

# PAKISTAN AUTOS

# MARKET VISTA

REP-019

## INDU: Lean, mean, vehicle volume machine

- Indus Motor Company Limited (INDU) held its analyst briefing session today to discuss its 1QFY22 results. To recall, the company posted NPAT of Pkr5.4bn (EPS: Pkr69), swelling by 194%YoY/22%QoQ. In addition to this, the company announced interim cash dividend of Pkr34.5/sh.
- The growth in topline is attributed to 59%YoY/28%QoQ increase in volumes owing to budgetary measures which resulted in price decreases, hence, putting the industry in a macro sweet spot. In addition to this, the company's Cash and ST investments increased by 28%QoQ resulting in higher other income (+100%YoY/21%QoQ).
- As per the latest updates, the company has increased the prices of its vehicles across the board by ~7%, in line with the depreciation of Pkr against the US\$ in 1QFY22, thereby nullifying the impact of higher input costs. According to our estimates, 1% increase in price inflates the earnings by ~5%.
- Updating our assumptions in light of latest developments, we revise our estimates for INDU where we expect the revenue in FY22 to increase by 52%YoY while the earnings to witness a growth of 36%YoY to stand all time high at ~Pkr17.5bn (EPS: Pkr223).
- After incorporating the major risks, we reiterate our Buy stance on INDU with June'22 target price of Pkr1,800/sh, implying an upside of 48% from the last close and DY of ~12%, taking the total return to 60%. The stock is currently trading at a cheap P/E multiple of 5.5x.

**Key analyst briefing takeaways:** As per the management, the revised auto finance regulations by SBP may dent the sales in upcoming quarters, however, the quantum of downside risk is lower than its peers since the rural sales contribute ~50% to the topline. The share of Hilux sales through auto financing arrangements is mere ~15% while the share of Fortuner is ~25%. According to the management, the company is not facing any delays as the chip shortage hasn't impacted the company much. This has been possible due to company's efficient inventory management system. The management seemed confident to deliver 90-95% of its commitments in FY22. Regarding the issue of FED, the govt. hasn't reduced FED for double cabin vehicles and INDU is anticipating that the government will fulfill their request to avoid any disparity and boost up the sales in the double cabin vehicle segment. Lastly, the company is in process of increasing its production capacity by 20%. The increased capacity is expected to come online by 4QFY22.

**Price increases to keep the margins sustainable:** As per the latest updates, the company has increased the prices its vehicles across the board by ~7%, in line with the depreciation of Pkr against the US\$ in 1QFY22, thereby nullifying the impact of higher input costs. According to our estimates, 1% increase in price inflates the earnings by ~5%. On the flipside, the increasing prices may also impact the volumes in upcoming quarters. On the flipside, we expect the imported CBU sales to decrease due to latest regulations of SBP where the consumers can no longer purchase the imported vehicles on auto finance arrangements. Nevertheless, in the current scenario, we expect the profitability of INDU to increase where we anticipate the earning in FY22 to swell by 36%YoY.

**Investment Perspective:** Updating our assumptions in light of latest developments, we revise our estimates for INDU where we expect the revenue in FY22 to increase by 52%YoY while the earnings to witness a growth of 36%YoY to stand all time high at ~Pkr17.5bn (EPS: Pkr223). We expect the effect of monetary tightening to have minimal impact on the sales of INDU due to the layer of insulation (rural sales mix of 50%). After incorporating the major risks, our reiterate our Buy stance on INDU with June'22 target price of Pkr1,800/sh, implying an upside of 48% from the last close and DY of ~12%, taking the total return to 60%. The stock is currently trading at a cheap P/E multiple of 5.5x whereas the Cash and ST reserve of ~Pkr105bn (Pkr1,330/sh) makes the investment considerably less risky than its peers.

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BUY

TARGET PRICE (Pkr)	SHARE PRICE (Pkr)
1,800	1,220
UPSIDE/DOWNSIDE	DIV. YIELD
48.0%	12%

### INDU: Valuation Glance

	FY20	FY21	FY22F	FY23F
EPS	65	163	223	228
DPS	30	103.5	156	159
BVPS	524	613	680	748
PER (x)	15.39	5.50	5.38	4.83
DY(%)	2.4%	8.4%	12.7%	13.0%
P/BVS	1.90	2.05	1.80	1.64
Earnings growth	-63%	152%	36%	2%
ROE	12%	27%	33%	30%
ROA	6%	10%	11%	12%

Source: Company Report &amp; AKD Research

### INDU vs. KSE100 Index



Source: PSX &amp; AKD Research



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## Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

### New Rating Definitions

<b>Buy</b>	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
<b>Neutral</b>	> 8.5% to < 14.5% expected total return
<b>Sell</b>	< 8.5% expected total return (Rf: 8.5%)

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