

morning shout

Pakistan Daily Notes

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Indus: Raising PO and estimates

- We upgrade our PO for Indus Motors to PRs316/sh from PRs240/sh, FY10-12E EPS estimates by 19-22% and reiterate our Buy call on the stock.
- Our bullishness on the stock is premised on company's resilient volumetric performance (market share up by 11ppt in 2 yrs), strong pricing power, net cash of PRs85/sh and attractive multiples (FY11E P/E of 5.6x and D/Y of 8.8%).
- We expect 4Q10E earnings of PRs11.6/sh (+11% YoY) amid seasonal up-tick in volumes, stable EBITDA margins and strong other income on surplus cash holdings.
- We believe Indus will outperform the industry with 14% YoY growth in its unit sales. Though normalized advances could soften other income, strong volumes should lift FY11E EPS by 13% YoY to PRs44.6.
- We flag (1) higher FX volatility, (2) adverse regulatory decisions and (3) reliance on Corolla as key risks.

Raising PO and earnings estimates

We raise our PO for Indus Motors (Indus) from PRs240/sh to PRs316/sh, FY10-12E EPS estimates by 19-22%. We reiterate our Buy call on the stock. Our upgrade for 'best of the breed' stock in auto sector is triggered by (1) stronger than expected volume growth in FY10 (49% YoY) and forecasted out-performance in FY11E and (2) improved EBITDA margins despite volatile FX. Our bullishness on the stock is premised on company's resilient volumetric performance (market share up by 11ppt in 2 yrs), strong pricing power (improved EBITDA despite cost push), debt-free balance sheet (net cash of PRs85/sh in Mar-10) and attractive valuations (FY11E P/E of 5.6x and D/Y of 8.8%).

4Q should round-off strong FY10 performance

Indus is reaping the benefits of ever-growing love for Corolla that has become the largest selling car in Pakistan. The peak demand season and one-off spike ahead of GST hike helped Indus in increasing sales by 41% YoY to 15,966 units during 4QFY10. We believe strong volumes and favorable FX should help Indus in retaining EBITDA margin of 6.8% during the quarter. Moreover, income from PRs17.6bn cash (Mar-10) should lift quarterly earnings by 11% YoY to PRs11.6/sh. This should yield FY10E earnings of PRs39.3/sh, up 122% YoY and DPS of PRs15/sh.

Expect strong FY11 performance

With 14% estimated volume growth in FY11, Indus looks set to outperform the industry sales jump of 12%. Our thesis is based on the fact that Corolla remains the preferred car of cash-rich buyers. Due to limited and expensive financing avenues, cash rich buyers will remain the leading demand contributors supporting Indus' sales strong growth. We expect Corolla sales to contribute 84% to Indus' unit sales during FY11E. Though we expect 15% lower other income as delivery periods normalize, volume growth should improve bottom-line by 13% YoY to PRs44.6/sh.

FX and concentration key risks

We flag (1) higher FX volatility, (2) adverse regulatory decisions on used cars and (3) reliance on Corolla sales as key risks. Volatile FX, in the absence of Rupee hedging instruments, remains a key risk to margins in our view despite Indus' demonstrated pricing power. We estimate 1% FX volatility affects Indus FY11E EPS by PRs3.1/sh (7%), keeping other things constant. While we believe the Government will not move ahead with anti-industry proposals to allow commercial imports of used vehicles and/or extend the age limit, materialization of the same may drag sales of local manufactures. Although Corolla's demand remains robust, concentration risk is high given ~85% contribution to topline. Going forward, we expect Indus to announce new models, particularly in cars segment, to improve footprint in other segments of the industry and diversify its volume.

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Current Price PRs248.90
Price Objective PRs316.00

KATS INDU
Bloomberg INDU PA
Reuters INDM.KA

Shares Outstanding
78.60mn

Market Cap
PRs 19,493mn (US\$229mn)

3m average daily volume
63,992 shares

12-month High/Low
270.31 / 131.99

Table – 1: Summary of estimate change

PRs/sh	New	Old	% chng
PO	316.0	240.0	31.7%
EPS-FY10	39.3	33.1	18.7%
EPS-FY11	44.6	37.2	19.8%
DPS-FY10	15.0	20.0	-25.0%
DPS-FY11	22.0	22.0	0.0%

Source: KASB estimates

Table – 2: INDU valuation snapshot

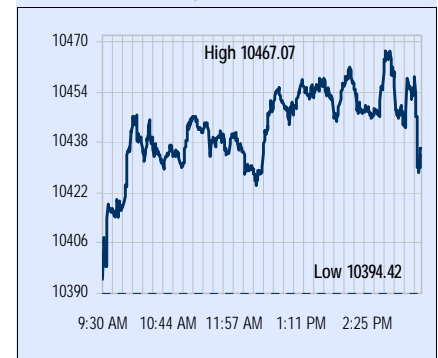
YE: Jun	09A	10E	11E	12E
Sales	37,865	58,845	70,432	81,883
EBITDA	2,288	4,337	5,347	6,645
% margin	6.0%	7.4%	7.6%	8.1%
PAT	1,385	3,088	3,503	3,885
% Chng	-39%	121.8%	13.4%	0.0%
EPS	17.62	39.29	44.56	49.42
DPS	10.00	15.00	22.00	27.00
P/E (x)	14.19	6.36	5.61	5.06
D/Y (%)	4.0%	6.0%	8.8%	10.8%
P/B (x)	1.91	1.61	1.39	1.39

Source: INDU, KASB estimates

Morning News

▶ **HBL earning up 26% YoY in 1H10** (Analyst comment)
 HBL posted solid bottom-line of PRs7.77/sh, up 26% YoY, in 1H10 primarily on the back of (1) FSV benefit to the tune of PRs3bn against provisions (PRs2/sh after tax) and (2) higher income/gains from investments due to capital gains of PRs0.2/sh as compared to a loss of PRs0.3/sh in 1H09. Had the FSV been not taken, earnings would have been lower by PRs2.0/sh in 1H10; YoY decline. The overall trend is however inline with our sector thesis where credit income (net interest income – provisions) growth is being driven by lower provisions. NPLs, on the other hand have remained stagnant QoQ at PRs51bn.

KSE-100 Intra-day Movement



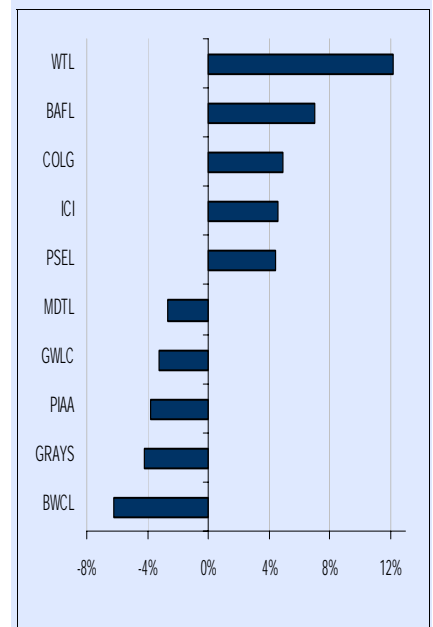
Source: KSE

Index Data & Volume Leaders

	Close	% Chg	Vol. US\$mn
KSE30	10,439.91	0.55%	41.72
KSE100	10,436.29	0.48%	43.79
KSE All Share	7,290.92	0.21%	52.04
ENGRO	189.31	-1.18%	6.31
POL	235.85	0.95%	6.06
ICI	125.11	4.56%	4.30
NBP	71.67	1.46%	3.53
PPL	202.03	1.13%	3.49

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	4,542.10	28.20	0.62
Shanghai Composite	2,633.66	58.29	2.26
Hang Seng	21,091.18	117.79	0.56
BSE 30	17,957.37	-120.24	-0.67
Jakarta Composite	3,057.48	15.80	0.52
KLSE Composite	1,355.19	2.96	0.22
Nikkei 225	9,753.27	256.42	2.70
NZSE 50	3,022.18	13.75	0.46
Straits Times	2,985.38	6.00	0.20
Seoul Composite	1,773.47	5.16	0.29
Taiwan Weighted	7,784.81	36.80	0.47
KSE-100 Index	10,436.29	49.47	0.48

Source: Bloomberg

European Markets (Last Trading Session's Rates)

	Price	Abs. Chg.	% Chg.
ATX	2,480.02	-3.27	-0.13
BEL-20	2,545.08	-12.35	-0.48
CAC 40	3,670.36	3.96	0.11
DAX	6,178.94	-28.37	-0.46
AEX General	335.03	-3.05	-0.90
Swiss Market	6,277.49	2.30	0.04
FTSE 100	5,319.68	-45.99	-0.86
American Markets			
Dow Jones Ind. Average	10,497.88	-39.81	-0.38
NASDAQ Composite	2,264.56	-23.69	-1.04
NASDAQ -100	1,872.62	-16.19	-0.86
S&P 500 Index, RTH	1,106.13	-7.71	-0.69

Foreign Portfolio Investment in Equities

Country	Day (US\$m)	WTD (US\$m)	MTD (US\$m)	YTD (US\$m)	YTD Net (US\$m)	Date
Pakistan	2.2	6.6	36.3	312.7	221.1%	07-28
India	17.4	100.8	2443.7	9143.6	32.8%	07-26
Indonesia	31.7	88.7	414.4	1270.8	122.9%	07-28
Japan	Na	-345.4	444.1	9016.6	126.0%	07-16
Philippines	-6.3	13.5	-6.9	371.9	23.9%	07-28
South Korea	117.5	755.4	2240.1	7376.0	-36.3%	07-28
Taiwan	11.4	511.7	1975.5	1863.1	-77.2%	07-28
Thailand	19.2	103.4	166.8	-372.1	-143.3%	07-28
Vietnam	-0.6	-1.5	24.0	295.0	263.1%	07-28

Source: Bloomberg, NCCPL

Forex and Money Market snapshot

	Current	Previous	Chg.
6-Month KIBOR (Offer)	12.41	12.39	0.02
12-M T-Bill (Average)	12.41	12.41	0.00
10- year PIB (Average)	12.98	12.98	0.00
PkR/ US\$	85.63	85.58	0.05

Source: KASB Money Market

Commodity Prices

	Price	Abs. Chg.	% Chg.
WTI (Crude Oil)	76.99	-0.51	-0.66
Gold	1,165.98	2.23	0.19
CRB Index (July 27 th)	430.2	0.37	0.09

Source: Bloomberg

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