CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
01 December 2021

AutoWallis

Rating: Buy (unch.)
Target price (12-m): HUF 171 (prev. HUF 165)
Share price: HUF 120

HUF million	Q1-3/21	Q1-3/20	Ch. (%)
Revenue	145 404	62 631	132.2
EBITDA	5 735	1 905	182.2
EBIT	3 307	725	356.1
Net profit	2 213	-358	n.a.
EBITDA margin	3.9%	3.0%	0.9pps
PAT margin	1.5%	-0.6%	2.1pps
EPS	6.43	-1.30	n.a.
DPS	0.0	0.0	0.0
BVPS	40.72	23.22	75.4

Share price close as of 1/12/2021	HUF 120	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	425.2	Reuters	AUTW.HU
Market capitalization [HUF bln/EUR mln]	51.1 / 140.7	Free float	49.1%
Daily turnover 12M [EUR th]	282	52 week range	HUF 80 – 135

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En route to create value

- AutoWallis posted very sound results for Q1-3/21: EBITDA grew by182% YoY to HUF 1.46 bln on revenue of HUF 145.5 bln (+132% YoY), while net profit rose to HUF 2.2 bln from a loss of HUF 358 mln in the same period of last year.
- EBITDA in Q3/2021 amounted to HUF 2.55 bln, up 122% YoY from HUF 1.15 bln in Q3/20 and HUF 2.2 bln in FY2020, implying an EBIDTA margin 5.5% compared to 4,7% YoY.

Positives:

- Both retail and wholesale divisions of the Group contributed to the outstanding sales growth, against the backdrop of restrictions imposed from time to time due to successive waves of the coronavirus epidemic, a slowdown in automotive production and supply due to a shortage of chips and a slow reorganization of tourism. AutoWallis increased sales of its new vehicle by almost four times (+271%) to 17,587 units. Out of unit growth the impact of transactions and acquisitions executed in 2020 accounted for 85% and the organic growth impact was 15%. The organic growth was 40% YoY which alone was several times higher than the average regional market growth. The Central and Eastern European market which is relevant to the AutoWallis Group grew by 10.8% YoY.
- Wholesale revenue almost tripled to HUF 86.2 bln (+ 192% YoY) powered by the increase in the volume of new vehicles sold, particularly Opel and SsangYong brands.

Retail sales revenue also rose significantly (+79% YoY) to HUF 59.2 bln in the first nine months of 2021.

- With the lifting and easing of the pandemic-triggered restrictions and the increase in tourism, the number of rental days and events increased by 101 % and 51% YoY, respectively, in in the first nine months of 2021.

Operation highlights in Q1-3/2021

	Q1-3/21	Q1-3/20	Ch (%)
Wholesale			
No. of vehicles sold	12 386	2 915	324.9
Net sales	86 170	29 534	191.8
Gross profit	9 106	2 479	267.3
Gross margin	*10.6%*	*8.4%*	*+4.2pps*
EBITDA	**3 024**	**544**	**455.9**
EBITDA margin	*3.5%*	*1.8%*	*+1.7pps*
Retail			
No. of new vehicles sold	5 201	1 823	285.3
No. of used vehicles sold	1 205	778	54.9
Total no. of vehicles sold	**6 406**	**2 601**	**246.3**
Net sales	59 234	33 096	79.0
Gross profit	10 448	5 145	103.1
Gross margin	*17.6%*	*15.5*	*+2.1pps*
EBITDA	**2 712**	**1 361**	**99.3**
EBITDA margin	*4.6%*	*4.1*	*+0.5pps*
Service hours	95 191	41 733	128.1
Fleet size (in terms of rented cars)	566	437	29.5
Rents	10 550	6 976	51.2
Rental days	123 016	61 228	100.1

Source: AutoWallis' Q1-3/2021 earnings report

- Although there was also a significant increase of 181 % YoY in personnel expenses as a result of last year's acquisitions, which resulted in an increase in average wages and an increase in the headcount number of the AutoWallis Group by 150 to 706, EBITDA grew faster than sales revenue: it more than tripled (+ 201%) to HUF 5.7 bln. AutoWallis has been able to improve its gross margins, which increased by ca. 10% from 12.3 to 13.4%. Gross margin improvements were primarily driven by AutoWallis's ability to enforce a successful and efficient pricing policy taking into account market needs and price sensitivity of both supply and sales.
- Financial income and expenses decreased by 62% YoY to HUF 355 million because of the FX impact and debt restructuring towards long-term bonds with fixed interest rates (ca. 3%).
- Total comprehensive income came in at HUF 2.2 bln, compared to losses of HUF 385 mln in the same period a year earlier, while earnings per share (EPS) rose to HUF 6.43 from HUF -1.3.
- Adjusted net debt (including loans, long-term bonds, lease and reverse factoring obligations, contingent purchase price payments and cash & equivalents) declined to HUF 11.97 bln as of the end of September, 2021 (implying ca. 1.9x net debt to annualized EBITDA) from HUF 24.64 bln and ca. 11.2x adjusted net debt-to-EBITDA ratio at the end 2020 according to our calculation.

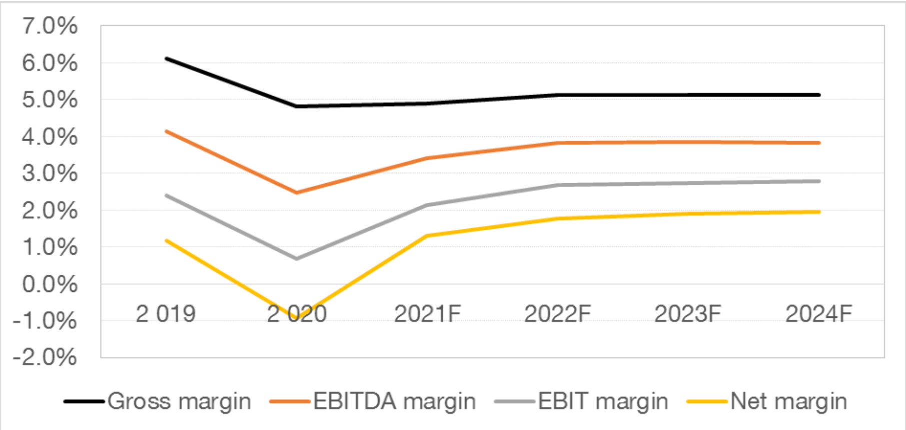
Negatives:

- Management has lowered FY21 revenue guidance from over HUF 200 bln to HUF 190 bln citing supply chain disruption of basic materials affecting severely vehicle production in Europe. At the same time, management kept EBITDA guidance intact at around HUF 6 bln driven by margin improvement in the wake of price hikes, which is in turn in line with our fully-year EBITDA estimate.

Outlook

- No doubt, the rate of rebound in the pan-European car market in the first nine of the year was striking. More importantly, it is very likely that the global shortage of semiconductors (chips) will end in the second half of 2022, so there will be a chance for the recovery to continue in the car market in 2023.
- Sales growth in the next five years will be driven by the acquisition of exclusive wholesale distribution rights, the expansion of retail activities and the continuous development of service activities (leasing, fleet, etc.). The newly planned ambitious growth should be a combined result of the organic growth, the previous acquisitions and the planned new acquisitions. AutoWallis intends to cover the financing of new acquisitions and developments from the public share offering, in the framework of which it has recently raised HUF 10 bln, as well as from taking more loan.
- Robust EBITDA growth and margin improvements prompt us to raise EBITDA estimate for 2021 from 6 bln to 6.27 bln. At the same time we feel it appropriate to pare our sales forecast by 5% from HUF 202 bln to HUF 192 bln due to supply chain disruption.
- The less-than-previously projected increase of sales is not expected to be accompanied by a decrease in EBITDA, as car rental activity and automotive services revenue are expected recuperate and grow next year depending on the viral situation, while crisis management measures will also be supportive to profitability. The main reason, however, may be that AutoWallis has been able to increase prices of both new and used vehicles due to lower supply thereof, while premium car production are likely to be consciously limited in the future, thereby supporting pricing power of carmakers and dealers and so their margins and profitability.
- We believe supportive trends may be observed in all CEE and SEE vehicles markets (including both the used and new cars segments) where AutoWallis is present. Said this, AutoWallis could take advantage of rebounding business travels and tourism once COVID vaccine rollouts speed up in Europe and organically expand its operating margins primarily as a result of rebound in automotive service activities (e.g. car rent) and lean operations.

AutoWallis' margins between 2019 and 2024

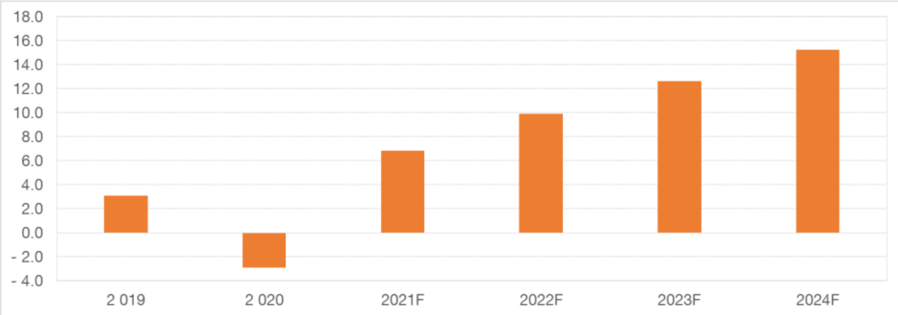


Source: AutoWallis, Concorde's estimates

- We raised our 2025 net income and EBITDA estimates as well from HUF 7.2 bln and HUF 13.7 bln to HUF 7.8 bln and 14.9 bln, respectively, while reducing our revenue estimate from HUF 416.6 bln to HUF 394.3 bln. Our FY2025 EPS and ROE estimates (incorporating the impact of the recent share capital increase) are HUF 18.3 and 19%, respectively.
- We penciled the positive impact of both synergies and growth potential inherent in the recent transactions on sales and earnings in our estimates, while also believing

that the recovery in service revenues, containing above-average margins, will be rapid and significant after the pandemic abates. Nevertheless, the market environment remains volatile, in our view.

AutoWallis' EPS estimates for the period between 2019 and 2024 (HUF bn)



Source: AutoWallis, Concorde's estimates

- We expect AutoWallis not to pay meaningful dividend until the current growth cycle ends.
- AutoWallis' B+ rating was reaffirmed by Scope Ratings last November in light of recovering vehicles market conditions, improving its outlook from stable to positive. We expect net debt/EBITDA ratio to improve constantly in the years to come, if all else remaining the same.
- We raise our DCF-based 12-month TP to HUF 171 from HUF 165 per share. Our new TP leaves a 43% upside from the current share price. We reiterate our Buy rating on AutoWallis.
- We note that our 12-month TP is highly sensitive to AutoWallis' operating margin developments. We assume a significant improvement in AutoWallis' ROIC by 2024 (from 11% in 2021 to 14% in 2024), driven mainly by expected EBITDA margin expansion, which thus is likely to exceed peers' ROIC ratio. We found that if the return on newly raised capital reached the expected 14% in the medium term, our 12-month TP would be about 10% higher than at present; however, if the return remains around 11%, our TP may be 15-20% lower than the current TP.

Fair value (HUF)	133.4
12-m TP (HUF)	170.5

	2019	2020	2021	2022	2023	2024	2025	TV1
Revenue growth	19.2%	17.5%	117.1%	24.0%	19.3%	17.8%	17.8%	3.0%
EBIT/ Rev.	2.4%	0.7%	2.1%	2.7%	2.7%	2.8%	2.8%	2.8%
Tax	29.0%	-45.7%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
RONIC		-15.7%	22.3%	18.1%	21.5%	22.3%	22.2%	7.4%
ND/V	19.4%	27.0%	32.4%	24.5%	23.4%	21.5%	19.3%	40.5%
r_A	7.9%	8.0%	8.2%	8.8%	8.8%	9.2%	9.1%	7.7%
r_D	6.2%	7.5%	3.7%	4.2%	3.6%	3.8%	3.8%	3.8%
ROIC	8.49%	1.58%	9.35%	11.31%	12.37%	13.32%	14.18%	13.81%
NOPLAT	1 277	332	3 160	4 916	6 004	7 152	8 425	8 678
g (NOPLAT)							3.0%	3.0%
DIC	6 039	12 703	9 676	5 064	5 152	5 748	3 424	3 527
IC								
15 040 192	21 079	33 782	43 458	48 522	53 674	59 421	62 845	66 372
Risk free rate	2.5%	2.7%	2.9%	3.5%	3.4%	3.7%	3.5%	3.5%
Unlevered beta	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Beta multiple	1.2	1.5	1.4	1.2	1.2	1.2	1.2	1.2
Levered beta	1.054	1.4	1.4	1.4	1.4	1.4	1.4	1.4
ERP	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Unlevered cost of equity	7.9%	8.0%	8.2%	8.8%	8.8%	9.1%	8.9%	8.9%
Levered cost of equity	8.2%	8.2%	10.4%	10.4%	10.3%	10.6%	10.4%	10.4%
Net debt	9 800	15 918	24 791	21 825	22 674	22 459	21 720	47 613
Net debt (calculated)	9 800	15 918	24 791	21 825	22 674	22 459	21 720	47 613
D/E	24.1%	37.0%	47.9%	32.4%	30.5%	30.0%	30.0%	30.0%
E/V	80.6%	73.0%	67.6%	75.5%	76.6%	78.5%	80.7%	59.5%
r_E	8.2%	8.2%	10.4%	10.4%	10.3%	10.6%	10.4%	10.4%
WACC	7.5%	8.9%	8.0%	8.6%	8.6%	9.0%	9.0%	7.4%
P&L	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**TV1**
Rev.	75 273	88 413	191 928	238 059	284 088	334 671	394 260	406 088
D&A	1 326	1 590	2 459	2 741	3 119	3 544	3 943	4 061
EBIT	1 798	611	4 104	6 384	7 797	9 288	10 942	11 270
Financial rev.	-612	-1 200	-922	-910	-827	-864	-836	-1 832
PBT	1 186	-589	3 181	5 474	6 970	8 424	10 106	9 438
Tax	343	269	732	1 259	1 603	1 938	2 324	2 171
Net Income	842	-858	2 449	4 215	5 367	6 487	7 782	7 268
Net compr. income	877	-836	2 477	4 239	5 393	6 512	7 812	7 296
CF								
EBIT	1 798	611	4 104	6 384	7 797	9 288	10 942	11 270
EBITDA	3 124	2 201	6 562	9 125	10 916	12 832	14 885	15 331
NOPLAT	1 277	332	3 160	4 916	6 004	7 152	8 425	8 678
DIC	6 039	12 703	9 676	5 064	5 152	5 748	3 424	3 527
FCFF	-4 762	-12 371	-6 516	-148	852	1 404	5 001	5 151
Interest	-612	-1 200	-922	-910	-827	-864	-836	-1 832
Tax shield	177	-548	212	209	190	199	192	421
Ddebt	6 118	8 873	-2 966	849	-215	-739	25 893	1 428
FCFD	5 683	7 125	-3 677	148	-852	-1 404	25 250	18
FCFE	922	-5 246	-10 192	0	0	0	30 251	5 169
dividend	-575	0	0	0	0	0	0	0
Dcash	1 497	-5 246	-10 192	0	0	0	30 251	5 169
FCFF								
FCFF	-4 762	-12 371	-6 516	-148	852	1 404	5 001	5 151
D/V	19.4%	27.0%	32.4%	24.5%	23.4%	21.5%	19.3%	*40.5%*
WACC	7.5%	8.9%	8.0%	8.6%	8.6%	9.0%	9.0%	*7.4%*
Value of firm (bop)	**50 397**	**58 940**	**76 581**	**89 194**	**97 025**	**104 498**	**112 490**	**117 563**
APV								
FCFF	-4 762	-12 371	-6 516	-148	852	1 404	5 001	5 151
r_A	7.9%	8.0%	8.2%	8.8%	8.8%	9.2%	9.1%	*7.7%*
PV(FCFF)	45 028	53 326	69 970	82 250	89 676	96 694	104 168	108 674
TS	177	-548	212	209	190	199	192	421
PV(TS)	5 369	5 614	6 611	6 944	7 349	7 804	8 322	8 889
Value of firm (bop)	**50 397**	**58 940**	**76 581**	**89 194**	**97 025**	**104 498**	**112 490**	**117 563**
FCFE								
FCFE	922	-5 246	-10 192	0	0	0	30 251	5 169
r_E	8.2%	8.2%	10.4%	10.4%	10.3%	10.6%	10.4%	10.4%
PV(E)	40 597	43 022	51 790	67 369	74 351	82 040	90 770	69 950
D	9 800	15 918	24 791	21 825	22 674	22 459	21 720	47 613
Value of firm (bop)	**50 397**	**58 940**	**76 581**	**89 194**	**97 025**	**104 498**	**112 490**	**117 563**
EVA								
NOPLAT	1 277	332	3 160	4 916	6 004	7 152	8 425	8 678
IC at the beginning	15 040	21 079	33 782	43 458	48 522	53 674	59 421	62 845
WACC	0	0	0	0	0	0	0	0
EVA	149	-1 553	470	1 172	1 840	2 326	3 104	4 039
PV(EVA)	35 357	37 861	42 799	45 736	48 503	50 825	53 069	54 717
Value of firm (bop)	**50 397**	**58 940**	**76 581**	**89 194**	**97 025**	**104 498**	**112 490**	**117 563**

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Rating	Trigger
Buy	Total return is expected to exceed 20% in the next 12 months
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.

Securities prices:

Prices are taken as of the previous day's close on the home market unless otherwise stated.

Valuations and risks:

Analysis of specific risks to set stock target prices highlighted in our investment case(s) are outlined throughout the report. For details of methodologies used to determine our price targets and risks related to the achievement of the targets referred to in the main body of the report or at Rating Methodology on our website, visit (https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038)

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