

## Honda Motor (7267 JP)

FUNDAMENTAL VIEW <sup>1</sup>

As of 04 Mar 2024

- Honda continues to post impressive growth in its Automobile segment wholesale volumes and profitability following the normalization of its supply chain. Management expects to lean into the increasing demand for hybrid vehicles by introducing a Civic hybrid this year that it expects to account for about 40% of the models' sales in the U.S. It is also introducing its first high volume electric vehicles in 2024 under the Honda and Acura brands, along with a fuel cell electric vehicle (FCEV). Like Toyota, Honda's electrification strategy has been focused primarily on hybrid vehicles, although its introduction of electric and FCEVs is timely even if it lags most competitors.

## RISKS &amp; CATALYSTS

As of 04 Mar 2024

- Management maintained its FY24 wholesale volume guidance but raised its revenue and operating profit guidance. Consolidated revenue is now expected to increase +19% compared to its previous expectation for +18% growth despite modestly lower expectations for automobile and motorcycle unit sales. Management raised its consolidated operating profit guidance by 4% based on favorable pricing and currency effects offsetting higher warranty expense and unfavorable mix. The company's FY24 forecast now envisions a 160 bp operating margin expansion from 4.6% in FY23 to 6.2%, up from its previous expectation of a 140 bp YoY margin expansion.
- On January 18, 2024, American Honda management unveiled its expectations for its calendar year 2024 sales. After posting 33% growth in unit sales in 2023, American Honda is targeting unit sales growth of 10%-15% in 2024. The volume growth is projected to include an increase in hybrid volume, including the Honda Civic hybrid that will comprise about 40% of the models' sales when it launches this summer.

CREDIT QUALITY SCORE (CQS)<sup>2</sup>

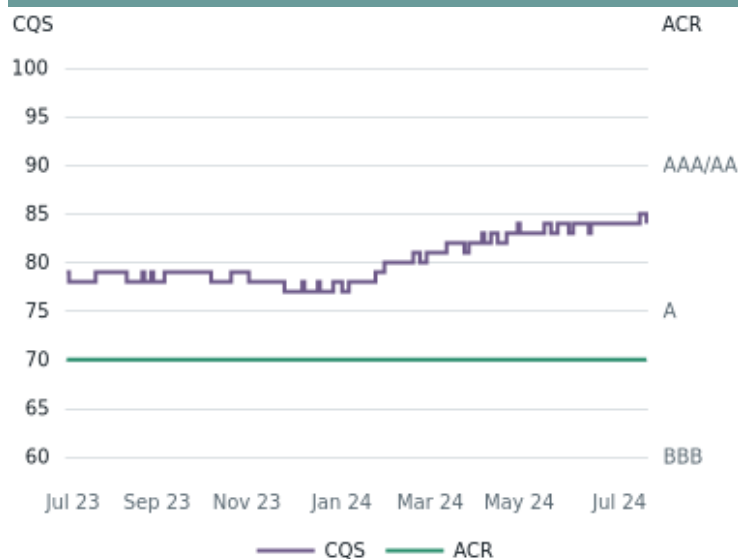
As of 04 Jul 2024

## CURRENT CQS

84

CQS OUTLOOK <sup>3</sup>

NEGATIVE STABLE POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)<sup>4</sup> VS CQS

## KEY METRICS

As of 04 Mar 2024

¥ BN	FY20	FY21	FY22	FY23	LTM F3Q24
Revenue	12,344	10,908	11,967	14,167	16,533
EBIT	578	576	741	671	888
EBIT Margin	4.7%	5.3%	6.2%	4.7%	6.7%
EBITDA	1,216	1,175	1,334	1,352	1,621
EBITDA Margin	9.8%	10.8%	11.1%	9.5%	10.7%
Total Liquidity	3,611	3,717	4,612	4,926	5,432
Net Debt	(1,931)	(2,048)	(2,481)	(2,751)	(3,183)
Total Debt	532	480	837	803	877
Gross Leverage	0.4x	0.4x	0.6x	0.6x	0.5x
Net Leverage	-1.6x	-1.7x	-1.9x	-2.0x	-2.0x

## BUSINESS DESCRIPTION

As of 04 Mar 2024

- Honda Motor Co., Ltd. engages in the manufacture and sale of automobiles, motorcycles, and power products. It operates through the following segments: Automobile, Motorcycle, Financial Services, and Power Product and Other Businesses. The Automobile segment manufactures and sells automobiles and related accessories. The Motorcycle segment handles all-terrain vehicles, motorcycle business, and related parts. The Financial Services segment provides financial and insurance services. The Power Product and Other Businesses segment offers power products and relevant parts.
- American Honda Finance Corporation (AHFC) is a wholly-owned subsidiary of American Honda Motor Co., Inc. (AHM or the Parent). Honda Canada Finance Inc. (HCFI) is a majority-owned subsidiary of AHFC. Non-controlling interest in HCFI is held by Honda Canada Inc. (HCI), an affiliate of AHFC. AHM is a wholly-owned subsidiary and HCI is an indirect wholly-owned subsidiary of Honda Motor Co., Ltd. (HMC). Honda Motor Co. (HMC) maintains Keep Well (support) agreements with its North American finance subsidiaries, AHFC and HCFI. Under the Keep Well agreements, HMC agrees to (1) maintain at least 80% ownership in AHFC and HCFI, (2) ensure AHFC and HCFI maintain a positive net worth, and (3) ensure both AHFC and HCFI have sufficient liquidity to meet their debt payment obligations.

## GLOSSARY

<sup>1</sup> The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

<sup>2</sup> The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

<sup>3</sup> The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

<sup>4</sup> The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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