Honda Motor

Recommendation: HOLD

12-Month Target Price: $30.00 (as of January 31, 2006)

Sector: Consumer Discretionary
Sub-Industry: Automobile Manufacturers
Peer Group: Automakers

Summary: This company is one of the world's largest automobile manufacturers, and the largest manufacturer of motorcycles.

Key Stock Statistics

- S&P Core EPS 2006E: NA
- S&P Oper. EPS 2006E: 2.52
- P/E on S&P Oper. EPS 2006E: 11.7
- S&P Oper. EPS 2007E: 2.72
- Yield (%): 1.0%
- Dividend Rate/Share: 0.31

Value of $10,000 invested five years ago: $15,728

Dividend Data

<table>
<thead>
<tr>
<th>Amount ($)</th>
<th>Date Decl.</th>
<th>Ex-Div. Date</th>
<th>Stock of Record</th>
<th>Payment Date</th>
</tr>
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<tbody>
<tr>
<td>0.157</td>
<td>—</td>
<td>Mar. 28</td>
<td>Mar. 30</td>
<td>Jul. 01 '05</td>
</tr>
<tr>
<td>0.155</td>
<td>—</td>
<td>Sep. 27</td>
<td>Sep. 29</td>
<td>Dec. 02 '05</td>
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</tbody>
</table>

Highlights

- Based on figures for the first nine months of FY 06 (Mar.), HMC's unit volume sales momentum is tracking our full year forecast for a 7% increase in unit sales to 3.5 million. Coupled with an expected 2% increase in average sales prices due to the increased proportion of light truck sales, we forecast revenue growth of more than 12% in FY 06, the fastest pace in nearly three years, and 7% in FY 07.
- We expect EBIT (earnings before interest and taxes) margins to rise to 7.4% in FY 06, from 7.3% in FY 05. However, we expect margins to fall to 7.0% in FY 07, due to higher raw material prices and increased marketing expenses.
- We forecast that net profit will increase about 31% in FY 06, excluding a gain on the transfer of benefit obligations to the government, to yen 540 billion ($4.6 billion). We estimate earnings per ADR of $2.52 in FY 06, before the gain, and $2.72 in FY 07, at exchange rates of approximately $1/JPY118.

Investment Rationale/Risk

- Our recommendation is hold. We see a mixed earnings outlook due to increased competition, higher raw material prices, and currency depreciation. HMC, one of the three major automakers in Japan, has the largest exposure to the North American market. Given a more competitive market and rising interest rates, we believe Honda will be more vulnerable to any slowdown in industry sales.
- Risks to our recommendation and target price include lower than expected unit sales in the U.S. due to weaker consumer spending, a greater than expected increase in raw material prices, and stronger than expected appreciation of the Japanese yen.
- Our 12-month target price of $30 is based on a price to earnings multiple of 11X applied to our FY 07 earnings estimate, in line with peers.
Business Summary February 02, 2006

Honda Motor Co. is a leading manufacturer of automobiles, motorcycles, and power products. HMC aims to create value by offering high-end innovative products, establishing advanced customer relations activities, and building a foundation for new business projects.

Automobile sales accounted for 80% of total sales in each of FY 05 (Mar.) and 81% in FY 04. Worldwide automobile unit sales increased 8.7% in FY 05, with 50.1% growth in Asia. In late 2003, management said that its major strategies for business growth were to continue expanding North American light truck sales, launch new models in the Japanese automobile business, and continue growth of the automobile business in China.

Motorcycle sales contributed 13% to total sales in FY 05, versus 12% in FY 04. Overall motorcycle unit sales grew 14% in FY 05, with growth of 17% in Asia and 13% in Europe, coupled with a slight decline in North America of 2% and a decline in Japan of 6.2%.

Other businesses, including power products and financial services, accounted for 7% of net sales in FY 05. Power product unit sales were up 5.0% in FY 05, helped by a 6.5% increase overseas while domestic unit sales declined by 9.4%. Revenues from Financial Services increased 5.4% in FY 05.

The projection includes an estimated fourth quarter pretax gain of yen 128 billion from other businesses, including power products. Capital expenditures in FY 05 were 467.7 billion yen. Motorcycle sales contributed 13% to total sales in FY 05, versus 12% in FY 04.

In January 2006, Honda forecast net sales and other operating revenue of yen 9.74 trillion, operating income of yen 860 billion and net income of yen 605 billion. The projection includes an estimated fourth quarter pretax gain of yen 128 billion from the transfer of certain benefit obligations to the Japanese government.

Each ADR represents 0.5 of a common share.
Sub-Industry Outlook

Our fundamental outlook for the automobile manufacturers sub-industry is negative. The S&P Automobile Makers Index underperformed the S&P 1500 Index in 2005 with a 46.0% decline, versus a 3.9% rise. Year to date through February 3, the sub-industry index increased 10.8%, versus a 1.8% rise for the S&P 1500. We expect that 2006 U.S. light vehicle sales volume will be about 16.7 million, down from the nearly 17.0 million sold in 2005. Competition should remain intense, in our view, aided by new product introductions and incentives. Gasoline prices, which had exceeded $3 per gallon at their 2005 peak, appear to be hurting demand for fuel-inefficient but profitable light trucks. Late-in-the-lifecycle vehicles and increased competition are also pressuring sales, in our opinion. Lower production and/or increased incentives, in turn, could reduce income in 2006.

We expect the “Big Three” U.S. automakers collectively to again lose market share to foreign car makers in 2006. Of special concern to us is the highly profitable light truck, minivan and sport utility segment, which we think is facing increasing pricing pressure now that the Big Three’s dominance is waning, gasoline prices have risen sharply and sales of lower margin crossover utility vehicles are taking share from SUVs. We project that margins will come down in this segment. Increased sales of luxury import models are also hurting domestic manufacturers’ margins in the luxury vehicle category, in our view. We think restructuring and other cost-reduction efforts should offset some of the margin pressure in 2006. However, we expect higher retiree and health care costs to squeeze margins.

We believe the favorable backdrop of relatively high employment, combined with aggressive vehicle incentives in the form of discounted prices and financing rates, should bode well for a continuation of relatively high demand for motor vehicles. However, rising competition will likely make profits harder to come by. With a combination of cost reductions and a move to more profitable non-car vehicle sales, automakers’ profits have been strong during this upcycle. While a new higher sales plateau in North America may be sustainable, we have concerns about intensifying competition and acceleration of already-heavy incentive activity.

--Efraim Levy, CFA

Stock Performance

GICS Sector: Consumer Discretionary
Sub-Industry: Auto Manufacturers
Based on S&P 1500 Indexes
Month-end Price Performance as of 01/31/06

<table>
<thead>
<tr>
<th>Sub-Industry</th>
<th>Sector</th>
<th>S&amp;P 1500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honda Motor</td>
<td></td>
<td></td>
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</tbody>
</table>

Sub-Industry: Automobile Manufacturers

<table>
<thead>
<tr>
<th>Peer Group</th>
<th>Stock Symbol</th>
<th>Recent Stock Price</th>
<th>Stock P/E Ratio</th>
<th>12-Mo. Trailing EPS</th>
<th>30-day Stock Price Chg(%)</th>
<th>1-year Stock Price Chg(%)</th>
<th>Beta</th>
<th>Yield (%)</th>
<th>Quality Ranking</th>
<th>Stk. Mkt. Cap. (Mil. $)</th>
<th>Ret. on Equity (%)</th>
<th>Pretax Margin (%)</th>
<th>LTD to Cap. (%)</th>
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</thead>
<tbody>
<tr>
<td>Honda Motor</td>
<td>HMC</td>
<td>29.54</td>
<td>12</td>
<td>2.41</td>
<td>8%</td>
<td>11%</td>
<td>0.46</td>
<td>1.0</td>
<td>NR</td>
<td>54,641</td>
<td>15.8</td>
<td>8.7</td>
<td>32.2</td>
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<tr>
<td>Brilliance China Automotive</td>
<td>CBA</td>
<td>18.02</td>
<td>N/M</td>
<td>-2.21</td>
<td>9%</td>
<td>-16%</td>
<td>0.89</td>
<td>0.7</td>
<td>NR</td>
<td>661</td>
<td>N/M</td>
<td>N/M</td>
<td>17.4</td>
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<tr>
<td>DaimlerChrysler</td>
<td>DCX</td>
<td>55.86</td>
<td>17</td>
<td>3.32</td>
<td>1%</td>
<td>21%</td>
<td>1.51</td>
<td>2.7</td>
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<td>56,576</td>
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<td>FiatS.p.A.</td>
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<td>41%</td>
<td>1.15</td>
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<td>N/M</td>
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<td>Ford Motor</td>
<td>F</td>
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<td>8</td>
<td>1.02</td>
<td>-6%</td>
<td>-37%</td>
<td>1.59</td>
<td>4.9</td>
<td>B</td>
<td>14,473</td>
<td>26.2</td>
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<td>-46%</td>
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<td>5.0</td>
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<td>11,304</td>
<td>10.6</td>
<td>1.0</td>
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<td>Nissan Motor</td>
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<td>11%</td>
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<td>Toyota Motor</td>
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<td>17</td>
<td>6.53</td>
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<td>41%</td>
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<td>1.1</td>
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<td>17,616</td>
<td>13.6</td>
<td>10.2</td>
<td>32.6</td>
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Note: All Sector & Sub-Industry Information is based on the Global Industry Classification Standard (GICS)
S&P Analyst Research Notes and other Company News

February 2, 2006
NEW YORK (Standard & Poor's)--Jan. 31, 2006, Honda Motor Co., Ltd., announced 3Q earnings per ADS $0.61 vs. $0.79 and 9 mos. earnings per ADS $1.73 vs. $2.05. Results are converted into U.S. dollars at 118 yen per $1 for 2005 and 102 yen per $1 for 2004. Each ADS represents 0.5 ordinary share.

January 31, 2006
Up 0.32 to 28.56... Posts 24% higher Q3 consolidated net income on 16% revenue rise.

January 31, 2006
01:23 pm EST... S&P REITERATES HOLD OPINION ON ADRS OF HONDA MOTOR (HM C 28.41***): HM C posts Dec-Q earnings per ADR of yen 77.4 ($0.62) vs. yen 80.89, below our $0.66 estimate despite better operating income. For full FY 06 (Mar.) we forecast a 13% rise in sales and a 31% increase in net income, before a gain from the transfer of benefit obligations to the government. We are raising our per-ADR earnings estimate for FY 06 by three cents to $2.52, and we see net income of $2.72 in FY 07. Our 12-month target price rises $2 to $30, based on a P/E of 11X applied to our FY 07 estimate. With a 1.1% dividend yield, we would hold HMC for potential total return. /ELevy-CFA

January 27, 2006
12:21 pm EST... S&P REITERATES HOLD OPINION ON ADRS OF HONDA MOTOR (HM C 28.22***): We expect HM C on January 31 will post Dec-Q earnings per ADR of yen 161.51 ($0.68) vs. yen 161.78. We see its automobile unit volume at 3.5M for FY 06 (Mar.), up 7% from FY 05. For FY 06 we forecast an 11% rise in revenues and 9.4% gain in net income, but we expect that competition and higher raw materials costs will restrict margins. For FY 06, we see earnings per ADR at yen 461 ($2.49). Our 12-month target price of $28 blends valuations from price/book and P/E multiples applied to our FY 06 estimates. With a 1.1% dividend yield, we would hold HM C for potential total return. /ELevy-CFA

September 29, 2005
Up 1.53 to 28.88... Says Moody's Investors Service raises its outlook to positive from stable on A1 senior unsecured, issuer ratings of co., its supported subsidiaries.

September 7, 2005
02:00 pm EDT... S&P REITERATES STRONG SELL OPINION ON GENERAL MOTORS SHARES (GM 32.82***): GM, DaimlerChrysler (Hold, $52.00) and BMW group announce formation of an alliance to jointly develop hybrid systems for vehicles. We view this as a response to jumpstart and quicken the pace of bringing technologies to market to compete with Toyota (TM 83.7****) and Honda (HM C 27.3***) who lead in hybrid-electric vehicle sales. With sharply higher gas prices, we expect consumers to focus more on gas mileage and we see pressure on GM's sales of larger SUVs. While the venture will not provide immediate succor, it could help narrow the Japanese brands' lead in the years ahead. /ELevy-CFA

July 27, 2005
02:54 pm EDT... S&P MAINTAINS HOLD RECOMMENDATION ON ADRS OF HONDA MOTOR (HM C 25.51***): J une-Q earnings per ADR are down 1.6% from a year ago, in line with our expectations. An 8.8% increase in auto unit sales and a relatively stable margin were more than offset by unrealized losses on derivatives. Growth in auto sales seems to be tracking our FY 06 (Mar.) forecast of a 5.7% increase in unit sales to 3.43M. We think the earnings outlook is likely to be pressured by competition and high raw material prices. We believe HMC will continue trade at its historical three-year average P/E. Our 12-month target price remains $26, based on price/book and P/E ratios. /C.Lee

April 29, 2005
10:16 am EDT... S&P REITERATES HOLD OPINION ON ADRS OF HONDA MOTOR (HM C 24.02***): After reviewing FY 05 (Mar.) final results, we are lowering our FY 06 earnings per ADR estimate to $2.30 from $2.54, and FY 07's to $2.44 from $2.72. Increased competition, higher-than-expected raw material prices and lower profit from China affiliates support our mixed earnings outlook and suggest earnings momentum is lacking. HMC's forward P/E and price/book ratios are trading at the bottom of their historical ranges, which suggests shares might have discounted a tough earnings scenario. We are lowering our target price to $26 from $27, based on price/book and P/E ratios. /C.Lee, C.Germann

April 26, 2005
03:36 pm EDT... S&P MAINTAINS HOLD RECOMMENDATION ON ADRS OF HONDA MOTOR (HM C 24.32***): HM C reports FY 05 (Mar.) earnings per ADR of $2.46, close to our estimate of $2.48. HM C benefited from strong contributions from affiliates in Asia and an 8.7% increase in global auto unit sales to 3.24M. Revenue rose 6% to $87.1B, with EBIT margin flat at 7.3%. Net profit grew 4.7% to $4.6B due to a 28% increase in income from affiliates. We are concerned about FY 06, given what we see as higher raw materials prices, greater competition and rising interest rates in the US market. Our 12-month target price remains $27, based on historical average P/E multiples. /C.Lee, C.Germann

March 28, 2005
NEW YORK (Standard & Poor's)--Mar 17, 2005, Honda Motor Co., Ltd. announced 3Q earnings per ADS $0.81 vs. $0.79 and 9 mos. earnings per ADS $2.09 vs. $2.04. Results are as reported by Co., converted into U.S. dollars at average exchange rates. Each ADS represents 0.5 ordinary share.

Source: S&P.
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12-Month Target Price: $30.00 (as of January 31, 2006)
Of the total 4 companies following HMC, 4 analysts currently publish recommendations.

<table>
<thead>
<tr>
<th># of Rec.</th>
<th>% of Total</th>
<th>1 Mo. Prior</th>
<th>3 Mos. Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>2</td>
<td>50</td>
<td>2</td>
</tr>
<tr>
<td>Buy/Hold</td>
<td>1</td>
<td>25</td>
<td>1</td>
</tr>
<tr>
<td>Hold</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Sell</td>
<td>0</td>
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<tr>
<td>No Opinion</td>
<td>1</td>
<td>25</td>
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</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100</td>
<td>4</td>
</tr>
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</table>

Earnings Analysis

For fiscal year 2006, analysts estimate that HMC will earn $2.85. For fiscal year 2007, analysts estimate that HMC’s earnings per share will decline by 1% to $2.81.

A company’s earnings outlook plays a major part in any investment decision. Standard & Poor’s organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.
Honda Motor Co., Ltd.

Glossary

S&P STARS - Since January 1, 1987, Standard & Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary S&P STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

STARS Average Annual Performance

STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

STARS 12-Month Target Price - The S&P equity analysts' projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Quantitative Evaluations - In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Earnings & Dividend (Quality) Rank - S&P's appraisals of the growth and stability of earnings and dividends over the past 10 years for individual companies are indicated by the following quality rank.

S&P Core Earnings - Standard & Poor's Core Earnings is a uniform methodology for calculating operating earnings, and focuses on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, writedowns of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Required Disclosures

In the U.S.: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services U.S. have recommended 28.2% of issuers with buy recommendations, 61.3% with hold recommendations and 10.5% with sell recommendations.

In Europe: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services Europe have recommended 33.8% of issuers with buy recommendations, 46.8% with hold recommendations and 19.4% with sell recommendations.

In Asia: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services Asia have recommended 24.8% of issuers with buy recommendations, 53.1% with hold recommendations and 22.1% with sell recommendations.

Globally: As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services globally have recommended 28.1% of issuers with buy recommendations, 59.1% with hold recommendations and 12.2% with sell recommendations.

- Standard & Poor's IQ Rationale: Honda Motor

Proprietary S&P Measures

Raw Score Max Value

39 115

Technical Indicators

29 40

Liquidity/Volatility Measures

8 20

Quantitative Measures

5 75

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

- 4-STARS (Buy): Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

- 3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

- 2-STARS (Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

- 1-STARS (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In the U.S. the relevant benchmark is the S&P 500 Index, in Europe the S&P Europe 350 Index and in Asia the S&P Asia 50 Index.

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Additional information is available upon request.
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