

# Honda Motor (7267 JP)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 12 Dec 2022

- Honda is unique among its Automotive peers owing to its global leadership position within the motorcycle market, in which it maintains a 25% global market share and consistent low-double-digit operating margins. The larger automotive business – which accounts for roughly two-thirds of Honda’s consolidated revenue – has seen its profitability decline since 2017 and remains in turnaround mode. While the company’s Power Products segment provides it with added diversification, the segment has posted a profit only one year in the past decade.

## RISKS & CATALYSTS

As of 12 Dec 2022

- Honda’s Non-Financial Services credit metrics are strong with cash and cash equivalents more than 3x its debt balance. While we believe its credit rating has upside potential to mid-A over time – its longtime rating prior to the pandemic that would enable it to access the Tier 1 CP market – we do not expect positive rating momentum until the automotive supply chain normalizes and Honda improves the performance of its automotive segment.
- While we believe all automakers are susceptible to deteriorating vehicle sales in the event of a recession, Honda’s motorcycle segment sales and profitability have remained resilient in previous recessions including the 2008-09 financial crisis and could lead to modest outperformance versus its peers in a recessionary environment.
- Management trimmed its expected FY23 unit wholesale growth for Motorcycles and Automobiles by 1% and 2%, respectively, with lower Automobile wholesales tied to semiconductor availability in North America. Higher operating profit guidance is related to strength in its Motorcycle segment and favorable currency effects.

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

As of 20 Feb 2023

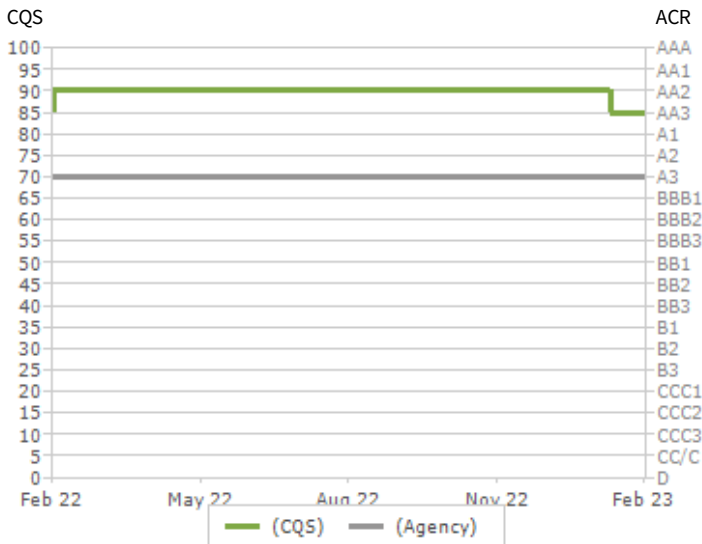
### CURRENT CQS

85

### CQS OUTLOOK <sup>3</sup>

NEGATIVE STABLE POSITIVE

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



## KEY METRICS

As of 12 Dec 2022

¥ BN	FY19	FY20	FY21	FY22	LTM 3Q22
Revenue	13,523	12,344	10,908	11,967	12,963
EBIT	719	578	576	741	751
EBIT Margin	5%	5%	5%	6%	6%
EBITDA	1,403	1,216	1,175	1,334	1,365
EBITDA Margin	10%	10%	11%	11%	11%
Total Liquidity	3,520	3,611	3,717	4,612	4,772
Net Debt	(1,944)	(1,931)	(2,048)	(2,481)	(2,561)
Total Debt	438	532	480	837	946
Gross Leverage	0.3x	0.4x	0.4x	0.6x	0.7x
Net Leverage	-1.4x	-1.6x	-1.7x	-1.9x	-1.9x

## BUSINESS DESCRIPTION

As of 12 Dec 2022

- 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. The company was founded by Soichiro Honda on September 24, 1948 and is headquartered in Tokyo, Japan.
- 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. Noncontrolling 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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