

Day Break

Friday, 17 May 2019

COMPANY UPDATE

Honda Atlas Cars (Pakistan) Limited

Automobile Assembler

Recommendation	BUY		
Target Price:	31-Dec-19	164.2	
Last Closing:	16-May-19	124.8	
Upside:		31.6	
Valuation Methodology:	Discounted Cash Flow (DCF)		

Time Horizon: 7M

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)	17.8	122.2	
Exchange	KSE ALL		
Price Info.	90D	06M	12M
Abs. Return	(47.2)	(48.3)	(70.8)
Lo	124.8	124.8	124.8
Hi	272.0	272.0	426.9

Key Company Financials

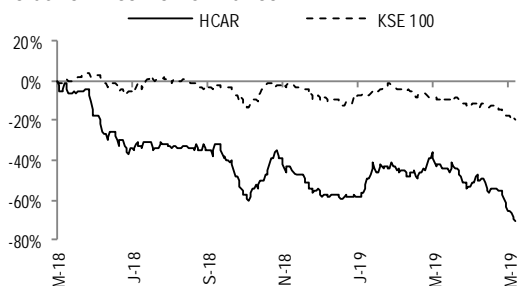
Period End: Mar

PKRbn	FY18A	FY19E	FY20F	FY21F
Total Revenue	91.5	93.1	102.6	107.4
Net Income	6.5	3.3	4.2	4.3
EPS (PKR)	45.5	23.3	29.5	29.9
DPS (PKR)	22.8	7.0	8.9	9.0
Total Assets	51	59	56	56
Total Equity	17	19	22	25

Key Financial Ratios

ROE (%)	38.0	17.5	19.1	17.1
P/E (x)	2.7	5.4	4.2	4.2
P/B (x)	5.0	1.0	0.9	0.8
DY (%)	18.2	5.6	7.1	7.2

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 Assemblers

HCAR: Expecting a dismal 4QMY19 earnings, drop of 53%YoY to PKR 4.53/share

- HCAR is scheduled to announce its 4QMY19 financial result on 20th May-19, wherein we expect company to post earnings of PKR 0.65bn (EPS: PKR4.53) taking total profitability for MY19 to PKR 3.33bn (EPS: PKR 23.3), down by 49%YoY.
- We factor drop in total sales, weak margins and decrease in other income for 53%YoY decline in earnings during 4QMY19. In addition, we expect HCAR to pay out cash dividend of PKR 7/share for the full year, MY19
- We have a “BUY” call on the scrip, based on our Dec-19 target price of PKR 164/share. The company is currently trading at FY19E P/E of 5.4x and offers a dividend yield of 5.6%.

HCAR: Weak margins and drop in volumes to keep earnings subdued

HCAR is scheduled to announce its 4QMY19 financial result on 20th May-19, wherein we expect company to post earnings of PKR 0.65bn (EPS: PKR4.53) taking total profitability for MY19 to PKR 3.33bn (EPS: PKR 23.3), down by 49%YoY. We factor drop in total sales, weak margins and decrease in other income for 53%YoY decline in earnings during 4QMY19. As such, net sales are expected to decline by 14%YoY to PKR 22.1bn, led by 18.4% decrease in volumes (offsetting 14%YoY increase in car prices on average) where sales of Civic/City and BR-V exhibited 16%YoY and 33%YoY drop in their sales, respectively. More so, we estimate margin to taper down by 240bpsYoY to 7.2% owing to PKR depreciation and possibility of lesser proportion of high margin sales in the mix. Furthermore, support to the earnings may also be restrained owing to decrease in other income (low cash tied up in investments) by 60%YoY to PKR 0.19bn. Lastly, we expect HCAR to pay out cash dividend of PKR 7.00/share, for the whole year.

Exhibit:

HCAR 4QMY19 Result Highlights

PKRmn (Period end =Mar)	4QMY19E	4QMY18	YoY	MY19E	MY18E	YoY
Net Sales	22,087	25,777	-14%	93,051	91,523	2%
Cost Of Sales	20,505	23,315	-12%	86,049	81,074	6%
Gross Profit	1,582	2,462	-36%	7,002	10,449	-33%
Selling & Dist.	214	418	-49%	862	917	-6%
Admin.	196	231	-15%	749	678	11%
Operating Profit	1,172	1,813	-35%	5,391	8,855	-39%
Other Income	186	469	-60%	1,228	1,883	-35%
Profit Before Tax	911	1,859	-51%	5,025	9,479	-47%
Taxation	264	485	-46%	1,696	2,984	-43%
Profit After Tax	647	1,374	-53%	3,329	6,494	-49%
EPS	4.53	9.62		23.31	45.48	
DPS	7.00	22.75		7.00	22.75	
Key Indicators						
Unit Sold (Ths)	11.61	14.23	-18.4%	35.89	39.01	-8.0%
Gross Profit Margins	7.16%	9.55%	(239)	7.53%	11.42%	(341)
Effective Tax Rate	29.0%	26.1%	290	33.7%	31.5%	7.2%

Source: IGI Research, Company accounts, PSX

No of shares(mn): 142.8

Recommendation

We have a “BUY” call on HCAR, based on our Dec-19 target price of PKR164/share. The company is currently trading at FY19E P/E of 5.4x and offers a dividend yield of 5.6%.

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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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