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 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	28,602	28,145	33,296
Other income	4,307	3,205	5,579	9,372	7,728	7,773
Other charges	1,641	429	817	1,798	1,775	2,089
Finance cost	67	86	134	125	125	128
Profit before tax	18,976	7,287	18,199	28,477	28,019	33,168
Taxation	5,261	2,205	5,371	8,258	8,126	9,619
Profit after tax	13,715	5,082	12,829	20,219	19,894	23,549

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	148,731	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

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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

3rd Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-38694242

E: info@alfaadhi.net