

August 25, 2010

Pakistan Market**INDU: FY10 EPS expected at Rs40.5, up 130%YoY**

KSE100 Index: Closing 9,637.17 ↓ (-174.93)

MORNING BRIEFING

Indus Motor Company (INDU) is scheduled to announce its FY10 financial result on Aug 27, 2010. We expect the company to post record earnings of Rs3.2bn (EPS: Rs40.5) compared to profits of Rs1.4bn (EPS: Rs17.6) last year. INDU's 130%YoY expected jump in profitability is driven by a 49% rise in unit sales coupled with improved gross margins.

We anticipate a final cash dividend of Rs10-12 per share, taking the cumulative dividend for the year to Rs15-17 per share. Despite the robust results, we maintain our 'Hold' call for the scrip, mainly on account of a weak demand outlook in FY11, higher Rupee-Yen parity and expected relaxation in the auto import policy. The scrip trades at an FY11F PE of 6.2x and a dividend yield of 6.5%.

Unit sales and prices to propel net sales

INDU's net sales for the year are likely to arrive 61%YoY higher, mainly owing to a 49% increase in unit sales and an average 8% higher per unit price. We believe the higher auto sales are a primary function of the base effect, as the company had suspended production in FY09 to introduce the new model of Corolla.

Gross margin to improve on lower steel prices

Despite an average exchange rate depreciation of 14% and 7% against the Japanese Yen and USD, respectively, the company is still likely to manage higher gross margins, a result of lower steel prices (average prices down 10%YoY) and higher output (car) prices. We expect the gross margin to come in at 7.4% (Rs4.5bn) for FY10 as opposed to 6.1% (Rs2.3bn) last year.

Other income to add further gloss

Higher cash balances on the back of advance bookings, is likely to boost Other income to Rs1.8bn, a growth of 148%YoY. Moreover, due to cost rationing, administrative costs are anticipated to increase by a meager 2%YoY.

Recommendation: 'Hold' maintained

With a drop in rural income due to the recent floods, auto

demand is expected to slow down in the coming months. Moreover, the recent increase in the discount rate by 0.5ppt should negatively impact the nascent auto financing recovery off-late. At current levels, the scrip is trading at an FY11F PE of 6.2x and a dividend yield of 6.5%. We maintain our 'Hold' stance on the scrip.

INDU FY10 earning estimates

| (Rs mn) | FY10E | FY09A | Δ% |
|--------------------------|--------|--------|------|
| Net sales | 61,000 | 37,865 | 61% |
| Cost of sales | 56,498 | 35,540 | 59% |
| Gross profit | 4,502 | 2,324 | 94% |
| Distribution expenses | 485 | 470 | 3% |
| Administrative expenses | 358 | 352 | 2% |
| Other operating expenses | 377 | 156 | 141% |
| Other operating income | 1,803 | 727 | 148% |
| Finance costs | 178 | 27 | 570% |
| Profit before taxation | 4,908 | 2,046 | 140% |
| Taxation | 1,728 | 661 | 161% |
| Profit after taxation | 3,180 | 1,385 | 130% |
| EPS | 40.5 | 17.6 | 130% |

Source: Company accounts & JS Research

| Indus Motor Company Limited | |
|---|-----------------------------------|
| Market Price: Rs245.17 | Kats Code: INDU |
| Market Cap: Rs19.3bn (US\$225.0mn) | Bloomberg Code: INDU PA |
| 1-yrs Avg. Daily Volume: 0.1mn shares, Rs20.8mn (US\$0.2mn) | Reuters Code: INDM.KA |
| 1-year High/Low: Rs285.77/131.99 | |

Also in focus**Power rates to be adjusted up by 26 paisas/unit**

Nepra (National Electric Power Regulatory Authority) has allowed a hike of 26 paisas per unit in the electricity tariff w.e.f July 2010, under a monthly fuel price adjustment formula. This was decided in a meeting yesterday with the stakeholders, who had initially sought a 52 paisas price increase; but the request was rebuffed as officials estimated the cost per unit at Rs4.35/unit, up from Rs4.05/unit a month earlier. In June, Nepra had allowed a 64 paisa reduction, under the same fuel price adjustment formula.

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