

Flash Note

Thursday, 26 January 2017

Automobile Assembler

HCAR: 3QFY17 earnings clocked in at PKR 10.5/share, up +2.4xYoY

- Honda Atlas Cars Pakistan Limited (HCAR) earnings witnessed robust growth of +2.4xYoY to PKR 1.5bn (EPS PKR 10.5) for 3QFY17 compared to PKR 0.6bn (EPS PKR 4.3) in the corresponding period last year. Cumulative earnings for 9MFY17 stand at PKR 4.0bn (EPS PKR 28.1), up by +66%YoY compared to PKR 2.4bn (EPS PKR 17.0) in the same period last year.
- Revenue increased by +2.3xYoY to 15.7bn in 3QFY17 mainly on the back of +92%YoY volumetric growth led by new Civic model.
- Gross Margins contracted by 147bpsYoY to 13.9% for 3QFY17 on the back of higher steel prices, we believe.
- Administration and selling & distribution expenses inclined by +74%YoY and +12%YoY to PKR 145mn and 106mn, respectively.
- Other income augmented (+5xYoY) to PKR 312mn, owing to strong cash position backed by customer advances.

Recommendation

We maintain “Sell” call on HCAR with our Dec-17 target price of PKR 647/share, translating into 16% downside from its last closing. The company is currently trading at FY17E P/E of 19.4x.

Exhibit:

Financial Highlights

PKRmn	3QFY17F	3QFY16	YoY	9MFY17E	9MFY16	YoY
Net Sales	15,714	6,877	128%	41,729	27,896	50%
Gross Profit	2,186	1,058	107%	6,308	4,180	51%
S & D Exp	106	94	12%	332	223	49%
Admin Exp	145	84	74%	359	256	40%
Other Income	312	63	394%	666	209	219%
Post-tax Profits	1,492	612	144%	4,016	2,423	66%
EPS (PKR)	10.5	4.3		28.1	17.0	
<i>Key Ratios</i>						
Gross Margins	13.9%	15.4%		15.1%	15.0%	
Net Margin	9.5%	8.9%		9.6%	8.7%	
Effective Tax rate	30%	30%		31%	32%	

Source: IGI Research and Company Financials

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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)
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Time Horizon: Dec - 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.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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