

Honda Atlas Cars (Pakistan) Limited
Analyst Briefing Takeaways

PSX: HCAR Bloomberg: HCAR: PA Reuters: HATC. PSX

Pakistan Research

HCAR: 1QMY23 Conference Call Key Takeaways

- Honda Atlas Cars held its corporate briefing today to discuss 1QMY23 financial results and future outlook. Earlier, the company reported an EPS of PKR 4.61 down 29% YoY. The lower EPS was due to gross margin contraction and higher other expense.
- As per the management, automobile industry is likely to witness 20%-30% decline in sales during FY23 due to increase in prices, higher interest rates and change in auto financing terms.
- The company has announced that it will be launching the CKD variant of HR-V in Pakistan, details of which will be announced in the coming months.
- Concerning the massive price increase of its products, the management has stated that only currency depreciation has been passed on to customers, while increases in raw material prices have been absorbed by the company, resulting in margins shrinkage.
- HCAR's current pricing has been done at a USD of PKR 235. The company has also stated that if the USD remains at the current level of 238 - 240, without a price increase, the company's margins will decline to 3.0%/3.5%.
- In terms of currency depreciation, the management apprised that PKR/USD depreciation accounts for 70% of the company's exchange exposure, while PKR/JPY contributes 10%.
- With respect to CKD kit imports, the management informed that SBP has provided a quota for the import of CKD kits, under which 50% of the average of last 4-month imports was allowed in July, with the quota percentage increasing to 60% in August and 70% in September.
- The company has observed only two non-production days (NPD) up till now, with no plans for future NPDs.
- According to the management, auto financing accounted for more than 40% of the company's sales prior to the SBP's regulation; however, currently it has decreased to 30%-35%.
- The company currently has no plans to export automobiles. However, it is considering exporting some auto parts to certain markets to see how they perform.
- The updated localization levels for City, Civic, and BR-V in terms of parts are 70%, 60%, and 50%, respectively.
- The management also stated that the super tax adjustment will be done in MY23.

Key Data	
PSX Ticker	HCAR
Target Price (PKR)	173
Current Price (PKR)	160
Upside/(Downside) (%)	+8%
Dividend Yield (%)	4.4%
Total Return (%)	12%
12-month High (PKR)	400
12-month Low (PKR)	162
Outstanding Shares (mn)	142.80
Market Cap (PKR mn)	22,848
Year End	March

Source: Company Accounts, Akseer Research

Arshad Mansoor
arshad.mansoor@alphacapital.com.pk

Valuation Basis

Our PT for Honda Atlas Cars (Pakistan) Limited (HCAR) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0%.

Investment Thesis

We have a 'HOLD' recommendation on the stock based on our PT of 173/share. Our price target provides an upside of 8% along with a dividend yield of 4.4%. Our investment case on HCAR is based on (1) Reduction in sale volumes and, (2) steady gross profit margins.

Risks

Key risks to our investment thesis are 1) higher than anticipated increase in raw material cost, 2) slowdown in demand 3) higher than expected PKR depreciation and 4) unfavorable government policies.

Company Description

Honda Atlas Cars (Pakistan) Limited engages in the assembly, manufacture, and sale of Honda vehicles and spare parts in Pakistan. It offers various models, including Honda Accord, Honda CR-V, Honda CR-Z, Honda Civic, and Honda City cars. The company was incorporated in 1992 and is headquartered in Lahore, Pakistan. Honda Atlas Cars (Pakistan) Limited is a subsidiary of Honda Motor Company Limited.

Financial Highlights - HCAR

Income Statement (PKR mn)						
	MY20A	MY21A	MY22A	MY23E	MY24F	MY25F
Net sales	55,046	67,362	108,048	87,338	103,830	118,108
Cost of sales	50,955	63,586	102,470	83,010	98,425	111,280
Gross Profit	4,091	3,776	5,578	4,328	5,405	6,829
SG & A	1,407	1,561	2,207	1,991	2,098	2,213
Operating Profit	2,685	2,215	3,370	2,337	3,307	4,616
Other income	639	918	2,005	3,048	1,910	1,484
Other charges	1,049	237	984	1,185	1,086	976
Finance cost	727	116	116	180	207	197
Profit before tax	1,547	2,781	4,275	4,020	3,924	4,926
Taxation	865	987	1,765	1,809	1,295	1,626
Profit after tax	682	1,793	2,510	2,211	2,629	3,301

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	MY20A	MY21A	MY22A	MY23E	MY24F	MY25F
PPE	4,616	7,788	9,914	10,546	11,383	12,277
Other LT assets	624	417	1,033	1,195	1,384	1,636
Non-Current Assets	5,240	8,205	10,948	11,740	12,767	13,913
Current assets	26,602	36,950	59,315	50,040	54,699	57,911
Total Assets	31,842	45,155	70,263	61,780	67,466	71,824
Non-Current liabilities	474	3,053	4,317	3,897	3,750	3,645
Current liabilities	14,810	23,906	45,985	36,711	40,772	43,006
Total Liabilities	15,285	26,959	50,302	40,608	44,522	46,651
Equity	16,557	18,196	19,961	21,172	22,944	25,173
Total Equity & liabilities	31,842	45,155	70,263	61,780	67,466	71,824

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	MY20A	MY21A	MY22A	MY23E	MY24F	MY25F
Net Income	682	1,793	2,510	2,211	2,629	3,301
Non-cash Charges	827	704	1,040	1,391	1,503	1,620
Operating Cash flows	(2,484)	13,305	14,147	505	3,777	2,693
FCFF	(866)	9,497	4,817	(2,010)	998	(317)
Net borrowings	2,353	78	666	(598)	(322)	(322)
FCFE	1,166	9,500	5,415	(2,707)	538	(771)
Net change in cash	130	13,399	(2,126)	(4,386)	(1,067)	(2,664)
Closing cash	1,522	14,921	12,795	8,600	7,534	4,870

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-38694242

E: info@alfaadhi.net