

# Flash Note

Tuesday, 15 November 2016

## Automobile Assembler

### HCAR: 2QFY17 Earnings clock in at PKR 10.3/share, up by +2.0xYoY

- Honda Atlas Cars Pakistan Ltd's (HCAR) earnings increased by +2.0xYoY to PKR 1.5bn (EPS PKR 10.3) in 2QFY17 compared to 0.7bn (EPS PKR 5.1) in the corresponding period last year. The upsurge in earnings was on the back of rising demand after launch of Civic 10th Generation and increasing quotient of Civic in the sale mix.
- Gross Margins for 2QFY17 stood at 16.2%, portraying an incline of +248bpsYoY, on the back of premium pricing of the new Civic model and increasing proportion of Civic in sale mix, we believe.
- Company's distribution and marketing expenses increased by +2.5xYoY on account of new model launch promotion.
- Company's other income leaped up +3.9xYoY to PKR 226mn owing to healthy income on cash and cash equivalents.

#### Recommendation

HCAR is currently trading at FY17E P/E multiple of 16.1x. With our Jun-17 TP of PKR 380/share, stock offers negative returns of 35%, hence we recommend 'SELL' call on the scrip.

#### Exhibit: Financial Highlights

PKRmn	2QMY17	2QMY16	YoY	1QMY17	QoQ	1HMY17	YoY
Net Sales	15,482	9,650	60%	10,533	47%	26,015	24%
Gross Profit	2,504	1,321	90%	1,618	55%	4,122	32%
S & D Exp	135	55	147%	92	47%	227	76%
Admin Exp	116	98	19%	98	19%	214	24%
Other Exp	177	148	20%	141	26%	318	19%
Other Income	226	57	294%	128	77%	354	143%
EBIT	2,302	1,078	113%	1,415	63%	3,717	38%
Post-tax Profits	1,473	726	103%	1,051	40%	2,524	39%
EPS (PKR)	10.3	5.1		7.4		17.7	
<i>Key Ratios</i>							
Gross Margins	16.2%	13.7%		15.4%		15.8%	
Net Margin	9.5%	7.5%		10.0%		9.7%	
Effective Tax rate	36%	33%		26%		32%	

Source: IGI Research and Company Financials

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**Time Horizon:** Jun - 2017

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