

## Honda Motor (7267)

**3Q: US-driven (HEV strength). Buybacks show resolve to up capital efficiency**

Maintain Rating: BUY | PO: 2,000 JPY | Price: 1,734 JPY

**Solidly better earnings, acts to lift capital efficiency; Buy**

Our take on Honda's 3Q results is positive, including the company briefing. We reiterate our Buy rating. In underlying performance 3Q OP was ¥379.8bn (BofAe: ¥344.2bn) while the OP margin reached 7.0% (7.9% excluding ¥45bn in one-time Yachiyo plant restructuring costs). The company said the OP margin was 20.1% for motorcycles and 4.3% (5.5%) for automobiles, and we think performance will raise expectations for underlying earnings to improve. We also regard Honda's commitment to improving capital efficiency implicit in the announcement of a further share buyback as positive. Exhibits 1–6 set out earnings in detail, including revised company guidance.

**Big impact on US autos from higher HEV weighting**

The outlook for US automobile sales in 4Q onwards also looks assured to us. Honda's dealer inventories have now recovered to 30 days' supply (market average; over 50 days), and management intends to maintain this level while also keeping incentives scrupulously low. The weighting of hybrid electric vehicle (HEV) models which carry scarcely any incentives has surpassed 50% in the new Accord/CR-V ranges, while the HEV version of the Civic due for launch in June is also encouraging. Improvements in price/mix should drive profit growth in FY3/25, as well.

**Further share buyback, responding to historical issues**

Honda announced a share buyback of up to ¥50bn/34mn shares (0.7% of shares in issue; conducted from 1 March through 30 April). Management says this is to accelerate the enterprise value growth, signaling strong commitment to lifting its P/B above 1.0x. Alongside improving earnings and reinforcing its position in battery electric vehicles, the company also reemphasized the need to address shareholders' equity, which has swelled from ¥6.8tn in FY3/16 to ¥12tn at the end of 3Q FY3/24 (shareholders' equity ratio from 37% to 44% over the same period). Alongside this Honda is to cancel 154mn shares (2.8% of shares in issue).

Estimates (¥)	3/22A	3/23A	3/24E	3/25E	3/26E
	IFRS	IFRS	IFRS	IFRS	IFRS
EPS	137.03	131.54	210.33	205.95	219.29
EPS Change (YoY)	8.0%	-4.0%	59.9%	-2.1%	6.5%
Dividend / Share	40	40	64	64	66
BPS	2,029.7	2,197.8	2,398.4	2,540.3	2,693.6
<b>Valuation</b>					
P/E	12.7x	13.2x	8.2x	8.4x	7.9x
Dividend Yield*	2.3%	2.3%	3.7%	3.7%	3.8%
P/B	0.9x	0.8x	0.7x	0.7x	0.6x
EV/ EBITDA*	5.8x	5.7x	4.6x	4.3x	4.1x
Free Cash Flow Yield*	15.0%	17.6%	19.7%	19.2%	16.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

08 February 2024

## Equity

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## Stock Data

Price (Common / ADR)	1,734 JPY / 34.93 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	1,057-1,821 JPY
Market Value (mn)	9,423,051 JPY
Market Value (\$mn)	63,689 USD
Shares Outstanding (mn)	5,434.3
Average Daily Value (\$mn)	177.6 USD
Free Float	84.4%
BofA Ticker / Exchange	HNDAP / 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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**Refer to important disclosures on page 10 to 13. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 08 February 2024 09:45AM EST

# iQprofile<sup>SM</sup> Honda Motor (7267)

Key Income Statement Data	3/22A	3/23A	3/24E	3/25E	3/26E
(¥ Billions)	IFRS	IFRS	IFRS	IFRS	IFRS
<b>Sales</b>	<b>14,552.7</b>	<b>16,907.7</b>	<b>21,230.4</b>	<b>21,299.6</b>	<b>22,069.3</b>
% Change	10.5%	16.2%	25.6%	0.3%	3.6%
Gross Profit	2,984.8	3,331.6	4,264.5	4,425.7	4,568.9
EBITDA	2,348.1	2,377.6	2,950.3	3,153.7	3,279.3
<b>Operating Profit</b>	<b>871.2</b>	<b>780.8</b>	<b>1,321.5</b>	<b>1,492.3</b>	<b>1,584.7</b>
% Change	32.0%	-10.4%	69.3%	12.9%	6.2%
Net Interest & Other Income	8.8	37.0	23.5	23.5	23.5
<b>Pretax Income</b>	<b>1,070.2</b>	<b>897.6</b>	<b>1,516.5</b>	<b>1,614.8</b>	<b>1,719.0</b>
% Change	17.1%	-16.1%	69.0%	6.5%	6.5%
<b>Net Income</b>	<b>707.1</b>	<b>669.4</b>	<b>1,025.9</b>	<b>1,004.5</b>	<b>1,069.6</b>

Key Cash Flow Statement Data					
Net Income from Cont Operations (GAAP)	707.1	669.4	1,025.9	1,004.5	1,069.6
Depreciation & Amortization	1,476.9	1,596.9	1,628.8	1,661.4	1,694.6
Change in Working Capital	(407.7)	(89.1)	340.0	301.0	(25.2)
Capital Expenditure	(268.1)	(475.0)	(395.1)	(414.9)	(435.6)
<b>Free Cash Flow*</b>	<b>1,411.5</b>	<b>1,654.0</b>	<b>1,859.6</b>	<b>1,812.8</b>	<b>1,565.9</b>
Share Issue / (Repurchase)	(62.2)	(156.6)	(200.0)	0	0
Cost of Dividends Paid	(242.2)	(264.9)	(312.2)	(312.2)	(321.9)

Key Balance Sheet Data					
Cash & Equivalents	3,674.9	3,803.0	5,237.3	6,233.7	7,020.6
Trade Receivables	896.8	1,060.3	1,131.6	1,021.8	1,058.7
Other Current Assets	4,269.7	4,715.1	4,562.5	4,375.9	4,474.2
Property, Plant & Equipment	3,079.4	3,168.1	3,115.1	3,072.9	3,042.3
Other Non-Current Assets	12,052.3	11,923.6	12,086.4	12,248.7	12,415.2
<b>Total Assets</b>	<b>23,973.2</b>	<b>24,670.1</b>	<b>26,132.9</b>	<b>26,953.0</b>	<b>28,011.1</b>
Short-Term Debt	3,118.3	3,291.2	3,291.2	3,291.2	3,291.2
Other Current Liabilities	2,886.1	3,360.9	3,940.7	3,938.4	4,069.2
Long-Term Debt	4,984.3	4,374.0	4,374.0	4,374.0	4,374.0
Other Non-Current Liabilities	2,212.0	2,141.7	2,399.5	2,403.6	2,449.6
<b>Total Liabilities</b>	<b>13,200.6</b>	<b>13,167.8</b>	<b>14,005.4</b>	<b>14,007.2</b>	<b>14,184.0</b>
<b>Total Equity</b>	<b>10,772.5</b>	<b>11,502.3</b>	<b>12,127.5</b>	<b>12,945.8</b>	<b>13,827.2</b>
<b>Total Equity &amp; Liabilities</b>	<b>23,973.2</b>	<b>24,670.1</b>	<b>26,132.9</b>	<b>26,953.0</b>	<b>28,011.1</b>

## Key Metrics

### iQmethod<sup>SM</sup> – Business Performance\*

Return On Capital Employed	3.2%	3.3%	4.7%	4.8%	4.9%
Return On Equity	7.2%	6.2%	9.0%	8.3%	8.4%
Operating Margin	6.0%	4.6%	6.2%	7.0%	7.2%

### iQmethod<sup>SM</sup> – Quality of Earnings\*

Cash Realization Ratio	2.4x	3.2x	2.2x	2.2x	1.9x
Asset Replacement Ratio	0.2x	0.3x	0.2x	0.2x	0.3x
Tax Rate (Reported)	28.9%	18.1%	25.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	41.1%	33.6%	20.0%	11.1%	4.7%
Interest Cover	51.7x	21.6x	51.1x	57.7x	61.2x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.  
Other GAAP denotes Japanese Accounting Standards.

## Company Sector

Autos/Car Manufacturers

## Company Description

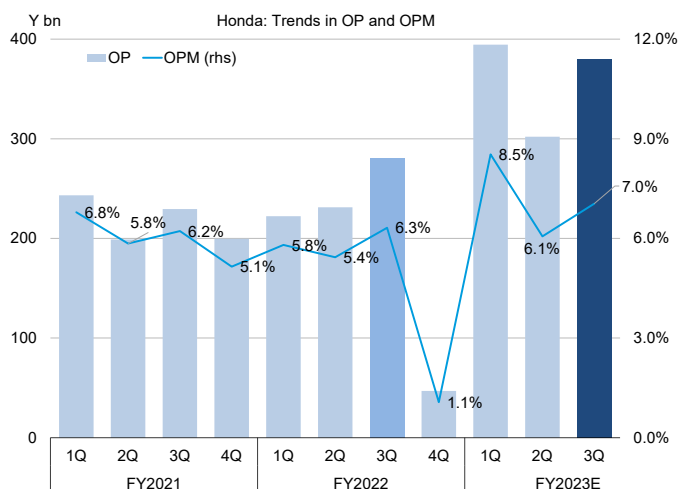
Japan's third largest automaker in terms of sales. Top global market share in initial motorcycle business. North America a main earnings source, with autos historically highly regarded in US market. Highest exposure to North American business of Japan's big three (Toyota, Nissan, Honda), slightly lagging in emerging market expansion, but recently being aggressive in emerging market also, eg in ASEAN and India. Established in 1948.

## Investment Rationale

We rate Honda Buy. We think its share price is likely to outperform in relative terms amid macro uncertainty, in view of its robust balance sheet and historically low valuations. The motorcycle segment's profit weighting has also increased sharply over the past few years. We believe the current share price offers considerable investment value, taking into account the value of the motorcycle segment as a long-term growth business in which Honda is also in a dominant competitive position.

**Exhibit 1: Honda: Quarterly OP and OPM**

3Q OPM hits 7%, despite one-time costs

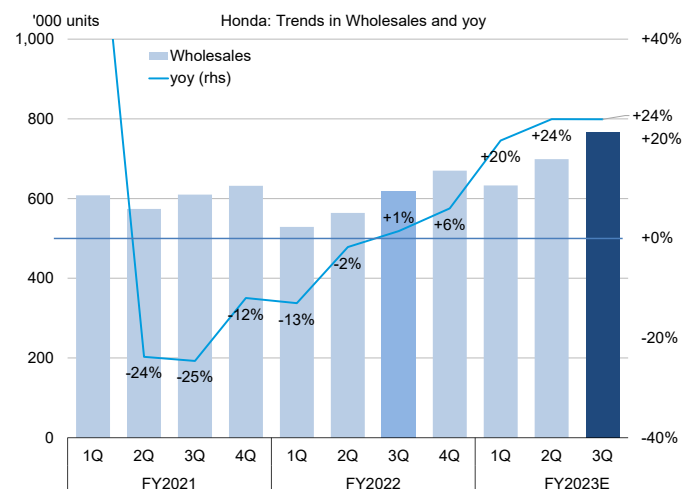


Source: Company data, BofA Global Research.

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**Exhibit 2: Honda: Quarterly wholesale sales volume, YoY change**

3Q auto shipments strong as limiting factors drop out



Source: Company data, BofA Global Research.

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**Exhibit 3: Honda: Changes in BofAe, CoE, consensus**

Absorbs higher product quality costs, revises up again

**Honda Motor (7267)**

			Sales		OP		Net Profit Before Tax		Net Profit		EPS	P/E	P/B	ROE
			JPY mn	yoy %	JPY mn	yoy %	JPY mn	yoy %	JPY mn	yoy %	JPY	x	x	%
Fiscal Year														
FY3/23	Actual		16,907,725	+16.2%	780,769	-10.4%	897,565	-16.1%	651,416	-7.9%	384.0	4.5	0.3	6.0%
FY3/24	E		21,230,400	+25.6%	1,321,500	+69.3%	1,516,500	+69.0%	1,025,900	+57.5%	210.3	8.2	0.7	9.0%
	IFIS E		20,434,007	+20.9%	1,311,800	+68.0%	1,504,223	+67.6%	1,017,607	+56.2%	202.2	8.6		
	CoE New		20,200,000	+19.5%	1,250,000	+60.1%	1,445,000	+61.0%	960,000	+47.4%	195.8	8.9		
	CoE Old		20,000,000	+18.3%	1,200,000	+53.7%	1,395,000	+55.4%	930,000	+42.8%	189.6	9.1		
FY3/25	E		21,299,600	+0.3%	1,492,300	+12.9%	1,614,800	+6.5%	1,004,500	-2.1%	205.9	8.4	0.7	8.3%
	IFIS E		21,220,750	+3.9%	1,393,300	+6.2%	1,550,562	+3.1%	1,042,050	+2.4%	213.9	8.1		
FY3/26	E		22,069,300	+3.6%	1,584,700	+6.2%	1,719,000	+6.5%	1,069,600	+6.5%	219.3	7.9	0.6	8.4%
	IFIS E		21,777,754	+2.6%	1,425,223	+2.3%	1,582,367	+2.1%	1,066,819	+2.4%	224.6	7.7		
1H (Apr-Sep)														
FY3/23	Actual		8,085,304	+15.7%	453,452	+2.5%	515,831	-8.0%	338,514	-13.0%				
FY3/24	Actual		9,609,392	+18.9%	696,573	+53.6%	879,285	+70.5%	616,301	+82.1%				
2H (Oct-Mar)														
FY3/23	Actual		8,822,421	+16.6%	327,317	-23.7%	381,734	-25.1%	312,902	-1.6%				
FY3/24	E		11,621,008	+31.7%	624,927	+90.9%	637,215	+66.9%	409,599	+30.9%				
1Q (Apr-Jun)														
FY3/23	Actual		3,829,550	+6.9%	222,216	-8.6%	237,404	-23.8%	149,219	-32.9%				
FY3/24	Actual		4,624,996	+20.8%	394,447	+77.5%	514,924	+116.9%	363,069	+143.3%				
2Q (Jul-Sep)														
FY3/23	Actual		4,255,754	+25.0%	231,236	+16.2%	278,427	+11.8%	189,295	+13.6%				
FY3/24	Actual		4,984,396	+17.1%	302,126	+30.7%	364,361	+30.9%	253,232	+33.8%				
3Q (Oct-Dec)														
FY3/23	Actual		4,438,186	+20.3%	280,491	+22.2%	343,546	+20.6%	244,655	+26.8%				
FY3/24	Actual		5,390,100	+21.4%	379,812	+35.4%	385,239	+12.1%	253,308	+3.5%				
	E Old		5,437,400	+22.5%	344,200	+22.7%	368,600	+7.3%	251,300	+2.7%				
4Q (Jan-Mar)														
FY3/23	Actual		4,384,235	+13.1%	46,826	-76.5%	38,188	-83.0%	68,247	-45.4%				
FY3/24	E		6,230,908	+42.1%	245,115	+423.5%	251,976	+559.8%	156,291	+129.0%				

Source: Company data, IFIS Consensus, BofA Global Research.

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**Exhibit 4: Honda: Earnings at a glance**

We think FY3/25 OP can rise further on better mix, etc.

¥ bn, ¥, %	2023/3	2024/3E	2025/3E	2026/3E	24/3 CoE		2023/3		2024/3E							4Q CoE
	IFRS	IFRS	IFRS	IFRS	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE		
<b>Sales</b>	16,908	21,230	21,300	22,069	20,200	20,000	8,085	8,822	4,625	4,984	9,609	5,390	6,231	11,621		5,201
Cost of sales	13,576	16,966	16,874	17,500			6,506	7,070	3,628	3,894	7,522	4,216	5,228	9,444		
<b>Gross profit</b>	3,332	4,265	4,426	4,569			1,579	1,752	997	1,091	2,088	1,174	1,003	2,177		
SG&A expenses	1,670	1,963	1,924	1,955			745	925	405	582	987	567	409	976		
<b>Operating profit</b>	781	1,322	1,492	1,585	1,250	1,200	453	327	394	302	697	380	245	625		174
Equity method income/loss	117	81	99	111	75	75	83	34	43	24	67	1	14	15		8
<b>Pretax profit</b>	898	1,517	1,615	1,719	1,445	1,395	516	382	515	364	879	385	252	637		180
Corporate tax, etc.	162	379	484	516			147	15	132	93	225	114	39	154		
Minority shareholder interest	66	112	126	134			30	36	20	18	38	17	56	74		
<b>Net profit</b>	651	1,026	1,005	1,070	960	930	339	313	363	253	616	253	156	410		90
<b>R&amp;D expenses</b>	852	980	1,009	1,029	990	990	371	481	194	214	408	243	329	572		339
<b>Depreciation &amp; amortization</b>	439	448	457	466	480	480	207	232	123	123	246	119	83	202		115
<b>Capex</b>	494	395	415	436	440	440	242	252	62	73	135	85	175	260		220
Sales ratios																
<b>Gross profit</b>	19.7%	20.1%	20.8%	20.7%			19.5%	19.9%	21.6%	21.9%	21.7%	21.8%	16.1%	18.7%		
<b>Operating profit</b>	4.6%	6.2%	7.0%	7.2%	6.2%	6.0%	5.6%	3.7%	8.5%	6.1%	7.2%	7.0%	3.9%	5.4%		3.3%
<b>Net profit</b>	3.9%	4.8%	4.7%	4.8%	4.8%	4.7%	4.2%	3.5%	7.9%	5.1%	6.4%	4.7%	2.5%	3.5%		1.7%
Tax rate	18.1%	25.0%	30.0%	30.0%			28.5%	4.0%	25.6%	25.6%	25.6%	29.7%	15.6%	24.1%		
YoY change																
<b>Sales</b>	+16.2%	+25.6%	+0.3%	+3.6%	+19.5%	+18.3%	+15.7%	+16.6%	+20.8%	+17.1%	+18.9%	+21.4%	+42.1%	+31.7%		+18.6%
<b>Operating profit</b>	-10.4%	+69.3%	+12.9%	+6.2%	+60.1%	+53.7%	+2.5%	-23.7%	+77.5%	+30.7%	+53.6%	+35.4%	+423.5%	+90.9%		+270.8%
<b>Net profit</b>	-7.9%	+57.5%	-2.1%	+6.5%	+47.4%	+42.8%	-13.0%	-1.6%	+143.3%	+33.8%	+82.1%	+3.5%	+129.0%	+30.9%		+32.4%
Forex assumptions	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE		4Q CoE
¥/USD	135.5	143.7	145.0	145.0	142.0	140.5	134.0	137.0	137.3	144.6	140.9	147.8	145.0	146.4		
¥/EUR	141.0	155.2	155.0	155.0			138.7	143.2	149.5	157.3	153.4	159.1	155.0	157.0		
<b>OP variance analysis</b>																
	2023/3	2024/3E	2025/3E	2026/3E	New	Old	2023/3		2024/3E							
							1H	2H	1Q	2Q	1H	3Q	4QE	2HE		4Q CoE
Sales impact	-109.1	+349.9	+73.4	+122.7	+360.6	+371.6	-100.0	-9.1	+133.7	+85.5	+219.2	+63.1	+67.6	+130.7		+78.3
Impact of cost cutting	-27.4	+409.4	+69.8	+20.5	+434.0	+394.0	+8.3	-35.7	+65.9	+139.8	+205.7	+154.0	+49.7	+203.7		+74.3
Change in SG&A expenses	-191.1	-293.3	+39.0	-30.6	-353.4	-321.4	-41.8	-149.3	-29.8	-184.5	-214.3	-152.3	+73.3	-79.0		+13.2
Forex impact	+295.9	+127.5	+18.0	0.0	+79.0	+26.0	+153.2	+142.7	+23.2	+39.2	+62.4	+32.9	+32.2	+65.1		-16.3
Change in R&D expenses	-58.5	-52.8	-29.4	-20.2	-51.0	-51.0	-8.2	-50.3	-20.8	-9.2	-30.0	+1.4	-24.2	-22.8		-22.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0
<b>Total</b>	-90.2	+540.7	+170.8	+92.4	+469.2	+419.2	+11.5	-101.7	+172.2	+70.8	+243.0	+99.1	+198.6	+297.7		+127.1

Source: Company data, BofA Global Research.

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**Exhibit 5: Honda: Automobile business sales volume**

Auto sales recovering well in FY3/24

Sales volume by region (wholesale, '000s)	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE
Japan	484	540	576	549	555	545	212	272	102	129	231	149	160	309	175
North America	1,195	1,629	1,629	1,752	1,620	1,620	542	653	393	385	778	433	418	851	409
Europe	84	82	82	90	100	100	45	39	20	23	43	25	14	39	32
Asia	505	490	496	538	490	520	235	270	88	127	215	125	150	275	150
South America	114	142	156	172	135	135	59	55	30	35	65	35	42	77	35
Overseas total	1,898	2,342	2,363	2,552	2,345	2,375	881	1,017	531	570	1,101	618	623	1,241	626
<b>Total</b>	<b>2,382</b>	<b>2,882</b>	<b>2,939</b>	<b>3,101</b>	<b>2,900</b>	<b>2,920</b>	<b>1,093</b>	<b>1,289</b>	<b>633</b>	<b>699</b>	<b>1,332</b>	<b>767</b>	<b>783</b>	<b>1,550</b>	<b>801</b>

"Group sales volume" by region ( '000s)	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE
Japan	550	620	626	599	630	630	241	309	115	144	259	169	192	361	202
North America	1,195	1,661	1,629	1,752	1,620	1,620	542	653	393	385	778	433	450	883	409
Europe	84	82	82	90	100	100	45	39	20	23	43	25	14	39	32
Asia	1,744	1,720	1,744	1,822	1,615	1,615	898	846	343	446	789	518	413	931	308
Other regions	114	142	156	172	135	135	59	55	30	35	65	35	42	77	35
Overseas total	3,137	3,605	3,611	3,836	3,470	3,470	1,544	1,593	786	889	1,675	1,011	919	1,930	784
<b>Total</b>	<b>3,687</b>	<b>4,225</b>	<b>4,237</b>	<b>4,435</b>	<b>4,100</b>	<b>4,100</b>	<b>1,785</b>	<b>1,902</b>	<b>901</b>	<b>1,033</b>	<b>1,934</b>	<b>1,180</b>	<b>1,111</b>	<b>2,291</b>	<b>986</b>

YoY change in sales volume (%)	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE
Japan	+2%	+11%	+7%	-5%	+15%	+13%	-1%	+4%	+6%	+11%	+9%	+14%	+13%	+13%	+24%
North America	-7%	+36%	-0%	+8%	+36%	+36%	-19%	+6%	+47%	+40%	+44%	+36%	+25%	+30%	+22%
Europe	-16%	-2%	+0%	+10%	+19%	+19%	-20%	-11%	-13%	+5%	-4%	+39%	-32%	+1%	+52%
Asia	+14%	-3%	+1%	+8%	-3%	+3%	+29%	+3%	-22%	+4%	-9%	+1%	+2%	+2%	+3%
South America	-7%	+24%	+10%	+10%	+18%	+18%	-5%	-8%	+0%	+21%	+10%	+25%	+55%	+40%	+30%
Overseas total	-3%	+23%	+1%	+8%	+24%	+25%	-9%	+4%	+23%	+27%	+25%	+27%	+18%	+22%	+18%
<b>Total</b>	<b>-2%</b>	<b>+21%</b>	<b>+2%</b>	<b>+6%</b>	<b>+22%</b>	<b>+23%</b>	<b>-8%</b>	<b>+4%</b>	<b>+20%</b>	<b>+24%</b>	<b>+22%</b>	<b>+24%</b>	<b>+17%</b>	<b>+20%</b>	<b>+20%</b>

YoY change in "Group sales volume"	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE
Japan	+1%	+13%	+1%	-4%	+6%	+15%	-3%	+3%	+6%	+8%	+7%	+14%	+19%	+17%	-35%
North America	-7%	+39%	-2%	+8%	+9%	+26%	-19%	+6%	+47%	+40%	+44%	+36%	+34%	+35%	-37%
Europe	-16%	-2%	0%	+10%	-1%	0%	-20%	-11%	-13%	+5%	-4%	+39%	-32%	+1%	-18%
Asia	-14%	-1%	+1%	+4%	-28%	-20%	+2%	-26%	-11%	-13%	-12%	+17%	+2%	+10%	-64%
Other regions	-7%	+24%	+10%	+10%	+7%	+11%	-5%	-8%	0%	+21%	+10%	+25%	+55%	+40%	-36%
Overseas total	-11%	+15%	+0%	+6%	-12%	-2%	-7%	-14%	+11%	+6%	+8%	+25%	+17%	+21%	-51%
<b>Total</b>	<b>-9%</b>	<b>+15%</b>	<b>+0%</b>	<b>+5%</b>	<b>-10%</b>	<b>+1%</b>	<b>-7%</b>	<b>-12%</b>	<b>+11%</b>	<b>+6%</b>	<b>+8%</b>	<b>+24%</b>	<b>+17%</b>	<b>+20%</b>	<b>-48%</b>

YoY change in retail sales volume	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE
Japan	-2%	+7%	+7%	-5%			-5%	+1%	-1%	+4%	+2%	+20%	+5%	+12%	
North America	-27%	+35%	+5%	+8%			-43%	-4%	+42%	+48%	+45%	+31%	+20%	+25%	
Europe	+1%	+9%	+6%	+6%			-8%	+13%	-29%	-4%	-17%	+5%	+68%	+37%	
Asia	+5%	-2%	+7%	+8%			+25%	-9%	-15%	-7%	-11%	+6%	+7%	+6%	
Other regions	-21%	+31%	+13%	+13%			-28%	-13%	+38%	+28%	+32%	+23%	+38%	+30%	
Overseas total	-19%	+15%	+2%	+6%			-20%	-17%	+10%	+7%	+8%	+23%	+21%	+23%	
<b>Total</b>	<b>-17%</b>	<b>+14%</b>	<b>+3%</b>	<b>+5%</b>			<b>-18%</b>	<b>-15%</b>	<b>+9%</b>	<b>+6%</b>	<b>+8%</b>	<b>+23%</b>	<b>+18%</b>	<b>+21%</b>	

Source: Company data, BofA Global Research.

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**Exhibit 6: Honda: Performance by business segment**

Achieves 3Q OPM of 20% on motorcycles, 4.3% on autos

Segment data																
Segment sales	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE	
Motorcycle segment	2,909	3,243	3,190	3,199			1,413	1,496	757	816	1,573	785	885	1,670		
Automobile segment	10,594	14,038	14,134	14,867			4,920	5,673	2,992	3,270	6,262	3,710	4,065	7,776		
Financing segment	2,954	3,479	3,475	3,471			1,528	1,426	773	804	1,577	810	1,093	1,902		
Life creation and other segment	451	471	501	533			225	227	103	95	198	85	188	273		
Total	16,908	21,230	21,300	22,069	20,200	20,000	8,085	8,822	4,625	4,984	9,609	5,390	6,231	11,621	5,201	
Operating profit by segment	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE	
Motorcycle segment	489	564	617	634			225	264	144	110	253	158	152	311		
Automobile segment	-17	502	623	702			64	-80	177	124	301	159	42	201		
Financing segment	286	256	253	250			153	133	70	67	137	68	52	119		
Life creation and other segment	23	-1	0	-1			12	11	4	0	5	-5	-1	-6		
Eliminations/Corporate	0	0	0	0			0	0	0	0	0	0	0	0		
Total	781	1,322	1,492	1,585	1,250	1,200	453	327	394	302	697	380	245	625	503	
Operating margin by segment	2023/3	2024/3E	2025/3E	2026/3E	New	Old	1H	2H	1Q	2Q	1H	3Q	4QE	2HE	4Q CoE	
Motorcycle segment	16.8%	17.4%	19.3%	19.8%			15.9%	17.6%	19.0%	13.5%	16.1%	20.1%	17.2%	18.6%		
Automobile segment	-0.2%	3.6%	4.4%	4.7%			1.3%	-1.4%	5.9%	3.8%	4.8%	4.3%	1.0%	2.6%		
Financing segment	9.7%	7.4%	7.3%	7.2%			10.0%	9.3%	9.0%	8.4%	8.7%	8.4%	4.7%	6.3%		
Life creation and other segment	5.1%	-0.3%	0.0%	-0.1%			5.4%	4.8%	4.3%	0.4%	2.4%	-6.2%	-0.4%	-2.2%		
Total	4.6%	6.2%	7.0%	7.2%	6.2%	6.0%	5.6%	3.7%	8.5%	6.1%	7.2%	7.0%	3.9%	5.4%	9.7%	

Source: Company data, BofA Global Research.

BofA GLOBAL RESEARCH

## 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.

## Analyst Certification

I, Kei Nihonyanagi, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### APR - Autos Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aima Technology	XIHF	603529 CH	Joey Yang, CFA
	Bajaj Auto	XBJF	BJAUT IN	Gunjan Prithyani
	BYD	BYDDF	1211 HK	Ming Hsun Lee, CFA
	BYD	XYMPF	002594 CH	Ming Hsun Lee, CFA
	BYD	BYDDY	BYDDY US	Ming Hsun Lee, CFA
	CATL	XMOQF	300750 CH	Ming Hsun Lee, CFA
	DENSO	DNZOF	6902 JP	Kei Nihonyanagi
	EVE	XEVF	300014 CH	Ming Hsun Lee, CFA
	Fuyao Glass	XFGIF	600660 CH	Edward Leung, CFA
	Fuyao Glass	FIGIF	3606 HK	Edward Leung, CFA
	Great Wall Motor	GWLLF	2333 HK	Ming Hsun Lee, CFA
	GS Yuasa	GYUAF	6674 JP	Kentaro Hosoda
	Guangzhou Automobile Group	GNZUF	2238 HK	Ming Hsun Lee, CFA
	Hankook Tire	XHTRF	161390 KS	KJ Hwang
	Hero Motocorp	HRHDF	HMCL IN	Gunjan Prithyani
	Hesai	HSAL	HSAL US	Jessie Lo
	HL Mando	XMADF	204320 KS	KJ Hwang
	Honda Motor	HMC	HMC US	Kei Nihonyanagi
	Honda Motor	HNDAF	7267 JP	Kei Nihonyanagi
	Huayu	XHASF	600741 CH	Jessie Lo
	Hyundai Motor	HYMLF	005380 KS	KJ Hwang
	Isuzu Motors	ISUZF	7202 JP	Kei Nihonyanagi
	Joyson	XQMWF	600699 CH	Jessie Lo
	Leapmotor	XZSSF	9863 HK	Ming Hsun Lee, CFA
	Li Auto	LI	LI US	Ming Hsun Lee, CFA
	Li Auto	LAAOF	2015 HK	Ming Hsun Lee, CFA
	Maruti	MUDGF	MSIL IN	Gunjan Prithyani
	Mazda Motor	MZDAF	7261 JP	Kei Nihonyanagi
	Minh	MNTHF	425 HK	Jessie Lo
	Ningbo Tuopu	XNCGF	601689 CH	Joey Yang, CFA
	Nissan Motor	NSANF	7201 JP	Kei Nihonyanagi
	Nissan Motor	NSANY	NSANY US	Kei Nihonyanagi
	PARK24	PKCOF	4666 JP	Kei Nihonyanagi
	SAMIL (Motherison International)	XMSUF	MOTHERSO IN	Gunjan Prithyani
	Shenzhen Kedali	XWCSF	002850 CH	Jessie Lo
	Shuanghuan Driveline	XZSHF	002472 CH	Jessie Lo
	Sumitomo Rubber Industries	SMTUF	5110 JP	Kentaro Hosoda
	Suzuki Motor	SZKMF	7269 JP	Kei Nihonyanagi



## APR - Autos Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Tata Motors	XTTSF	TTMT IN	Gunjan Prithyani
	Toyo Tire	TOTTF	5105 JP	Kentaro Hosoda
	Toyota Motor	TOYOF	7203 JP	Kei Nihonyanagi
	Toyota Motor	TM	TM US	Kei Nihonyanagi
	Wencan	XSCDF	603348 CH	Joey Yang, CFA
	Wuxi Lead	XZSRF	300450 CH	Ming Hsun Lee, CFA
	XPeng Inc	XPEV	XPEV US	Ming Hsun Lee, CFA
	XPeng Inc.	XPNGF	9868 HK	Ming Hsun Lee, CFA
	Yadea	YADGF	1585 HK	Joey Yang, CFA
	Yunnan Energy	XLGFF	002812 CH	Jessie Lo
	Zhejiang Sanhua	XZSIF	002050 CH	Jessie Lo
	Zhongsheng Auto	ZHSHF	881 HK	Joey Yang, CFA

## NEUTRAL

	Aisin	ASEKF	7259 JP	Kei Nihonyanagi
	Ashok Leyland	XDBVF	AL IN	Gunjan Prithyani
	Bridgestone	BRDCF	5108 JP	Kei Nihonyanagi
	Bridgestone	BRDCY	BRDCY US	Kei Nihonyanagi
	CALB	XCLSF	3931 HK	Ming Hsun Lee, CFA
	Dong Feng	DNFGF	489 HK	Ming Hsun Lee, CFA
	Eicher Motors	XEIMF	EIM IN	Gunjan Prithyani
	Hino Motors	HINOF	7205 JP	Kei Nihonyanagi
	Hyundai Mobis	HYPLF	012330 KS	KJ Hwang
	Kia Corp	KIMTF	000270 KS	KJ Hwang
	Mahindra & Mahindra (M&M)	XKQRF	MM IN	Gunjan Prithyani
	MeiDong Auto	CMEIF	1268 HK	Joey Yang, CFA
	Motherson Sumi Wiring	XMWDF	MSUMI IN	Gunjan Prithyani
	NIO	NIO	NIO US	Ming Hsun Lee, CFA
	NIO	NIOIF	9866 HK	Ming Hsun Lee, CFA
	NIO	XLTFW	NIO SP	Ming Hsun Lee, CFA
	Shenzhen Senior	XHYRF	300568 CH	Jessie Lo
	Subaru Corp	FUJHF	7270 JP	Kei Nihonyanagi
	Subaru Corp	FUJHY	FUJHY US	Kei Nihonyanagi
	Toyota Industries Corporation	TYIDF	6201 JP	Kentaro Hosoda
	Toyota Industries Corporation	TYIDY	TYIDY US	Kentaro Hosoda
	TVS Motors	XFKMF	TVSL IN	Gunjan Prithyani
	Yokohama Rubber	YORUF	5101 JP	Kentaro Hosoda
	Yongda	CYYHF	3669 HK	Joey Yang, CFA

## UNDERPERFORM

	Astra International	PTAIF	ASII IJ	Paul Dewberry
	BAIC Motor	BMCLF	1958 HK	Ming Hsun Lee, CFA
	Bharat Forge	XUUVF	BHFC IN	Gunjan Prithyani
	China Grand Auto	XMURF	600297 CH	Joey Yang, CFA
	Desay SV	XGDF	002920 CH	Jessie Lo
	Escorts Kubota	XSCOF	ESCORTS IN	Gunjan Prithyani
	GAC	XGNHF	601238 CH	Ming Hsun Lee, CFA
	Great Wall Motor	XGWMF	601633 CH	Ming Hsun Lee, CFA
	Hyundai Wia	XWHYF	011210 KS	KJ Hwang
	Mitsubishi Motors	MMTOF	7211 JP	Kei Nihonyanagi
	Nextage	NXAGF	3186 JP	Kentaro Hosoda
	Nexteer	NTXVF	1316 HK	Jessie Lo
	Putailai	XVHGF	603659 CH	Jessie Lo
	SAIC Motor	XZNJF	600104 CH	Ming Hsun Lee, CFA
	Sona Comstar	XBNXF	SONACOMS IN	Gunjan Prithyani
	Tinci Materials	XCVHF	002709 CH	Miriam Chan, CFA
	Yamaha Motor	YAMHF	7272 JP	Kei Nihonyanagi

## RVW

	Geely	GELYF	175 HK	Ming Hsun Lee, CFA
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## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

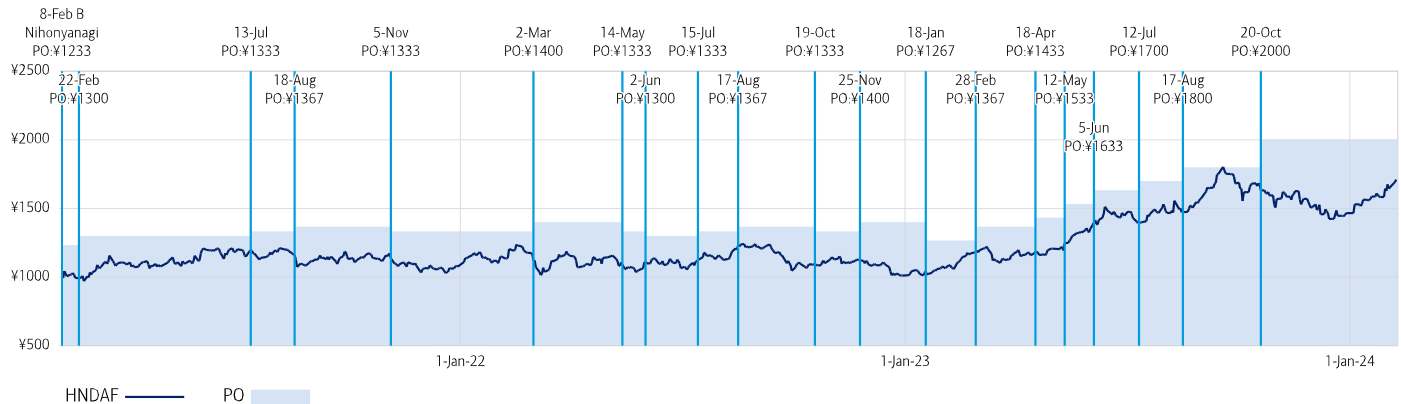
iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

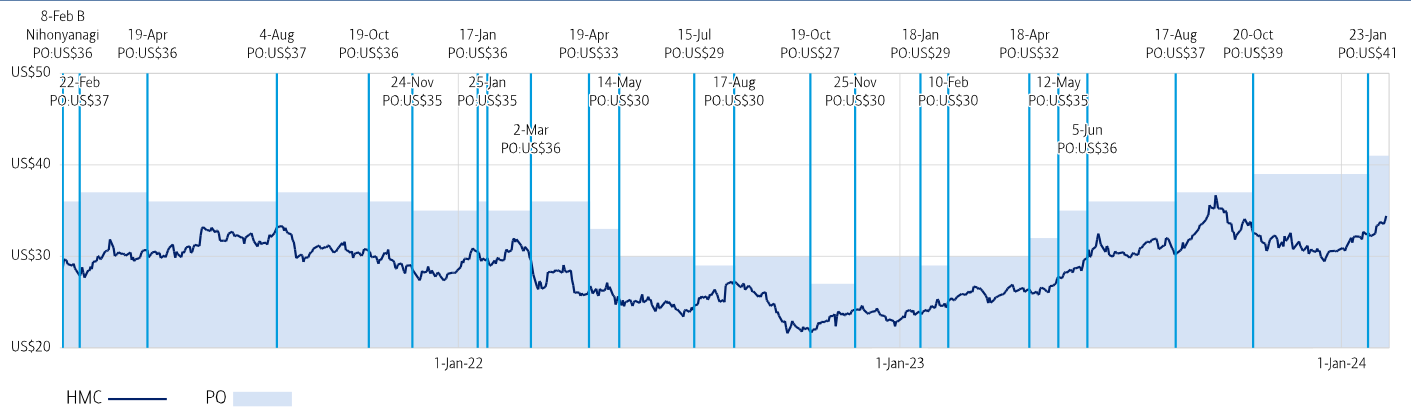
### Honda Motor (HNDAF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Honda Motor (HMC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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 <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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