

# Honda Atlas Cars (HCAR)

1QMY19 EPS Rs7.4 -50%YoY (-24%QoQ)

In-line with Expectations

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# Profits down 50% YoY as GP margins contract by 5.2ppts

PSMC: Financial Highlights					
Rsmn	1QMY19	1QMY18	YoY	4QMY18	QoQ
Net sales	23,854	21,058	13%	25,777	-7%
Cost of sales	21,711	18,068	20%	23,315	-7%
Gross profits	2,144	2,990	-28%	2,462	-13%
Distribution costs	191	149	28%	418	-54%
Administrative costs	166	136	22%	231	-28%
Other Operating Income	449	466	-4%	469	-4%
Other Operating cost	347	254	37%	418	-17%
Operating profits	1,888	2,918	-35%	1,864	1%
Finance cost	4	3	29%	5	-13%
Profit before taxation	1,884	2,914	-35%	1,859	1%
Taxation	834	828	1%	485	72%
Profit after taxation	1,050	2,086	-50%	1,374	-24%
<b>EPS</b>	<b>7.36</b>	<b>14.61</b>		<b>9.62</b>	

Source: PSX, Topline Research

- Honda Atlas Cars (HCAR) reported its 1QMY19 earnings, with EPS clocking in at Rs7.4 compared to Rs14.6/share in 1QMY18, down 50% YoY, as GP margins dropped significantly.
- Company net sales rose by 13% YoY due to 3 price hikes since Dec 2017 as well as 13% YoY growth in volumes. Volumetric growth was led by Civic and city models, up by 21% YoY, while sales of BR-V declined 19% YoY.
- Cost of sales outpaced net sales growth, rising by 20% YoY in 1QMY19. Resultantly, gross margins contracted by 5.2ppts YoY to 9.0% in 1QMY19.

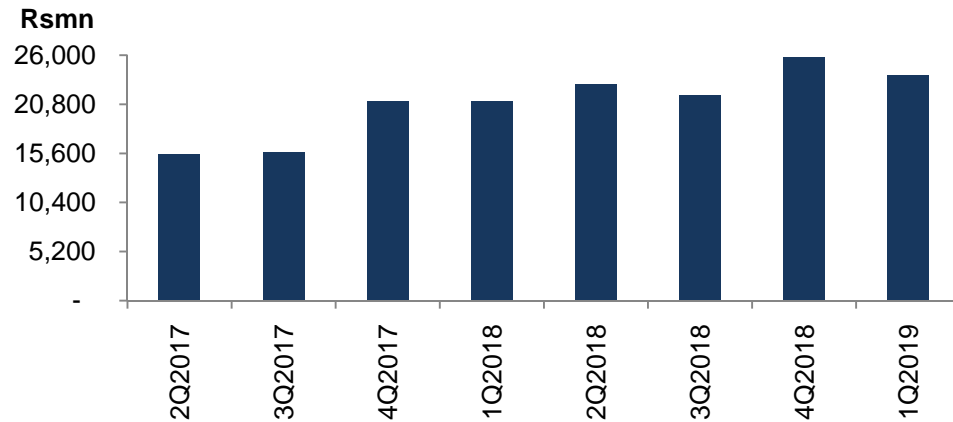
# Profits down 50% YoY as GP margins contract by 5.2ppts

- We attribute deterioration in gross margins to increase in raw material cost and approximately 15% depreciation of PKR from Dec 2017 to Jun 2018 .
- Earnings were also dragged down by 28% YoY and 22% YoY increase in distribution and administrative expenses respectively, which is a result of increase in fixed overhead costs in line with sales, as per our channel checks. Simultaneously, other operating costs were up 37% YoY which is primarily due to exchange losses as per channel checks.
- On a sequential basis, earnings declined 24% QoQ due to twin effect of volumes decline (-12%) as well as margin contraction (0.6ppts QoQ).
- The profitability was also reduced by an effective tax rate of 44% as super-tax was booked during the quarter.
- We flag 1) further unfavorable movement in exchange rate & commodity prices, 2) regulatory changes, 3) increased competition from existing and new players and 4) disruptions in operations of principal company, as key risks for the company.

HCAR: Key Numbers					
	2014A	2015A	2016A	2017A	2018A
EPS	7.5	22.1	24.9	43.0	45.5
Earnings Growth	340%	195%	12%	73%	6%
PE at Rs293.7	39.1	13.3	11.8	6.8	6.5
Dividend Yield	0%	2%	2%	4%	7%
ROE	45%	62%	46%	47%	37%
PBV	17.5	8.2	5.5	3.2	2.4

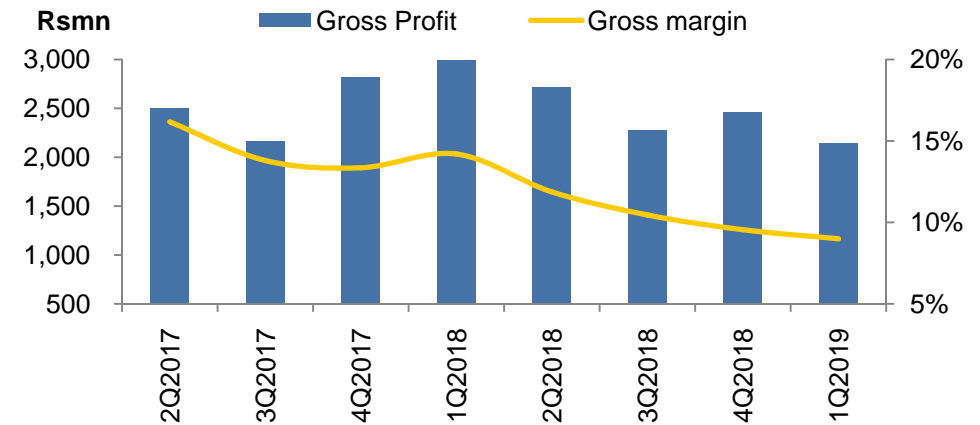
Source: Company Accounts, Topline Research

### HCAR: Quarterly Sales



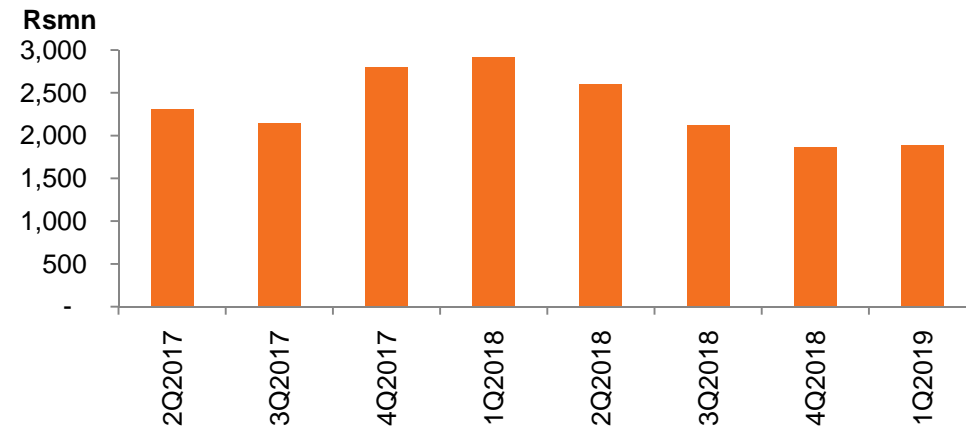
Source: Company Accounts, Topline Research

### HCAR: Quarterly Gross Profit & Gross Margins



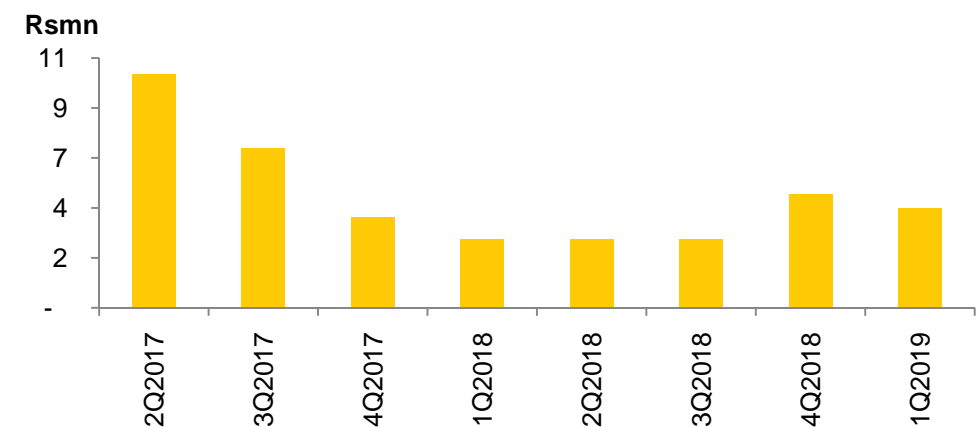
Source: Company Accounts, Topline Research

### HCAR: Quarterly Operating Profit



Source: Company Accounts, Topline Research

### HCAR: Quarterly Financial Charges



Source: Company Accounts, Topline Research

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Sell	Stock will underperform the average total return of stocks in universe

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Market Weight	= Weight in KSE-100 Index
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