

10-Dec-13

KSE 100 Index	24,878.68(-120.21)
HCAR Statistics	
Avg Volume (52 Weeks)	0.26mn
Close	43.26
52 Weeks High	55.83
52 Weeks Low	17.97
Market Capitalization	6.06bn
Beta	1.06
Total No of Shares	142.8mn
Free-Float Shares	28.56mn

Source: www.scstrade.com

HCAR- Performance

4MFY14	Production	Sales
Honda Civic	3,578	3,492
Honda City	4,744	4,532

Source: www.pama.org.pk

Honda Atlas Car

P&L Statement

(In Million Rs)	1HFY13	1HFY14	Change
Sales	12,793	21,371	67.1%
COGS	12,244	19,822	61.9%
Gross Profit	549	1,549	182.1%
GP Margin	4.3%	7.3%	68.9%
Operating Expenses	441.2	970.0	119.9%
Other income	28.5	190.5	exp*
Operating Profit	136.6	770.0	exp*
Finance Cost	131.5	18.5	-86.0%
PBT	5.1	751.6	exp*
Taxation	76.0	436.8	exp*
NPAT	(70.9)	314.8	exp*
EPS	(0.50)	2.20	exp*

Source: Standard Capital Research

1HFY14 review

Honda Atlas Car (HCAR) reported 67.7% higher net sales amounting of Rs 21.37bn for 1QFY14 against Rs 12.793bn in corresponding period, which is also higher than our forecasted sales of Rs 19bn in our result preview released on Nov 22. Where in gross profit margin was also stood as per expectation of 7.3% reporting three folded increase in gross margin of Rs 1.55bn. Increase in operating expenses and taxation thrust the NPAT lower than our expectations to Rs 314mn (EPS Rs 2.20) for the 1HFY14 against loss of Rs 70.9mn (LPS 0.50) for corresponding period

Analyst:

Rajesh Kumar Maheshwari

Tell: 111-111-721 Ext.116

www.scstrade.com

Honda Atlas Cars to double production capacity

Express Tribune reported that management of HCAR has unveiled the plan to double production capacity in coming years. HCAR, is a joint venture of Honda Motor Company Limited Japan and Atlas Group of Companies, currently has a total production capacity of 50,000 units per year. The chairman wants this figure to be doubled i.e. 100,000 units per year for which the company had already purchased a piece of land adjacent to their factory near Lahore. HCAR plant is situated at Multan Road at a beautiful location which is near other famous companies.

The Chairman of the company sees growing demand of cars wherein he also considers import of recondition cars as a threat. Some of the key points he highlighted include quality of human resource at his disposal. However, he also sees depreciating of Rupee against JPY as a great economic challenge. The company has also suffered a lot on this account during current fiscal since lot of profitability has been eroded during the period.

Civic & City variants to remain in demand

Since its inauguration, HCAR has produced a total of 227,476 units for its Honda Civic and Honda City models.

In June 2006, the company introduced Honda Civic Reborn, a Euro-compliance car, and manufactured 34,380 units before the switch to another model in August 2012. In December 2008, the latest Honda Civic was introduced and till the date company has produced 45,479 units of this model.

Current scenario as per PAMA

The latest Honda Civic model hit the market in September 2012 and till date 13,627 units have been produced. During 4MFY14 company produced 3,578 units of Honda Civic and 4,744 units of Honda City were produced. And 3,492 units of Civic and 4,532 units of City were sold during 4MFY14.

Valuation – Sector development is main trigger

HCAR yields FY14 PE of 6.8x (based on our expected EPS of Rs 6.5 for FY14). Among peers PSMC is yielding 5.8x and INDU is also yielding FY14 PE of 7.6x.

The stakeholders are in talks with agile Engineering Development Board (EDB) and also new policies in auto would be in the offing - we see challenges ahead for local assemblers. Prime Minister has also requested Japanese Toyota Motors Corporation (whose variants are assembled by House of Habib in Pakistan i.e. INDU) to go for CBU exports from Pakistan which we see an area where HCAR could thrive.

We recommend HOLD in HCAR, where we see sector wide development could herald growth for the company which has undertaken to expand.