



Honda Atlas Car (HCAR): City variant swaying resurgence... HOLD | PE 6.2x

Sensitivity analysis

We estimate that HCAR could bounce back with better earnings prospect in 4Q (year end in Mar'13). Now we see HCAR sales roaring as company has already reported nearly 1200 units sale of Honda City and 900 units for Honda Civic in 1st month of 4Q i.e. Jan'2013 .New model of city and upcoming new model of accord will increase sales wherein they would also get ever increasing price benefit of high end cars. We expect HCAR to cash in the bounty.

We expect HCAR to report FY13 EPS in the range of Rs 3.4/share to Rs. 8.5/share given impending sales of units especially city variant since it is the main determinant of the HCAR business model. However, we anticipate super sales given consumption patterns in high end society.

We see decrease in manufacturing cost, as Pak Rupee is appreciating against Japanese Yen, wherein major cost of manufacturing is imports of spare parts from Japan which can purchase at relatively low price in PKR. But cost of manufacturing can also be affected from the possible policies and charges from Engineering Development Board of Pakistan. So we are expecting a gross margin of 4% to 8% depending upon that charge which could affect our sensitivity model findings given hereunder:

Gross Margin Sensitivity					
Gross Margin (%)	4%	5%	6%	7%	8%
EPS (Rs.)	3.4	4.7	6.0	7.2	8.5

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Also we expect a possible cash dividend at the end of full year due to improved cash flow. The good part is that HCAR has paid its much portion of debt and now there is low burden of finance cost and this may be a good news for shareholders since a dividend could be a possibility.

Expected increase in sales of HCAR

We expect 25% increase in sales in 4th quarter, due to some positive trends which will directly affect the demand of Honda cars.

Honda car has launched new models of Honda Civic in Sept and new model of City in December has already led to the increase in sales in January 2013 and upcoming new model of accord will also add positive effect on company's sales and cash inflow because people prefer to switch from old model to new models.

Preparation for general election in Pakistan will also boost the demand of new automobiles from heavy weights, and we believe most would prefer in switching from old model to new model of wheels while their election campaign and new model of accord will catch attention of people.

Forecasted Sales for Q4

Model	Units
City	2500
Civic	1800
Accord	40
CR-V 2.4	10

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Trend in Economy:

Interest rate in economy is decreasing, which encourage people to buy the luxury items; we expect a positive demand of luxury automobiles, which will increase sales of Honda Atlas (HCAR).

Pakistani economy mainly is agricultural oriented and major crops are harvested in December to March period, and most of people related to agriculture sector spend income to purchase the automobiles in this season. And statistics shows that agricultural sector has grown positively in winter crops, which is positive sign for demand of automobiles.

Please see forecasted P& L on next page....

Forecasted profit and Loss Statement:

We assume a 5% gross margin in 4Q than company's profit and loss statement would be much favourable due to 200% increase in other income as cash inflow is increasing and also company will be paying relatively low finance cost with compare to previous quarter, because company has repaid its major portion of long term liabilities. After cost analysis of company we can expect a good profit after taxes at the end of this quarter.

Cumulative quarterly - Profit and Loss Statement

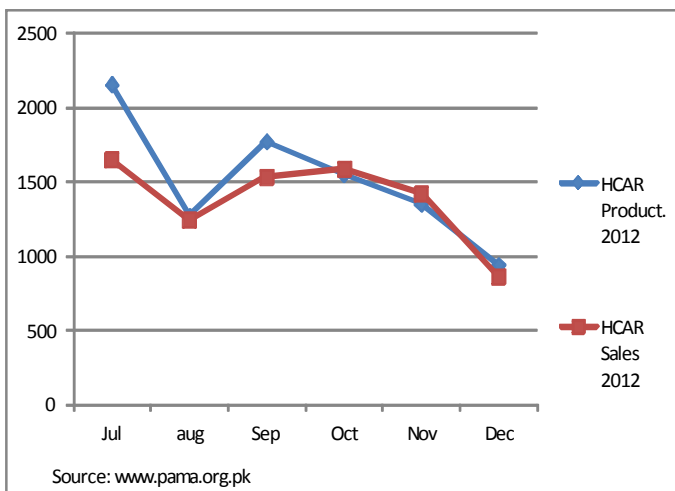
Atlas Honda Cars

Rs 000'	Q4e	Q3	Q2	Q1
Net Sales	27,989,715	19,514,715	12,793,019	5,965,265
Cost of Sales	26,590,229	18,648,430	12,243,734	5,863,079
Gross Profit	1,399,486	866,285	549,285	102,186
Sales and Admin Exp.	559,794	289,281	191,804	
Operating Profit	839,691	276,173	136,623	(174,137)
Other Income	349,843	103,097	2,852	-
Finance Cost	158,185	147,836	131,536	75,397
Profit Before Tax	1,031,350	128,337	5,087	(249,534)
Taxation	360,972	117,890	75,989	28,509
Profit After Tax	670,377	10,447	(70,902)	(221,025)
EPS	4.69	0.07	(0.50)	(1.55)

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company recordings

Production and Sales of Honda Atlas Car (HCAR)

It is seen that number of units sold is greater than the number of units produced in that month, because company is importing finished cars from Japan. So as Japanese Yen is devaluating to a certain degree and it became less costly to import, so it creates larger gross profit margin. This also seems a positive aspect to invest in HCAR.



Valuation: Hold

The 4Q jump in profitability is a certain trigger which may continue in next fiscal year. It is city which is becoming choice along with civic model. Our delineated earnings based on sensitivity give PE of 6.2x. HOLD based on our sensitivity.....

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