

Honda Atlas Cars (Pakistan) Limited

Result Preview

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

Pakistan Research

HCAR - 1QMY23 EPS to clock in at PKR 3.73, down 43% YoY

- HCAR is scheduled to announce its 1QMY23 financial results on 26th July 2022. We expect the company to post an EPS of PKR 3.73, down by 43% YoY.
- Topline is likely to grow by 37% YoY to PKR 29.9bn during 1Q. This is mainly on account of 24% YoY growth in volumetric sales and multiple price increases. To highlight, sales volume 'City & Civic' have posted a growth of 30% YoY whereas, demand of BR-V has slowed down with a decline of 5% YoY during 1QMY23.
- Gross margins are expected to contract by 2pps YoY to 5.3% despite recent price hike in May 2022, due to cost pressures.
- Other income for 1QMY23 is estimated to increase by 145% YoY to PKR 822mn, principally due to a higher interest rate (6M KIBOR averaging 14.5%) during the period. On the contrary, other expenses are expected to increase by 73% YoY during 1QMY23 due to higher exchange losses resulting from a 20% YoY PKR devaluation against the US dollar.
- It is pertinent to note here that, recently imposed super tax is likely to increase the effective tax rate of the company to 64% in 1Q, thus pushing earnings down by 46%. Had there been no super tax, the earnings growth would have been 3% YoY.
- On quarterly basis, HCAR is expected to post earnings growth of 1.7x mainly on account of higher gross margins coupled with 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 (%)	10%
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 Estimates (PKR mn)

	1QMY22	1QMY23E	YoY
Net Sales	21,765	29,909	37%
Cost of Sales	20,170	28,324	40%
Gross Profit	1,595	1,586	-1%
Distribution costs	132	209	58%
Admin Expenses	231	346	50%
Other Income	335	822	145%
Other expenses	192	332	73%
Finance expenses	11	45	291%
Profit before tax	1,364	1,476	8%
Taxation	435	944	117%
Net Income	928	532	-43%
EPS	6.50	3.73	-43%
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

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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

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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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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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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