Day Break

Thursday, 21 June 2018

COMPANY UPDATE

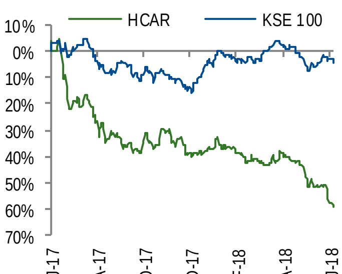
Honda Atlas Cars (Pakistan) Limited
Automobile Assembler

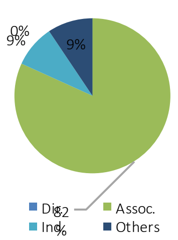
Recommendation			**BUY**
Target Price:			584.0
Last Closing:	20-Jun-18		335.4
Upside:			74.1
Valuation Methodology:			Discounted Cash Flow (DCF)
Time Horizon:			Dec-18
Market Data			
Bloomberg Tkr.			HCAR PA
Shares (mn)			142.8
Free Float Shares (mn)			28.6
Free Float Shares (%)			20.0%
Market Cap (PKRbn | USDmn)		47.9	394.2
Exchange			KSE 100
Price Info.	90D	06M	12M
Abs. Return	(29.7)	(33.1)	(59.5)
Lo	335.4	335.4	335.4
Hi	514.6	559.0	867.7

Key Company Financials
Period End: Mar

PKRbn	**FY18A**	**FY19E**	**FY20F**	**FY21F**
Total Revenue	91.5	93.4	92.8	96.7
Net Income	6.5	6.4	5.9	5.8
EPS (PKR)	45.5	44.7	41.4	40.7
DPS (PKR)	22.8	17.9	16.6	16.3
Total Assets	58.8	62.8	67.5	74.2
Total Equity	17.1	20.9	24.5	27.9
Key Financial Ratios				
ROE (%)	38.0	30.6	24.2	20.8
P/E (x)	7.4	7.5	8.1	8.2
P/B (x)	13.5	2.8	2.3	2.0
DY (%)	6.8	5.3	4.9	4.9

Relative Price Performance





About the Company

The Company was incorporated on November 04, 1992 and commenced commercial production from July 1994. The principal activities are the assembling and progressive manufacturing and sale of Honda vehicles and spare parts.

Source: Bloomberg, PSX & IGI Research

Suleman Ashraf
Research Analyst
Suleman.ashraf@igi.com.pk
Tel: (+92-21) 111-234-234 Ext.: 957

Automobile Assembler

HCAR: Meek performance showcased; profitability up by +6%YoY to PKR 6.5bn (EPS: PKR 45.5) for FY18

- We revisit our investment case on HCAR wherein we have revised our earnings estimates after incorporating financial year account (FY18) and budgetary measures. The company reported profitability of PKR 6.5bn (EPS: PKR 45.5) v/s PKR 6.1bn (EPS: PKR 43) during last year (FY17) along with the cash dividend of PKR 22.75/share.
- Our earnings estimates for FY19E/FY20F/FY21F stands at PKR (44.7/41.4/40.6)/share after incorporating financial accounts and measures introduced in finance act 2018-19.
- We have a **"BUY"** call on the scrip with our revised Dec-18 target price of PKR 584/share, offering +74% upside from its last closing. The company is currently trading at FY19E P/E of 7.5 x and offers a dividend yield of 5.3%.

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Volumetric growth and investments gain lifted earnings by +6%YoY to PKR 6.5bn (EPS: PKR 45.5)

For FY18 the company reported profitability of PKR 6.5bn (EPS: PKR 45.5) slightly up by +6%YoY attributed to multiple factors a) substantial increase of +42%YoY in volumes and b) gain (PKR 0.9bn) on sales of investments. However, the impact was partially arrested owing to heavy discounts (PKR ~1bn) coupled with rising input costs (PKR depreciation against USD), which altogether compressed margins (down by 310bps) and hence dampened profitability.

Net sales recorded at PKR 91bn (+44%YoY) as sales peaked 50k units

During the year the company attained peak sales of 50k units led by healthy sales of Civic, up by +29%YoY to 20k units, followed by sales of City (face-lift model), slightly up by +6%YoY to 21k units. In addition, further lift in volumes was supported by BR-V (contributing 18% in sales mix) with sales recorded at 9k units. As a result, net sales for the year clocked in at PKR 91bn v/s PKR 63bn last year.

Weakened currency and heavy discounts squeezed gross margins by 310bps

Gross margins during the year followed declining trend, sliding down by 310bps to 11.4% on the back of rising input costs (PKR depreciation). Although the company reciprocated with the increase in prices twice during the year but the impact was not fully passed on. Moreover, heavy discounts amounting to PKR 1.0bn (owing to late delivery after two months) coupled with increase (+31%YoY) in commissions chipped away sales of the company, thereby impacting topline and hence the margins.

Exhibit:
Declining gross margins and depreciating PKR

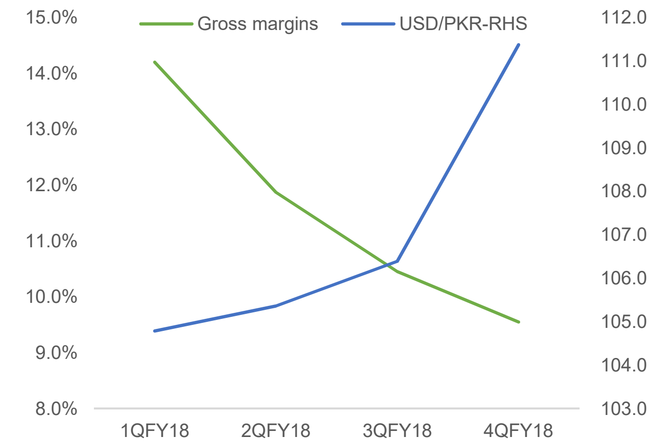
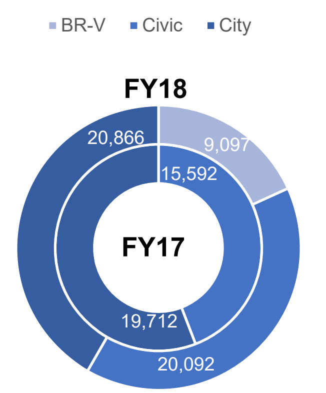


Exhibit:
Sales of Civic/City with BR-V add on to the portfolio



Source: IGI Research, Company Accounts

Substantial gain on sale of investments propped up profitability by PKR 0.9bn

Backed by ample liquidity (PKR~ 200/share) with cash tied up in treasury bills/ funds the company realized a profit of PKR 0.94bn on the sale of investments, which provided some respite to the profitability.

Earnings to witness slowdown amid rising headwinds and uncertainty

Our earnings estimates for FY19E/FY20F/FY21F stands at PKR (44.7/41.4/40.7)/share after incorporating financial accounts and measures introduced in finance act 2018-19 vis a vis super tax charge (for FY19 the charge will be PKR ~0.5bn inclusive of PKR 0.27bn of FY18) and corresponding reduction in corporate tax rate.

In addition, with the ban imposed on non-filers and competition to kick-in sales volume will suffer amid sluggish growth. More so, following recent PKR depreciation we expect company to undergo price hike in the near future during FY19 and have adjusted our pricing assumption henceforth. Nevertheless, gross margins will remain shaky; however with the company, having made investment to increase its localization and taking initiatives as per se (enhancing in-house manufacturing capability) this may provide some relief and overcome reliance on imported raw material to a certain extent.

Recommendation

We have a **"BUY"** call on the scrip with our revised Dec-18 target price of PKR 584/share, offering +74% upside from its last closing. The company is currently trading at FY19E P/E of 7.5 x and offers a dividend yield of 5.3%.

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec – 2018

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):
(Discounted Cash Flow)

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IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Irfan Ali	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office
Room # 719, 7th Floor, PSX Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2 ,
Fax: (+92-21) 32429607

Lahore Office
5-F.C.C. Ground Floor,
Syed Maratib Ali Road, Gulberg II
Tel: (+92-42) 35777863-70, 35876075-76
Fax: (+92-42) 35763542

Islamabad Office
Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office
Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

Rahim Yar Khan Office
Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871653-6, 5871652
Fax: (+92-68) 5871651

Multan Office
Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-992) 408243 - 44

Abbottabad Office
Ground Floor, Al Fatah Shoppinig Center ,
Opp. Radio Station, Mansehra Road
Tel: (+92-99) 2408243 - 44

Peshawar Office
2nd Floor, The Mall Tower,
35 The Mall Peshawar Cantt.
Tel: (92-91) 5253035, 5278448

Sialkot Office
Suite No. 10 & 11, 1st Floor, Soni Square,
Mubarik Pura
Tel: (+92-52) 3258437, 3258762

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

http://www.jamapunji.pk