

HCAR – car variants in demand

Apr – Dec sales showed increase of 21.5%

HCAR posted sales of 13401 units which is actually an increase of 21.5%. HCAR recorded sales of Rs 21bn during half year which is also an increase of 8.5% mainly due to increase in variant sales alongside firmed up prices.

Hence HCAR regaining its earnings spree; the company posted EPS of Rs 12.68/sh as against Rs 8.52/sh (profitability increased by 49% in the given 1HFY16).

PKR/JPY parity factor

Imports of raw material and parts from Japan are considerable portion of costs. Continued low international prices of commodities and strengthening of PKR against JPY during the course of 2015 has resulted in good margins viz. gross margin ranging around 14% - 16% during various quarters which itself an increase from last year.

Impending launch of new product awaited

HCAR continues to struggle to regain its preference among buyers for Honda

HCAR Statistics

Avg Volume (52 Weeks)	635,535.2
Close	252
52 Weeks High	280.4
52 Weeks Low	169.99
Market Capitalization	35.97bn
Beta	1.16
Total No of Shares	142.8mn
Free-Float Shares	28.56mn

Source: www.scstrade.com

JPY/PKR



Source: www.xe.com

www.scstrade.com

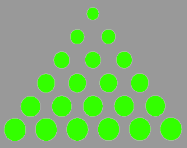
P&L Statement

	1QFY16	2QFY16	1QFY15	2QFY15	6MFY16	6MFY15	Change
Sales	11,368.9	9,650.1	11,285.0	8,088.8	21,019.0	19,373.8	8.5%
COGS	9,658.4	8,238.8	9,855.4	6,936.6	17,897.2	16,791.9	6.6%
Gross Profit	1,800.5	1,321.3	1,429.6	1,152.2	3,121.8	2,581.8	21.0%
Other Income	88.4	57.3	92.5	48.5	145.7	140.9	3.4%
Operating Expenses	269.0	243.0	245.2	430.0	512.0	675.2	-24.0%
Operating Profit	1,619.9	1,078.4	1,276.9	770.7	2,698.3	2,047.6	31.8%
Finance Cost	1.6	1.4	2.5	2.2	3.0	4.7	36.0%
PBT	1,618.3	1,076.7	1,274.4	768.5	2,695.3	2,042.9	32.0%
Taxation	533.2	350.8	644.5	182.0	884.0	826.5	7.0%
NPAT	1,085.1	726.1	629.9	586.5	1,811.2	1,216.4	49.0%
EPS	7.60	5.08	4.41	4.11	12.68	8.52	49.0%

Source: Company reports

Civic, while Honda City has prospered well. Any gains that company managed from sales of Honda City, were neutralized by lower demand for Civic as being observed in recent Dec bound PAMA numbers. In the current year 2016, HCAR

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is expected to launch new model of Honda Civic as this new model is anticipated to revive the demand for Civic in domestic market. Already company has started its advertising vide billboard about cosmetic changes it is offering in Civic variants.

Our trend analysis reveals, on the assumption of revival of demand for civic and sustainability of exchange rate, we expect increase in sales of Civic in case the company in case the company sales of new model is 10,000 units at the price of 1.6 mn, the positive impact on EPS would be Rs 8.2 at a base case assumption of net margin of 7.3%.

Valuation

The impact of new Civic variant sale may come in next fiscal (April onwards). With consistent sales numbers in coming months, we are estimating FY16 EPS of around Rs 25 - Rs 26 (PE of 10x). Given continuous developments in the company, higher ROE range alongside its premium acceptability among car buyers, we signal HOLD in HCAR.

Given HCAR historical payout ratio of around 22%, we estimate a annual cash dividend of around Rs5.5/sh.

HCAR vs KSE-100



Source: www.scstrade.com

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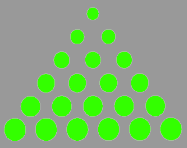
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