

## Honda Atlas Cars (Pakistan) Limited

### Result Preview

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

Pakistan Research

## HCAR - MY22 EPS likely to clock in at PKR 19.52, DPS at PKR 8.50

- HCAR is scheduled to announce its financial results for MY22 on 26<sup>th</sup> May 2022. We expect the company to post an EPS of PKR 19.52, up 55% in MY22 as compared to an EPS of PKR 12.56 in SPLY. Along with the result, HCAR is likely to announce a final cash dividend of PKR 8.50/share.
- Net sales in MY22 are likely to grow 61% YoY to PKR 108.3bn. This increase is primarily due to a higher volumetric sale, up 57% YoY to 37,603, combined with a 3.5% increase in prices.
- Gross margins for MY22 are expected to contract 1.1pps YoY to settle at 4.7% due to increased cost of input resulting from PKR depreciation and higher commodity prices.
- Distribution expenses during MY22 are expected to increase by 11% YoY to PKR 818mn due to higher topline. Whereas, the administrative expenses are likely to increase by 17% to reach PKR 960mn.
- Similarly, other expenses are expected to increase by of 3.44x YoY due to higher exchange losses resulting from a 20% YoY PKR devaluation against the US dollar.
- Other income for MY22 is estimated to increase by 112% YoY to PKR 1.94bn primarily due to higher fund size on account of increase in customer advances.
- On quarterly basis, HCAR is expected to post an EPS of 3.05, down 52% YoY mainly on account of contraction in gross margin. We expect gross margin at 2.8% in 4Q against 5.2% in SPLY, due to currency devaluation and higher steel prices.
- We have a "BUY" recommendation on HCAR. Our Dec-22 PT of PKR 265/share provides an upside of 53% along with a dividend yield of 4.9%.

### Key Data

PSX Ticker	HCAR
Target Price (PKR)	265
Current Price (PKR)	173
Upside/(Downside) (%)	+53%
Dividend Yield (%)	4.9%
Total Return (%)	+58%
12-month High (PKR)	410
12-month Low (PKR)	163
Outstanding Shares (mn)	142.80
Market Cap (PKR mn)	24,704
Year End	March

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	4QMY21	4QMY22E	YoY	MY21	MY22E	YoY
Net Sales	22,774	31,005	36%	67,362	108,285	61%
Cost of Sales	21,593	30,132	40%	63,586	103,228	62%
<b>Gross Profit</b>	<b>1,181</b>	<b>873</b>	<b>-26%</b>	<b>3,776</b>	<b>5,058</b>	<b>34%</b>
Distribution expense	316	292	-8%	737	818	11%
Admin expense	277	210	-24%	824	960	17%
Other income	517	562	9%	918	1,944	112%
Other expenses	96	272	183%	237	1,053	344%
Finance costs	(24)	72	-397%	116	127	10%
<b>Profit/(Loss) before tax</b>	<b>1,033</b>	<b>591</b>	<b>-43%</b>	<b>2,781</b>	<b>4,043</b>	<b>45%</b>
Taxation	128	155	21%	987	1,294	31%
<b>Net Income</b>	<b>906</b>	<b>436</b>	<b>-52%</b>	<b>1,793</b>	<b>2,749</b>	<b>53%</b>
EPS	6.34	3.05	-52%	12.56	19.25	53%
DPS	4.52	8.50		4.52	8.50	

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	MY19A	MY20A	MY21A	MY22E	MY23F	MY24F
EPS	26.97	4.77	12.56	19.25	31.30	41.13
EPS Growth	-41%	-82.3%	163.0%	53%	63%	31%
DPS	12.15	1.00	4.52	8.50	14.00	18.50
PER	6.41	36.24	13.78	8.99	5.53	4.21
Dividend Yield	7.0%	0.6%	2.6%	4.9%	8.1%	10.7%
P/B	1.40	1.49	1.36	1.22	1.05	0.90
ROE	21.8%	4.1%	9.9%	13.5%	19.0%	21.4%

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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 265/share. Our price target indicates an upside of 53% along with a dividend yield of 4.9%. Our investment case on HCAR is based on 1) growth in topline due to new model launch, 2) Strong cash position to support profitability, 3) cheaper valuation based on earnings growth.

### Risks

Key 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)						
	MY19A	MY20A	MY21A	MY22E	MY23F	MY24F
Net sales	95,128	55,046	67,362	108,285	107,784	124,308
Cost of sales	87,824	50,955	63,586	103,228	100,849	115,298
<b>Gross Profit</b>	<b>7,304</b>	<b>4,091</b>	<b>3,776</b>	<b>5,058</b>	<b>6,934</b>	<b>9,010</b>
SG & A	1,732	1,407	1,561	1,778	1,793	1,847
<b>Operating Profit</b>	<b>5,572</b>	<b>2,685</b>	<b>2,215</b>	<b>3,279</b>	<b>5,141</b>	<b>7,163</b>
Other income	1,314	639	918	1,944	2,108	2,200
Other charges	1,281	1,049	237	1,053	821	967
Finance cost	11	727	116	127	133	125
<b>Profit before tax</b>	<b>5,594</b>	<b>1,547</b>	<b>2,781</b>	<b>4,043</b>	<b>6,295</b>	<b>8,272</b>
Taxation	1,742	865	987	1,294	1,826	2,399
<b>Profit after tax</b>	<b>3,851</b>	<b>682</b>	<b>1,793</b>	<b>2,749</b>	<b>4,470</b>	<b>5,873</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	MY19A	MY20A	MY21A	MY22E	MY23F	MY24F
PPE	5,029	4,616	7,788	4,461	4,225	3,982
Other LT assets	776	624	417	429	442	458
Non-Current Assets	5,805	5,240	8,205	4,890	4,668	4,440
Current assets	26,296	26,602	36,950	55,749	55,545	60,924
<b>Total Assets</b>	<b>32,101</b>	<b>31,842</b>	<b>45,155</b>	<b>60,638</b>	<b>60,213</b>	<b>65,365</b>
Non-Current liabilities	465	474	3,053	3,491	3,178	2,865
Current liabilities	14,010	14,810	23,906	36,847	33,479	35,070
<b>Total Liabilities</b>	<b>14,475</b>	<b>15,285</b>	<b>26,959</b>	<b>40,339</b>	<b>36,657</b>	<b>37,935</b>
Equity	17,627	16,557	18,196	20,300	23,555	27,429
<b>Total Equity &amp; liabilities</b>	<b>32,101</b>	<b>31,842</b>	<b>45,155</b>	<b>60,638</b>	<b>60,213</b>	<b>65,365</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	MY19A	MY20A	MY21A	MY22E	MY23F	MY24F
Net Income	3,851	682	1,793	2,749	4,470	5,873
Non-cash Charges	882	827	704	996	995	939
<b>Operating Cash flows</b>	<b>(23,978)</b>	<b>(2,484)</b>	<b>13,305</b>	<b>14,325</b>	<b>2,462</b>	<b>6,939</b>
<b>FCFF</b>	<b>(22,202)</b>	<b>(866)</b>	<b>9,497</b>	<b>15,981</b>	<b>980</b>	<b>5,447</b>
Net borrowings	-	2,353	78	149	(81)	(322)
<b>FCFE</b>	<b>(22,210)</b>	<b>1,166</b>	<b>9,500</b>	<b>16,043</b>	<b>805</b>	<b>5,036</b>
Net change in cash	(9,601)	130	13,399	(4,868)	(2,436)	807
<b>Closing cash</b>	<b>1,392</b>	<b>1,522</b>	<b>14,921</b>	<b>10,053</b>	<b>7,617</b>	<b>8,424</b>

Source: Company Accounts, Akseer Research

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