



Today's Daily

■ INDU: FY18 Results will pass muster

From a sectoral perspective, dampeners prompting selling in the space include PkR weakness and ban on sales to non-filers, which have led INDU to soften by 10.2%CYTD, weakening in the process to trade at a FY19/20F P/E of 6.9x/6.4x. Even so, 4QFY18E forecasts (BoD meeting on 28th August) show the company releasing an earnings read of PkR3.6bn (EPS:PkR45.96), a rise of 6%YoY, where key catalysts are 32%YoY rise in revenues as a follow-on from price hikes (~12% from July'17 to May'18) preserving margins (FY18E GM of 16.9% vs. 17.7% for FY17). Cumulative FY18E NPAT is expected to be PkR15.25bn (EPS:PkR193.99), so far its best year. Accompanying the results, we expect an additional payout of PkR30/sh taking full year payouts to PkR125/sh (payout ratio of 64%). Commenting on INDU's ability to fortify competitive moats preserving margins, we highlight the launch of CKD variants segmenting the lower end of the Corolla (Vios to replace 1.3L offering), and continued hold on premium SUV space as delivering an investment case grounded on growth and value. With an FCFE based Jun'19 TP of PkR2,190/sh, we recommend a BUY stance on the scrip highlighting current multiples (FY19/20F P/Es of 6.9/6.4x) as being too good to ignore.

KSE100 - Index

Current	42,425.10
Previous	42,446.62
Chg.	-0.05%

Mkt Cap. (PkRbn/US\$bn)

Current	8,717 / 70.28
Previous	8,703 / 70.17
Chg.	0.16%

Daily Turnover (mn)

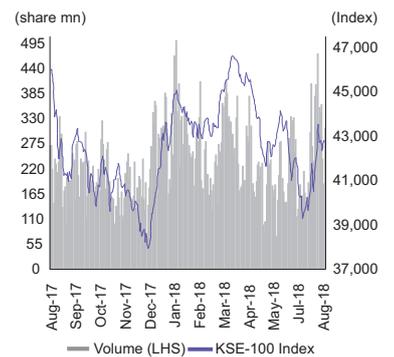
Current	147.55
Previous	194.19
Chg.	-24.0%

Value Traded (PkRmn/US\$m)

Current	6,434 / 51.87
Previous	8,086 / 65.19
Chg.	-20.4%

News and Views

- Based on news reports, PSO, has claimed that it has supplied RFO worth PkR58.5bn from May-July 2018, in line with the directives of MoE (Power Division) having received payments of only PkR17.8 bn from regular PEPCO allocations. Additionally, news sources mentioned that PSO was owed PkR14.7bn on account of RLNG supplied to SNGPL.
- The new PTI government will have its economic direction by end September, says Finance Minister Asad Umar in a talk with Dawn on Tuesday. The economy is heading towards massive imbalances, he added. "With due respect the budget announced by the last government is not worth the paper it is written on" he said, adding it will result in a fiscal deficit of seven per cent if the government proceeds under it.



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INDU: Income Statement

(PkRmn)	4QFY18E	4QFY17	YoY%	QoQ%	FY18E	FY17	YoY%
Net Sales	36,981	27,928.41	32%	0%	137,168	112,272	22%
Cost of sales	31,385	23,314.44	35%	3%	113,994	92,450	23%
Gross profit	5,596	4,613.96	21%	-13%	23,175	19,822	17%
Distribution expenses	579	383.14	51%	76%	1,489	1,228	21%
Administrative expenses	201	315.25	-36%	-48%	1,271	1,053	21%
Total operating expenses	779	698.39	12%	9%	2,760	2,281	21%
Operating profit	4,817	3,916	23%	-16%	20,415	17,541	16%
Other operating expenses	517	410.64	26%	15%	1,819	1,595	14%
Other operating income	1,131	1,069.85	6%	24%	3,810	3,593	6%
EBIT	5,431	4,575	19%	-12%	22,407	19,539	15%
Finance costs	140	163.85	-14%	9%	542	398	36%
NPBT	5,291	4,411	20%	-13%	21,864	19,141	14%
Taxation	1,679	1,654.01	1%	-6%	6,616	6,140	8%
NPAT	3,612	2,757	31%	-15%	15,248	13,001	17%
EPS (PkR)	45.96	35.08	-	-	193.99	165.41	-

Source: AKD Research & Company Report

4QFY18E Preview: For the concluding quarter of FY18, we project INDU to file an NPAT of PkR3.61bn (EPS:PkR45.96) moving +31%YoY/-15%QoQ, taking FY18E NPAT to PkR15.25bn (EPS:PkR193.99) up 17%YoY to its highest ever profit in any year of operation. Exhibiting significant pricing power in the face of a weak PkR, INDU raised prices of its models by a volume weighted average of ~12% during FY18, while unit sales remained stagnant for the face-lift version of the Corolla (51,412 units sold -2.4%YoY), even though Fortuner/Hilux sales trounced



expectations (+27%/+204%YoY). This focus on the premium SUV segment has continued INDUs revenue weights away from the flagship to SUV offerings, where the split stands at 66/18/16% for Corolla/Hilux/Fortuner vs. 78/16/6% in FY17. Poignantly, better pricing power in this burgeoning segment of relatively price insensitive customers preserves margins, evident in our FY18E GM of 16.9% vs. 17.7% in FY17.

More 'moats to fortify': Proceeding with our bullish stance on INDU fortifying competitive 'moats' to solidify margins in the face of external shocks and higher competitive pressures in the long run, we believe a slew of catalysts are in place for the OEM to capitalize on. Chief amongst these remains further segmentation of the Corolla brand by the introduction of the Vios, in the 1.3L category. A long standing assertion, affirmed by channel checks, we believe recent devaluation may have shifted the launch of this CKD to mid FY19, where the recent launch of the 1.3L automatic variant of the Corolla is a nod to our projection, in our view. Also, the launch of 'Rush' CBU offering in the entry-level SUV category with its hefty price tag (expected to be upwards of PkR4mn) are non-events (cumulative trading revenue is ~5% of total net sales) in terms of profitability.

Investment Perspective: With a FCFE based Jun'19 TP of PkR2,190/sh, we recommend a BUY stance on the scrip highlighting current multiples (FY19/20F P/Es of 6.9/6.4x) as being too good to ignore. Moreover, for investors seeking value, INDU maintains high earnings quality (Free cash flow to earnings of 0.95x), P/B of 2.7/2.4x for FY19/20F, and an investment case based on stable yield (FY19/20F D/Y of 9.0/9.8%) is increasingly alluring.



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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