

Indus Motor Company Limited
Result Review

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

Pakistan Research

2QFY22 EPS clocks in at PKR 60.43, up 61% YoY, DPS at PKR 30.0

- INDU announced its 2QFY22 financial results today, where the company posted an EPS of PKR 60.43, up 61% YoY. The result below our expectation primarily due to lower than estimated gross margins. This takes 1HFY22 earnings at PKR 129.45, up 1.12x YoY. Along with the result, the company announced an interim cash dividend of PKR 30.00/share, in addition to PKR 34.5 already announced in 1Q, taking the cumulative payout during 1HFY22 to PKR 64.5/share.
- The company's topline increased by 53% YoY primarily due to 35% YoY increase in volumetric sales coupled with higher prices. Similarly, the topline for 1HFY22 grew by 70% YoY on the back of 46% YoY growth in volumetric.
- Gross margins during 2QFY22 contracted to 7.6% vs 8.2% in SPLY owing to rise in raw material costs amid higher commodity prices.
- Distribution expenses surged by 21% YoY to PKR 418mn during 2QFY22 driven by increased sales volume. Similarly, administration expense increased by 41% YoY to PKR 463mn.
- Other income during the 2Q went up by 83% YoY to PKR 2.5bn mainly due to higher interest rates.
- Effective tax rate clocked in at 26% in 2Q vs 29% in SPLY, further supporting the growth in bottom-line.
- We have "BUY" recommendation on INDU. Our Dec-22 PT of PKR 2,023/share provides an upside of 43% along with a dividend yield of 13%.

Key Data

PSX Ticker	INDU
Target Price (PKR)	2,023
Current Price (PKR)	1,418
Upside/(Downside) (%)	+ 43%
Dividend Yield (%)	13%
Total Return (%)	+ 56%
12-month High (PKR)	1,409
12-month Low (PKR)	967
Outstanding Shares (mn)	78
Market Cap (PKR mn)	110,769
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	45,451	69,633	53%	79,646	135,185	70%
Cost of Sales	41,728	64,368	54%	73,635	122,848	67%
Gross Profit	3,723	5,264	41%	6,011	12,336	105%
Distribution Cost	346	418	21%	572	874	53%
Admin. cost	329	463	41%	645	929	44%
Other Income	1,368	2,502	83%	2,457	4,549	85%
Other expenses	247	411	66%	402	897	123%
Finance cost	24	30	25%	58	59	1%
Profit before tax	4,145	6,444	55%	6,791	14,127	108%
Taxation	1,189	1,694	42%	1,990	3,952	99%
Net Income	2,956	4,750	61%	4,801	10,175	112%
EPS	37.60	60.43	61%	61.08	129.45	112%
DPS	25.00	30.00		37.00	64.50	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	174.49	64.66	163.21	285.23	287.38	293.92
EPS Growth	-13%	-63%	152%	75%	1%	2%
DPS	115.00	30.00	103.50	185.00	187.00	191.00
PER	8.1	21.8	8.6	4.9	4.9	4.8
Dividend Yield	8.2%	2.1%	7.3%	13.1%	13.3%	13.6%
EV/EBITDA	6.5	15.0	9.1	5.8	5.8	5.9
P/B	2.8	2.7	2.3	2.1	1.8	1.6
ROE	34.2%	12.3%	26.6%	41.7%	36.7%	33.1%

Source: Company Financials, Akseer Research

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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 2,023/share provides an upside of 43% along with a dividend yield of 13%. 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	262,974	255,706	266,611
Cost of sales	138,805	78,716	162,508	233,873	228,109	237,837
Gross Profit	19,192	7,451	16,654	29,101	27,597	28,774
SG & A	2,814	2,854	3,084	3,862	4,053	4,256
Operating Profit	19,043	7,373	18,333	31,930	32,170	32,901
Other income	4,307	3,205	5,579	8,689	10,643	10,448
Other charges	1,641	429	817	1,998	2,017	2,065
Finance cost	67	86	134	125	125	128
Profit before tax	18,976	7,287	18,199	31,805	32,045	32,774
Taxation	5,261	2,205	5,371	9,386	9,456	9,672
Profit after tax	13,715	5,082	12,829	22,419	22,588	23,102

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	13,805	16,502	15,770	18,916	21,433	23,446
Other LT assets	121	160	3,424	3,498	3,567	3,637
Non-Current Assets	13,925	16,661	19,194	22,414	24,999	27,083
Current assets	50,858	63,617	114,712	135,154	139,105	148,642
Total Assets	64,783	80,279	133,906	157,568	164,104	175,724
Non-Current liabilities	559	483	596	284	244	204
Current liabilities	24,179	38,626	84,959	103,394	102,079	105,649
Total Liabilities	24,738	39,109	85,704	103,828	102,473	106,004
Equity	40,045	41,169	48,201	53,741	61,631	69,721
Total Equity & liabilities	64,783	80,279	133,906	157,568	164,104	175,724

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	13,715	5,082	12,829	22,419	22,588	23,102
Non-cash Charges	2,121	2,839	3,086	3,869	4,499	5,001
Operating Cash flows	-11,506	24,776	49,714	38,158	26,702	30,718
FCFF	-20,165	19,321	47,486	31,226	19,777	23,795
Net borrowings	81	379	131	-312	-40	-40
FCFE	-20,134	19,640	47,523	30,826	19,649	23,665
Net change in cash	1,081	-2,111	869	12,306	3,277	6,945
Closing cash	3,282	1,171	2,040	14,345	17,622	24,567

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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