

CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
30 May 2022

AutoWallis

Rating: BUY (unch.)

Target price (12-m): HUF 182 (unch.)

Share price: HUF 99

HUF million	2021	2022E	2023E	2024E
Revenue	194 956	247 853	295 771	348 457
EBITDA	7 851	10 048	12 371	14 403
EBIT	4 959	6 345	7 793	9 641
Net profit	3 224	5 239	6 357	7 800
EBITDA margin	4.0%	4.1%	4.2%	4.1%
PAT margin	1.7%	2.2%	2.3%	2.3%
EPS	9.1	12.6	16.1	19.0
DPS	0.0	0.0	0.0	0.0
BVPS	57.1	69.6	85.8	104.7
P/E (x)	10.9	7.9	6.1	5.2
P/BV (x)	1.7	1.4	1.2	0.9
EV/EBITDA (x)	4.5	3.7	3.0	2.6



Share price close as of 12/04/2022	HUF 99	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	425.2	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	28.1 / 71.5	Free float	49.1%
Daily turnover 12M [EUR th]	100	52 week range	HUF 95 – 131

Q1/22 performance: As strong as it gets

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- The AutoWallis Group closed the first quarter with growth far above the market average and outstanding efficiency gains. Net profit more than quintupled to HUF 1.9 billion and EBITDA more than doubled to HUF 3.1 billion, with sales up 18 percent YoY. Although the operational efficiency of both main segments (wholesale and retail) of the AutoWallis Group improved significantly and the growth was exclusively organic, the main driver of sales and earnings growth was the expansion of the wholesale business.
- The AutoWallis Group's sales increased by 18 percent YoY to HUF 57.7 bln, with the number of cars sold increasing by 11 percent to 7,410. The number of cars sold in the Wholesale business rose by 15.6 percent to 5,266 units, mainly thanks to the SsangYong and Isuzu brands. In the Retail business, 1,659 new and 485 used vehicles were sold, corresponding to a decrease of 1.1% in the former and an increase of 11.8% in the latter compared to the same period last year. Meanwhile, the decline in the EU new car markets was 12.4 percent, and the Hungarian passenger car market also fell by 11 percent YoY both due to chip shortages and other component supply problems.

- The increase in consolidated sales revenue was exclusively organic (as all previous M&A transactions were closed in 2021), and nearly half of the AutoWallis Group's revenue came from foreign markets.. Of the two businesses, the Wholesale segment performed better (mainly because of the SsangYong and Isuzu brands), with sales in this segment growing 32 percent, while the Retail segment's sales grew only slightly primarily due to the chip shortage causing supply problems in new cars. The Group's retail portfolio has been expanded with a new brand in March 2022 - after the wholesale, AutoWallis entered the domestic retail market of SsangYong and, together with a major European car trading partner, won the exclusive Hungarian import rights of Renault, Dacia and Alpine. The acquisition of the Slovenian Avto Aktiv was also completed in the first quarter.
- Within costs, the cost of goods sold (COGS) increased to a much lesser extent than sales revenue (by only 14 percent YoY) as a result of which the AutoWallis Group's gross margin increased significantly from 12 to 14.8 percent in the first quarter of 2022. This is mainly due to the cost management and pricing measures put in place to deal with car manufacturers' supply disruptions and other economic effects (eg exchange rate fluctuations). The value of services used also increased by 21 percent, mainly due to increased marketing expenses related to the import activities of Opel and SsangYong brands, and increased marketing and other sales-related costs related to the revival of the rental car service after the coronavirus epidemic. The 30 percent increase in personnel expenses was mainly due to the increase in headcount resulting from the organizational development measures implemented in 2021 and the wage increase implemented to follow the changes in the labor market.

Operation highlights in Q1/22

	Q1/22	Q1/22	Ch (%)
Total vehicle sales	7 410	6 667	11.1
- o/w new vehicles	6 925	6 233	11.1
Total revenue	57 702	48 708	18.5
EBITDA	3 125	1 484	110.6
<i>EBITDA margin</i>	<i>5.4%</i>	<i>3.0%</i>	<i>237 bps</i>
Net income	1 949	366	431.8
EPS	4.38	1.03	334.6
ND/EBITDA (x)	-	0.2	-
Wholesale business			
No. of new vehicles sold	5 266	4 555	15.6
Revenue (HUF bln)	37 061	28 098	31.9
<i>Gross margin</i>	<i>12.7%</i>	<i>9.4%</i>	<i>329 bps</i>
EBITDA	2 013	621	224.1
<i>EBITDA margin</i>	<i>5.4%</i>	<i>2.2%</i>	<i>322 bps</i>
Pre-tax profit (HUF mln)	1 852	278	566.8
Retail business			
No. of new vehicles sold	1 659	1 678	-1.1
No. of used vehicles sold	485	434	11.8
Total no. of vehicles sold	2 144	2 112	1.5
Revenue (HUF bln)	20 641	20 611	0.2
<i>Gross margin</i>	<i>19.1%</i>	<i>15.6%</i>	<i>358 bps</i>
EBITDA	1 112	863	28.9
<i>EBITDA margin</i>	<i>5.4%</i>	<i>4.2%</i>	<i>120 bps</i>
Pre-tax profit (HUF mln)	469	273	71.6
Total no. of vehicles sold	25 034	8 376	198.9
Service hours	29 679	29 447	0.8
Fleet size (in terms of rented cars)	674	421	60.1
Rents	4 155	1 862	123.1
Rental days	39 185	30 320	29.2

Source: AutoWallis' Q1/22 interim report

- The AutoWallis Group's consolidated EBITDA margin increased to 5.4 percent from 3 percent previously. The increase in EBITDA in the Wholesale business (from HUF 0.6

bln to HUF 2 bln and 224% YoY, respectively) was mainly due to higher volume of new car sales, including SsangYong, while wholesale EBITDA margin more than tripled from 2.2 percent to 5.4 percent YoY. The EBITDA of the Retail business increased from HUF 863 mln or 29 percent YoY, typically due to improving margins and efficient cost management measures, so the retail EBITDA margin could also improve somewhat from 4.19 percent to 5.4 percent YoY. We note that there was further expansion in the service area of the Retail business: the number of service hours advanced to 29,679 (+ 1%), while Sixt, represented by AutoWallis, more than doubled (+ 123%) the number of rental events. The number of rental days also increased by 29 percent to 39,185, contributing to the improvement in the Retail business' margin.

- Net debt-to-EBITDA ratio remained at 0.2x at the end of March compared to 0.4x at the end of 2021 on our estimates, signaling that AutoWallis maintained its robust capital position (ie. strengthened its capital adequacy while also increasing portion of long - term fixed forint financing in the capital structure) and the necessary resources to implement the growth plans set out in its medium-term strategy).

Outlook and Valuation

- We see AutoWallis on track to implement its strategy, which seems feasible to us despite the current economic and business uncertainties, so that by the end of the decade, AutoWallis could be a leading automotive and mobility provider in the CEE region, and its outstanding liquidity and strong balance sheet, and the diversification already achieved makes AutoWallis' resilience to economic downturns.
- AutoWallis' gross margin eventually widened in Q1/22 as a result of supply chain disruptions, and the shortage of supply led to growing demand for used cars, thereby improving overall profitability. Although net income reached already close to two-thirds of full last year's profit in the first quarter of 2022, while EBITDA also reached 40 percent of last year's full-year EBITDA, but their long-term sustainability is currently hardly predictable due to the difficulties facing the automotive industry (shortages of raw materials, supply disruptions, increasing delivery times) amid a rising yield and ERP environment. We therefore feel it appropriate to maintain both our EBITDA estimate for 2022-25 and 12-m PT unchanged and HUF 182 a share, respectively. Our TP still leaves an 84% upside potential from the current share price.
- AutoWallis is now trading at EV/EBITDA and P/E multiples, based on our 2022 earnings estimates, of 3.7x and 7.9x, respectively, which reflects its historically lowest and thus very compelling valuation.
- We reiterate our BUY 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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