December 17, 2020

PAKISTAN
AUTOS

REP-019
MARKET
VISTA

INDU: Lean, mean, vehicle volume machine

- **Detailed accounts for 1QFY21 continue to depict a normalized operational backdrop, furthered by improved sales (reverting to 1QFY19 levels), where the OEM posted NPAT of PkR1.85bn (EPS:PkR23.48/sh) up by 9.1xQoQ/74%YoY, where recent sales performance has set the OEM on track to beat our previous sales forecasts for FY21**
- **Based on the same and with the confirmation of an upgraded Corolla (face-lift) launch in Jan'21, we adjust our earnings outlook for the firm raising FY21/22 EPS expectations by 42.4/30.0% against our previous forecasts to PkR106.3/137.2/sh, translating to a rolled-over DCF based TP of PkR1,500/sh**
- **With the expected normalization of working capital cycle (post COVID-19 related disruptions receding and PkR swings stabilizing), reduced CAPEX, augmented order books driving liquidity (mean reversion for operating cycle) we believe the OEM is likely to revert back to its pre-FY20 payout ratio of ~63%, translating to FY21/22 D/Ys of 4.9/6.2% at last close.**
- **We remain cautious on significant margin accretion from the newly launched Yaris, reflected in our muted GM's for the forecast horizon (FY21-23 avg. of 9.9% vs. FY18-20 avg. of 12.6%), with earning growth increasingly predicated on volumetric sale growth (FY20-23 expected CKD sales CAGR of 25.6%).**

Result Review: INDU posted 1QFY21 NPAT of PkR1.85bn (EPS:PkR23.48/sh) up by 9.1xQoQ/74%YoY, primarily on the back of significant volumetric sales growth (~11k unit sales for the period vs. ~6.7k for 1QFY20), where the launch of the Yaris variant (1.3-1.5, six trims between PkR2.5-3.0mn) juiced topline growth (up 65%YoY) back to levels last seen during 1QFY19. Despite topline reverting to normalized levels, margin remained slightly on the soft side (GM of 7.8% vs. 8.7% for 1QFY20), which when coupled with delayed price hikes for the newly launched variant highlight the weaker margin dynamics at play for this variant. Payout of PkR12.0/sh was encouraging. On the balance sheet, recovery of ST Investment coffers to PkR66.2bn (PkR842.2/sh) and operating cycle normalization (Days Inventory/Day Sales of 65.4/16.1 vs. 72.0/12.1 for 4QFY20) are positive trends driving our bullish thesis on INDU. Additionally, a development of note has been the addition of LT loans on the balance sheet

Playing the volumes game: Two conclusions can be drawn from the less than smooth launch of the Yaris, where post COVID-19 disruption, firstly, new-model effect uptick in unit sales is increasingly fractured (4 of 6 period sales for Yaris show avg. rise of 115.4%MoM), with Nov'20 marking a decline of 23.5%MoM, where this stands in contrast to Corolla's last major model launch (July'14) where the variant underwent avg. growth of 66.0%MoM during the similar post-launch period, but with only two months of single digit MoM declines. Secondly, the role of major new Korean entrants (KIA and Hyundai, where former does not self-report monthly sales) cannot be ruled out, with new Chinese entrants and model launches from KIA in the increasingly crowded sedan segment is likely to significantly dampen new model sales bumps, particularly for minor face lifts. On a similar note, we remain cautious on significant margin accretion from the newly launched Yaris (delayed price hikes, 1QFY21 back of the envelope calculations suggest the same), reflected in our muted GM's for the forecast horizon (FY21-23 avg. of 9.9% vs. FY18-20 avg. of 12.6%), with earning growth increasingly predicated on volumetric sale growth (FY20-23 expected CKD sales CAGR of 25.6%).

Investment Perspective: Based on the same and with the confirmation of an upgraded Corolla (face-lift) launch in Jan'21, we adjust our earnings outlook for the firm raising FY21/22 EPS expectations by 42.4/30.0% against our previous forecasts to PkR106.3/137.2/sh, translating to a rolled-over DCF based TP of PkR1,500/sh. With the expected normalization of working capital cycle (post COVID-19 related disruptions receding and PkR swings stabilizing), reduced CAPEX, augmented order books driving liquidity (mean reversion for operating cycle) we believe the OEM is likely to revert back to its pre-FY20 payout ratio of ~63%, translating to FY21/22 D/Ys of 4.9/6.2% at last close.

Ali Asghar Poonawala
ali.poonawala@akdsecurities.net
111-253-111 Ext:603

BUY

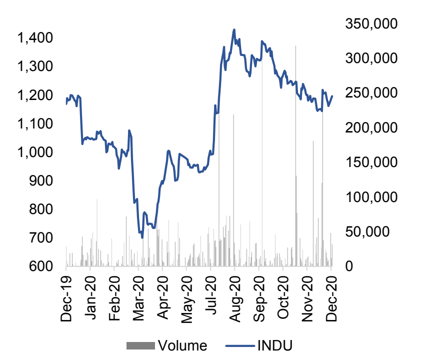
TARGET PRICE (PkR)	SHARE PRICE (PkR)
1,500	1,193
UPSIDE/DOWNSIDE	**DIV. YIELD**
30.8%	5.0

INDU: Val stats

	FY20	FY21F	FY22F	FY23F
EPS New	64.7	106.3	137.2	167.1
EPS Old	64.7	74.7	105.5	130.2
EPS New vs. Old%	N.A	42.4%	30.0%	28.3%
Net Sales Growth YoY%	-45.5%	44.3%	18.8%	22.2%
DPS	30.0	60.0	75.0	110.0
GM	8.6%	9.4%	10.1%	10.2%
NM	5.9%	6.7%	7.3%	7.3%
Total CKD Unit Sales	28,378	42,157	47,672	56,239
CKD Sales YoY%	-56.6%	48.6%	13.1%	18.0%

Source: Company Report & AKD Research

INDU: Price vs. Volume



Source: Company Report & AKD Research

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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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AKD Securities Limited

602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net