

Honda Motor (7267)

Fuel cell business progressing well, with external sales growth in view

Maintain Rating: BUY | PO: 2,000 JPY | Price: 1,594 JPY

Production of next-gen FC system in collaboration w/ GM

At night on 25 January, Honda Motor announced that (1) its fuel cell (FC) joint venture with GM, Fuel Cell System Manufacturing (FCSM, established January 2017), had started producing the FC system developed by Honda and GM and (2) the FC system will be in the fuel cell EVs (FCEVs) Honda plans to launch in CY24 (CR-V). The new FC system doubles durability vs. Honda's current FC system (2019 Honda Clarity Fuel Cell) at a third of the cost.

Aims to further boost performance by 2030

Honda had been mentioning it aims for FCSM's FC systems to double durability and cut cost to a third vs. its current FC system in 2024, so the announcement suggests its FC business plan is progressing well. Looking to 2030, Honda aims to again double durability and halve the cost vs. the new FC system (i.e., 4x durability, 1/6 cost of current), providing usability and total cost on par with conventional diesel engines.

Key for FC systems likely external sales, incl. for commercial vehicles

While battery electric vehicle (BEV) penetration rates may have slowed of late, we believe the main focus for Honda's FCEVs and FC systems continues to be trucks, to be followed by industrial sectors like construction machinery and stationary power supplies. In addition to (2) above, we expect Honda to sell the FC systems produced at FCSM to external customers, aiming to increase sales from ~2,000 units initially to 60,000 in 2030, and to several 100,000 in the late 2030s.

GM-developed BEV to launch in spring; but HEVs the driver for now

We rate Honda a Buy with a 12-month PO of ¥2,000. The FC system business's steady progress is good news, but BEVs are the driver of Honda's push for zero emissions. Honda has separately announced that it plans to start shipping the Prologue (MSRP: \$47,400-, cruising range: 296 miles), a Honda-brand BEV developed by GM, to US dealers in March 2024. Amid slowing BEV market momentum, Honda users' reaction to a full-fledged BEV will bear watching. That said, we think current offerings like the CR-V with hybrid-electric vehicle (HEV) grade models will be the earnings driver for now, with recent growth in HEV demand in the US being a tailwind for Honda.

26 January 2024

Equity

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Stock Data

Price (Common / ADR)	1,594 JPY / 32.26 USD
Price Objective	2,000 JPY / 40.78 USD
Date Established	20-Oct-2023/ 23-Jan-2024
Investment Opinion	C-1-7 / B-1-7
52-Week Range	1,041-1,821 JPY
Market Value (mn)	8,659,534 JPY
Market Value (\$mn)	58,673 USD
Shares Outstanding (mn)	5,434.3
Average Daily Value (\$mn)	170.8 USD
Free Float	84.4%
BofA Ticker / Exchange	HNDAF / TYO
BofA Ticker / Exchange	HMC / NYS
Bloomberg / Reuters	7267 JP / 7267.T
ROE (2024E)	9.0%
Net Dbt to Eqty (Mar-2023A)	33.6%

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Timestamp: 25 January 2024 11:00PM EST

Price objective basis & risk

Honda Motor (7267 / HNDAF / HMC)

Our 12-month PO for Honda Motor is ¥2,000 (ADR US\$40.78). We derive a fair-value EV/EBITDA multiple of 1.4x by taking the average FY3/18-3/20 EV/EBITDA (ex finco) of 1.3x, applying a 10% decarbonization premium and 10% for potential from action in response to share price weakness, as well as a top-line visibility adjustment discount of 10% (net +10%). We calculate fair-value market cap (ex finco) by applying this to 12-month forward EBITDA of ¥1.7tn (ex finco). We add back financial services shareholders' equity of ¥3.0tn less a 30% discount (¥2.1tn) to derive all-company market cap. Downside risks are the speed of US recovery in demand, forex fluctuations, a prolonged semiconductor shortage, an increase in material costs, and changes in expectation for its aggressive BEV shift.

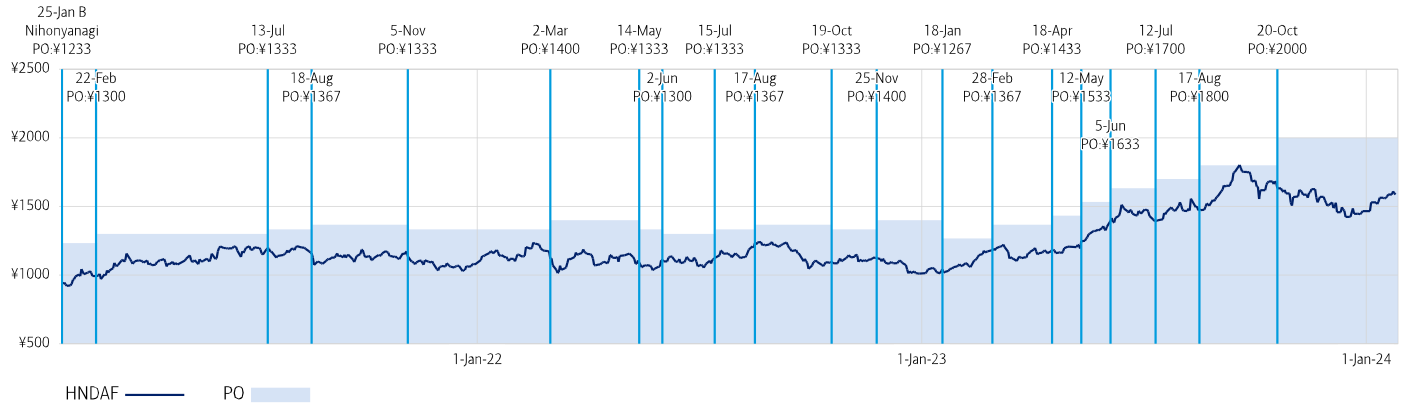
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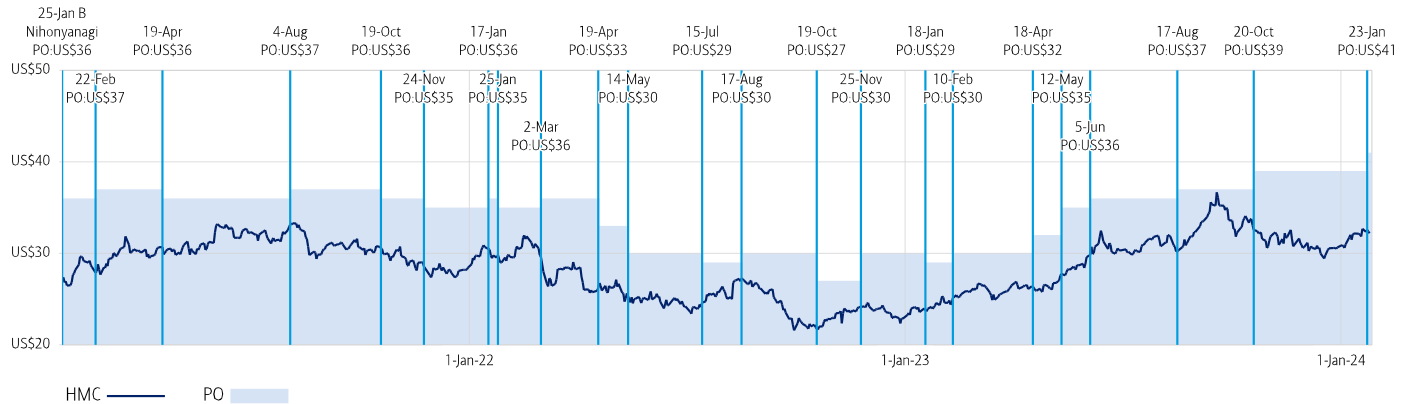
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Honda Motor (HNDAF) Price Chart



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Honda Motor (HMC) Price Chart



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Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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