May 11, 2010

Pakistan Market

MORNING BRIEFING

Indus: TP raised on positive outlook

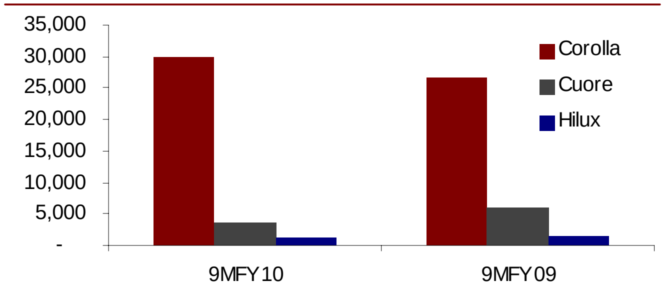
KSE100 Index: Closing 10288.14 ↑ (+16.67)

Indus Motor (INDU) profitability during 9MFY10 rose four fold, following an overwhelming increase in demand for Corolla on the back of superior farm income & marginal improvement in auto financing, and higher other income. The company recorded earnings of Rs2.2bn (EPS: Rs27.7) in 9MFY10 as against profits of Rs566mn (EPS: Rs7.2) in the corresponding period last year. Hence, we upgrade our earnings estimates for FY10E and FY11F by 15% and 10% respectively to Rs37.3 and Rs39.3 per share which raises our target price to Rs279 from Rs249 earlier. With the scrip offering a potential upside of 16% and an FY11F dividend yield of 7%, we maintain our 'Buy' stance on the scrip.

Net Sales surge 61% on higher volumes

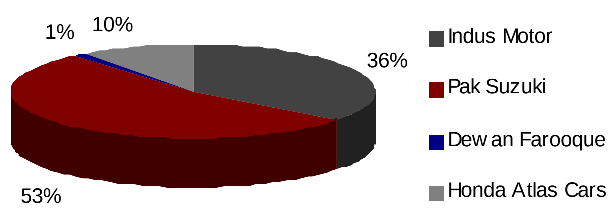
Net sales for the company witnessed an increase of 61% to Rs40.1bn as a result of a 53% rise in volumetric sales and an average increase of 6% in its retention prices. 1) Low volume base due to the run out of the previous model of Corolla, 2) superior farm income and 3) pick up in auto financing schemes have been key drivers behind the growth in volumes, while a restrictive import policy has allowed the manufacturer to pass through higher costs. As a result, the company was able to record gross profit of Rs3.0bn in 9MFY10 (gross margin: 7.5%) as opposed to Rs1.1bn (gross margin: 4.6%) in the corresponding period last year, up 167%YoY.

Product-wise sales trend



Source: PAMA

Market share during 9MFY10



Source: PAMA

Other Income makes up ~40% of total earnings

Given high demand for the 1300CC variant of Corolla, INDU has been able to retain advance balances from customers for at least 60 days, thereby boosted overall cash balances for the company. This in turn has resulted in other income rising by a substantial 230%YoY to Rs1.3bn, as the company normally invests surplus cash in fixed income instruments. Cash per share for the company currently stands at Rs224.

Recommendation: 'Buy'

On the back of higher than expected volumetric sales and other income, we have raised our earning estimates for FY10E and FY11F to Rs37.3 and Rs39.2 per share. As a result, our target price for the scrip arrives at Rs279 (Rs249 earlier). Trading at an FY11F PE of 6.1x and offering a dividend yield of 7%, we maintain our 'Buy' stance on the scrip. However, higher than expected commodity prices and liberalization of the import policy in the upcoming budget remain key risks to our thesis.

INDU - Key Statistics

	FY10E	FY11F	FY12F
EPS (Rs)	37.3	39.3	40.0
PE (x)	6.4	6.1	6.0
Div. yield (%)	6.2%	6.7%	7.5%
PBV (x)	1.6	1.4	1.2

Source: JS Research

atif.zafar@js.com
92 (21) 111-574-111 (ext. 3118)

Also in focus

FFBL analyst briefing takeaways

Fauji Fertilizer Bin Qasim (FFBL), yesterday, held its analyst briefing for its 1Q2010 result. The company posted earnings of Rs809mn (EPS: Rs0.87) compared to profits of Rs13mn (EPS: Rs0.03) in 1Q2009. This impressive growth was due to high urea & DAP prices and lower financial charges during the period under review. The company also announced a first interim cash dividend of Rs0.5/share. The management elaborated on the recent gas supply reduction (at 20% currently), which is cutting its urea output by 750 tons/day. The GoP has finally set July 31, 2010 as the final date to end this gas curtailment and decided to review the policy every 15 days. The management believes a further raise of Rs25/bag would suffice in covering losses to be incurred in the period up till July 31.

However, as FFBL does not hold any price setting power, unlike FFC and Engro, it might be difficult for it to realize such an increment in prices. Hence, the company has suggested that the GoP at least lower its gas curtailment to 12% from 20%, bringing it at par with the others. It remains to be seen what the government decides after its first review.

The scrip currently trades at a 2011F PE and dividend yield of 7.6x and 12.2%, respectively and we maintain our 'Hold' stance on the scrip.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:	Equity Sales:
Tel: +92 (21) 32799005	Tel: +92 (21) 32799513
Fax: +92 (21) 32800163	Fax: +92 (21) 32800166
js.research@js.com	junaid.iqbal@js.com