

September 28, 2009

Pakistan Market

Indus: FY09 earnings likely to decline by 50%YoY

MORNING BRIEFING



KSE100 Index: Closing 9664.25 ↓ (-49.58)

Indus Motor Company (INDU) is expected to announce full year FY09 results tomorrow. We expect the company to report earnings of Rs1.1bn (EPS of Rs14.56) versus profit of Rs2.3bn (EPS of Rs29.15) last year, depicting a decline of 50%YoY. Though car assemblers have increased car prices, the price hike was not sufficient to fully offset the declining volumetric sales (down 29%YoY) and inflated cost of production (COGS/car up 42%YoY) during the year.

However on the flip side, with improved sales and healthier margins, profitability in 4QFY09 is expected to increase by 43%QoQ. We expect the company to announce final cash dividend of Rs4-5 per share while not ruling out a possibility of a bonus issue. Trading at FY09E P/E of 11.7x, we currently have a 'Sell' recommendation on the scrip.

Sales down 3%, profits down 50%YoY

INDU in full year FY09 results is expected to post earnings of Rs1.1bn (EPS of Rs14.56), compared to profits of Rs2.3bn (EPS of Rs29.15) last year, down 50%YoY. Though car prices on average increased by 35%, inflated cost of production amid rupee depreciation (20%YoY) and higher realized steel prices dragged earnings down for the company. Net sales are expected to arrive at Rs40.2bn, down only 3%. Cost of sales/car is expected to surge by 42%YoY with COGS rising to Rs38bn in FY09. Hence, gross profits are set to decline by 44% with gross margins falling by 388bps to 5.4%.

Moreover, other income which is another major source of proceeds for the company is also likely to reduce by 27%YoY. Furthermore, higher administrative and distribution expenses (up 6%YoY) along with increase in financial charges are likely to dampen earnings for the company further.

43%QoQ growth expected in 4QFY09

In 4QFY09, INDU is expected to post profits of Rs578mn (EPS of Rs7.36) as against earnings of Rs403mn (EPS of Rs5.13) in 3QFY09, up 43%QoQ. Rise in volumetric sales (up

19%QoQ) is the key driver behind the boost in profitability as net sales for the quarter is up 48%QoQ. It is worth mentioning that it will be the third consecutive QoQ jump in earnings for the company.

(Rs in mn)	FY09E	FY08A	Δ%
Net Sales	40,182	41,424	-3%
Cost of Sales	38,007	37,575	1%
Gross Profit	2,174	3,848	-44%
Gross Margin	5.41%	9.29%	
Administration & Distribution exp	832	785	6%
Other operating expenses	141	306	-54%
Operating Profit	1,202	2,758	-56%
Other income	577	787	-27%
Finance cost	39	3	1326%
Profit Before Taxation	1,740	3,542	-51%
Taxation	595	1,251	-52%
Profit After Taxation	1,144	2,291	-50%
Basic Earning per share (Rs)	14.56	29.15	-50%

Source: Company accounts, JS Research

Recommendation: 'Sell'

With car sales posting six continuous month-on-month rise, 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 FY09E P/E of 11.7x and 21% above our target price of Rs140. Hence, we have a 'Sell' recommendation for the scrip.

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Indus Motor	
Market Price: Rs170.43	Kats Code: INDU
Market Cap: Rs13.4bn (US\$161mn)	Bloomberg Code: INDU PA
1-yrs Avg. Daily Volume: 0.07mn shares, Rs8.1mn (US\$0.1mn)	Reuters Code: INDM.KA
1-year High/Low: Rs183.41/51.81	

Also in focus

Increase in power tariff likely from Oct 1st

According to news reports, the government is likely to increase power tariff by 7% from October 1st as agreed with the IMF, World Bank and ADB. This is first of the three expected hikes in power tariffs in a bid to eliminate the subsidy on electricity. However, official notification in this regard is yet to be issued by NEPRA. According to our estimates, increase in tariffs would improve PEPSCO's revenue by Rs28-30bn. Though this tariff raise hike is expected to be negative for the consumers, it will minimize the risk of circular debt in the future.

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