October 27, 2009
Pakistan Market
MORNING BRIEFING

Indus: 1QFY10 EPS expected at Rs8.9

KSE100 Index: Closing 9374.50 ↑ (+223.65)

Indus Motor Company (INDU) is expected to announce 1QFY10 result tomorrow. We expect the company to report earnings of Rs702mn (EPS of Rs8.93) as against profit of Rs48mn (EPS of Rs0.61) in the corresponding period last year, up 1,358%. INDU 15 fold jump in profitability is mainly driven by 108%YoY jump in volumetric sales as last year volumes had remained depressed due to production phase out of the previous model of corolla. Moreover, increase in car prices have helped enhance margins for the company. We do not expect any payouts with the results. Trading at FY10E PE of 10.2x, we currently have a 'Sell' recommendation on the scrip.

Better volumes & prices drive up net sales by 128%

INDU in 1QFY10 result is expected to post earnings of Rs702mn (EPS of Rs8.93), compared to profits of Rs48mn (EPS of Rs0.61) last year, up 1,358%YoY. With 108% jump in volumetric sales due to abnormally low production period last year, net sales are expected to arrive at Rs11.8bn, up 128% from the corresponding period last year. An average increase of 10% in car prices from last year and lower realized steel prices have helped boost gross margins by 489bps to 8.3%. Resultantly, gross profit is expected to arrive at Rs978mn, up 456%YoY.

Other income another propeller for the bottomline

Higher cash balance due to advance bookings from customers are likely to drive up other income for the company by 261%YoY to Rs377mn. Moreover, with implementation of cost saving measures, administrative, distribution and other expenses are likely to decline by 22%YoY.

Recommendation: 'Sell'

With car sales posting strong numbers in the past 7 months, we believe recovery in the sector is inevitable. However for recovery, we believe, monetary easing is the key factor. Persistent yen appreciation and rise in steel prices remain a cause of concern for the industry. We believe, improving sector fundamentals are already priced in with INDU trading at FY10E PE of 10.2x, therefore we maintain our 'Sell' recommendation on the scrip.

Table: Financial Highlights

(Rs mn)	1QFY10E	1QFY09A	Δ%
Volumetric sales	10,426	5,008	108%
Net Sales	11,783	5,160	128%
Cost of Sales	10,805	4,984	117%
Gross Profit	978	176	456%
Gross margin	*8.3%*	*3.4%*	
Distribution & Admin expense	212	214	-1%
Other expense	59	8	652%
Other income	377	104	261%
Finance cost	1	1	-3%
PBT	1,083	57	1792%
PAT	702	48	1358%
EPS	8.93	0.61	1358%

Source: JS Research and Company accounts

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Also in focus

LSM grows by 0.9%YoY

FBS reported Large Scale Manufacturing (LSM) data at 0.9%YoY for August. The performance for the first two months of the fiscal year depicted a meager increase 0.17%YoY. We believe the low-base from last year and revival in domestic demand has halted the persistent contraction in LSM. However, looming power crisis and higher interest rates will continue to undermine the growth in manufacturing sector, in our view. Highlights of the break up are given below:

Table: LSM - Key highlights (Growth)

Items	Aug-09	Jul-Aug 2009
Motor spirits	17.20%	0.62%
Diesel oil	-5.33%	-28.87%
Furnace oil	-20.15%	-21.62%
Cotton yarn	-2.38%	-1.35%
Cotton cloth	-0.93%	0.79%
Nit. Fertilizers	6.75%	2.65%
Cement	25.47%	18.78%
Jeeps and Cars	8.43%	3.91%

Source: FBS

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