

February 19, 2010

Pakistan Market

MORNING BRIEFING


INDU: 1HFY10 EPS expected at Rs17.2, up 731%YoY KSE100 Index: Closing 9889.30 ↑ (+22.21)

Indus Motor Company (INDU) is scheduled to announce its 1HFY10 result on Feb 23, 2010. We expect the company to report earnings of Rs1,353mn (EPS of Rs17.2) as against profits of Rs163mn (EPS of Rs2.1) in the corresponding period last year, up 731%. INDU's 8 fold rise in profitability is primarily been driven by 58% jump in volumetric sales from last year. Moreover, increase in car prices and lower steel prices have helped enhance margins for the company. We expect an interim cash dividend of Rs4-5/share with the result. Trading at a FY10E PE of 7.8x, we currently have a 'Hold' recommendation on the scrip.

Higher volumes & prices to propel net sales

With a 58% jump in volumetric sales due to abnormally low production last year (run out of the previous model of Corolla), net sales are expected to arrive at Rs25.1bn, up 74% from the corresponding period last year. An average increase of 10% in retention prices from last year and lower realized steel prices are expected to boost gross margins by 433bps to 7.4%. Resultantly, gross profit is expected to arrive at Rs1.9bn, up 321%YoY.

Other income to add to the bottom-line

Higher cash balance on the back of advance bookings from customers is likely to drive up other income for the company by 218%YoY to Rs738mn. Moreover, cost cutbacks by the management are likely to bring down operating expenses by 16%YoY. Hence, we expect the company to post earnings of Rs1,353mn (EPS of Rs17.2), compared to profits of Rs163mn (EPS of Rs2.1) last year, up 731%.

Recommendation: 'Hold'

During the 7MFY10, INDU has posted an impressive growth of 54%YoY in auto sales on the back of strong performance of Corolla's new model. Moreover, we expect monetary easing to further boost sales, going forward. However, persistent Rupee depreciation and rise in steel prices remain a major cost concern for the company. With INDU trading at a

FY10E PE of 7.8x, we maintain our 'Hold' recommendation on the scrip.

Table: INDU 1HFY10 earnings estimates

(Rs mn)	1HFY10E	1HFY09A	Δ%
Net sales	25,134	14,438	74%
Cost of sales	23,276	13,996	66%
Gross profit	1,858	442	321%
Gross margin	7.4%	3.1%	142%
Operating expenses	339	406	-16%
Other operating exp.	161	28	485%
Other income	738	232	218%
Finance cost	16	10	65%
Profit before taxation	2,080	231	800%
Taxation	728	68	964%
Profit after taxation	1,353	163	731%
EPS	17.2	2.1	731%

Source: JS Research & Company accounts

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

Indus Motor	
Market Price: Rs215.38	Kats Code: INDU
Market Cap: Rs16.9bn (US\$199mn)	Bloomberg Code: INDU PA
1-yrs Avg. Daily Volume: 0.1mn shares, Rs16mn (US\$0.2mn)	Reuters Code: INDM.KA
1-year High/Low: Rs222.18/59.10	

Also in focus

Cotton arrival stands put at 12.6mn bales

According to the latest numbers released by the Pakistan Cotton Ginners Association (PCGA), as of Feb 15, 2010, cotton arrivals stood at 12.6mn bales versus 11.1mn bales last year, translating to a significant growth of 14%. For the fortnight (Feb 1-15) cotton flows arrived at 104k bales. Overall, these figures are in line with our expectation of 12.8-13mn bales for the season. However, there still remains a need to import 2-2.5mn bales, as our total demand stands at approximately 15mn bales.

JS Global Capital Limited

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

Research:

Tel: +92 (21) 32799005
Fax: +92 (21) 32800163
js.research@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800165
tariq.usman@js.com

Equity Sales:

Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Corporate Finance:

Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS