



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ INDU: Fundamentals warrant upgrade

We upgrade our earnings for INDU across the valuation horizon citing: 1) soft PkR/JpY (down 5.1% CYTD) and 2) higher than expected order books for recently launched variants. Higher than expected growth in trading margins and a sturdy order book confirm our bullish thesis, where we raise our FY17/18/19F NPAT by 21/13/14% from our previous estimates. Moreover, the expected launch of a facelift for the Corolla is expected to abate a major decline (assumed at 5% for FY18F) in Corolla sales, which we have now assumed at 2% (Corolla sales forecasted at 56K for FY18F). Resultantly, we raise our FCFE based TP to PkR2,214/sh (increase of 15% over previous TP), highlighting the continuation of ~5% D/Y across FY17-19F as an additional catalyst for our ACCUMULATE stance on the stock.

KSE100 - Index

Current 50,742.03
Previous 50,956.60
Chg. -0.42%

Mkt Cap. (PkRbn/US\$bn)

Current 10,095 / 96.27
Previous 10,105 / 96.37
Chg. -0.10%

Daily Turnover (mn)

Current 345.05
Previous 302.13
Chg. 14.2%

Value Traded (PkRmn/US\$m)

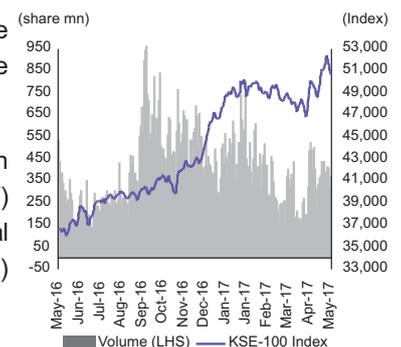
Current 12,489 / 119.10
Previous 12,108 / 115.47
Chg. 3.1%

AKD Daily

Monday, May 22, 2017

News and Views

- The Joint Investigation Team (JIT) formed by the Supreme Court to probe Panama gate, will submit its first fortnightly report before three-judge bench today (Monday).
- The National Economic Council has approved Annual Development Plan of PkR2,500bn for the FY18. Of the total amount, PkR1,001bn (+25%YoY) has been allocated for federal PSDP, PkR1,112bn(+27%YoY) for provisional development, and PkR400bn for corporations (WAPDA, NHA and others) to fund their development projects.
- The State Bank of Pakistan (SBP) has kept its policy rate unchanged at 5.75% in line with the market expectations to lend support to economic activities.



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INDU: Fundamentals warrant upgrade

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INDU continues to excite: Macro tailwinds and higher than projected margins for the face-lift of the Revo and Fortuner variants lift our FY17/18/19F NPAT by 21/13/14% from our previous estimates. Additionally, higher trading income from after sales services and increased penetration into value added services (certified used car sales, parts and extended warranty) are expected to aid earnings accretions. Additionally, the launch of a facelift for the Corolla is expected to abate any major decline (assumed at 5% for FY18F) in Corolla sales, which we have now assumed at 2% (Corolla sales forecasted at 56K for FY18F).

Dealer checks and updates: INDU dealers continue to highlight strong order books for the now three year old Corolla with 1.3GLI & XLI variants having delivery lead times stretching to August 2017. Despite the news of a facelift for the Altis Grande gaining traction (confirmed by management) they believe demand for the previous model is not expected to wane in anticipation of the facelift. Lead times for the Fortuner offerings are attracting greater demand, with bookings made now being delivered by December 2017 (~6 month order book), across dealerships in Karachi.

Investment Perspective: Despite new entrants and threats to pricing discipline from AIDP-II induced measures, we believe INDU is relatively cushioned from these due to: 1) longer lead times for top tier international OEMs (Kia, Hyundai, Renault) in establishing assembly plants under Greenfield ventures, 2) INDU's strategy to capitalize on value added after sales services venturing into higher margin schemes to attract fleet sales and 3) Toyota brand remains prominent in consumer perceptions, as indicated by strong order books for old and new variants. Raising our FCFE based TP to PkR2,214/sh (increase of 15% over previous TP), we highlight the continuation of ~5% D/Y across FY17-19F as an additional catalyst for our ACCUMULATE stance on the stock.

INDU: Financial Snapshot

	FY17F	FY18F	FY19F
EPS (PkR)	195.73	182.83	189.95
EPS Growth	34.3%	-6.6%	3.9%
PER	10.2	10.9	10.50
GM	18.2%	17.7%	17.7%
ROE	44.3%	41.3%	42.3%
ROA	23.9%	21.5%	22.3%
CKD Sales	63,313	62,804	64,616
DPS	105.0	110.0	110.0
D/Y	5.3%	5.5%	5.5%

Source: AKD Research

INDU: Estimate Revision.

(PkR)	FY17F	FY18F	FY19F
New EPS	195.73	182.83	189.95
Old EPS	161.57	161.34	166.43
Increase	21.1%	13.3%	14.1%

Source: AKD Research



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Neutral	≤ 5% to ≥ -5% potential
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