

Day Break

Thursday, 05 July 2018

COMPANY UPDATE

Honda Atlas Cars (Pakistan) Limited

Automobile Assembler

Recommendation	BUY
Target Price:	457.4
Last Closing: 4-Jul-18	286.0
Upside:	59.9
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)	40.8	335.5	
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	(41.5)	(43.8)	(65.1)
Lo	286.0	286.0	286.0
Hi	514.6	559.0	819.3

Key Company Financials

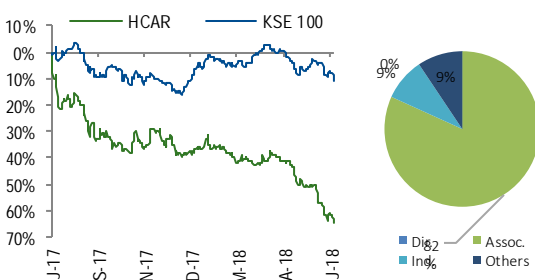
Period End: Mar

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	91.5	95.5	94.9	98.9
Net Income	6.5	6.6	6.1	6.0
EPS (PKR)	45.5	46.5	42.9	42.0
DPS (PKR)	22.8	18.6	17.2	16.8
Total Assets	51.5	58.8	65.1	66.5
Total Equity	17.1	21.1	24.7	28.3

Key Financial Ratios

ROE (%)	38.0	31.5	24.8	21.2
P/E (x)	6.3	6.2	6.7	6.8
P/B (x)	11.6	2.4	1.9	1.7
DY (%)	8.0	6.5	6.0	5.9

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

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Automobile Assembler

HCAR: Earnings revised marginally on price hike; "BUY" maintained

- Honda Atlas Cars (Pakistan) Limited (HCAR) has recently increased its prices across all its variants. To recall, the company increased its prices earlier during the start of the year (CY18) followed by a price hike again in March.
- We have incorporated the price increase in our assumptions and expect the move to provide some relief to the dwindling gross margins. As a result, the earnings will increase marginally by 3% on average.
- We have a "BUY" call on the scrip with our revised Dec-18 target price of PKR 457/share, offering +60% upside from its last closing. The company is currently trading at FY19E P/E of 6.2 x and offers a dividend yield of 6.5%.

With major OEMs having embarked in a series of price hikes during the last six months, Honda Atlas Cars (Pakistan) Limited (HCAR) has also followed the line-up, increasing the prices thrice during CY18TD. To recall, the company initially increased its prices during the start of the year (CY18) followed by a price hike again in March. The recent price increase was anticipated given depreciated PKR currency which had been on losing streak since Dec-17. Overall, the stock has underperformed by 43% till CY18TD against the benchmark index marred by multiple factors (exchange rate volatility and ban on non-filers).

We have incorporated the price increase in our assumptions and expect this move to provide some relief to the dwindling gross margins. As a result, the earnings will increase marginally by 3% on average. In addition, we have also adjusted our cash flows wherein, volumetric slowdown amid ban on non-filers and rising competition will affect liquidity going forward. Accordingly, our target price is downgraded by 20% to PKR 457/share.

Series of price hikes across all units as gross margins take a hit from depreciated PKR

The company increased the prices across all variants on average by 3% within which major price increase was witnessed in Civic variants (4%/unit), followed by City (2%/unit). In addition, prices of BR-V have also inched up by 1-2%/unit. The recent price hike was anticipated (our pricing assumption initially incorporated price hike of 1-2%/unit for all variants) given PKR depreciation against USD by 4%, marking significant decrease of 16% since its last fall, back in Dec-18. Moreover, appreciation in JPY was also witnessed during the month of Feb-Mar-18 with currency reaching 105 against USD. Hence, to safeguard against macroeconomic pressures and the ensuing rising input costs the company hit back with successive price hikes during the 1HCY18; an increase of 8% on average TD.

Exhibit:

Price hike over the period- 1HCY18

	Jan-18	Mar-18	Jun-18
Avg. Price increase/unit	3%	3%	4%
USD/PKR	110.2	115.1	121.3
USD/JPY	112.9	105.4	110.2

SOURCE: IGI Research, Bloomberg, HCAR

Exhibit:
Exchange rate movements

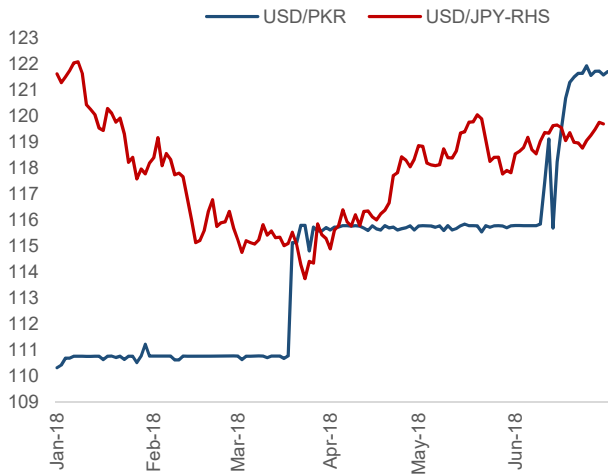
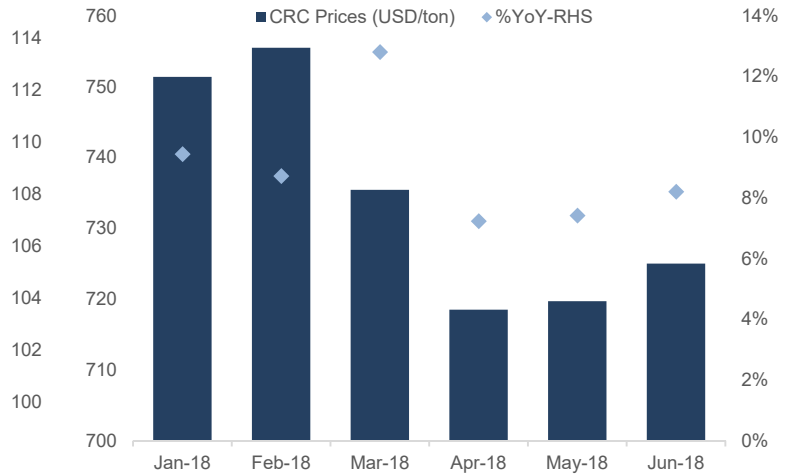


Exhibit:
CRC prices (USD/ton) and %- YoY change



Source: IGI Research, Bloomberg

Earnings revised up by +3% to PKR (46.7/42.4/42.0)/share

Incorporating the recent price hike, will result in slight upward revision in our earnings by +3% for FY19E/FY20F/FY21F to PKR (46.5/42.4/42.0)/share. With the recent price hike we expect gross margins to slightly improve and hover around ~11% for CY19E (decreasing by ~100 bps YoY, thereof). Nevertheless, volatile exchange rates, increase in CRC prices and limited pricing power amid rise in competition will keep gross margins subdued (8% on average).

Volumetric increase and gain on investments 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) on-off 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.

Recommendation

We have a “BUY” call on the scrip with our revised Dec-18 target price of PKR 457/share, offering +60% upside from its last closing. The company is currently trading at FY19E P/E of 6.2 x and offers a dividend yield of 6.5%.

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

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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