American Honda Finance (2377Z US)

FUNDAMENTAL VIEW [1]

As of 20 Aug 2025

- F1Q26 Non-Financial Services results reflected robust motorcycle sales and record segment profitability, offset by a sharp downturn in automobile earnings due to tariffs, one-time EV-related expenses, and regional sales declines in Asia and Japan. Management is pursuing active mitigation of tariff impacts through localization, production reallocation, and pricing, while maintaining strong cash generation and shareholder returns. Management lowered its projected FY26 tariff cost estimate by nearly one-third, improving its projected FY26 consolidated operating margin compression from 310 bp previously to 230 bp. While the projected FY26 consolidated operating margin of 3.3% remains low, improvement from its previous forecast and lower tariff impact could alleviate negative rating pressure.

RISKS & CATALYSTS

As of 20 Aug 2025

- Management maintained its FY26 wholesale unit volume guidance that includes higher motorcycle wholesales and lower wholesales of Automobiles (-3%) and Power Products (-1%). The changes in Motorcycle segment (higher) and Automobile segment (lower) wholesales are expected to be primarily driven by Asia. Automobile wholesales in North America are projected to increase 2% YoY and account for 46% of the company's global wholesales.
- Management raised its FY26 consolidated operating profit forecast from ¥500 bn to ¥700 bn. The increase is equivalent to reduction in projected tariff impacts from to ¥650 bn to ¥450 bn. The revised forecast also includes higher currency tailwinds that are expected to be offset by unfavorable sales and price/cost impacts. While the revised forecast is a material improvement from last quarter's forecast, it still represents a 42% decline from FY25 operating profit of ¥1.3 tn, mostly attributable to the company's projected to ¥450 bn tariff cost. Finally, the updated forecast calls for Honda's consolidated operating profit margin to decline by 230 bp from 5.6% in FY25 to 3.3%, an improvement from the 310 bp margin compression it previously expected.

KEY METRICS

As of 20 Aug 2025

$ MN	FY22	FY23	FY24	FY25	F1Q26
Total Company Earning Assets	71,105	65,363	74,626	83,112	86,066
Cash and Investments	2,607	1,544	1,670	4,052	2,728
Excess Liquidity	9,607	8,544	8,670	11,052	9,728
Unsecured Debt	38,026	33,410	41,566	48,363	50,725
Secured Debt	8,888	6,927	9,351	12,384	12,700
Total Debt	46,914	40,337	50,917	60,747	63,425
Allowance % Retail Rece.	0.58%	0.71%	0.80%	0.80%	0.86%
Allowance / Net Charge-offs	3.75x	2.41x	1.72x	1.48x	1.45x
Net Charge-offs % Avg. Receivable	0.15%	0.29%	0.52%	0.57%	0.60%
30+ Day Delinquency Rate	1.1%	1.2%	1.2%	1.4%	1.5%

BUSINESS DESCRIPTION

As of 20 Aug 2025

- 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.
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