

Day Break

Friday, 04 November 2016

Company Update

Honda Atlas Cars (Pakistan) Ltd.

Automobile Assembler

Recommendation	SELL
Target Price	379.9
Last Closing	589.3
Upside	-36%

Market Data

Bloomberg Tkr.		HCAR PA	
Shares (mn)			142.8
Market Cap (PKRbn USDmn)	84.2		803.1
Exchange		KSE 100	
Price Info.	90D	180D	365D
Abs. Return	41.6	100.2	125.0
Low	393.7	275.9	231.9
High	611.8	611.8	611.8

Key Company Financials

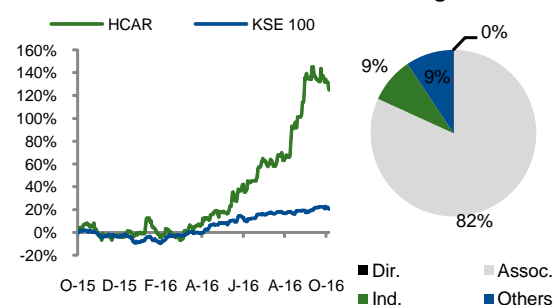
Period End: Mar

PKRbn	FY16A	FY17E	FY18F	FY19F
Total Revenue	40.1	53.8	63.2	65.1
Net Income	3.6	5.2	6.1	5.9
EPS (PKR)	24.9	36.4	42.4	41.4
DPS (PKR)	7.0	15.0	17.0	17.0
Total Assets	16.2	22.2	27.0	30.0
Total Equity	7.9	11.0	14.6	18.1

Key Financial Ratios

ROE (%)	45%	47%	41%	33%
P/E (x)	23.7	16.2	13.9	14.2
P/B (x)	10.6	7.7	5.8	4.6
DY (%)	1.2	2.5	2.9	2.9

Relative Price Performance & Shareholding



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, KSE 100 & IGI Research

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Automobile Assemblers

HCAR: New Civic Generation to Prop Up Earnings in 2QFY17

- Honda Atlas Cars (Pakistan) Limited's board meeting is scheduled on 15th Nov-16 to approve financial results for 1HFY17. We expect the company to post earnings of PKR 1.5bn (EPS PKR 10.2) in 2QFY17, up by 2.0xYoY compared to PKR 0.8bn (EPS PKR 5.1) in the corresponding period last year.
- Going forward, we expect growth in earnings on the back of a) +13%/+22%YoY increase in Civic sales in FY17E/FY18F, owing to increase in demand of 10th Generation Civic Model launched in Jul-16, b) premium pricing of the new launched Civic with a price range of PKR 2.4-3.0mn, and c) higher proportion of Civic sales in the total sales mix.
- HCAR is trading at FY17/FY18 P/E multiple of 16.2x/13.9x and with our Jun-17 target price of PKR 380/share, we recommend "SELL" call on the scrip.

Earnings to double (+100%YoY) to PKR 10.2/share

Honda Atlas Cars (Pakistan) Limited's board meeting is scheduled on 15th Nov-16 to approve financial results for 1HFY17. We expect the company to post earnings of PKR 1.5bn (EPS PKR 10.2) in 2QFY17, up by 2.0xYoY compared to PKR 0.8bn (EPS PKR 5.1) in the corresponding period last year. This upsurge in earnings is attributable to a) +30%YoY rise in sales volume to 8.1k units on the back of rising demand with the launch of Civic 10th Generation at the end of Jul-16, and b) +264bpsYoY hike in gross margins to clock in at 18.0% owing to premium pricing of the new Civic model, with an average price premium of ~+15% to the average price of pre-launch Civic Models and the increasing quotient of Civic in the sales mix. However, it is pertinent to mention here that, if the company recognizes the impact of super tax charge for FY16, it will drag down profitability by ~15% to PKR 1.2bn (EPS PKR 8.6), translating in to earnings impact of PKR 1.6/share for the quarter.

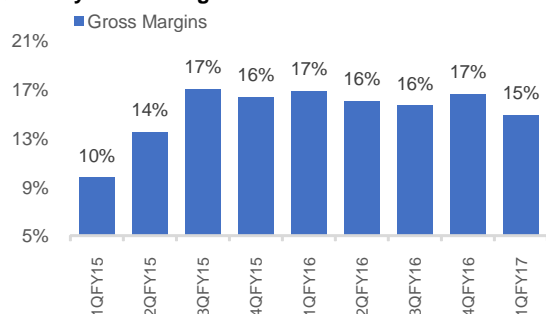
Earnings to Clock in at PKR 17.5/share in 1HFY17

For 1HFY17, we anticipate profitability to inflate by +38%YoY to PKR 2.5bn (EPS PKR 17.5), compared to PKR 1.8bn (EPS PKR 12.7) in the same period last year owing to a) +14%YoY rise in sales to 15.2kunits, and b) +198bps improvement in gross margins owing to premium pricing of the new Civic model and tilt in sales mix towards Civic.

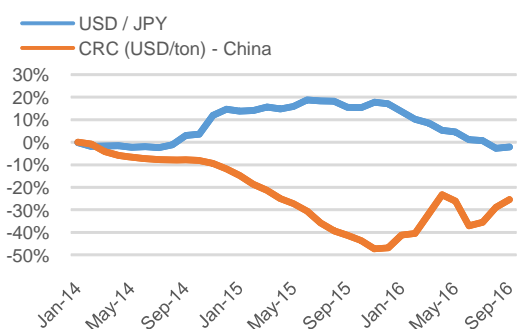
Quarterly Sales

Units	2QFY17	YoY	QoQ	1HFY17	YoY
Total	8,059	30%	12%	15,243	14%

Quarterly Gross Margins



JPY and CRC movement (base Jan-14)



Outlook

Going forward, we expect growth in earnings on the back of a) +13%/+22%YoY increase in Civic sales in FY17/FY18, owing to increase in demand of 10th Generation Civic Model launched in Jul-16, b) premium pricing of the new launched Civic with a price range of PKR 2.4-3.0mn, and c) higher proportion of Civic sales in the total sales mix.

Recommendation

The company's stock price has rallied significantly translating into a return of 1.22x FYTD due to anticipation and launch of new Civic Model. We believe, the scrip has rallied ahead of the price warranted by the improved fundamentals. Currently HCAR is trading at FY17/FY18 P/E multiple of 16.2x/13.9x and with our Jun-17 target price of PKR 380/share, we recommend "SELL" call on the scrip.

Exhibit: Financial Highlights

PKRmn	2QFY17E	YoY	1QFY17	QoQ	1HFY17E	YoY
Net Sales	13,368	39%	10,533	27%	23,901	14%
Gross Profit	2,406	82%	1,618	49%	4,024	29%
S & D Exp	105	92%	92	14%	196	53%
Admin Exp	105	8%	98	8%	203	17%
Other Exp	199	34%	141	41%	340	27%
Other Income	112	95%	128	-12%	239	64%
EBIT	2,109	96%	1,415	49%	3,524	31%
Finance Cost	2	52%	2	0%	4	41%
Pre-tax Profits	2,107	96%	1,413	49%	3,520	31%
Post-tax Profits	1,454	100%	1,051	38%	2,505	38%
EPS (PKR)	10.2		7.4		17.5	
Key Ratios						
Gross Margins	18.0%		15.4%		16.8%	
Net Margin	10.9%		10.0%		10.5%	
Effective Tax rate	31%		26%		29%	

Source: IGI Research and Company Financials

Source: PAMA, Bloomberg, Company Acc.

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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)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Jun - 2017

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

DCF (Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

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