

Day Break

Wednesday, 13 November 2019

COMPANY UPDATE

Honda Atlas Cars (Pakistan) Limited

Automobile Assembler

Recommendation	SELL
Target Price:	Dec/20 126.9
Last Closing:	12-Nov-19 152.1
Upside:	- 16.6
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 14M

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)	21.7	139.7	
Exchange	KSEALL		
Price Info.	90D	06M	12M
Abs. Return	13.6	2.3	(38.6)
Lo	127.1	115.9	115.9
Hi	154.6	184.1	272.0

Key Company Financials

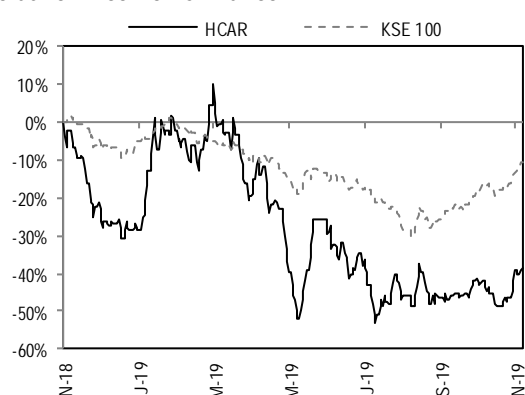
Period End: Mar

PKRbn	FY18a	FY19a	FY20e	FY21f
Total Revenue	91.5	95.1	54.5	51.6
Net Income	6.5	3.9	1.2	0.9
EPS (PKR)	45.5	27.0	8.6	6.3
DPS (PKR)	22.8	12.2	3.9	2.9
Total Assets	58.8	32.1	26.9	28.9
Total Equity	17.1	17.6	18.3	18.8

Key Financial Ratios

ROE (%)	43.1	22.2	6.8	4.9
P/E (x)	3.3	5.6	17.7	24.1
P/B (x)	1.3	1.2	1.2	1.2
DY (%)	15.0	8.0	2.6	1.9

Relative Price Performance



Source: Bloomberg, PSX & IGI Research

Suleman Ashraf

Analyst

Suleman.ashraf@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 957

Automobile Assemblers

HCAR: Volumetric decline to take its toll on earnings; EPS: PKR 0.17/share for 1HMY20

- HCAR is scheduled to announce its 2QMY20 financial result on 14th Nov-19, wherein we expect company to report loss of PKR 217mn (LPS: PKR 1.52). We factor drop in total sales, weak margins and decrease in other income for, massive decline in earnings.
- We have a “SELL” call on the scrip based on our Dec-20 target price of PKR 126.9/share. The stock is currently trading at FY20 P/E of 17.7X, offering a dividend yield of 2.6%

HCAR: Earning to collapse 2.0xYoY to PKR 0.17/share for 1HMY20

HCAR is scheduled to announce its 2QMY20 financial result on 14th Nov-19, wherein we expect company to report loss of PKR 217mn (LPS: PKR 1.52), as against profitability of PKR 1.03bn (EPS: PKR 7.22), witnessed in the same period last year. Accordingly, 1HMY20 earnings may collapse by 2.0xYoY to PKR 0.17/share.

...as volumetric decline and turnover tax may lead to a loss of PKR 1.52/share for 2QMY20

We factor drop in sales, unstable margin and fall in other income to push earnings in the negative territory for the 2QFY20. In addition, provision of turnover tax (1.5%) may also aggravate pre-tax loss in our view. We estimate 60%YoY drop in net sales as volumes displayed 67%YoY decline during the quarter, to the tune of 4.5k units. Furthermore, margins may take down turn shift after witnessing stability (~7%) in the preceding three quarters. Owing to rise in fixed cost/unit from low volumes and with that possibility of lesser proportion of high margin sales in the mix, we estimate margins to hover around 5.3% for 2QMY20. In addition, high input costs from 28%YoY PKR depreciation may also erode margins. Furthermore, support to the earnings may also be restrained owing to decrease in other income (low cash tied up in investments, 81%YoY decrease) by 80%YoY to PKR 75mn.

Exhibit:

HCAR 2QMY19 Result Highlights

PKRmn (Period end =Mar)	2QMY20E	2QMY19	YoY	1HMY20E	1HMY19	YoY
Net Sales	10,364	25,817	-60%	28,243	49,672	-43%
Cost Of Sales	9,814	24,169	-59%	26,343	45,880	-43%
Gross Profit	550	1,648	-67%	1,900	3,792	-50%
Selling & Dist.	103	165	-38%	281	356	-21%
Admin.	114	215	-47%	311	382	-19%
Operating Profit	333	1,267	-74%	1,308	3,054	-57%
Other Income	75	360	-79%	250	809	-69%
Profit Before Tax	(62)	1,362	n.m	294	3,246	-91%
Taxation	155	332	-53%	270	1,165	-77%
Profit After Tax	(217)	1,030	n.m	24	2,081	-99%
EPS	(1.52)	7.22		0.17	14.57	

Key Indicators

Unit Sold (Ths)	4.45	13.45		12.80	25.94
Gross Profit Margins	5.31%	6.38%		6.73%	7.63%
Effective Tax Rate	n.m	24.4%		91.8%	35.9%

Source: IGI Research, Company accounts, PSX

No of shares(mn): 142.8

Recommendation

We have a “SELL” call on the scrip based on our Dec-19 target price of PKR 126.9/share. The company is currently trading at FY20E P/E of 17.7x and offers a dividend yield of 2.7%.

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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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Time Horizon: Dec – 2019

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

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Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>

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
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
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@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) 38303559-68	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

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 # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Faisalabad Office

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

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

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

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Abbottabad Office

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

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Jama Punji
 سرمایہ کاری سمجھداری کے ساتھ
<http://www.jamapunji.pk>