



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ INDU: FY17 Briefing Notes and Company Outlook

INDU held its quarterly analyst briefing, affirming their outlook on sustained offtake from upgraded products, completion of paint shop enhancement exercise lifting capacity and enhanced competition to catalyze change in the sector over the medium term. Posting FY17 NPAT of PkR13.0bn (EPS:PkR165.41) up 13%YoY, the company managed to widen GM by 135bpsYoY while finance costs jumped 4.2xYoY due to initiation of late delivery payments to buyers. Despite these factors, the absence of INDU from the high growth small-low passenger vehicle segment remained a drawback as management re-iterated tepid guidance for new models targeting this market segment. Expecting new entrants to enhance competition in the industry and the AIDP-II incentives to give an initial boost to them, INDU's plan to tackle these tides, remains centered on current product portfolios with incremental CAPEX on enhancing efficiencies. Remaining sanguine on the company's ability to pass on cost escalations (including pressures from PkR weakness), we re-iterate our FCFE based TP of PkR2,039/sh, 20% upside from current price level BUY!.

KSE100 - Index

Current 41,401.02
Previous 40,958.65
Chg. 1.08%

Mkt Cap. (PkRbn/US\$bn)

Current 8,698 / 82.52
Previous 8,690 / 82.44
Chg. 0.10%

Daily Turnover (mn)

Current 140.78
Previous 147.82
Chg. -4.8%

Value Traded (PkRmn/US\$m)

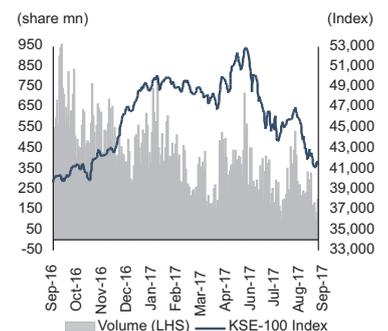
Current 8,448 / 80.15
Previous 8,614 / 81.72
Chg. -1.9%

AKD Daily

Monday, Sep 11, 2017

News and Views

- The Central Directorate of National Savings (CDNS) has proposed launching dollar denominated bond for attracting investment from millions of overseas Pakistanis to generate \$500 to \$700 million during the current fiscal year.
- The property tax collection has increased sharply by 82 percent during the fiscal year 2016/2017, owing to upward revision of valuation and enhanced efforts against black money. The collection of property tax was at Rs7.03 billion in 2016/17 as compared to Rs3.86 billion during the preceding fiscal year.
- The federal government is persuading the provincial governments for gas-sector reforms that envisage dismantling of two gas utilities into at least five public-sector companies. The four provincially defined distribution companies, to be created out of unbundling of SNGPL and SSGC, would help allocation of gas produced in a province delivered to its own customers.



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FY17 Operations & Result review: Profitability for FY17 was reinforced by relative stability on the FX front (PkRUS\$/US\$JpY moving 0%/10%YoY) and soft inflation with low cost of borrowing spurring demand (PkR150.3bn in auto loans outstanding as of June'17, PkR38.3bn added in FY17). To recall, the OEM has launched Revo and Fortuner variants in Nov'16 and Jan'17 which were met with strong demand and followed through into improved profitability. Additionally, INDU continues to leverage its dealerships, offering after sales service and spare parts improving trading incomes/margins. Posting FY17 NPAT of PkR13.0bn (EPS:PkR165.41) up 13%YoY, the company managed to widen GM by 135bpsYoY while finance costs jumped 4.2xYoY due to initiation of late delivery payments to buyers. Lastly, management mentioned a minor strike action lasting ~8days at the plant during 4QFY17 which led to lower than expected offtake for the final quarter.

Demand remains sturdy: Management shared sales numbers broken into various categories for the passenger segment and including used CBUs (imports). From the numbers illustrated, total passenger and commercial car sales climbed 2%YoY to 282.4K vehicles, with the passenger/commercial segments moving +11%/-18%YoY. In the passenger segment, small-low/small-high type cars marked growth of +28%/+10%YoY, while used CBU sales continued to flow in (+8%YoY at 35.8K cars imported for FY17). The SUV segment recorded sales growth at a clip of 1.2xYoY, emphasizing the growth of all segments that INDU participates in. The highest growth slice INDU does not cover is the small-low segment (includes

KATS Code	INDU
Bloomberg Code	INDU.PA
Price PkR	1,725.11
Market Cap (PkRmn)	135,594
Market Cap (US\$mn)	1,292.23
Shares (mn)	78.60
3M High (PkR)	1,989.39
3M Low (PkR)	1,629.67
1Yr High (PkR)	2,044.30
1Yr Low (PkR)	1,224.80
3M Avg Turnover '000	31.33
1 Yr Avg Turnover '000	42.55
3M Avg DT Value (PkRmn)	55.49
3M Avg DT Value (US\$mn)	0.53
1Yr Avg DT Value (PkRmn)	71.65
1Yr Avg DT Value (US\$mn)	0.68

Passenger & Commercial Vehicle Sales

	FY16	FY17	YoY
Passenger Car CKD	151.0	168.7	11.7%
Comm. Vehicle CKD	76.8	58.3	-24.1%
Used CBU	53.7	58.5	8.9%
Total	281.5	285.5	1.4%
Economy	37.5	37.9	1.1%
Small Low*	30.3	38.9	28.4%
Small High**	83.2	91.8	10.4%
Luxury	0.9	1.3	44.0%
Used Passenger Car	35.8	38.8	8.4%
Total Passenger Car	187.7	208.8	11.3%
1-Ton	6.1	5.9	-3.3%
SUVs	0.6	1.4	122.6%
Eco Van/Pick Up Vans	63.6	41.3	-35.0%
Trucks/Buses	6.6	9.8	49.0%
Used Comm. Vehicles	17.9	19.7	10.0%
Total Comm. Vehicles	94.8	78.1	-17.6%

Source: Co. Reports & AKD Research
* includes Swift, Cultus, Wagon R, FAW V2
** Includes City, Civic, Corolla, BRV



Swift, Cultus, Wagon-R) currently dominated by PSMC where management continued to give tepid guidance on new models to penetrate this market base (with the Yaris or Belta) with no new models on the drawing board for at least next two years.

Risks: Management re-iterated their willingness to match competing firms offering's while ensuring the OEM retains its competitive advantage and how new entrants may usher in change into the sector. Expected upheavals and competition from these entrants aside, INDU is expected to embark on no major CAPEX while re-iterating the drawbacks of the prevailing fixed duty regime, fractured national trade picture hurting prospects for growth materializing. Nevertheless, management does not expect any amendments to the AIDP-II with incentives for new entrants expected to remain in place. We believe tariff subsidies included for entrants are particularly crucial stressors on pricing discipline prevailing between the three major OEMs.

Investment Perspective: Healthy order books for recently upgraded offerings (Corolla Altis 1.6/1.8/Fortuner/Revo delivery in 16 weeks, by Dec'17), completion of de-bottlenecking exercise raising capacity to 66K/78K under base/overtime basis by Jan'18 are major triggers for topline growth. In spite of that, fears over PkR weakness and cost escalations (CRC Sheet steel/Aluminum spot prices +19%/+27%FYTD) are prime in investor sentiment. We believe the impact of these are effectively mitigated by improved operations, higher production capacities and prevalence of brand based pricing power. At an FCFE based TP of PkR2,039/sh, 20% upside as current price level is implied, while the stock trades at FY18/19F PE of 10.5/10.1x



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



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