

Honda Motor (7267 JP)

FUNDAMENTAL VIEW ¹

As of 25 Nov 2024

- While the company maintained its FY25 operating income forecast, it nearly doubled the magnitude of its projected equity income loss compared to last quarter related to its deteriorating business in China. In North America, the company's profitability was impacted in the second quarter by higher incentive spending and an increase in warranty expense, tarnishing its steady HEV sales and nascent but growing EV sales momentum. Overall, we remain constructive on Honda's strong global motorcycle business and its healthy HEV business, even as it succumbs to the intense competitive environment of the Chinese automotive industry.

RISKS & CATALYSTS

As of 25 Nov 2024

- Management raised its FY25 motorcycle wholesales forecast by 2% but lowered its automobile wholesales forecast for the second consecutive quarter, this time by 3% after a 5% decrease last quarter. Motorcycle wholesales are now projected to increase 7% YoY. The company's lower automobile wholesale forecast, lower by 8% YoY, is driven by a further downward revision in Asia wholesales.
- The company raised its FY25 revenue guidance but maintained its guidance for operating profit. Management expects automobile pricing to remain resilient owing to strong demand for its HEVs, which account for about 30% of its retail sales, partially offset by expectations for continued elevated North America incentive spending in 2H25. The company may also face further elevated warranty costs in 2H25 related to a recall on ~2 mn vehicles in North America over steering issues.
- Consolidated operating profit margins are expected to be flat YoY at 6.8% in FY25 expand 20 bp to 7% in FY25 as the benefits of stronger pricing are expected to be nearly offset by increased warranty expense, greater R&D expenditures, currency headwinds. The company also expects lower profit from its business in China.

CREDIT QUALITY SCORE (CQS)²

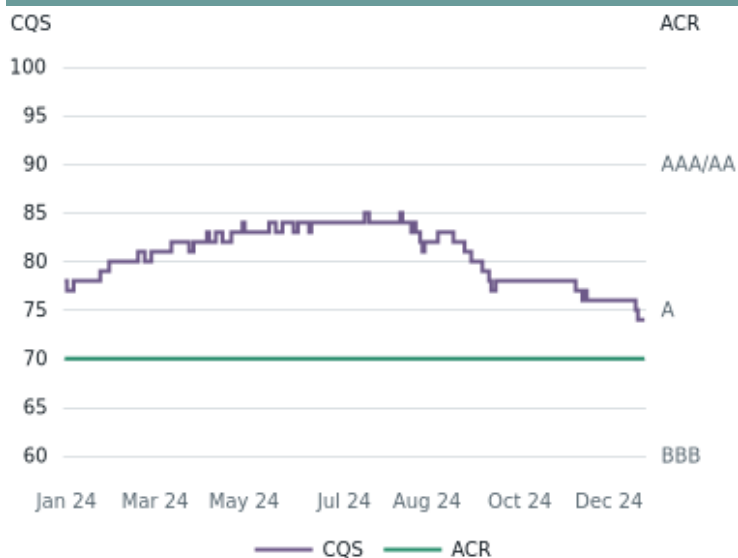
As of 24 Dec 2024

CURRENT CQS

74 CQS OUTLOOK ³

NEGATIVE
STABLE
POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR) VS CQS



KEY METRICS

As of 25 Nov 2024

¥ BN	FY21	FY22	FY23	FY24	LTM 3Q24
Revenue	10,908	11,967	14,167	17,434	18,444
EBIT	576	741	612	1,219	1,152
EBIT Margin	5.3%	6.2%	4.3%	7.0%	3.4%
EBITDA	1,175	1,334	1,294	1,964	1,889
EBITDA Margin	10.8%	11.1%	9.1%	11.3%	7.3%
Total Liquidity	3,717	4,612	4,926	6,150	5,821
Net Debt	(2,048)	(2,481)	(2,751)	(3,762)	(3,492)
Total Debt	480	837	803	863	803
Gross Leverage	0.4x	0.6x	0.6x	0.4x	0.4x
Net Leverage	-1.7x	-1.9x	-2.1x	-1.9x	-1.8x

BUSINESS DESCRIPTION

As of 25 Nov 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 Products 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

- 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.
 - 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.
 - 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.
 - 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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