

## Earning Review

### HCAR: 1QMY22 EPS clocked in at Rs6.50

#### Event

- Honda Atlas Cars (HCAR PA) reported profitability of Rs928mn (EPS Rs6.50) during 1QMY22 against loss of Rs511mn (LPS Rs3.58) during 1QMY21.
- The result is below our expectation.

#### Impact

- Net sales increased by 3.3x YoY accredited to increase in volumes of 3.3x YoY. To highlight, the economy was in the lockdown last year. However, company experienced sequential decline in sales by 4% with volumes decreasing by 5% QoQ.
- Gross margins clocked in at 7.3% during 1QMY22 ( $\uparrow 6.5/2.1$ ppt YoY/QoQ) due to (1) high fixed cost coverage and (2) rupee appreciation. However, growth was restricted due to supply chain issues (shortage of semiconductor chips).
- Despite high volumes, HCAR's distribution costs witnessed drop of 27% YoY while administration costs increased by 56% YoY.
- Other income increased by 3.7x YoY likely due to strong cash position and late deliveries providing cash surplus.
- Other expenses were up by 53% YoY likely due to higher WWF & WPPF given elevated operating profit.
- Finance cost was down by 87% YoY due to lower policy rate and retirement of short-term loan from related party.

#### Outlook

- We have a neutral stance on the stock due to rising competition in the segment. The new variant of City is expected to maintain its market share while Yaris would continue to pressurize this segment. However, rising demand for auto financing would provide support to company's profitability.

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Fig 1: 1QMY22 Earning Review

| Rs (mn)                  | 1QMY22       | 1QMY21        | 4QMY21       | YoY          | QoQ        |
|--------------------------|--------------|---------------|--------------|--------------|------------|
| Net Sales                | 21,765       | 6,512         | 22,774       | 234%         | -4%        |
| COGS                     | 20,170       | 6,458         | 21,593       | 212%         | -7%        |
| <b>Gross Profit</b>      | <b>1,595</b> | <b>54</b>     | <b>1,181</b> | <b>2842%</b> | <b>35%</b> |
| Distribution expense     | 132          | 181           | 316          | -27%         | -58%       |
| Admin expense            | 231          | 148           | 277          | 56%          | -17%       |
| Other Income             | 335          | 91            | 517          | 269%         | -35%       |
| Other operating expense  | 192          | 126           | 96           | 53%          | 99%        |
| <b>Operating Profit</b>  | <b>1,375</b> | <b>(309)</b>  | <b>1,009</b> | <b>-545%</b> | <b>36%</b> |
| Finance cost             | 11           | 89            | (24)         | -87%         | -148%      |
| <b>Profit before tax</b> | <b>1,364</b> | <b>(399)</b>  | <b>1,033</b> | <b>-442%</b> | <b>32%</b> |
| Provision for Taxation   | 435          | 113           | 128          | 287%         | 241%       |
| <b>Net Profit</b>        | <b>928</b>   | <b>(511)</b>  | <b>906</b>   | <b>-282%</b> | <b>2%</b>  |
| <b>EPS</b>               | <b>6.50</b>  | <b>(3.58)</b> | <b>6.34</b>  |              |            |
| Gross margins            | 7.3%         | 0.8%          | 5.2%         |              |            |
| Net margins              | 4.3%         | -7.9%         | 4.0%         |              |            |
| Effective tax rate       | 31.9%        | -28.2%        | 12.4%        |              |            |

Source: PSX, Foundation Research, July 2021

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**Recommendations definitions**

|                                   |               |
|-----------------------------------|---------------|
| If                                |               |
| Expected return >+10%             | Outperform.   |
| Expected return from -10% to +10% | Neutral.      |
| Expected return <-10%             | Underperform. |