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CEE Equity Research | Car dealership | Hungary  
02 December 2022

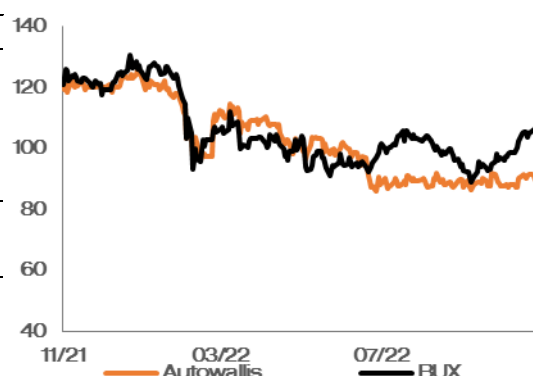
# AutoWallis

Rating: BUY (unch.)

Target price (12-m): HUF 199 (prev. HUF 167)

Share price: HUF 93

HUF million	2021	2022E	2023E	2024E
Revenue	194 956	266 958	319 115	371 210
EBITDA	7 851	14 677	16 740	18 673
EBIT	4 959	10 261	11 272	12 053
Net profit	3 224	8 166	8 870	9 468
EBITDA margin	4.0%	5.5%	5.2%	5.0%
PAT margin	1.7%	3.1%	2.8%	2.5%
EPS	9.1	19.2	20.9	22.3
DPS	0.0	0.0	0.0	0.0
BVPS	57.1	76.3	97.2	119.4
P/E (x)	10.3	4.8	4.5	4.2
P/BV (x)	1.6	1.2	1.0	0.8
EV/EBITDA (x)	4.3	2.4	2.1	1.9



Share price close as of 01/12/2022	HUF 93	Bloomberg	AUTOWALL HB
Number of diluted shares [mln]	425.2	Reuters	AUTW.HU
Market capitalization [HUF mln/EUR mln]	39 544 / 95.9	Free float	49.06%
Enterprise value [HUF mln/EUR mln]	61 830 / 150 0	52 week range	HUF 86 – 126
Daily turnover 12M [EUR th]	41	EURHUF (x)	412.2

## Breathtaking Q3/22 results

- AutoWallis posted exceptionally strong revenue of HUF 77.7 bln for Q3/22 (+62% YoY), therefore during the first nine month of 2022 it generated revenue (HUF 208.7 bln) compared with HUF 145.4 bln in the same period of last year and HUF 195 bln in the entire last year. In addition to the organic expansion growth driven by wholesale of OPEL and SsangYong vehicles, the Slovenian AvtoAktiv's retail sales also contributed significantly to the outstanding sales performance. More than half of AutoWallis' revenues come from export, which was also contributed to by the Slovenian Avto Aktiv, the purchase of which was closed in the spring of 2022.
- EBITDA rose by 127% YoY to HUF 5.8 bln (+127% YoY), resulting in an EBITDA margin of 7.5% (up from 5.4% in Q3/21), while total net profit attributable to shareholders of the parent company came in at HUF 3.88 bln (+302% YoY). As a result, AutoWallis' earnings per share (EPS) were HUF

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8.16 in Q3/22 and HUF 17.3 in Q1-3/22 compared with HUF 2.91 and HUF 5.4 YoY, respectively.

- Margin improvement was primarily due to volume accumulation caused by car manufacturers' delivery disruptions and measures implemented to deal with other economic effects (e.g. exchange rate increases), so it is partly the result of non-recurring effects. In the third quarter, the favorable result of volume and price effect was realized at the same time. Car deliveries that were missed in the first half of the year were moved to July, and deliveries previously expected in October were executed in September as well. In the retail business, above average price increases exceeding inflation also contributed significantly to the extraordinary quarterly margin performance.

#### Consolidated financial and operational highlights

	Q3/22	Q3/22	Ch (%)
Total vehicle sales	8 511	7 137	19.3
- new vehicles	8 052	6 774	18.9
- used vehicles	459	363	26.4
<b>Total revenue</b>	<b>77 697</b>	<b>47 753</b>	<b>62.7</b>
<i>Gross margin</i>	<i>16.4%</i>	<i>15.8%</i>	<i>80 bps</i>
<b>EBITDA</b>	<b>5 791</b>	<b>2 554</b>	<b>126.7</b>
<i>EBITDA margin</i>	<i>7.5%</i>	<i>5.4%</i>	<i>220 bps</i>
<b>Net income attributed to shareholders of the parent company</b>	<b>3 880</b>	<b>966</b>	<b>301.7</b>
<b>EPS</b>	<b>8.18</b>	<b>2.91</b>	<b>181.1</b>
ND/EBITDA (x)	1.51-	4.7	-67.9%
<b>Wholesale business</b>			
No. of new vehicles sold	6 100	5 001	22.0
<b>Revenue (HUF bln)</b>	<b>47 153</b>	<b>31 251</b>	<b>50.9</b>
<i>Gross margin</i>	<i>14.3%</i>	<i>12.2%</i>	<i>210 bps</i>
<b>EBITDA</b>	<b>3 547</b>	<b>1 680</b>	<b>111.1</b>
<i>EBITDA margin</i>	<i>7.5%</i>	<i>5.4%</i>	<i>230 bps</i>
Pre-tax profit (HUF mln)	2 884	1 148	151.2
<b>Retail business</b>			
No. of new vehicles sold	1 952	1 773	10.1
No. of used vehicles sold	459	363	26.4
Total no. of vehicles sold	2 411	2 136	12.9
<b>Revenue (HUF bln)</b>	<b>30 544</b>	<b>16 502</b>	<b>85.1</b>
<i>Gross margin</i>	<i>19.6%</i>	<i>22.6%</i>	<i>-300 bps</i>
<b>EBITDA</b>	<b>2 245</b>	<b>874</b>	<b>156.9</b>
<i>EBITDA margin</i>	<i>7.3%</i>	<i>5.3%</i>	<i>200 bps</i>
Pre-tax profit (HUF mln)	1 255	320	292.2
Service hours	43 485	32 525	33.7
Fleet size (in terms of rented cars)	866	566	53.0
Rents	7 876	6 154	28.0
Rental days	77 842	56 833	37.0

Source: AutoWallis' Q1-3/22 interim report.

- Wholesale sales went up by 51% YoY to HUF 47.2 bln, primarily driven by newly-acquired Opel sales spanning four countries. Sales of the retail division also rose massively to HUF 30.6 bln (+85% YoY) as a combined result of organic growth and the acquisitions and transactions carried out last year. In the meantime, the Hungarian passenger car market as a whole fell by around 9% YoY in the first nine months. The largest increase in sales was achieved by the wholesale business: the number of vehicles sold jumped by 35% to 16,759 units in the first nine months, which already exceeds the 16,501 units sold in the whole of last year. The growth was exclusively driven organically,

to which the SsangYong brand contributed the most, with its 117% expansion in terms of number of cars sold. In the first nine months, the retail division sold 5,735 new (+10% YoY) and 1,396 used (+16% YoY) vehicles. The performance of the business branch was already strengthened by the Slovenian Avto Aktiv in the second and third quarters, but an organic growth of 3.2% was also achieved.

- With a favorable trend in vehicle, car rental also increased significantly in Q3/22 (+28% YoY), with the number of rental days jumping to 77,842; +37% YoY), and also helped AutoWallis to improve operating margins.
- Although supply disruptions have led to a slowdown in sales of certain vehicle brands for the past year, margins have improved partly due to a price increase in the used car market, therefore it was an improvement in terms of profitability. Within the costs, the purchase value of the goods sold increased less than the sales revenue, As a result, gross profit rose by 30% to HUF 111 bln, and gross margin increased from 12% to 15% in the first half of the year. At the same time, the production difficulties of car manufacturers in the wake of rising energy prices have already had an adverse effect on the market as a whole and may continue to affect volumes in the remainder of the year. The almost 50 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.
- AutoWallis' consolidated EBITDA margin increased by 230 basis points YoY. The increase in EBITDA in the wholesale business (from HUF 1.7 bln to HUF 3.5 bln and 111% YoY, respectively) was mainly due to higher volume of new car sales, including SsangYong, while wholesale EBITDA margin more than doubled from 5.4% to 7.5% YoY. Retail EBITDA increased from HUF 0.9 bln to HUF 2.2 bln, or 157% YoY, typically due to improving margins and efficient cost management measures, so the improvement in retail EBITDA margin also was noteworthy (7.3% vs. 5.3% YoY). We note that there was further expansion in the service area of the Retail business: the number of service hours advanced considerably to 43,485 in Q3/22 (+ 34% YoY), while Sixt, represented by AutoWallis, managed to increase the number of rental events by 28% YoY to 7,876.
- Net debt-to-EBITDA ratio (including leases) stood at 1.51x at the end of September, 2022 compared with 4.69x at the end of September, 2021 and 0.7x at the end of last year, signaling that AutoWallis maintained its robust capital position (ie. strengthened its capital adequacy by increasing the portion of long - term fixed forint financing in its capital structure and the necessary resources to implement the growth plans set out in its medium-term strategy).

#### Outlook and Valuation

- We see AutoWallis remaining on track to significantly surpassing its mid-term strategy. We expect AutoWallis to review its strategy next year and set much more ambitious sales and profit targets for the years coming than it currently has.
- Although we expect a slowdown in income generation in the fourth quarter this year, we feel it appropriate to raise our sales, EBITDA and net income estimates for 2022 and also for the next three years due to the measurably

better than expected financial performance in the third quarter. Our new 2022 estimates are HUF 267 bln for sales revenue, HUF 14.7 bln for EBITDA and HUF 8.2 bln for net income compared to our previous estimates of HUF 247.9 bln, HUF 10 bln and HUF 5.2 bln, respectively. We hold our view that AutoWallis will become a leading automotive and mobility provider in the CEE region in three years, while its outstanding liquidity and strong balance sheet, and the diversification already achieved make it resilient to economic downturns.

- We believe better pricing power amid supply chain disruptions, a sharp depreciation of the HUF against the EUR, recuperating high-margin rental income supported by the improving tourism sector in the post-COVID world, and acquisitions in the domestic car fleet market (Nelson), bode well for AutoWallis' operating margins in the coming years. We lift our EBITDA margin forecasts for the coming years from 4% to over 5%, even though we admit that long-term sustainability is currently hardly predictable due to the difficulties facing the automotive industry (shortages of raw materials, supply disruptions, increasing delivery times, rising energy prices and looming recession).
- Against the backdrop of a rising yield environment we are cautiously optimistic about AutoWallis' earnings and B/S outlook and raise our 12-m PT from HUF 167 a share to HUF 199. Our TP still leaves a 114% 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 2.4x and 4.8x, respectively, which reflects its historically lowest and thus very compelling valuation.
- We reiterate our BUY rating on AutoWallis.

Fair value (HUF)	<b>137.8</b>					
12-m TP (HUF)	<b>199.0</b>					
	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>TV1</b>
Revenue growth	120.5%	36.9%	19.5%	16.3%	16.3%	3.0%
EBIT/ Rev.	2.5%	3.8%	3.5%	3.2%	3.2%	3.2%
Tax	22.2%	23.0%	23.0%	23.0%	23.0%	23.0%
RONIC	<b>27.8%</b>	<b>-61.1%</b>	<b>7.4%</b>	<b>6.2%</b>	<b>15.0%</b>	<b>10.1%</b>
ND/V	<b>33.8%</b>	<b>4.8%</b>	<b>5.8%</b>	<b>4.9%</b>	<b>5.0%</b>	<b>6.0%</b>
r <sub>A</sub>	7.9%	16.6%	12.9%	11.5%	12.0%	10.4%
r <sub>D</sub>	3.2%	19.8%	16.8%	18.6%	18.6%	18.6%
ROIC	11.42%	29.09%	23.04%	19.59%	18.77%	18.31%
NOPLAT	3 860	7 901	8 679	9 281	10 796	11 120
Risk free rate	2.9%	11.6%	7.8%	7.8%	8.2%	6.8%
Unlevered beta	0.9	0.9	0.9	0.9	0.9	0.9
Beta multiple	1.4	1.0	1.0	1.2	1.2	1.2
Levered beta	1.3	1.3	1.3	1.3	1.3	1.3
ERP	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Unlevered cost of equity	7.9%	16.6%	12.9%	12.8%	13.2%	11.9%
Levered cost of equity	10.4%	16.5%	12.6%	11.1%	11.6%	9.8%
Net debt	24 791	3 315	4 782	4 621	5 285	6 595
Net debt (calculated)	24 791	3 315	4 782	4 621	5 285	6 595
D/E	51.1%	5.1%	6.2%	30.0%	30.0%	30.0%
E/V	66.2%	95.2%	94.2%	95.1%	95.0%	94.0%
r <sub>E</sub>	10.4%	16.5%	12.6%	11.1%	11.6%	9.8%
WACC	7.7%	16.4%	12.6%	11.3%	11.8%	10.1%
<b>P&amp;L</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>TV1</b>
Rev.	194 956	266 958	319 116	371 210	431 810	444 764
D&A	2 882	4 417	5 469	6 620	4 318	4 448
EBIT	4 959	10 261	11 272	12 053	14 021	14 441
Financial rev.	-793	-655	-803	-860	-983	-1 227
PBT	4 165	9 606	10 469	11 194	13 038	13 215
Tax	923	2 209	2 408	2 575	2 999	3 039
Net Income	3 242	7 396	8 061	8 619	10 039	10 175
Net compr. income	3 224	8 168	8 861	9 465	11 024	11 173
<b>CF</b>						
EBIT	4 959	10 261	11 272	12 053	14 021	14 441
EBITDA	7 841	14 677	16 740	18 673	18 339	18 889
NOPLAT	3 860	7 901	8 679	9 281	10 796	11 120
DIC	-6 619	10 510	9 709	10 132	3 202	3 298
FCFF	10 479	-2 609	-1 030	-851	7 594	7 822
Interest	-793	-655	-803	-860	-983	-1 227
Tax shield	176	151	185	198	226	282
Ddebt	-21 477	1 468	-161	664	1 310	198
FCFD	-22 094	963	-779	2	553	-747
FCFE	-11 616	-1 646	-1 808	-849	8 148	7 075
dividend	0	0	0	0	0	0
Dcash	-11 616	-1 646	-1 808	-849	8 148	7 075
<b>FCFF</b>						
FCFF	10 479	-2 609	-1 030	-851	7 594	7 822
D/V	33.8%	4.8%	5.8%	4.9%	5.0%	6.0%
WACC	7.7%	16.4%	12.6%	11.3%	11.8%	10.1%
<b>Value of firm (bop)</b>	<b>73 282</b>	<b>68 447</b>	<b>82 293</b>	<b>93 724</b>	<b>105 144</b>	<b>109 923</b>
<b>APV</b>						
FCFF	10 479	-2 609	-1 030	-851	7 594	7 822
r <sub>A</sub>	7.9%	16.6%	12.9%	11.5%	12.0%	10.4%
PV(FCFF)	70 460	65 577	79 096	90 300	101 525	106 096
TS	176	151	185	198	226	282
PV(TS)	2 822	2 870	3 197	3 424	3 619	3 827
<b>Value of firm (bop)</b>	<b>73 282</b>	<b>68 447</b>	<b>82 293</b>	<b>93 724</b>	<b>105 144</b>	<b>109 923</b>
<b>FCFE</b>						
FCFE	-11 616	-1 646	-1 808	-849	8 148	7 075
r <sub>E</sub>	10.4%	16.5%	12.6%	11.1%	11.6%	9.8%
PV(E)	48 490	65 132	77 511	89 103	99 859	103 328
D	24 791	3 315	4 782	4 621	5 285	6 595
<b>Value of firm (bop)</b>	<b>73 282</b>	<b>68 447</b>	<b>82 293</b>	<b>93 724</b>	<b>105 144</b>	<b>109 923</b>
<b>EVA</b>						
NOPLAT	3 860	7 901	8 679	9 281	10 796	11 120
IC at the beginning	33 782	27 163	37 673	47 382	57 514	60 715
WACC	0	0	0	0	0	0
EVA	1 258	3 441	3 917	3 938	4 028	4 978
PV(EVA)	39 499	41 284	44 620	46 342	47 630	49 208
<b>Value of firm (bop)</b>	<b>73 282</b>	<b>68 447</b>	<b>82 293</b>	<b>93 724</b>	<b>105 144</b>	<b>109 923</b>

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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.

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