

Honda Atlas Cars Limited

KATS: HCAR
Bloomberg: HCAR PA

Price: PKR 282
Fair Value: PKR 300

NEUTRAL

Margins Dipped Likely Due to Severe Competition

24 July 2024

- **1QMY25 EPS recorded at PKR 1.42.** Earnings declined by 85% Q/Q (up +40 Y/Y) because HCAR realized a deferred tax asset in 4QMY24, and net sales dipped 36% Q/Q in 1QMY25. The low sales volume (-35% Q/Q) is attributable to increased competition in the automobile industry. Additionally, there was also a shift in sales mix from Civic to City.
- **Gross profit reported at PKR 1.0 BN (-52%/-782% Q/Q / Y/Y).** Reported gross margin was 6.3% (vs 8.4% in 4QMY24). Again, this was due to a shift in sales mix and it's highly likely that HCAR sold more of 1200 cc units of Honda City, which is a low-margin variant.
- **Finance cost clocked in at 287 MN.** HCAR was able to shield itself from a loss due to a 53% Q/Q decline in finance cost. As seen in 4QMY24, HCAR was quickly retiring its short-term finance facility, and it seems that the company has repaid a significant portion of its balance as of 1QMY25, resulting in low finance cost. However, we await for further clarity.
- **Other income rose to 344 MN (109% Q/Q).** Another factor which supported HCAR's earnings was other income, suggesting that HCAR is investing advance payments on booked orders in short-term T-bills.
- **Outlook.** The demand for HCAR vehicles is expected to stay subdued on account of 1) fierce competition from rivals and the wave of HEV SUVs, 2) high prices of Civic & HRV variants, and 3) low purchasing power of consumers.

Y/E: Mar	MY24	MY25E	MY26E
EPS	16.34	23.73	44.01
DPS	6.50	8.25	15.50
BVPS	151.6	168.9	204.6
P/E(x)	17.6	12.1	6.5
P/B(x)	1.9	1.7	1.4
D/Y(%)	2.3%	2.9%	5.4%

Source: Company Accounts, Optimus Capital

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Earnings Snapshot

PKR MN	Jun-24E	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23	Q/Q	Y/Y
Net Sales	16,103	15,970	24,918	12,426	13,956	3,771	-36%	324%
Cost of Sales	14,900	14,959	22,815	11,400	12,430	3,919	-34%	282%
Gross Profit	1,204	1,012	2,104	1,026	1,527	(148)	-52%	n.m
Distribution Cost	221	259	380	183	212	140	-32%	85%
Admin Expenses	375	392	427	398	383	272	-8%	44%
Other Operating Expenses	41	33	97	63	204	31	-65%	8%
Finance Cost	315	287	612	443	120	44	-53%	557%
Other Income	201	344	165	288	897	903	109%	-62%
Pre Tax Income	453	383	753	227	1,505	268	-49%	43%
Taxation	201	181	(618)	84	830	123	n.m	47%
Profit After Tax	251	203	1,370	143	675	145	-85%	40%
EPS	1.76	1.42	9.60	1.00	4.73	1.02	-85%	40%
DPS	-	-	6.50	-	-	-	-	-
Gross Margin	7.5%	6.3%	8.4%	8.3%	10.9%	-3.9%		
Effective Tax Rate	44.5%	47.1%	-82.1%	37.0%	55.1%	45.8%		
Volumes	3,285		5,044	2,375	2,510	601		

Source: Company Accounts, Optimus Capital

Analyst Certification

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