

## Honda Motor (7267)

## Nikkei earnings preview report: ¥1tn the pass mark for 1-3Q OP

Maintain Rating: BUY | PO: 2,000 JPY | Price: 1,684 JPY

## Nikkei 3Q earnings preview

Nikkei posted a Honda earnings preview online after the 5 February market close. We note that Honda previews have been rare in recent years and we cannot vouch for the content. The preview describes 1-3Q OP as of ¥1tn proportions and possibly more than ¥1tn. Both cases fit with our expectations: we estimate 3Q OP at ¥344.2bn (+23% YoY), which gives 1-3Q of ¥1.04tn. We have a Buy rating on Honda with a 12-month price objective of ¥2,000.

## Reassuring for near term if earnings in line with Nikkei

In addition to Honda's underlying earnings, we are watching for updates on shareholder returns policy. Given the Bloomberg consensus for 3Q OP of ¥373.8bn, earnings in line with the Nikkei preview should not be a particular surprise. However, the stock has risen since mid-December and given a market view that nominal OP will be only ¥300bn owing to one-off costs such as fuel pump recalls and Yachiyo Industry restructuring, earnings in line with the preview should be reassuring.

## Points covered in Nikkei report

The Nikkei report covers the following three points without including particularly significant qualitative or quantitative data. (A) North America was the earnings driver, progress was made on order backlogs and HEVs were among popular models. (B) Forex suggests upside to FY3/24 earnings guidance (OP: ¥1.2tn). (C) Cuts in Japan production owing to earthquake damage are an earnings risk.

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	12.3x	12.8x	8.0x	8.2x	7.7x
Dividend Yield*	2.4%	2.4%	3.8%	3.8%	3.9%
P/B	0.8x	0.8x	0.7x	0.7x	0.6x
EV/ EBITDA*	5.7x	5.6x	4.5x	4.2x	4.0x
Free Cash Flow Yield*	15.4%	18.1%	20.3%	19.8%	17.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

05 February 2024

## Equity

**Kei Nihonyanagi** >>  
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**Kentaro Hosoda** >>  
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## Stock Data

Price (Common / ADR)	1,684 JPY / 33.53 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)	9,148,619 JPY
Market Value (\$mn)	61,702 USD
Shares Outstanding (mn)	5,434.3
Average Daily Value (\$mn)	166.7 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 6 to 9. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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Timestamp: 05 February 2024 09:25AM 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 5.  
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.

## 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	XHBF	603529 CH	Joey Yang, CFA
	Ashok Leyland	XDBVF	AL IN	Gunjan Prithyani
	Bajaj Auto	XBJBF	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	XEVEF	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
	Minth	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 (Motherson 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



## APR - Autos Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Suzuki Motor	SZKMF	7269 JP	Kei Nihonyanagi
	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
	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

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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

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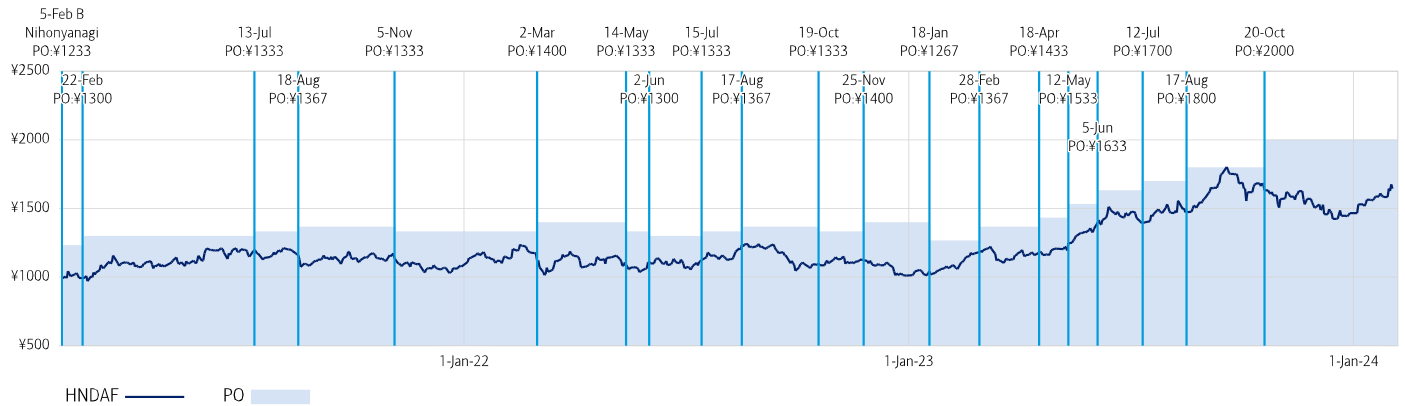
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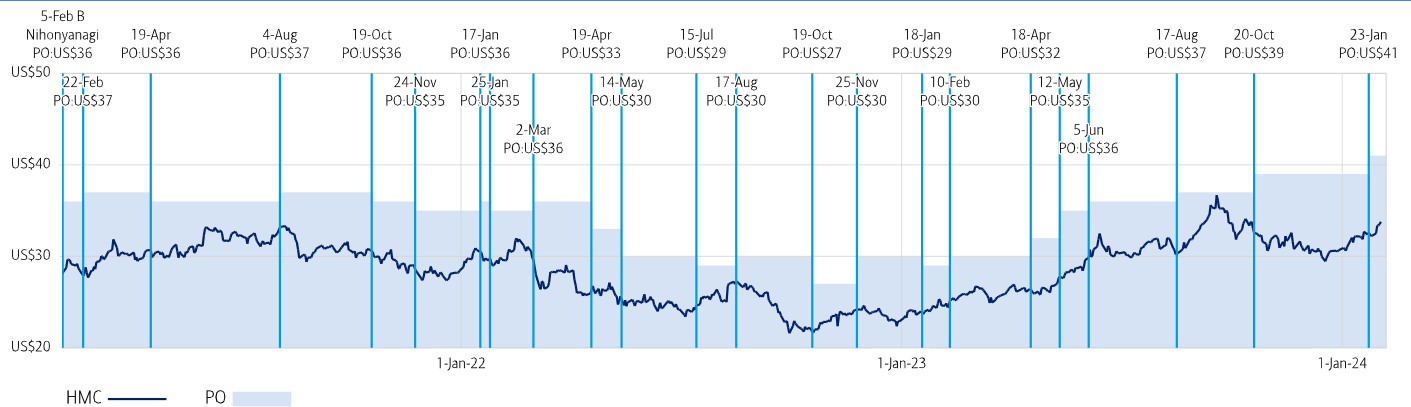
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### Honda Motor (HNDAF) Price Chart



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



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.

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