

Earning Review

HCAR: 3QMY22 EPS clocked in at Rs3.12, down 40% YoY

Event

- Honda Atlas Car (HCAR PA) reported profitability of Rs446mn (EPS Rs3.12/sh) in 3QMY22 against Rs742mn (EPS Rs5.2/sh) in 3QMY21, down by 40/53% YoY/QoQ. This accumulated profitability for 9MMY22 to Rs2.3bn (EPS 16.2) compared to Rs888mn (EPS 6.2) in same period last year.
- The result is below our expectation given higher sales mix of City and higher other expense.

Impact

- HCAR reported net sales of Rs29.54bn, increasing by 67/14% YoY/QoQ, in 3QMY22. The increase in net sales was accredited to (1) high demand of City's new variant, (2) dissipating supply chain issues, and (3) increase in price during the quarter.
- HCAR volumetric sales increased by 67/13% YoY/QoQ, to clock in at 10,376 units in 3QMY22. Similarly HCAR also increased their prices by 3-5% during the quarter.
- Rupee depreciating by avg 7.9/5.7% YoY/QoQ in 3QMY22 and higher City skewness restricted gross margins at 2.7% (↑380/417bps YoY/QoQ).
- Distribution expense increased/decreased by 102/15% YoY/QoQ during 3QMY22 to clock in at Rs181mn. The increased in distribution expense was due to higher sales volume and increase in freight charges.
- Admin expenses increased/decreased by 19/9% YoY/QoQ to clock in at Rs247mn in 3QMY22.
- Other income clocked in at Rs530mn (↑117/3% YoY/QoQ), increase in other income was accredited to higher advances from customers and high delivery time for HCAR's vehicles.
- HCAR reported other expenses of Rs246mn, decreasing by 9% YoY/QoQ. We suspect the increase in other expense is due to exchange loss and fright loss (net).
- Effective tax rate for the period clocked in at 30.4%, down by 50/469bpt YoY/QoQ.

Outlook

- We expect HCAR's sales to face intensifying competition for its market segment as new entrants position themselves with competitive prices in the market. In near term, the increase in prices would increase the margins despite pressure from the exchange rate.

Analyst

Haris Siddiqui
+92 21 3561 2290-94

haris@fs.com.pk
Ext: 311

Fig 01: 3QMY21 Earning Review

Rs (mn)	3QMY22	3QMY21	YoY	2QMY22	QoQ	9MMY21	9MMY20	YoY
Net Sales	29,539	17,650	67%	25,976	14%	77,280	44,588	73%
COGS	28,738	16,500	74%	24,188	19%	73,095	41,993	74%
Gross Profit	801	1,150	-30%	1,789	-55%	4,185	2,595	61%
Distribution expense	181	90	102%	213	-15%	527	421	25%
Admin expense	247	207	19%	273	-9%	750	546	37%
Other Income	530	244	117%	516	3%	1,382	401	244%
Other operating expense	246	(10)	na	344	-28%	782	141	454%
Operating Profit	657	1,107	-41%	1,476	-55%	3,508	1,888	86%
Finance cost	16	33	-52%	28	-42%	56	140	-60%
Profit before tax	641	1,074	-40%	1,448	-56%	3,452	1,747	98%
Provision for Taxation	195	332	-41%	508	-62%	1,139	860	32%
Net Profit	446	742	-40%	939	-53%	2,313	888	161%
EPS	3.12	5.19		6.58		16.20	6.22	
Gross margins	2.7%	6.5%		6.9%		5.4%	5.8%	
Net margins	1.5%	4.2%		3.6%		3.0%	2.0%	
Effective tax rate	30.4%	30.9%		35.1%		33.0%	49.2%	

Source: Company Accounts, Foundation Research, January 2022

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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