

Honda Atlas Cars (Pakistan) Limited

Result Review

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

Pakistan Research

HCAR - 1QMY23 EPS clocks in at PKR 4.61, down 29% YoY

- HCAR announced its financial result for 1QMY23 today, where the company posted an EPS of PKR 4.61, down 29% YoY. The result came in higher than our expectation owing to higher gross margins and lower taxation.
- Topline surged 39% YoY to PKR 30.2bn during 1Q. on the back of 24% YoY growth in volumetric sales and multiple price increases.
- Gross margins recorded at 6.3% during 1QMY23 vs 7.3% in the SPLY. This is due to exorbitant rise in raw material costs emanating from PKR devaluation. Despite multiple price increases, HCAR was unable to pass on the full impact of cost pressures.
- Other expenses clocked in at PKR 753mn, up 293% YoY in 1Q. This could be due to higher exchange losses resulting from PKR devaluation against the US dollar.
- The company's effective tax rate in 1Q clocked in at 40%, which is significantly lower than our expectation of 64%, resulting in a substantial increase in net income. We believe, the company has not booked additional super tax imposed in the federal budget 2022.
- On quarterly basis, HCAR earnings grew 2.35x owing to higher gross margins and reduction in distribution expense.
- We have a "HOLD" stance on the stock with our Dec-22 price target (PT) of PKR 173/share, which provides an upside of 8% along with a dividend yield of 4.4%.

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

Financial Highlights (PKR mn)

	1QMY22	1QMY23	YoY
Net Sales	21,765	30,246	39%
Cost of Sales	20,170	28,330	40%
Gross Profit	1,595	1,915	20%
Distribution costs	132	242	83%
Admin Expenses	231	333	44%
Other Income	335	527	57%
Other expenses	192	753	293%
Finance expenses	11	20	72%
Profit before tax	1,364	1,094	-20%
Taxation	435	436	0%
Net Income	928	658	-29%
EPS	6.50	4.61	-29%
DPS	-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	MY20A	MY21A	MY22A	MY23F	MY24E	MY25E
EPS	4.8	12.6	17.6	15.5	18.4	23.1
EPS Growth	-82.3%	163.0%	40.0%	-11.9%	18.9%	25.6%
DPS	1.0	4.5	7.0	6.0	7.5	9.0
PER	33.5	12.7	9.1	10.3	8.7	6.9
Dividend Yield	0.6%	2.8%	4.4%	3.8%	4.7%	5.6%
EV/EBITDA	6.3	2.9	1.1	1.7	1.6	1.6
P/B	1.4	1.3	1.1	1.1	1.0	0.9
ROE	4.1%	9.9%	12.6%	10.4%	11.5%	13.1%

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 downside risks to our investments thesis are 1) higher than expected PKR depreciation 2) more than expected increase in steel prices 3) lower than anticipated growth in sale volumes.

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

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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