

Honda Motor (7267.T)

Is implied negative enterprise value (ex-motorcycle business) justified?
Reiterate Buy

Buy

7267.T 12m Price Target: ¥1,750 Price: ¥1,394 Upside: 25.6%

Honda's near-term earnings balance between its motorcycle and automobile businesses has become skewed. **We estimate the implied valuation of Honda excluding its motorcycle business is negative ¥3 tn. The implied P/E ratio has fallen to -4X, but we think this reflects excessive pessimism toward automobile business earnings.** Honda expects its ICE/HEV operations to absorb the impact of tariffs and attain an OPM of 5% in FY3/26, and we think it can return to the profit levels seen in the first half of the 2010s, when its ex-motorcycle business valuation was high. An upward revision to FY3/26 guidance of ¥500 bn would likely boost the valuation of the ex-motorcycle business. We also highlight (1) growth in HEV earnings from the new HEV system, (2) a reduction in the upfront investment burden given the revision of the battery electric vehicle (BEV) sales outlook to a more realistic level, and (3) earnings opportunities from the rollout of Level 2++ autonomous driving. More detailed disclosure on the motorcycle business (such as segment balance sheets/cash flow) could also lead to greater market interest. We reiterate our Buy rating.

Honda management remains keenly aware that the company's shares are trading at a P/B of less than 1X, and is considering flexible share buybacks while working on operational improvements to turn profitable in BEVs and expand HEV earnings. The only automakers with global operations that have consistently traded at a P/B of over 1X are Toyota, Tesla (covered by our US autos analyst Mark Delaney), and BYD (covered by our China autos analyst Tina Hou). All three companies have ROE in the double digits, whereas Honda's ROE is only around 8%. **Asset turnover is low at Toyota and Honda, which both have large captive finance businesses, but we think there is room for improvement in net profit margins and financial leverage.** In particular, in addition to

Kota Yuzawa

+81(3)4587-9863 | kota.yuzawa@gs.com
Goldman Sachs Japan Co., Ltd.

Chandramouli Muthiah

+91(22)6616-9344 | chandramouli.muthiah@gs.com
Goldman Sachs India SPL

Ken Kawamoto

+81(3)4587-1921 | ken.kawamoto@gs.com
Goldman Sachs Japan Co., Ltd.

Key Data

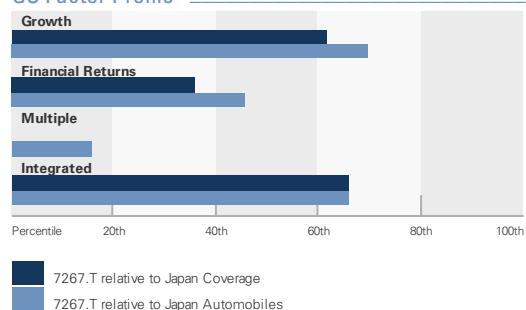
Market cap: ¥6.5tr / \$45.2bn
Enterprise value: ¥5.5tr / \$37.9bn
3m ADTV: ¥29.2bn / \$200.9mn
Japan
Japan Automobiles
M&A Rank: 3
Leases incl. in net debt & EV?: No

GS Forecast

	3/25	3/26E	3/27E	3/28E
Revenue (¥ bn)	21,688.8	20,950.0	21,280.0	21,630.0
Op. profit (¥ bn)	1,213.5	1,013.0	1,204.0	1,450.0
Op. profit CoE (¥ bn)	—	500.0	—	—
EPS (¥)	178.9	174.6	217.5	271.2
P/E (X)	8.7	8.0	6.4	5.1
P/B (X)	0.7	0.6	0.5	0.5
Dividend yield (%)	4.4	5.7	6.5	7.2
N debt/EBITDA (ex lease,X)	(0.7)	(0.8)	(0.6)	(0.6)
CROCI (%)	(0.3)	10.4	8.4	10.3

	3/25	6/25E	9/25E	12/25E
EPS (¥)	9.2	53.3	31.2	53.3

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Buy

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Rating since Apr 13, 2020

Ratios & Valuation

	3/25	3/26E	3/27E	3/28E
P/E (X)	8.7	8.0	6.4	5.1
P/B (X)	0.7	0.6	0.5	0.5
FCF yield (%)	(2.9)	17.0	15.1	19.4
EV/EBITDAR (X)	3.7	3.4	3.0	2.4
EV/EBITDA (excl. leases) (X)	3.7	3.4	3.0	2.4
CROCI (%)	(0.3)	10.4	8.4	10.3
ROE (%)	6.7	6.1	7.4	8.7
Net debt/equity (%)	(25.5)	(20.3)	(18.4)	(18.1)
Net debt/equity (excl. leases) (%)	(25.5)	(20.3)	(18.4)	(18.1)
Interest cover (X)	22.1	16.9	18.2	20.1
Days inventory outst, sales	41.3	42.3	41.3	41.2
Receivable days	20.2	19.9	19.4	19.4
Days payable outstanding	35.1	36.1	35.6	36.0
DuPont ROE (%)	6.6	6.0	7.1	8.3
Turnover (X)	0.7	0.7	0.7	0.7
Leverage (X)	2.4	2.5	2.4	2.4
Gross cash invested (ex cash) (¥)	14,532.5	13,992.3	13,752.2	13,421.5
Average capital employed (¥)	8,829.6	8,902.3	9,331.4	9,844.6
BVPS (¥)	2,156.9	2,479.2	2,645.1	2,857.9

Growth & Margins (%)

	3/25	3/26E	3/27E	3/28E
Total revenue growth	6.2	(3.4)	1.6	1.6
EBITDA growth	(10.6)	(16.1)	15.2	17.1
EPS growth	(20.8)	(2.4)	24.6	24.7
DPS growth	0.0	17.6	12.5	11.1
EBIT margin	5.6	4.8	5.7	6.7
EBITDA margin	7.7	6.7	7.6	8.7
Net income margin	3.9	3.5	4.2	5.1

Price Performance**Income Statement (¥ bn)**

	3/25	3/26E	3/27E	3/28E
Total revenue	21,688.8	20,950.0	21,280.0	21,630.0
Cost of goods sold	(17,024.8)	(16,527.3)	(16,621.4)	(16,679.0)
SG&A	(3,450.5)	(3,409.7)	(3,454.6)	(3,501.0)
R&D	(1,210.6)	(1,190.0)	(1,190.0)	(1,190.0)
Other operating inc./exp.)	—	—	—	—
EBITDA	1,669.6	1,401.0	1,614.0	1,890.0
Depreciation & amortization	(456.1)	(388.0)	(410.0)	(440.0)
EBIT	1,213.5	1,013.0	1,204.0	1,450.0
Net interest inc./exp.)	136.2	131.0	125.0	119.0
Income/(loss) from associates	1.0	(10.0)	30.0	70.0
Pre-tax profit	1,317.6	1,100.9	1,325.9	1,605.9
Provision for taxes	(414.6)	(311.0)	(363.0)	(430.0)
Minority interest	(67.2)	(56.0)	(67.0)	(81.0)
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	835.8	733.9	895.9	1,094.9
Post-tax exceptionals	—	—	—	—
Net inc. (post-exceptionals)	835.8	733.9	895.9	1,094.9
EPS (basic, pre-exception) (¥)	178.9	174.6	217.5	271.2
EPS (diluted, pre-exception) (¥)	178.9	174.6	217.5	271.2
EPS (basic, post-exception) (¥)	178.9	174.6	217.5	271.2
EPS (diluted, post-exception) (¥)	178.9	174.6	217.5	271.2
DPS (¥)	68.0	80.0	90.0	100.0
Div. payout ratio (%)	38.0	45.8	41.4	36.9

Balance Sheet (¥ bn)

	3/25	3/26E	3/27E	3/28E
Cash & cash equivalents	4,528.8	3,784.1	3,623.0	3,692.1
Accounts receivable	1,160.8	1,121.3	1,139.0	1,157.7
Inventory	2,470.6	2,386.4	2,424.0	2,463.9
Other current assets	3,527.5	3,732.1	3,949.7	4,181.2
Total current assets	11,687.8	11,023.9	11,135.6	11,494.9
Net PP&E	8,957.4	8,873.3	8,784.5	8,682.2
Net intangibles	1,126.0	1,207.4	1,281.1	1,344.3
Total investments	2,116.1	2,073.7	2,092.7	2,112.7
Other long-term assets	6,888.6	7,196.5	7,520.6	7,860.9
Total assets	30,775.9	30,374.8	30,814.5	31,494.9
Accounts payable	1,663.5	1,606.8	1,632.1	1,659.0
Short-term debt	315.5	315.5	315.5	315.5
Short-term lease liabilities	—	—	—	—
Other current liabilities	6,636.2	7,056.5	7,347.1	7,735.2
Total current liabilities	8,615.2	8,978.7	9,294.7	9,709.6
Long-term debt	330.5	330.5	330.5	330.5
Long-term lease liabilities	—	—	—	—
Other long-term liabilities	9,202.4	8,867.9	8,609.1	8,322.7
Total long-term liabilities	9,532.9	9,198.4	8,939.6	8,653.2
Total liabilities	18,148.0	18,177.2	18,234.2	18,362.8
Preferred shares	—	—	—	—
Total common equity	12,326.5	11,906.6	12,284.6	12,831.6
Minority interest	301.3	291.0	295.6	300.5
Total liabilities & equity	30,775.9	30,374.8	30,814.5	31,494.9
Net debt, adjusted	(3,215.8)	(2,471.1)	(2,310.0)	(2,379.1)

Cash Flow (¥ bn)

	3/25	3/26E	3/27E	3/28E
Net income	835.8	733.9	895.9	1,094.9
D&A add-back	742.9	582.0	615.0	660.0
Minority interest add-back	67.2	56.0	67.0	81.0
Net (inc)/dec working capital	241.0	80.8	272.8	290.2
Other operating cash flow	(1,594.7)	211.3	(321.7)	(353.9)
Cash flow from operations	292.2	1,664.1	1,529.1	1,772.2
Capital expenditures	(510.8)	(620.0)	(620.0)	(620.0)
Acquisitions	—	—	—	—
Divestitures	—	—	—	—
Others	(431.2)	(574.3)	(537.4)	(555.9)
Cash flow from investing	(942.0)	(1,194.3)	(1,157.4)	(1,175.9)
Repayment of lease liabilities	—	—	—	—
Dividends paid (common & pref)	(415.0)	(311.3)	(305.7)	(300.3)
Inc/(dec) in debt	1,491.6	0.0	—	—
Other financing cash flows	(796.1)	(903.1)	(227.0)	(226.9)
Cash flow from financing	280.5	(1,214.4)	(532.7)	(527.3)
Total cash flow	(425.8)	(744.7)	(161.1)	69.1
Free cash flow	(218.7)	1,044.1	909.1	1,152.2

Source: Company data, Goldman Sachs Research estimates.

organic profitability improvements, we think that exploring economies of scale with Nissan and Mitsubishi Motors, with which Honda is discussing technological cooperation, could be effective in the medium term if progress is made on this front.

Implied enterprise value excluding motorcycle business has turned negative

Using the valuations of two Indian competitors (Hero and Bajaj; both covered by our India autos analyst, Chandramouli Muthiah) as a reference, we calculate Honda's motorcycle business enterprise value and subtract it from the current market capitalization. This suggests that the ex-motorcycle business (specifically, automobiles, financial services, and power products) has a negative implied valuation of around ¥3 tn. The low implied equity valuation of the ex-motorcycle business is the result of a mix of positive factors such as earnings growth in the motorcycle business and negative factors such as declining profitability in the automobile business, in our view. While operating margins in the ex-motorcycle business were 5-6% in the first half of the 2010s (excluding 2011, when the Great East Japan Earthquake occurred), they have been in the low single digits since 2017 (on an underlying basis, excluding the impact of one-off recall costs and changes in accounting policies for provisions). As a result, we estimate that the implied ex-motorcycle business P/E ratio has fallen to around -4X, which we view as excessively pessimistic.

BEVs and tariffs to weigh on near-term automobile business earnings

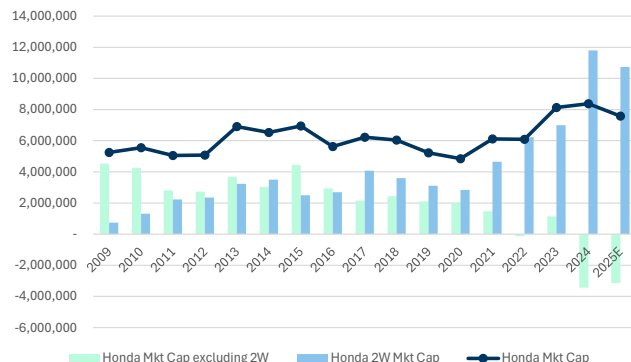
Honda's FY3/26 operating profit guidance of ¥500 bn implies a significant decline from ¥1.2 tn in FY3/25. We estimate that motorcycle business earnings will be flat to up yoy, suggesting a steep decline in ex-motorcycle business earnings. Specifically, we estimate that ex-motorcycle business operating profits, which were ¥550 bn in FY3/25, will fall to a loss of ¥200 bn. We think the main factors behind this anticipated decline are the negative impact of US tariffs and continuing losses in the BEV business. However, we assume that Honda will take action including price hikes to minimize the impact of tariffs, and we forecast operating profits of ¥1,013.0 bn, significantly above guidance.

BEV-related losses to be large in near term, but likely to bottom out in FY3/26

We expect the BEV business to record an operating loss of about ¥600 bn again in FY3/26, on par with FY3/25. Within the figure for FY3/26, around ¥400 bn is attributable to upfront investment for BEV development and batteries, and we expect the loss to gradually narrow as BEV sales increase. The remaining ¥200 bn is related to the review of BEV supply contracts with US automakers. While we need to carefully monitor the negotiation process, we expect contracts to be reviewed based on a more realistic sales volume outlook following the rejection of ACC II (minimum BEV sales quota regulations) by the US Congress, and that this will lead to improvement from FY3/27.

Exhibit 1: Enterprise value excluding the motorcycle business is in negative territory

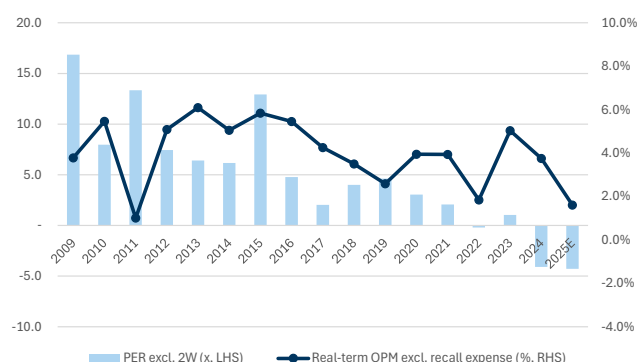
Implied enterprise value by business (¥ mn)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: Implied negative P/E for ex-motorcycle business

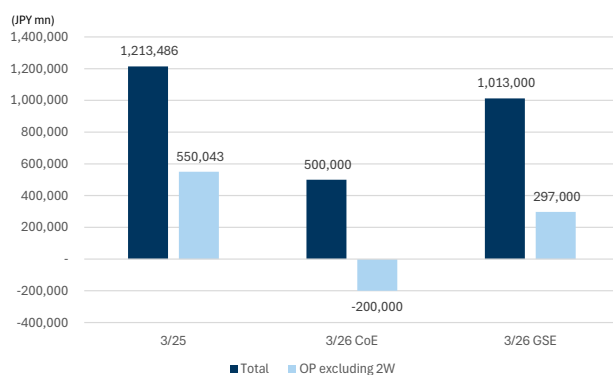
Underlying ex-motorcycle business OPM and P/E



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: Earnings being driven by motorcycles

Consolidated operating profits (total and ex-motorcycle business)

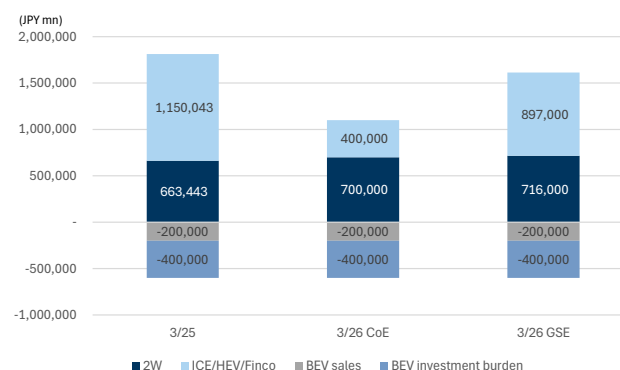


FY3/26 operating profit guidance of ¥500 bn is based on company disclosures. The breakdown for FY3/26 operating profit guidance is GS estimates.

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Significant losses related to BEVs

Breakdown of Honda operating profits



FY3/26 operating profit guidance of ¥500 bn is based on company disclosures. The breakdown for FY3/26 operating profit guidance is GS estimates.

Source: Company data, Goldman Sachs Global Investment Research

Motorcycle business strong

Meanwhile, the outlook for Honda's global-leading motorcycle business is bright. The company's medium-term plan targets an increase in global motorcycle unit share from 40% in FY3/25 to 50% in FY3/31, implying a CAGR (volume basis) of close to 8%. Honda also aims to maintain an operating margin of at least 15%, compared with 17% in FY3/25. In FY3/25, 70-80% of motorcycle business earnings came from emerging markets in Asia/Latin America. While developed markets, mainly Europe and the US, accounted for 20-30% of earnings, we think this owed partly to a tailwind from the yen's weakness against the euro and the dollar. We believe Asia/Latin America will remain the main driver of Honda's motorcycle business earnings in the medium term.

Exhibit 5: Confident of market share gains

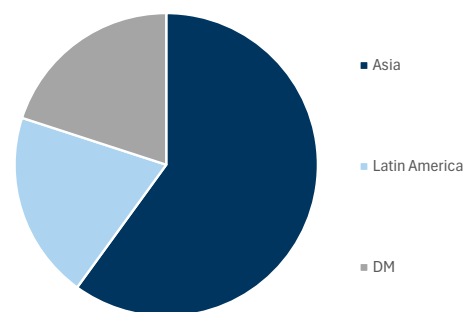
Targets for Honda's motorcycle business under its medium-term plan

(mn)	3/25		3/31 CoE	CAGR
Total industry volume	50	→	60	4%
Honda volume	20	→	30	8%
Honda share	40%	→	50%	-
Honda 2W OPM	17%	→	above 15%	-

Source: Company data

Exhibit 6: Earnings driven by Asia and Latin America

Honda motorcycle business: Operating profits by region (FY3/25 actual)



Source: Company data

Profitability and growth on par with Indian motorcycle makers

The two Indian motorcycle manufacturers we used as a reference for our implied valuation are Bajaj and Hero. Both companies have consistently maintained operating margins of over 10%, and their sales outlooks are strong, driven by growth in India. Honda's motorcycle business is global, but its profitability and growth are on par with Bajaj and Hero. Historically, Bajaj and Hero have traded at P/E ratios of around 20X and P/S ratios of over 2X. We calculated the implied enterprise value of Honda's motorcycle business based on a P/E ratio of 15-20X. In calculating net profits for Honda's motorcycle business, we assumed a tax rate of 30% and factored in equity method income (which we assume is largely from the Indonesian motorcycle business).

Margin gap vs. Yamaha Motor's motorcycle business

Historically, the operating profit margin in Honda's motorcycle business has been around 5 pp higher than the OPM in Yamaha Motor's motorcycle business. We assume this is due to differences in economies of scale (Honda's motorcycle sales are about twice those of Yamaha Motor) and to synergies with Honda's automobile business. Specifically, we think this could include economies of scale in the procurement of steel/aluminum and the sharing of R&D costs for various elemental technologies. We expect Honda to continue to have an edge over Yamaha Motor, and we did not use Yamaha Motor as a reference in calculating our implied valuation.

Views from India on 2W market dynamics (Written by Chandramouli Muthiah)**Steady growth outlook ahead**

Honda is at #2 market position in the India 2W mkt with ~24% mkt share vs Hero at ~29%. We expect the India 2W market to grow at 5%-7% run rate in FY26 – FY28E, with slight upward push towards premiumization during FY27E / FY28E with factors like the 8th pay commission supporting this. We expect Electric 2Ws to increase from 7% of E2W sales in FY25 to ~20% share of market by FY28E.

The recent pickup in rate cuts by India's Central Bank should also be favorable for steady growth in 2W demand in our view, especially given that (1) 2W volumes in India are now

just back to the previous peak made in FY19 (21mn units) and there is more replacement demand likely after the initial lull post Covid; (2) Only ~20% of the population owns 2Ws vs other regional emerging economies (Vietnam / Thailand / Indonesia), where 2W ownership is between 30% - 40% of the population.

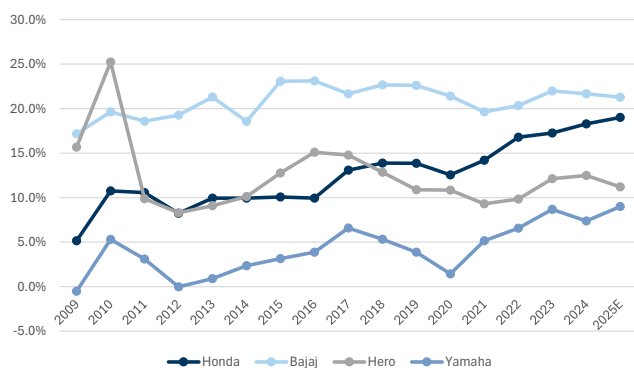
Honda has historically taken its time in judging the appropriate response to opportunities in the India 2W market, but made an impact on eventual product launch in new segments (ICE scooters in the early 2000s, premium motorcycles in the early 2010s). Investors are waiting to see how impactful Honda's Electric Electric 2W push in India is going to be.

Rationale for India 2Ws (Hero vs Bajaj Auto vs TVS Motor vs Eicher Motors) valuation differences

Hero / Bajaj Auto / TVS Motor / Eicher Motors trade at 12-m fwd P/E of 19.3x / 26.3x / 39.7x / 27.8x. Apart from the growth expectation differentials and historical track record, the higher multiple stocks (TVS Motor and Eicher) have been the structural market share gainers (TVS Motor / Eicher Motors has moved from 12% / 1.4% mkt share in FY14 to 18% / 4.6% mkt share in FY25). The mkt share progress also meant structural upward shift in profitability with TVS Motor / Eicher experiencing +600 bps / +1200 bps in EBITDA margin during this timeframe.

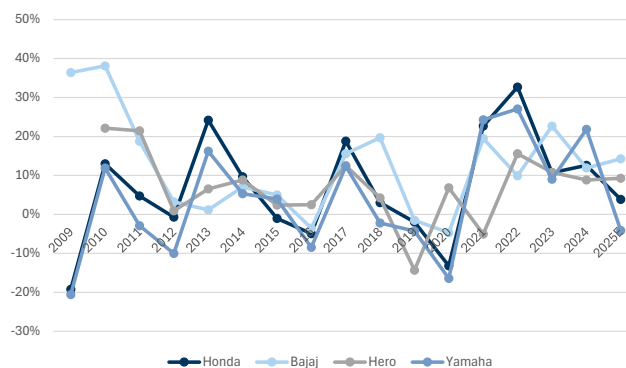
The 4 mega themes in the India 2W industry over the past 10 years have been (1) Scooterization; (2) Premiumization; (3) Exports; (4) Electrification. TVS Motor caught all 4 trends, Eicher caught Premiumization and Exports, Bajaj caught exports and Hero was slower to react than peers on these 4 themes. These are the key reasons for the valuation differentials amongst the large listed 2W companies in India, in our view.

Exhibit 7: High profitability for Honda's motorcycle business
OPM comparison



Source: Company data, Goldman Sachs Global Investment Research

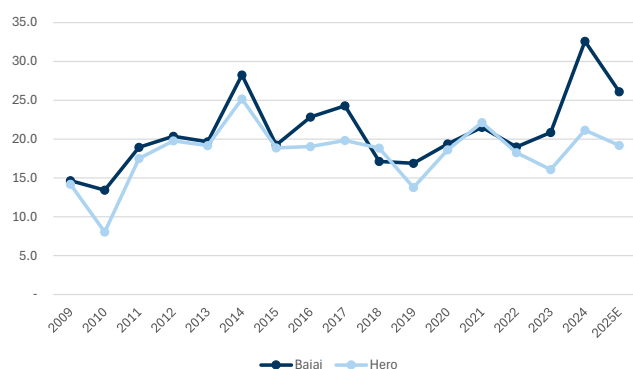
Exhibit 8: Honda's growth rate on par with competitors
Sales growth rates



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 9: P/E around 20X for two Indian rivals

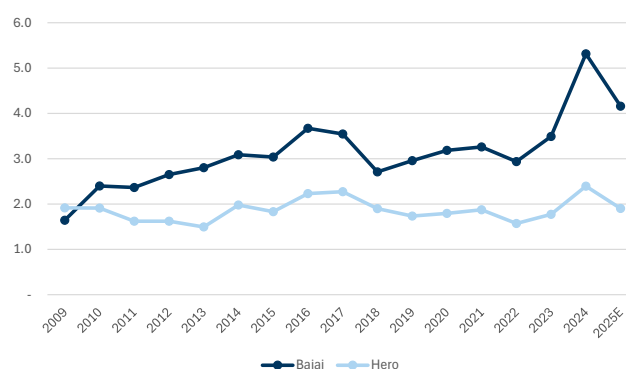
P/E ratios for two Indian motorcycle makers (X)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 10: P/S over 2X for two Indian makers

P/S for two Indian motorcycle makers (X)



Source: Company data, Goldman Sachs Global Investment Research

Awaiting recovery in expectations for automobile business earnings

We think the main reason Honda's ex-motorcycle business implied P/E has fallen to -4X is the decline in the OPM for the automobile business. Honda expects its ICE/HEV operations to absorb the impact of tariffs and attain an OPM of 5% in FY3/26, and we think it can return to the profit levels seen in the first half of the 2010s, when its implied ex-motorcycle business valuation was high. An upward revision to FY3/26 guidance of ¥500 bn would likely boost the valuation of the ex-motorcycle business. We also highlight (1) growth in HEV earnings from the new HEV system, (2) a reduction in the upfront investment burden given the revision of the BEV sales outlook to a more realistic level, and (3) earnings opportunities from the rollout of Level 2++ autonomous driving. More detailed disclosures on the motorcycle business (such as segment balance sheets/cash flow) could also increase market interest.

Growing importance of hybrid business

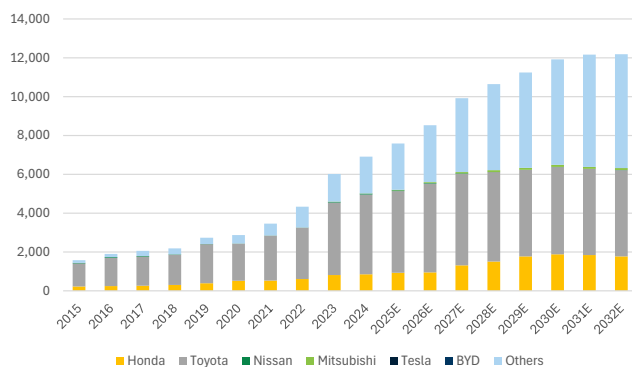
Honda's hybrid sales (excluding China) increased from 250,000 vehicles in 2018 (7% of consolidated shipments) to 650,000 in 2023 (22%), and it looks for a further surge to 2 mn by 2030 (a little over 50%). This suggests that hybrids will be a major growth driver. If we index Honda's hybrid unit costs at 100 in 2018 (which would put them at 75 in 2023), we estimate that costs could fall to 53 in 2027 thanks to new system technology and to savings from mass production. Honda has not provided any details on when it plans to launch its new models, but based on how far it has progressed with prototype development, we assume it will be ready to incorporate S+Shift technology into its sports model hybrids from 2025-2026. We expect Honda to launch SUV models equipped with all new technologies for the mid-size e:HEV platform in 2026-2027. The company is also working hard to develop large hybrid vehicle models as well. We think Honda will remain a leading HEV player after Toyota through 2030.

Revising BEV strategy to a more realistic level

Honda recently lowered its FY3/31 BEV sales target to 700,000-750,000 units, from 2 mn units previously. The breakdown is c.200,000 units in North America, c.300,000 units in China, and c.200,000 units in other regions. The downward revision to the North

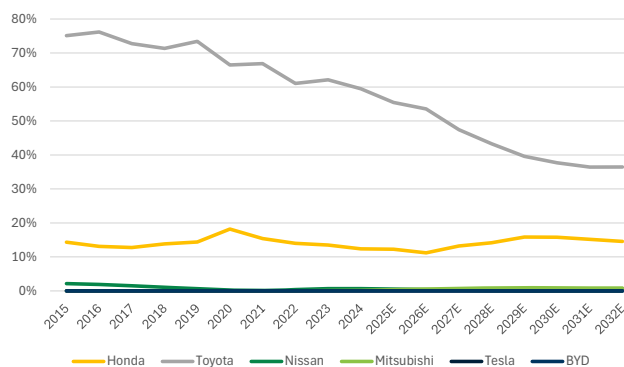
America BEV target reflects a shift to a more realistic sales target in view of potential changes to ACC II (Advanced Clean Car Act II) regulations. Honda also said it will re-assess its battery project in Canada and other battery investment plans. While Honda's global share of the BEV market is expected to remain modest at less than 5% in 2030 (IHS Global Insight forecast), we are reassured by the company's clear focus on profitability.

Exhibit 11: Strong presence in HEVs
HEV volume outlook by maker ('000 vehicles)



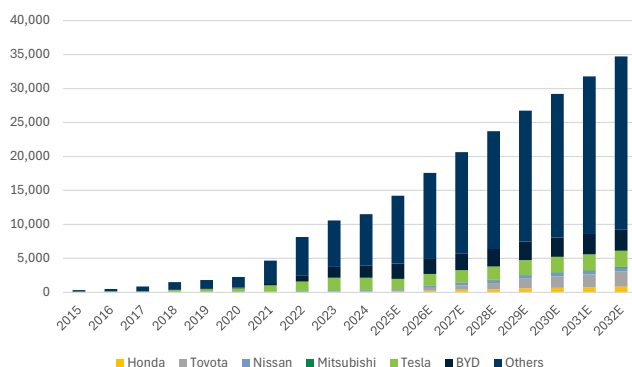
Source: IHS Global Insight

Exhibit 12: Global share of around 10-20%
HEV share by maker



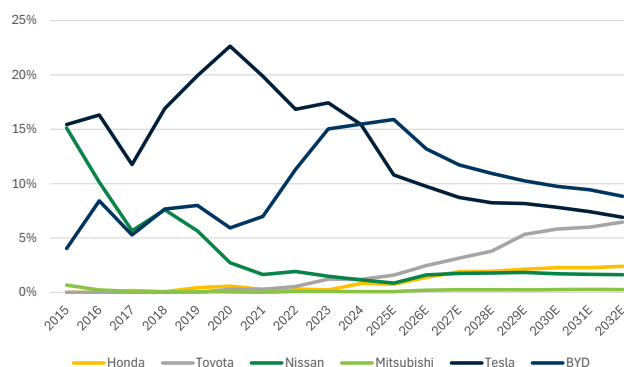
Source: IHS Global Insight

Exhibit 13: Low presence in BEV market
BEV volume outlook by maker ('000 vehicles)



Source: IHS Global Insight

Exhibit 14: Low share in BEVs
BEV share by maker



Source: IHS Global Insight

To equip mass-market models with autonomous driving systems using E2E technology

Honda has announced that it will roll out NOA (Navigation on Autopilot) in key mass-market models in Japan, the US, and China in 2027. We believe this falls into the Level 2++ category, enabling hands-free driving on both highways and urban roads. While the company has previously focused on rule-based development, its partnership with Helm.ai in the US has accelerated the development of E2E technology. The new technology to be introduced in 2027 will likely be a hybrid version of rule-based and E2E systems. The proprietary ASIMO OS is to be used as the vehicle OS.

Autonomous driving in hybrids

Honda is aiming to differentiate itself through low power consumption, and to enable

Level 2++ autonomous driving in HEVs, which have smaller battery capacity than PHEVs/BEVs. To achieve low power consumption, Honda has signed an agreement with Renesas for the development of next-generation SoC technology, aiming for processing power of 2,000 TPS and energy efficiency of 20 TOPS/W. While many competing automakers are using NVIDIA SoC technology, the Honda/Renesas alliance is aiming to compete on power consumption.

Exhibit 15: Aiming for a fusion of E2E and rule-based systems

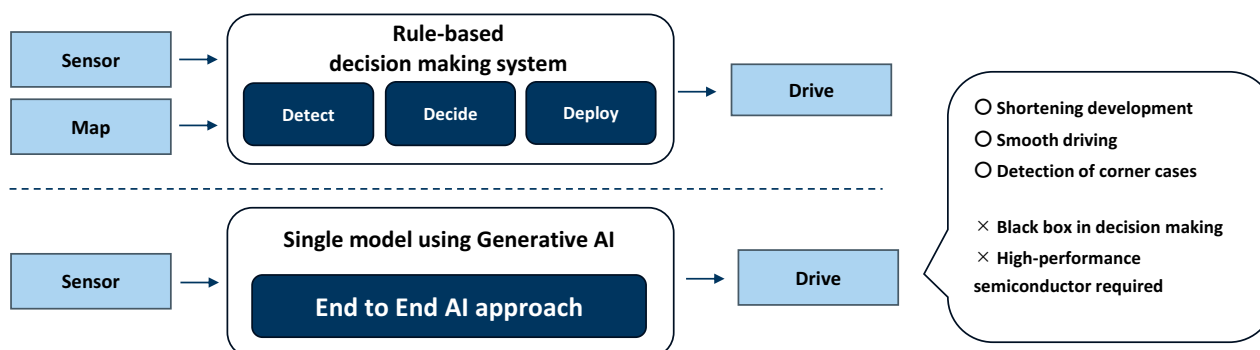
Software development approach for autonomous driving

	← Rule-based AD	Hybrid	E2E→
With LiDAR	Honda [Sensing Elite]	Huawei [ADS 3.0] Honda Level2++ [ASIMO OS]	Momenta Li Auto [AD Max]
Without LiDAR	Subaru [Eye sight]		Tesla [FSD] Xpeng [XNGP]

Source: Nikkei Automotive, Data compiled by Goldman Sachs Global Investment Research

Exhibit 16: Also focused on hybrids in the autonomous driving arena

Comparison of rule-based and E2E systems



Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Management conscious of P/B below 1X

The only automakers with global operations that have consistently traded at a P/B of over 1X are Toyota, Tesla, and BYD. All three companies have ROE in the double digits, whereas Honda's ROE is only around 8%. Asset turnover is low at Toyota and Honda, which both have large captive finance businesses, but we think there is room for improvement in net profit margins and financial leverage. In particular, in addition to Honda's organic profitability improvements noted above, we think that exploring economies of scale with Nissan and Mitsubishi Motors, with which Honda is discussing technological cooperation, could be effective in the medium term if progress is made on this front. Honda management remains keenly aware that its shares are trading at a P/B of less than 1X, and is considering flexible share buybacks while working on operational improvements to turn profitable in BEVs and expand HEV earnings.

Exhibit 17: Looking for ROE improvement based on higher profit margins

ROE comparison

ROE	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Tesla	-15.5%	-10.6%	2.9%	17.5%	27.4%	14.3%	9.7%	4.8%	8.1%	10.5%
BYD	4.6%	2.6%	6.6%	2.9%	13.7%	20.0%	20.3%	21.3%	23.5%	21.8%
Toyota	9.4%	10.0%	9.2%	10.5%	8.4%	14.0%	12.9%	10.2%	10.2%	10.4%
Honda	7.1%	5.5%	7.0%	6.6%	5.7%	8.5%	6.6%	6.0%	7.1%	8.3%
Net income margin	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Tesla	-4.5%	-3.5%	2.2%	10.3%	15.4%	9.4%	7.3%	4.3%	6.8%	8.5%
BYD	2.1%	1.3%	2.7%	1.4%	3.9%	5.0%	5.2%	5.5%	6.3%	6.5%
Toyota	6.2%	6.9%	8.3%	9.1%	6.6%	11.0%	9.9%	8.1%	8.2%	8.1%
Honda	3.8%	3.1%	5.0%	4.9%	3.9%	5.4%	3.9%	3.5%	4.2%	5.1%
Financial leverage	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Tesla	4.71	4.23	2.20	1.97	1.79	1.68	1.66	1.62	1.56	1.51
BYD	3.21	3.13	3.12	2.84	4.07	4.52	3.94	3.70	3.41	3.09
Toyota	2.59	2.54	2.56	2.49	2.54	2.56	2.54	2.55	2.55	2.66
Honda	2.38	2.47	2.34	2.23	2.14	2.29	2.44	2.49	2.45	2.40
Asset turnover	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Tesla	0.72	0.72	0.60	0.87	0.99	0.91	0.80	0.69	0.76	0.82
BYD	0.67	0.65	0.78	0.73	0.86	0.89	0.99	1.05	1.09	1.08
Toyota	0.58	0.57	0.44	0.46	0.50	0.50	0.51	0.49	0.49	0.48
Honda	0.78	0.73	0.60	0.61	0.69	0.69	0.70	0.69	0.69	0.69

Source: Company data, Goldman Sachs Global Investment Research

Prospects for improvement in automobile business earnings

Our FY3/26 operating profit forecast of c.¥1 tn is about ¥500 bn above guidance - we see upside of c.¥200 bn from the difference in our USD/JPY assumption vs guidance (we assume ¥145), ¥100 bn from improvements related to component tariffs, and c.¥200 bn from price hikes. The IFIS consensus forecast of ¥1.1 tn is broadly in line with our estimate. In FY3/27 and FY3/28, we forecast a recovery in automobile business earnings in addition to continued growth in the motorcycle business. While we forecast a FY3/28 automobile business operating margin of 2.5%, we expect it to return to around 5% excluding BEV losses. We think the excessive discount assigned to the automobile business is likely to recede.

Proactive on shareholder returns

Honda announced on May 20 that it plans to reduce upfront investment through FY3/31, from the previous outlook of ¥10 tn to ¥7 tn. The reduction includes ¥1 tn in R&D and ¥2 tn in capex. Most of the ¥3 tn reduction will come from battery and BEV-related investment, and the company said it will flexibly review product launch schedules and other plans in line with its more realistic sales targets. In terms of capital allocation, the ¥3 tn in savings is to be reallocated to HEV investment, but the company also expects to generate surplus cash. Honda said it intends to maintain a strong balance sheet for the time being to maintain readiness, given the uncertainty surrounding the impact of tariffs and given that BEV investment has not been reduced but rather shifted to FY3/32 and beyond. We think there is potential for changes in shareholder return policy if the company's measures to address the impact of tariffs are successful. In addition to forecasting sustained DPS hikes (from ¥80 in FY3/26 to ¥90 in FY3/27 and ¥100 in FY3/28), we also expect share buybacks of around ¥150 bn per year from FY3/27. We estimate the total shareholder return yield will be 50-60%.

Exhibit 18: Large impact from tariffs

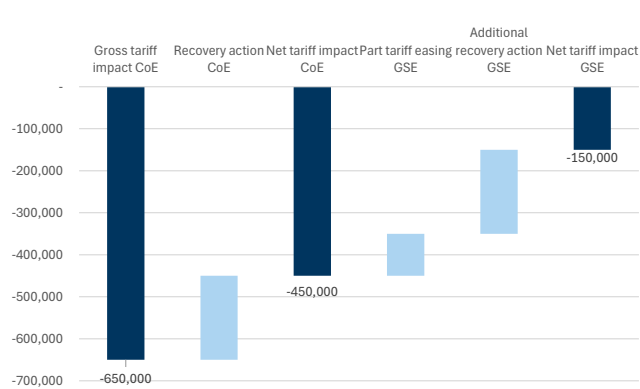
Measures to mitigate tariff impact

(JPY mn)	CoE tariff impact to OP	Recovery	Recovery rate
Toyota	180,000 (for 2 months)	NA	NA
Honda	650,000	200,000	31%
Nissan	450,000	30% (1Q outlook)	30%
SUBARU	360,000	100,000-150,000	28-42%
Mitsubishi	50,000	10,000	20%
Suzuki	40,000	NA	NA
Mazda	NA	NA	NA
Yamaha	50,000	NA	NA
Isuzu	20,000	4,000	20%

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 19: Expecting additional action to minimize impact

Breakdown of tariff impact



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 20: Earnings improvement in automobiles, motorcycles the driver**Earnings summary**

(¥ mn, thou. units, %)	3/2019	3/2020	3/2021	3/2022	3/2023	3/2024	3/2025	3/2026E	3/2027E	3/2028E	3/2026 CoE
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Consolidated P/L Key financial data											
Revenue	15,888,617	14,931,009	13,170,519	14,552,696	16,907,725	20,428,802	21,688,767	20,950,000	21,280,000	21,630,000	20,300,000
Operating profits	726,370	633,637	660,208	871,232	780,769	1,381,977	1,213,486	1,013,000	1,204,000	1,450,000	500,000
Pre-tax profits	979,375	789,918	914,053	1,070,190	879,565	1,642,384	1,317,640	1,100,948	1,325,948	1,605,948	490,000
Net income	610,316	455,746	657,425	707,067	651,416	1,107,174	835,837	733,948	895,948	1,094,948	250,000
EBITDA	1,176,670	1,030,537	1,026,008	1,241,132	1,220,069	1,867,977	1,669,586	1,401,000	1,614,000	1,890,000	888,000
# of shares outstanding(mn shares)	5,292	5,256	5,180	5,160	5,089	4,902	4,671	4,204	4,120	4,038	3,978
EPS(¥)	115	86.7	126.9	137.0	128.0	225.9	178.9	174.6	217.5	271.2	62.8
DPS(¥)	37	37.3	36.7	40.0	40.0	68.0	68.0	80.0	90.0	100.0	70.0
(yoy change)											
Revenue	3.4%	-6.0%	-11.8%	10.5%	16.2%	20.8%	6.2%	-3.4%	1.6%	1.6%	-6.4%
Operating profits	-12.9%	-12.8%	4.2%	32.0%	-10.4%	77.0%	-12.2%	-16.5%	18.9%	20.4%	-58.8%
Net income	-42.4%	-25.3%	44.3%	7.6%	-7.9%	70.0%	-24.5%	-12.2%	22.1%	22.2%	-70.1%
EBITDA	-9.5%	-12.4%	-0.4%	21.0%	-1.7%	53.1%	-10.6%	-16.1%	15.2%	17.1%	-46.8%
(% of sales)											
Operating profits	4.6%	4.2%	5.0%	6.0%	4.6%	6.8%	5.6%	4.8%	5.7%	6.7%	2.5%
Net income	3.8%	3.1%	5.0%	4.9%	3.9%	5.4%	3.9%	3.5%	4.2%	5.1%	1.2%
EBITDA	7.4%	6.9%	7.8%	8.5%	7.2%	9.1%	7.7%	6.7%	7.6%	8.7%	4.4%
Capex	2.7%	2.5%	2.4%	1.9%	2.9%	1.9%	2.5%	3.0%	2.9%	2.9%	3.1%
Depreciation	2.8%	2.7%	2.8%	2.5%	2.6%	2.4%	2.1%	1.9%	1.9%	2.0%	1.9%
R&D	5.2%	5.5%	5.9%	5.5%	5.0%	4.7%	5.6%	5.7%	5.6%	5.5%	5.9%
(Fixed cost)											
Capex	426,500	375,600	321,200	278,400	493,900	387,900	537,400	620,000	620,000	620,000	620,000
Depreciation	450,300	396,900	365,800	369,900	439,300	486,000	456,100	388,000	410,000	440,000	388,000
R&D	820,000	821,400	780,000	804,000	852,000	964,600	1,210,600	1,190,000	1,190,000	1,190,000	1,190,000
Assumption											
(FOREX)											
US \$/yen	111	108	106	112	136	145	153	145	145	145	135
Euro/yen	128	121	124	131	141	157	163	160	160	160	-
(Automobile unit sales)											
Japan	719	672	592	547	550	595	630	619	617	615	600
North America	1,954	1,825	1,480	1,283	1,195	1,628	1,654	1,617	1,667	1,719	1,680
Europe	169	133	101	100	84	103	93	99	97	95	90
Others	2,481	2,160	2,373	2,144	1,858	1,783	1,339	1,287	1,318	1,355	1,250
Total	5,323	4,790	4,546	4,074	3,687	4,109	3,716	3,622	3,699	3,784	3,620
(Automobile unit sales YoY)											
Japan	3.3%	-6.5%	-11.9%	-7.6%	0.5%	8.2%	5.9%	-1.8%	-0.3%	-0.3%	-4.8%
North America	2.7%	-6.6%	-18.9%	-13.3%	-6.9%	36.2%	1.6%	-2.2%	3.1%	3.1%	1.6%
Europe	-7.7%	-21.3%	-24.1%	-1.0%	-16.0%	22.6%	-9.7%	6.4%	-2.0%	-2.0%	-3.2%
Others	2.6%	-12.9%	9.9%	-9.7%	-13.3%	-4.0%	-24.9%	-3.9%	2.4%	2.8%	-6.6%
Total	2.4%	-10.0%	-5.1%	-10.4%	-9.5%	11.4%	-9.6%	-2.5%	2.1%	2.3%	-2.6%
(Motorcycle unit sales)											
Japan	207	205	215	244	246	241	224	224	224	224	210
North America	301	330	332	437	459	498	548	548	548	548	545
Europe	249	239	234	317	347	440	475	475	475	475	430
Others	19,481	18,566	14,351	17,029	17,705	17,640	19,325	20,816	22,423	24,155	20,115
Total	20,238	19,340	15,132	18,027	18,757	18,819	20,572	22,063	23,670	25,402	21,300
(yoy)	3.5%	-4.4%	-21.8%	19.1%	4.0%	0.3%	9.3%	7.2%	7.3%	7.3%	3.5%
(Operating Profit impact breakdown)											
Change in revenue, model mix, tariffs etc	70,400	-220,000	-395,100	77,700	-109,100	317,900	-233,600	-149,300	124,900	172,600	-293,900
Cost reduction/Raw materials	123,800	139,300	132,500	-56,900	-27,400	524,700	525,000	196,000	125,000	134,000	250,000
Currency effects	-160,300	-105,800	-47,100	168,900	295,900	151,100	-93,600	-138,800	0	0	-452,000
Change in SG&A expenses	-18,000	95,200	275,000	56,000	-191,100	-357,900	-85,000	-110,200	-63,300	-64,500	-219,100
Change in R&D expenses	-55,000	-1,400	61,200	-34,700	-58,500	-34,700	-153,500	-126,000	0	0	-126,000
Others						-147,100	-127,600	127,600	4,000	4,000	127,600
Total	-107,100	-92,700	26,500	211,000	-90,200	601,100	-168,300	-200,700	190,600	246,100	-713,400
(¥ mn, thou. units, %)	3/2019	3/2020	3/2021	3/2022	3/2023	3/2024	3/2025	3/2026E	3/2027E	3/2028E	3/2026 CoE
Segment OP breakdown											
Motorcycle	291,642	285,668	224,608	311,492	488,709	556,232	663,443	716,000	779,000	847,000	-
Automobile	209,694	153,323	90,255	236,207	42,000	560,649	243,853	59,000	179,000	349,000	-
Power products	-10,911	-25,058	-11,635	-9,499	22,832	-8,882	-9,444	-9,000	-9,000	-9,000	-
Financial business	235,945	219,704	356,980	333,032	285,857	273,978	315,634	247,000	255,000	263,000	-
Segment OP margin											
Motorcycle	13.9%	13.9%	12.6%	14.2%	16.8%	17.3%	18.3%	19.0%	19.9%	20.8%	-
Automobile	1.9%	1.5%	1.1%	2.6%	0.4%	4.1%	1.7%	0.4%	1.3%	2.5%	-
Power products	-3.1%	-7.7%	-3.6%	-2.4%	5.1%	-2.3%	-2.5%	-2.2%	-2.1%	-2.0%	-
Financial business	10.0%	8.5%	14.3%	11.8%	9.7%	8.4%	9.0%	7.1%	7.4%	7.7%	-

Source: Company data, Goldman Sachs Global Investment Research

Honda operates automobile and motorcycle businesses. We take a positive view of the acceleration of development toward EVs and autonomous driving, including the rollout of the 0 Series. With the announcement of a large share buyback of over 20% of outstanding shares, we expect share buybacks accounting for approximately 20% of trading volume to continue until the end of 2025. We are Buy rated on Honda, as valuations look low relative to average valuations at other automakers in Japan.

Price Target Risks and Methodology - Honda Motor

Our 12-month target price of ¥1,750 is based on a P/B-ROE correlation and our FY3/27E estimates. Downside risks include yen appreciation, a sharp rise in raw material prices,

weaker-than-expected sales of new vehicles, inefficiency in multiple EV projects, and margin deterioration in the China business.

Disclosure Appendix

Reg AC

We, Kota Yuzawa, Chandramouli Muthiah and Ken Kawamoto, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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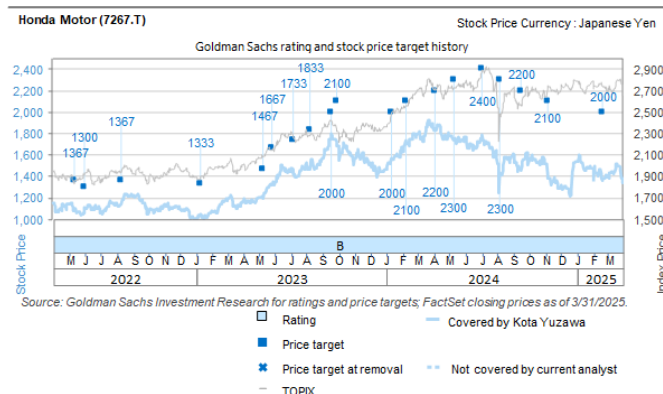
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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution				Investment Banking Relationships		
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Global	49%	34%	17%		63%	57%	42%

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