



CEE Equity Research | Car dealership | Hungary
02 July 2020

AutoWallis

Rating: Accumulate (unch.)

Target price (12-m): 130 (unch.)

Share price: HUF 83

HUF million	2019	2020F	2021F
Revenue	75 273	77 580	87 596
EBITDA	2 981	2 485	3 665
EBIT	1 802	1 477	2 716
Net profit	914	495	1927
EBITDA margin	4.0%	3.2%	4.2%
PAT margin	1.3%	0.6%	2.2%
EPS	3.4	1.8	7.1
DPS	0.0	0.0	0.0
BVPS	18.7	20.5	27.7
P/E	24.5	45.3x	11.6x
P/BV	4.4x	4.0x	3.0x
EV/EBITDA	11.3x	13.2x	8.7x

Share price as of 2/07/2020	HUF 83	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	270.3	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	22.4 / 65	Free float	14.34%
Daily turnover 12M [EUR th]	147	52 week range	HUF 51 – 137

On track to create value by acquisitions

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- Following the acquisition of a 60% stake in ICL AUTÓ Ltd., formerly owned by the main founder of the Inicial Group, which is the largest car dealership company in Western Hungary by sales, AutoWallis acquires a 40% minority stake in Autóház Ltd. (Inicial) with a HUF 1.16bn in-kind capital increase. In fact, the acquisition will be made with a mixture of cash and own stock. AutoWallis will issue 13,589,503 new shares (representing 5% of the current outstanding ordinary shares) at a price of HUF 85.36 each (which is the average stock exchange share price of the last 30 days) to be transferred to Inicial's financial investor, DC-INI Asset Manager (DC-INI) in exchange for the minority stake in Autóház Ltd. AutoWallis has undertaken to buy back 8,589,503 new shares from DC-INI at the price of HUF 93 (in a total amount of HUF 799mn).
- AutoWallis' share capital will increase by HUF 170mn to HUF 3.727bn, while the rest amount of HUF 990mn will be put in its capital reserve. AutoWallis

will introduce the newly issued ordinary shares on the regulated market of the BSE.

- DC-INI will be prohibited to sell its remaining 5mn AutoWallis shares until 31 May, 2021. The annual volume sold may not exceed one third of the volume of 5mn ordinary shares, the daily marketable volume must not exceed 20% of the 180-day average daily liquidity; (iv) the minimum selling price is 85% of the 30-day average price, with 10% of the opening price on the stock exchange. A lower sale offer cannot be made (this restriction applies to exchange-traded and over-the-counter transactions equally).
- AutoWallis aims to purchase an additional 20% stake in Autóház Ltd. to have majority ownership in Autóház Ltd. AutoWallis will use own shares for the acquisition to make it more efficient, as it does not have to raise more capital for the transaction.
- In 2019, Autóház Ltd. achieved EBITDA of more than HUF 600 mn and profit-before tax of HUF 400mn on net sales of HUF 19.3bn (compared to AutoWallis' corresponding figures of HUF 2.98bn, HUF 1.26bn and HUF 75.27bn). Autóház's had a small amount of debt on its B/S of ca. HUF 300mn at the end of 2019 compared to the book value of its real estate assets of around HUF 2.2bn and retained earnings reserves of HUF 2,4bn.
- Assuming that AutoWallis will be willing to pay a meaningful control premium (that can go up to 70-100%) for the additional 20% in order to gain management right over Autoház Ltd., whereby gaining access to Autóház's cash flows and control of the firm's strategy, the acquisition of the 60% stake places Autóház's value at around HUF 3.5-3.6bn on an enterprise value basis, or 6xEBITDA on our estimate. The amount of the control premium should reflect the incremental value (synergy) that can possibly be generated in Autóház Ltd., or the value of Autóház's real estate that AutoWallis wants to utilize as sales points to expand its activities in Western Hungary after the completion of the acquisition, otherwise a control premium would be unnecessary.
- If AutoWallis monetizes Autóház's larger retained earnings reserves after gaining ownership control by leveraging Autóház's real estate assets (in a way of letting Autóház take loan and pay handsome dividend, i.e. optimizing the capital structure), the acquisition will certainly pay off quickly.
- Inicial Group is engaged in distributing car models of Renault, Dacia, Nissan, Toyota, Peugeot, Suzuki and KIA in Western Hungary. ICL Autó started its operation in February, at first with the sales and servicing of KIA vehicles. AutoWallis and ICL Autó plan on distributing other brands as well later on in Western Hungary. ICL AUTÓ will be run by the CEO of the Inicial Group.
- **Comment.** We are pleased with this acquisition as we believe that it fits well into AutoWallis' strategy aiming to continue expansion via acquisitions and organic growth in a value creative way. By means of the acquisition of a controlling ownership interest in Autoház AutoWallis is making an important step to achieve one of its strategic goals of further increasing the proportion of high added value services in its revenues, for which the dealerships and service points serve as an important basis too.
- Our 12-m TP is HUF 130, which still leaves a 53% upside potential from the current share price. We once again stress that our TP is highly sensitive to AutoWallis' operating margin developments. We reiterate our Accumulate rating on AutoWallis.

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Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10%-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if the covering analyst considers new information may change the valuation materially and if this may take more time.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

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