

Indus Motor Company Limited
Key Takeaways

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

Pakistan Research

INDU: 3QFY22 Analyst Briefing Key Takeaways

- Indus Motor Company held its corporate briefing today to discuss 3QFY22 results. Earlier, the company reported net earnings of PKR 65.11 up 41.6% YoY. The result was also accompanied with an interim cash dividend of PKR 26/share (payout 40%) taking cumulative dividend for 9MFY22 to PKR 90.50/share.
- INDU's management has stated that due to the current macroeconomic uncertainty, the company has closed the booking of all its variants for the next 15 – 20 days. Furthermore, due to current high freight charges and PKR depreciation, the company will raise its car prices once booking re-opens.
- In terms of future sales, management now expects the passenger car market to shrink by 30%, instead of 20% previously stated, due to the worsening macroeconomic conditions and SBP's recent regulation to reduce the tenor of auto financing by 2 years.
- With regards to ban on the CKD and SKD kits, the management said that currently only CBU units are banned from imports.
- The company has reduced its payout to 40% in 3QFY22 from its historical average of 60%, owing to the uncertain economic condition and the investment of USD 100mn in the HEV project, which has already begun.
- As per the management, company's 25%-30% sales consist of auto financing which will be adversely affected by the new SBP regulation.
- The updated localization levels of the company's different models in terms of value are 60% for Corolla and Yaris and 40-50% for Hilux.
- IMC is currently producing in two shifts; however, in order to cut costs, the company plans to reduce the number of shifts in the coming fiscal year.

Key Data	
PSX Ticker	INDU
Target Price (PKR)	1,855
Current Price (PKR)	1,290
Upside/(Downside) (%)	+44%
Dividend Yield (%)	10.5%
Total Return (%)	+54%
12-month High (PKR)	1,535
12-month Low (PKR)	1,001
Outstanding Shares (mn)	78
Market Cap (PKR mn)	101,394
Year End	June

Source: Company Accounts, Akseer Research

Arshad Mansoor
arshad.mansoor@alphacapital.com.pk

Valuation Basis

Our PT for Indus Motor Company (INDU) has been computed using reserve based 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 1,855/share provides an upside of 44% along with a dividend yield of 10.5%. 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	272,920	253,774	285,516
Cost of sales	138,805	78,716	162,508	249,894	229,154	256,060
Gross Profit	19,192	7,451	16,654	23,027	24,620	29,456
SG & A	2,814	2,854	3,084	3,723	3,522	3,714
Operating Profit	19,043	7,373	18,333	29,920	31,812	36,484
Other income	4,307	3,205	5,579	12,494	12,710	13,022
Other charges	1,641	429	817	1,878	1,995	2,280
Finance cost	67	86	134	125	125	128
Profit before tax	18,976	7,287	18,199	29,795	31,687	36,356
Taxation	5,261	2,205	5,371	8,641	9,189	10,543
Profit after tax	13,715	5,082	12,829	21,155	22,498	25,813

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	175,192	156,326	159,486
Total Assets	64,783	80,279	133,906	198,079	182,849	190,303
Non-Current liabilities	559	483	596	596	596	596
Current liabilities	24,179	38,626	84,959	140,927	114,439	108,971
Total Liabilities	24,738	39,109	85,704	141,673	115,185	109,717
Equity	40,045	41,169	48,201	56,407	67,664	80,587
Total Equity & liabilities	64,783	80,279	133,906	198,080	182,849	190,303

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	13,715	5,082	12,829	21,155	22,498	25,813
Non-cash Charges	2,121	2,839	3,086	3,492	4,203	4,973
Operating Cash flows	(11,506)	24,776	49,714	77,249	(5,196)	21,807
FCFF	(20,165)	19,321	47,486	70,221	(12,876)	12,703
Net borrowings	81	379	131	0	0	0
FCFE	(20,134)	19,640	47,523	70,133	(12,965)	12,612
Net change in cash	1,081	(2,111)	869	6,311	2,380	(278)
Closing cash	3,282	1,171	2,040	8,350	10,731	10,452

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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Rating	Expected Total Return
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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) Ltd

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

T: +92-21-38694242

E: info@alfaadhi.pk