

Honda Atlas Cars (HCAR)

3QMY18 EPS Rs9.9 -5%YoY (-12%QoQ); 9MMY18 EPS Rs35.9,+28%YoY

In-line with Expectations

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Lower margins contain earnings growth

HCAR: Financial Highlights

	3QMY18	3QMY17	YoY	QoQ	9MMY18	9MMY17	YoY
Net sales	21,798	15,714	39%	-5%	65,746	41,729	58%
Cost of sales	19,519	13,527	44%	-3%	57,759	35,421	63%
Gross profits	2,279	2,186	4%	-16%	7,987	6,308	27%
Distribution costs	157	106	49%	-18%	499	332	50%
Administrative costs	150	145	4%	-6%	447	359	24%
Other Operating Income	460	312	48%	-6%	1,414	666	112%
Other Operating cost	316	107	197%	23%	826	425	94%
Operating profits	2,115	2,141	-1%	-19%	7,629	5,858	30%
Finance cost	3	7	-56%	-4%	9	19	-51%
Profit before taxation	2,112	2,134	-1%	-19%	7,620	5,839	31%
Taxation	696	642	8%	-29%	2,499	1,823	37%
Profit after taxation	1,417	1,492	-5%	-12%	5,121	4,016	28%
EPS	9.9	10.4			35.9	28.1	

Source: PSX Notice, Topline Research

- During 3QMY18, HCAR reported earning of Rs1.4bn (EPS Rs9.9), down 5% YoY (-12% QoQ). This was in-line with our expectations as margin contraction contained earnings growth.
- In 3QMY18, HCAR's net sales grew 39% YoY on account of strong volumetric growth which was up 43% to 12,175 units. Sales of Honda variants (City+Civic) were up 7% YoY owing to rise in demand of their revamped Honda City. The company also sold 3,088 BRV units in the outgoing quarter.

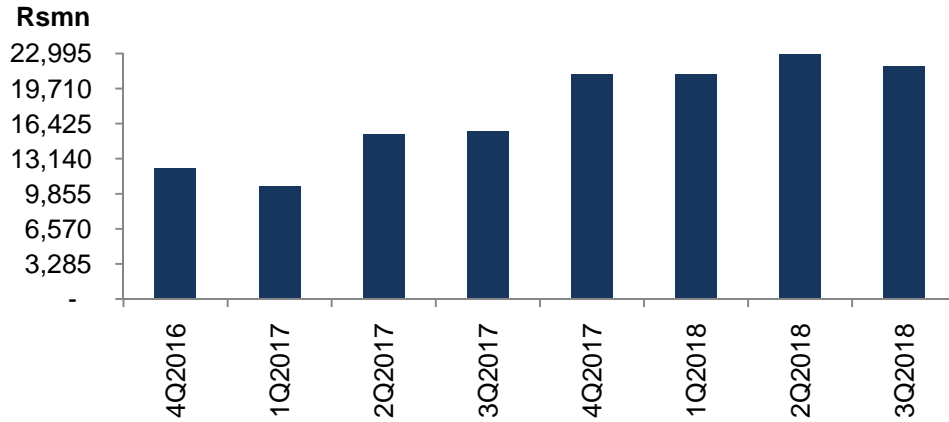
Lower margins contain earnings growth

- Although, sales were up 39%, gross profits only rose by 4% as gross margins shrunk 3.46ppts to 10.45% vs. 13.91% in same period last year. We attribute this to rise in steel prices (CRC prices up 18% YoY). Furthermore, margins were hampered by discounts given by the company on its BRV variants to its dealers, we believe.
- Recent PKR devaluation against US\$ & JPY did not have any significant impact on company's profitability due to nature of supplier contracts. Additionally, HCAR has also raised prices of its variants with effect from January 2018 by ~2% to pass on the impact of devaluation and other cost.
- In 3QMY18, other operating income increased 48% YoY, due to increased customer advances backed by healthy bookings for all its variants, in our view.
- During 9MMY18, HCAR reported earnings of Rs5.1bn (EPS Rs35.9), up 28% YoY. Net sales have grown 58% YoY driven by sales of 35,823 units up 29% YoY. However margins declined from 15% to 12% due higher costs and higher sales of lower margin variants.
- HCAR is trading at a MY18 PE of 9.9x and we currently have a 'Hold' stance on the stock.
- We flag 1) unfavorable movement in exchange rate & commodity prices 2) lower than expected car sales and 3) higher than expected rise in interest rates and deterioration in Pakistan macros, as key risks.

HCAR: Key Numbers					
	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	1.7	7.5	22.1	24.9	43.0
Earnings Growth	-146%	340%	195%	12%	73%
PE at Rs559	326.8	74.3	25.2	22.4	13.0
Dividend Yield	0%	0%	1%	1%	2%
ROE	18%	45%	62%	46%	47%
PBV	58.5	33.4	15.6	10.4	6.1

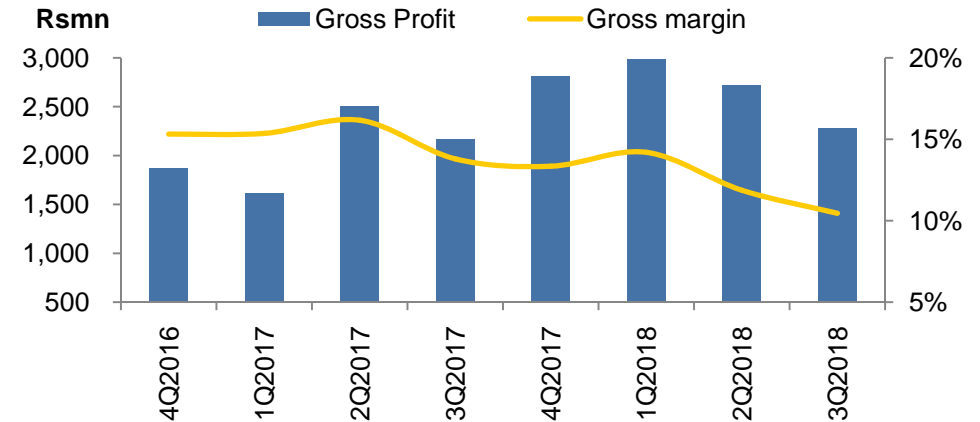
Source: Company Accounts, Topline Research

HCAR: Quarterly Sales



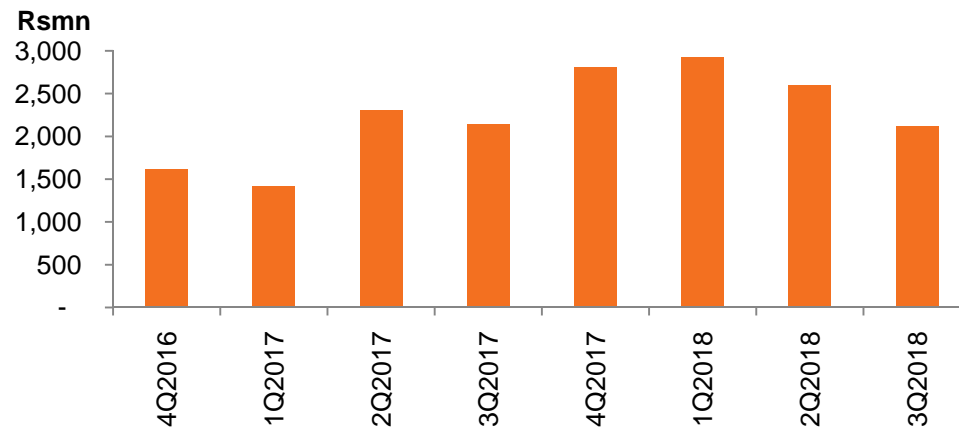
Source: Company Accounts, Topline Research

HCAR: Quarterly Gross Profit & Gross Margins



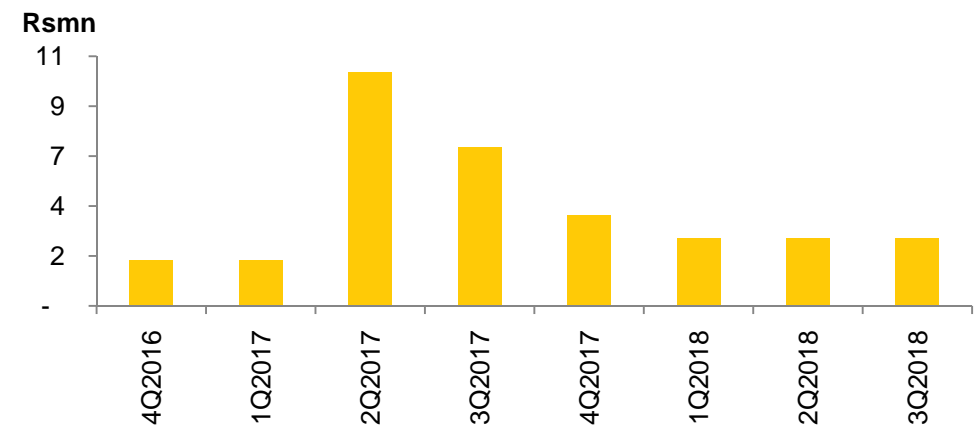
Source: Company Accounts, Topline Research

HCAR: Quarterly Operating Profit



Source: Company Accounts, Topline Research

HCAR: Quarterly Financial Charges



Source: Company Accounts, Topline Research

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