

## Indus: Triggers abound for stock to rally

- We see strong 1HFY12 earnings of PRs23.6/sh - 2x YoY, expected PRs10/sh interim payout and seasonal uptick in sales as key triggers set to unfold strong stock performance for Indus Motors.
- Indus Motors is trading at FY12E P/E of 5.1x, P/B of 1.0x and offers 9.1% D/Y, we reiterate Buy with PO of PRs250/sh.
- In the past six years, excluding market crash and subsequent run-up in 2009, Indus stock has delivered average total return of 15.1% in 2HFY.
- Inline with historical seasonal trend where income from agriculture driven areas drives demand, we expect Indus sales to improve 12% HoH in 2HFY12E. Having said that, we see higher than expected impact of ban on CNG kits on sales and heightened FX volatility as key risks.

### Payout and seasonal sales uptick key triggers in sight

We see strong 1HFY12 earnings of PRs23.6/sh- 2x YoY, expected PRs10/sh payout and seasonal uptick as key triggers set to unfold strong stock performance for Indus Motors. Indus Motors is trading at FY12E P/E of 5.1x, P/B of 1.0x and offers 9.1% D/Y, we reiterate Buy with PO of PRs250/sh. In the past five years, excluding market crash and subsequent run-up in 2009, Indus stock has delivered average total return of 15.1% in 2HFY (7.5% in 3Q, 7.6% in 4QFY).

### Higher prices to lead margin improvement in 1HFY12E

We expect higher selling prices, greater share of bigger vehicles in sales mix, localization benefits and better other income to help Indus in doubling its earnings during 1HFY12E to PRs23.6/sh. (1) Indus increased its selling prices thrice during 1HFY12 (cumulative impact of 4-6% for Corolla and Hilux and 12% for Cuore), which as per our estimates is higher than cost hike and (2) their sales mix also shifted from Cuore to Hilux; we believe both factors combined should boost EBITDA margins by 250bp YoY to 7.6%. Moreover, better other income from higher cash holdings and tax arbitrage on investments in mutual funds should also help Indus in improving bottom-line for the period.

PRsmn	2QFY12	QoQ	YoY	1HFY12	YoY
Unit sales	10,950	-15.6%	1.5%	23,924	4.5%
Revenue	16,108	-6.1%	29.0%	33,254	24.0%
EBITDA	1,217	-6.6%	200%	2,521	85.1%
Net Other Income	348	-19.4%	22.8%	780	26.6%
Pre-tax	1,260	-10.5%	162%	2,667	86.6%
Net Income	921	-1.7%	179%	1,859	105%
EPS (PRs)	11.7	-1.7%	179%	23.6	105%
DPS (PRs)	10.0	N/A	100%	10.0	100.0%
EBITDA Margin	7.6%	-5 bp	431 bp	7.6%	250 bp
Other / Net Income	36.2%	-2 ppt	-31 ppt	37.5%	-16 ppt
Avg. Selling Price (PRs '000)	1,471	11.3%	27%	1,390	18.7%

Source: INDU, KASB Estimates.

### Ban on CNG and FX key risks to 2HFY12 performance

Inline with historical seasonal trend where income from agriculture driven areas drives demand, we expect Indus sales to improve 12% HoH in 2HFY12E. Having said that, we flag recent ban on CNG kits as key near-term risk. Since (1) automakers have ~2 months of inventory that should keep Jan/Feb sales on track and (2) Indus's sales of cars with factory-fitted CNG were <20% of sales, we expect Indus sales to perform relatively better during the period. Meanwhile, we flag further Rupee depreciation (by another 1.8% against US\$ and 3.0% against Yen since Nov-11 alone) as another risk to Indus's margins and hence earnings performance going forward.

25 January 2012

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Current Price PRs219.17  
Price Objective PRs250.00

KATS INDU  
Bloomberg INDU PA  
Reuters INDM.KA

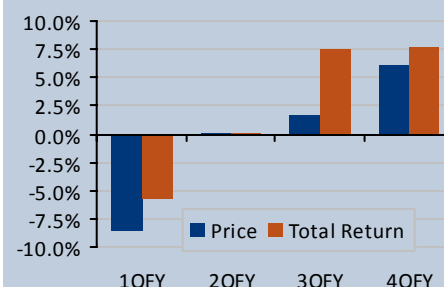
Shares Outstanding  
78.6mn

Market Cap  
PRs17,227mn (USD190.96mn)

3m average daily volume  
2,538 shares

12M High / Low  
295/191.1

### Indus avg. QoQ stock performance.



Source: KSE, KASB Research.

### Indus performance snapshot

YE: Jun	10A	11A	12E	13E
EPS (PRs)	43.8	34.9	42.8	47.3
DPS (PRs)	15.0	15.0	20.0	26.0
P/E (x)	5.0	6.3	5.1	4.7
P/B (x)	1.4	1.3	1.0	1.0
D/Y (%)	6.8%	6.8%	9.1%	12%

Source: Indus, KASB Estimates

**Morning News**

► **Investment in National Saving Scheme rise to PRs92bn in 1HFY12 (SBP)**

As per data released by SBP, investment in NSS increased by 13% YoY to PRs92bn in 1HFY12 (Dec-11: PRs15bn). This indicates that NSS investments in FY12 should comfortably exceed the government’s full-year target of PRs149bn. However given that profit rate on NSS were reduced by 150bps-200bps in 2011, investment flow into NSS could slow down in the coming months and could fall short of FY11 investment flow of PRs235bn.

**Technical View**

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**KSE-100: Closing above upper Bollinger Band triggers correction**

Although the index registered a higher high, its closing above the upper Bollinger Band for the third straight session triggered the correction. Though a retest of the trendline cannot be ruled out at this stage, the trend nonetheless remains bullish.

The Stochastic Oscillator has leveled off and has generated a weak buy signal while the RSI maintains its buy signal.

We maintain our stance of accumulating on weakness.

**KSE-100 Intra-day Movement**



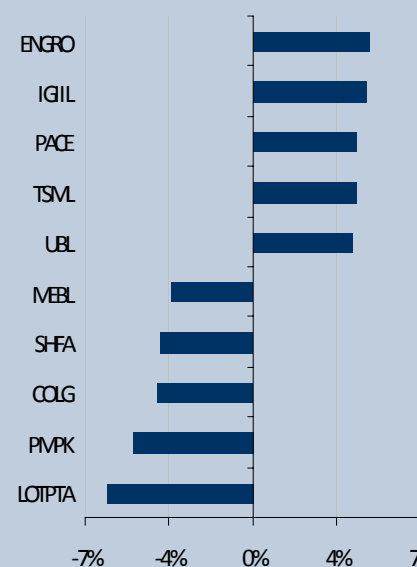
Source: KSE

**Index Data & Volume Leaders**

	Close	% Chg	Vol. US\$m
KSE30	11,181.40	-0.36%	64.97
KSE100	11,991.38	-0.38%	73.57
KSE All Share	8,306.62	-0.31%	76.37
FFC	175.41	-2.52%	11.66
ENGRO	116.09	4.89%	8.53
POL	366.10	-1.62%	7.31
ATRL	121.81	-0.80%	6.12
NBP	45.36	2.60%	4.28

Source: KSE

**KSE-100: Top Gainers & Losers**



Source: KSE

## World Markets and Commodity Prices

### International Equity Markets

#### Asian Markets (Closing Rates)

	Price	Abs. Chg.	% Chg.
All Ordinaries	4,286.40	-1.20	-0.03
Shanghai Composite*	2,319.12	23.04	1.00
Hang Seng*	20,110.37	167.42	0.84
BSE 30	16,995.77	244.04	1.46
Jakarta Composite*	3,986.51	-14.56	-0.36
KLSE Composite*	1,523.07	6.26	0.41
Nikkei 225	8,785.33	19.43	0.22
NZSE 50	3,268.17	-26.85	-0.81
Straits Times*	2,849.38	38.18	1.36
Seoul Composite*	1,949.89	34.92	1.82
Taiwan Weighted (18 <sup>th</sup> Jan)	7,233.69	0.00	0.00
<b>KSE-100 Index</b>	<b>11,991.38</b>	<b>-46.28</b>	<b>-0.38</b>

Source: Bloomberg

\*20<sup>th</sup> Jan closing

#### European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,053.74	-36.55	-1.75
BEL-20	2,192.87	-12.89	-0.58
CAC 40	3,322.65	-15.77	-0.47
DAX	6,419.22	-17.40	-0.27
AEX General	320.97	-2.05	-0.63
Swiss Market	6,135.10	7.43	0.12
FTSE 100	5,751.90	-30.66	-0.53
<b>American Markets</b>			
Dow Jones Ind. Average	12,675.75	-33.07	-0.26
NASDAQ Composite	2,786.64	2.47	0.09
NASDAQ -100	2,433.96	-3.26	-0.13
S&P 500 Index, RTH	1,314.65	-1.35	-0.10

#### Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	4.7	3.8	(6.4)	(6.4)	n.m	24-01
India	(2.6)	(2.6)	1,378.5	1,378.5	262.4%	23-01
Indonesia	12.0	12.0	448.7	448.7	219.4%	24-01
Japan	Na	1,816.3	1,816.3	1,816.3	-74.5%	13-01
Philippines	127.8	127.8	377.4	377.4	474.5%	24-01
South Korea	1,241.1	2,660.8	3,664.2	3,664.2	297.0%	20-01
Taiwan	119.8	105.7	1,029.4	1,029.4	-94.8%	18-01
Thailand	17.7	11.9	(46.0)	(46.0)	95.1%	24-01
Vietnam	(12.4)	(30.2)	(106.4)	(106.4)	-388.2%	20-01

Source: Bloomberg, NCCPL

### Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	11.86	11.89	-0.03
12-M T-Bill (Average)	11.72	11.72	0.00
10- year PIB (Average)	12.24	12.33	-0.09
Pkr/ US\$	90.21	90.17	0.04

Source: KASB Money Market

### Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	98.75	-0.67	-0.67
Gold	1665.68	-11.50	-0.69
CRB Index (24 <sup>th</sup> Jan)	314.69	1.11	0.35

Source: Bloomberg

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