

**Indus Motor Company Limited**  
Result Review

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

Pakistan Research

**FY22 clock in at PKR 201, up 23% YoY, DPS at PKR 3.25**

- INDU reported its FY22 financial results today, with an EPS of PKR 201.0, up 23% YoY. The result falls short of our expectations, owing to lower-than-expected gross margins and higher administrative and distribution costs. Along with the result, the company declared a final cash dividend of PKR 3.25/share, bringing the total dividend to PKR 93.75/share in FY22.
- During FY22, net sales increased by 54% YoY to PKR 275.5bn, owing to a 30% YoY increase in volumetric sales (Corolla and Yaris up 30%, Fortuner and Hilux up 70%) along with multiple price increases during the year.
- The gross margin in FY22 clocked in at 6.7%, compared to 9.3% in SPLY, this was due to higher raw material costs as a result of PKR depreciation against USD and higher freight expenses.
- Distribution expenses surged 31% YoY during FY22 to PKR 2.1bn, driven by higher sales volume. Similarly, Admin expenses also increased 51% YoY to PKR 2.2bn.
- Effective tax rate during FY22 clocked in at 38% as compared 29.5% last year, this increase is attributed to the 10% additional tax imposed in federal budget FY23.
- On quarterly basis, INDU posted an EPS of PKR 6.5, down 88% YoY. This is primarily due to contraction in gross margin, higher distribution and admin expenses and elevated tax expense owing to super tax.
- 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 9%.

**Key Data**

PSX Ticker	INDU
Target Price (PKR)	1,279
Current Price (PKR)	1,040
Upside/(Downside) (%)	+23%
Dividend Yield (%)	9%
Total Return (%)	+32%
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 Highlights (PKR mn)**

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	48,002	72,098	50%	179,162	275,506	54%
Cost of Sales	42,106	71,262	69%	162,508	257,101	58%
<b>Gross Profit</b>	<b>5,896</b>	<b>837</b>	<b>-86%</b>	<b>16,654</b>	<b>18,404</b>	<b>11%</b>
Distribution Cost	653	878	34%	1,619	2,124	31%
Admin. cost	402	700	74%	1,465	2,219	51%
Other Income	1,686	5,203	209%	5,579	12,936	132%
Other expenses	101	163	62%	817	1,430	75%
Finance cost	54	38	-29%	134	114	-14%
<b>Profit before tax</b>	<b>6,372</b>	<b>4,261</b>	<b>-33%</b>	<b>18,199</b>	<b>25,453</b>	<b>40%</b>
Taxation	1,959	3,751	91%	5,371	9,651	80%
<b>Net Income</b>	<b>4,413</b>	<b>509</b>	<b>-88%</b>	<b>12,829</b>	<b>15,802</b>	<b>23%</b>
EPS	56.2	6.5	-88%	163.2	201.0	23%
DPS	36.5	3.3		103.5	93.8	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
EPS	174.5	64.7	163.2	201.0	215.1	225.7
EPS Growth	-13.0%	-62.9%	152.4%	23.2%	-7.0%	4.9%
DPS	115.0	30.0	103.5	93.8	97.0	102.0
PER	6.0	16.1	6.4	5.2	4.8	4.6
Dividend Yield	11.1%	2.9%	10.0%	9.0%	9.3%	9.8%
EV/EBITDA	5.1	12.2	7.7	7.3	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%	29.1%	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 9%. 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	FY22A	FY23E	FY24F
Net sales	157,996	86,167	179,162	275,506	211,363	234,202
Cost of sales	138,805	78,716	162,508	257,101	192,176	213,501
<b>Gross Profit</b>	<b>19,192</b>	<b>7,451</b>	<b>16,654</b>	<b>18,404</b>	<b>19,187</b>	<b>20,700</b>
SG & A	2,814	2,854	3,084	4,343	3,890	4,100
<b>Operating Profit</b>	<b>19,043</b>	<b>7,373</b>	<b>18,333</b>	<b>25,567</b>	<b>25,272</b>	<b>26,471</b>
Other income	4,307	3,205	5,579	12,936	11,577	11,549
Other charges	1,641	429	817	1,430	1,602	1,678
Finance cost	67	86	134	114	126	131
<b>Profit before tax</b>	<b>18,976</b>	<b>7,287</b>	<b>18,199</b>	<b>25,453</b>	<b>25,146</b>	<b>26,340</b>
Taxation	5,261	2,205	5,371	9,651	8,298	8,692
<b>Profit after tax</b>	<b>13,715</b>	<b>5,082</b>	<b>12,829</b>	<b>15,802</b>	<b>16,848</b>	<b>17,648</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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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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