



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ INDU: Catalysts under the hood demand buy!

Updating assumptions for foreign exchange, inflation, below the line items and selling prices in light of increases (with reports indicating escalations to follow), we raise out FY18-20F NPAT estimates by ~8.5% on the back of: 1) higher than expected price increases, passing on the complete impact of external shocks while preserving margins, 2) de-bottleneck activity lifting production constraints accompanied by a beneficial product mix tilting in favor of premium SUVs while the Corolla's 'minor-major' facelift sustains demand, and 3) margin accretion through introduction of upgraded variants (Fortuner Diesel variant launched March'18) where elevated margins have been observed historically, a trend we expect to continue till FY20F. Based on the same, we raise our FCFE based Dec'18 TP for the OEM to PkR2191.84/sh (a hike of ~5.9% over our previous TP), where a hefty payout policy allows for FY18E/19F D/Y of 6.8/7.2% revealing high quality earnings (FY18-20F FCFE per share/EPS of 0.83x). Our Dec'18 FCFE based TP of PkR2191.84/sh offers 26.7% returns from current price levels. **BUY!**

#### KSE100 - Index

Current 45,030.22  
Previous 44,645.95  
Chg. 0.86%

#### Mkt Cap. (PkRbn/US\$bn)

Current 9,261 / 83.76  
Previous 9,198 / 83.19  
Chg. 0.68%

#### Daily Turnover (mn)

Current 228.44  
Previous 207.07  
Chg. 10.3%

#### Value Traded (PkRmn/US\$m)

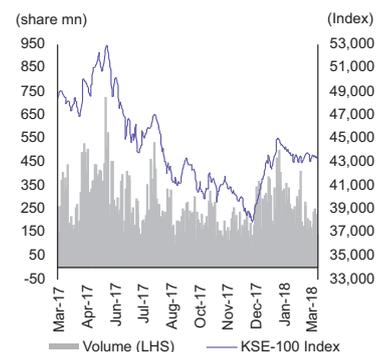
Current 9,380 / 84.83  
Previous 9,106 / 82.36  
Chg. 3.0%

AKD Daily

Monday, Mar 26, 2018

### News and Views

- In a bid to offer further relief to export sector, the GoP is considering to reduce customs and regulatory duties on import of more than 500 raw materials used by export-oriented industry in the upcoming budget. The proposed tariff rationalization will improve the competitiveness of the leading export sectors including textiles, apparel, leather, spices, chemical products, plastics and iron and steel.
- The Supreme Court (SC) has ordered the powdered and infant formula milk manufactures to mention clearly on packaging that it was a formula diet and not natural milk. The court gave a time period of six months for imported products and four months to local products for implementation of the orders.
- The Economic Coordination Committee (ECC) of the Cabinet has directed the Oil and Gas Regulatory Authority (OGRA) to recover PkR482 million net claims from consumers on behalf of OMCs within three months effective July 01'18. To recall, this claim is related to earlier regulatory duty (2.5%/2% on HSD/MS & crude oil) imposed through a notification in Apr 30'15.



**Ali Asghar Poonawala**  
ali.poonawala@akdsecurities.net  
111-253-111 Ext:646

**Bilal Ahsan Elahi**  
bilal.elahi@akdsecurities.net  
111-253-111 Ext:685

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2018 AKD Securities Limited. All rights reserved. The information provided on this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.

Our research is also available on ResearchPool (<https://www.researchpool.com/provider/akd-securities>) research@akdsecurities.net | www.akdsecurities.net



## INDU: Catalysts under the hood demand buy!

Updating assumptions for foreign exchange, inflation, below the line items and selling prices in light of increases (with reports indicating escalations to follow), we raise out FY18-20F NPAT estimates by ~8.5% on the back of: 1) higher than expected price increases, passing on the complete impact of external shocks while preserving margins, 2) de-bottleneck activity lifting production constraints accompanied by a beneficial product mix tilting in favor of premium SUVs while the Corolla's 'minor-major' facelift sustains demand, and 3) margin accretion through introduction of upgraded variants (Fortuner Diesel variant launched March'18) where elevated margins have been observed historically, a trend we expect to continue till FY20F. Based on the same, we raise our FCFE based Dec'18 TP for the OEM to Pkr2191.84/sh (a hike of ~5.9% over our previous TP), where a hefty payout policy allows for FY18E/19F D/Y of 6.8/7.2% revealing high quality earnings (FY18-20F FCFE per share/EPS of 0.83x). Our Dec'18 FCFE based TP of Pkr2191.84/sh offers 26.7% returns from current price levels. **BUY!**

**Price escalation higher than expectation:** As of March'18, INDU has raised prices of its offerings three times FY18TD, with a cumulative average price hike of 6.23% on sales weighted basis), where escalations have been observed to be greater for the Revo (~8%) and premium Corolla variants (1.6L/1.8L average hike of 11%/7%). This incline is broadly in line with our previous projection of an 8%YoY hike in prices for FY18E, however, post the current devaluation (4.5% during March'18), and comments from INDU management, we believe the likelihood of another 3-5% hike is undeniable, and as such incorporate the same in our projections.

### INDU: Price hike of offering

Model	Retail Price (Jan'18)	Retail price (Aug'17)	Retail Price (Jul'17)	FYTD %	YoY%
Corolla 1.3 XLI	1,824,000	1,759,000	1,729,000	5%	11%
Corolla 1.3 GLI	1,954,000	1,889,000	1,859,000	5%	4%
Corolla 1.3 GLI Automatic	2,029,000	1,964,000	1,934,000	5%	9%
Corolla 1.6 Altis	2,204,000	2,149,000	1,994,000	11%	11%
Corolla 1.8 L Altis MT	2,229,000	2,224,000	2,079,000	7%	8%
Corolla 1.8 Grande M/T	2,354,000	2,349,000	2,239,000	5%	6%
Corolla 1.8 L Altis CVTi	2,404,000	2,399,000	2,204,000	9%	10%
Corolla 1.8 Altis CVTi - Grande	2,554,000	2,549,000	2,389,000	7%	7%
Fortuner*	5,557,000	5,399,000	5,249,000	6%	8%
Fortuner - Diesel	5,907,000				
Revo G- MT*	4,130,000	3,899,000	3,824,000	8%	8%
Revo V - AT*	4,655,000	4,399,000	4,299,000	8%	8%
Hilux 4x4 - (Hilux E)	3,805,000	3,649,000	3,599,000	6%	30%
Hilux 4x4	3,555,000	3,449,000	3,399,000	5%	5%
Hilux 4x2 Standard	2,504,500	2,374,000	2,324,000	8%	29%
Hilux 4x2 - Fleet	2,474,500	2,344,000	2,294,000	8%	28%
Hilux 4x4 - Deckless	2,224,500	2,144,000	2,094,000	6%	26%

Source: Company Website & AKD Research

### INDU: Earnings & TP Revision

	FY17A	FY18F	FY19F	FY20F	FCFE June'18 TP
Old EPS (Pkr)	165.41	173.59	185.44	193.86	2,069.97
New EPS	165.41	188.74	200.03	211.38	2,191.84
Change	0.0%	8.7%	7.9%	9.0%	5.9%

Source: AKD Research



favor the Fortuner (sales for FY18E to rest at 2,820 units) while the maturing Corolla sustains, leading to a lower contribution to sales from the flagship variant (Corolla sales to make up 71.4% of gross sales over FY18-20F vs. 81.9% from FY15-17A). When added on top of the de-bottleneck activity (to be completed by June'18) the additional capacity has the potential of meeting any demand from pre-election orders or fleet sales for the Corolla. While we had previously limited sales to ~55k units through our horizon, we raise the limit to now touch 56,970 units for FY20F.

**Risks:** Auto sales demand remains highly irregular, where a plethora of factors have historically damaged sales in the CKD market (imposition of levies, import schemes, unexpected devaluation of PkR). In the long term, INDU's ability to compete with new entrants relies heavily on the OEM continuing to invest in launching new variants with upgraded features, particularly during the five year tariff incentive period applicable on Greenfield entrants, where we believe the current spate of expected offerings (Hyundai Tucson, Kia Sportage) could restrict pricing power for INDU in the premium SUV space.

**Investment Perspective:** Countering its dependency on the Corolla for the bulk of sales by shifting production to the Fortuner, while making inroads into raising production barriers with limited expenditures, we believe INDU is leading the pack amongst domestic incumbents. Based on the same, we raise our FCFE based Dec'18 TP for the OEM to PkR2191.84/sh (a hike of ~5.9% over our previous TP), where a hefty payout policy allows for FY18E/19F D/Y of 6.8/7.2% revealing high quality earnings (FY18-20F FCFE per share/EPS of 0.83x). Our Dec'18 FCFE based TP of PkR2191.84/sh offers 26.7% returns from current price levels. BUY!



## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

### Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



### **Analyst Certification of Independence**

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

### **Disclosure of Interest Area**

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

### **Regional Disclosures (Outside Pakistan)**

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.