

**Indus Motor Company Limited**  
Result Preview

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

Pakistan Research

**FY22 EPS likely to clock in at PKR 231.1, DPS at PKR 105.0**

- INDU's board meeting is scheduled on 29<sup>th</sup> August 2022, to consider FY22 financial result, where we expect the company to announce an EPS of PKR 231.1, up 42% YoY as compared to an EPS of PKR 163.21 in FY2. We expect company to announce final cash dividend of PKR 14.50/share along with financial result, which will take full year dividend to PKR 105.0/share.
- During FY22, net sales are expected to increase 52% YoY to PKR 272.3bn on the back of 30% YoY increase in volumetric sales (Corolla and Yaris up 30%, Fortuner and Hilux up 70%) and, 16% YoY increase in pricing.
- Gross margin during FY22 is expected to clock in at 8.5% as against 9.3% in SPLY, due to increase in input cost and PKR depreciation against USD.
- Other income during FY22 is likely to increase 121% YoY to PKR 12.3bn, mainly due to higher fund size on account of increase in customer advances and higher interest rates. Similarly, other expenses are also expected to increase by 130% YoY during FY22 due to higher WPPF and WWF charges.
- Effective tax rate is expected at 38.9% during FY22 as compared 29.5% last year, mainly due to 10% additional tax imposed in federal budget FY23.
- On quarterly basis, INDU is expected to report earnings of 36.6, down 35% YoY primarily due to elevated tax expense during 4Q. Effective tax rate is likely to clock in at 67% during 4Q as compared to 30.7% in SPLY.
- We have a "BUY" recommendation on INDU. Our Dec-22 PT of PKR 1,279/share provides an upside of 23% along with a dividend yield of 10%.

**Key Data**

PSX Ticker	INDU
Target Price (PKR)	1,279
Current Price (PKR)	1,040
Upside/(Downside) (%)	+23%
Dividend Yield (%)	10%
Total Return (%)	+33%
12-month High (PKR)	1,535
12-month Low (PKR)	892
Outstanding Shares (mn)	79
Market Cap (PKR mn)	84,888
Year End	June

Source: Company Accounts, Akseer Research

**Financial Estimates (PKR mn)**

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Net Sales	48,002	68,890	44%	179,162	272,297	52%
Cost of Sales	42,106	63,264	50%	162,508	249,103	53%
<b>Gross Profit</b>	5,896	5,626	-5%	16,654	23,194	39%
Distribution Cost	653	425	-35%	1,619	1,671	3%
Admin. cost	402	551	37%	1,465	2,070	41%
Other Income	1,686	4,600	173%	5,579	12,333	121%
Other expenses	101	610	504%	817	1,877	130%
Finance cost	54	49	-9%	134	125	-7%
<b>Profit before tax</b>	6,372	8,591	35%	18,199	29,783	64%
Taxation	1,959	5,716	192%	5,371	11,615	116%
<b>Net Income</b>	4,413	2,875	-35%	12,829	18,168	42%
EPS	56.15	36.58	-35%	163.21	231.14	42%
DPS	36.50	14.50		103.50	105.00	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	174.5	64.7	163.2	231.1	215.1	225.7
EPS Growth	-13.0%	-62.9%	152.4%	41.6%	-7.0%	4.9%
DPS	115.0	30.0	103.5	105.0	97.0	102.0
PER	6.0	16.1	6.4	4.5	4.8	4.6
Dividend Yield	11.1%	2.9%	10.0%	10.1%	9.3%	9.8%
EV/EBITDA	5.1	12.2	7.7	6.4	6.3	5.9
P/B	2.0	2.0	1.7	1.5	1.3	1.1
ROE	34.2%	12.3%	26.6%	32.6%	26.0%	23.7%

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 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have 'BUY' recommendation on INDU. Our December-22 price target (PT) of PKR 1,279/share provides an upside of 23% along with a dividend yield of 10%. 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	272,297	211,363	234,202
Cost of sales	138,805	78,716	162,508	249,103	192,176	213,501
<b>Gross Profit</b>	<b>19,192</b>	<b>7,451</b>	<b>16,654</b>	<b>23,194</b>	<b>19,187</b>	<b>20,700</b>
SG & A	2,814	2,854	3,084	3,741	3,890	4,100
<b>Operating Profit</b>	<b>19,043</b>	<b>7,373</b>	<b>18,333</b>	<b>29,908</b>	<b>25,358</b>	<b>26,609</b>
Other income	4,307	3,205	5,579	12,333	11,667	11,696
Other charges	1,641	429	817	1,877	1,607	1,686
Finance cost	67	86	134	125	126	131
<b>Profit before tax</b>	<b>18,976</b>	<b>7,287</b>	<b>18,199</b>	<b>29,783</b>	<b>25,231</b>	<b>26,478</b>
Taxation	5,261	2,205	5,371	11,615	8,326	8,738
<b>Profit after tax</b>	<b>13,715</b>	<b>5,082</b>	<b>12,829</b>	<b>18,168</b>	<b>16,905</b>	<b>17,741</b>

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	165,854	137,026	140,031
<b>Total Assets</b>	<b>64,783</b>	<b>80,279</b>	<b>133,906</b>	<b>188,742</b>	<b>163,549</b>	<b>170,848</b>
Non-Current liabilities	559	483	596	596	596	596
Current liabilities	24,179	38,626	84,959	132,218	97,745	95,321
<b>Total Liabilities</b>	<b>24,738</b>	<b>39,109</b>	<b>85,704</b>	<b>132,964</b>	<b>98,491</b>	<b>96,066</b>
Equity	40,045	41,169	48,201	55,778	65,059	74,782
<b>Total Equity &amp; liabilities</b>	<b>64,783</b>	<b>80,279</b>	<b>133,906</b>	<b>188,742</b>	<b>163,549</b>	<b>170,848</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	13,715	5,082	12,829	18,168	16,905	17,741
Non-cash Charges	2,121	2,839	3,123	3,492	4,203	4,973
<b>Operating Cash flows</b>	<b>(11,506)</b>	<b>24,756</b>	<b>49,615</b>	<b>65,657</b>	<b>(12,729)</b>	<b>17,550</b>
<b>FCFF</b>	<b>(20,165)</b>	<b>19,301</b>	<b>47,351</b>	<b>58,617</b>	<b>(20,413)</b>	<b>8,442</b>
Net borrowings	81	399	266	(0)	0	0
<b>FCFE</b>	<b>(20,134)</b>	<b>19,640</b>	<b>47,523</b>	<b>58,541</b>	<b>(20,498)</b>	<b>8,354</b>
Net change in cash	<b>1,081</b>	<b>(2,111)</b>	<b>869</b>	<b>(1,282)</b>	<b>4,699</b>	<b>5,260</b>
<b>Closing cash</b>	<b>3,282</b>	<b>1,171</b>	<b>2,040</b>	<b>758</b>	<b>5,457</b>	<b>10,717</b>

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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