

CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
01 September 2023

AutoWallis

Rating: BUY (unch.)

Target price (12-m): HUF 205 (unch.)

Share price: HUF 108

HUF million	2022	2023E	2024E
Revenue	270 166	378 590	447 727
EBITDA	14 455	19 268	22 726
EBIT	10 951	12 936	14 947
Net profit	8 300	12 758	14 502
EBITDA margin	5.4%	5.1%	5.1%
PAT margin	3.1%	3.4%	3.2%
EPS	19.3	28.8	32.8
DPS	0.0	0.0	0.0
BVPS	83.4	103.1	135.9
P/E (x)	5.6	3.8	3.3
P/BV (x)	1.3	1.1	0.8
EV/EBITDA (x)	6.7	5.1	4.3



Share price close as of 01/09/2023	HUF 108	Bloomberg	AUTOWALL HB
Number of diluted shares [mn]	442.3	Reuters	AUTW.HU
Market capitalization [HUF mn/EUR mn]	47 768 / 125.0	Free float	38.32%
Enterprise value [HUF mn/EUR mn]	97 327 / 254.7	52 week range	HUF 86 – 110
Daily turnover 12M [EUR th]	23	EURHUF (x)	382.1

Q2/23 results are strong as expected

- AutoWallis posted revenue of more than HUF 93.8bn for Q2/23 (+28% YoY). The main reason for the outstanding growth is inflation in the Central and Eastern European region, in addition to organic volume growth due to wholesale of Opel and SsangYong vehicles, as well as the acquisitions of Net Mobilitás and Nelson Flottalízing. The acquisition of Renault Hungária, which AutoWallis implemented jointly with the Portuguese company Salvador Caetano in the last quarter of 2022, also contributed significantly to the outstanding sales performance. It is worth noting that nearly 57% AutoWallis' revenues have already come from export markets.
- EBITDA rose by 25% YoY to HUF 4.73bn, resulting in an EBITDA margin of 5% down from 5.6% in Q1/23 and 5.15% in Q2/22.
- Net profit attributable to shareholders of the parent company came in at HUF 2.49bn (+23% YoY) in Q2/23. As a result, EPS was HUF 5.32 compared with HUF 4.76 in the same period of last year, in line with our estimate.

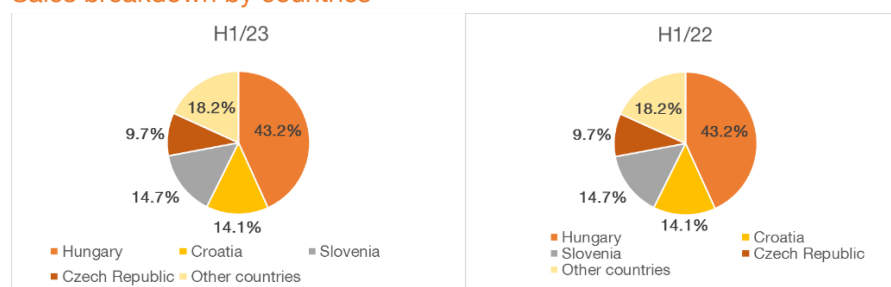
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- Sales revenue totaled HUF 194.3bn in H1/23 (+48%YoY) in the first half of 2023 driven by both organic and inorganic unit volume growth and higher car prices. AutoWallis sold 25,634 cars in H1/23 (+67% YoY). Wholesale business car sales almost doubled (+92.3%) to 20,500 units compared to the first half of 2022, which is due to the completed acquisition of Renault Hungária (+5,998 units). However, it is important that even without the Renault acquisition, the segment expanded by 36.1% (+3,843 units), of which SsangYong showed growth (+2,295 units, +64.3% YoY), followed by the expansion of Opel (+1,439 units, +22.6% YoY). In H1/23, the retail business sold 4,178 new (+10.4% YoY) and 956 used motor vehicles (+2% YoY), so its performance was significantly higher compared to the decline witnessed in the Hungarian passenger car market in the same period.

Sales breakdown by countries



Source: Autowallis, Concorde

- In H1/23 EBITDA of the wholesale segment rose to HUF 5.99bn (+ 35.5% YoY) primarily due to new car sales, including SsangYong and Opel sales volume growth, the continuous rise in car prices and the still characteristic of the market caused by high margins. However, this increase was offset by an insurance event related to one of the Far Eastern brands of the business which was caused by a recognized impairment loss of HUF 924mn and related provisions, and by the fact that that in the wholesale business sector the effect of margin normalization has already begun.
- In the meantime, wholesale EBITDA margin weakened from 5.6% to 5.0% (noting that margin erosion was even sharper on Q2/Q2 from 5.8% to 3.9%), a there is the sign that demand has already become more price sensitive.
- EBITDA of the retail division increased by 76.6%YoY to HUF 4.39bn in H1/23 as a combined result of increasing sales numbers, effective cost management measures, transaction effects and the increased profitability of of the car rental and service areas. EBITDA margin also increased from 4.8% to 5.8% in H1/23 compared to the base period (the improvement in retail EBITDA margin was even more spectacular on Q2oQ2 comparison; from 4.3% to 6.7%).
- The number of service hours in the retail business increased by 16.8% YoY to 91,094, and AutoWallis was also able to continue its short-term car rental growth. Sixt, represented by AutoWallis in Hungary, increased its rental number by 7.8% YoY to 10,109 number of events in H1/23, while the number of rental days increased by 3.8% YoY to 86,618 thanks to the acquisition of Nelson Flottalizing Kft. in February this year. The long-term car rental and fleet management services have also risen significantly.

- The increase of 40% YoY in personnel expenses in H1/23 was primarily driven by the acquisitions carried out in 2021 and 2022 (e.g. Avto Aktiv, (Nelson fleet business segment and Net Mobilitas) and the resulting increase in the number of employees (the average number of employees increased by 13% YoY to 930 in H1/23), as well as the wage increases implemented following rapid consumer inflation and the tight labor market.
- Financial losses was HUF 612mn in H1/23, reflecting significant worsening compared to the same period of previous year, which was a combined result of the increased interest rates and the unrealized exchange and derivative transaction gains.
- The acquisition of Renault Hungária was completed in October 2022, which AutoWallis implemented together with Salvador Caetano in 50%/50% ownership. As a result, 50% of the result of Renault Hungária is recorded as the result from the associated and jointly managed enterprises, and it amounted to HUF 917mn, or 11% of total pre-tax profit in H1/23.

Consolidated financial and operational highlights

	Q2/23	Q2/22	Ch (%)	H1/23	H1/22	Ch (%)
Total vehicle sales	11 834	7 969	48.5	25 634	15 379	66.7
- new vehicles	11 364	7 517	51.2	24 678	15 046	70.9
- used vehicles	470	452	4.0	956	937	2.0
Total revenue	93 797	73 344	27.9	194 342	131 046	48.3
<i>Gross margin</i>	<i>16.5%</i>	<i>15.4%</i>	<i>110bps</i>	<i>15.7%</i>	<i>15.2%</i>	<i>50bps</i>
EBITDA	4 728	3 776	25.2	10 372	6 901	50.3
<i>EBITDA margin</i>	<i>5.0%</i>	<i>5.1%</i>	<i>-10bps</i>	<i>5.3%</i>	<i>5.3%</i>	<i>unch.</i>
Net income (parent)	2 488	2 024	22.9	7 462	3 885	167.8
EPS	5.32	4.38	11.8	16.87	9.14	84.6
Net debt/EBITDA (x)	2.77	1.52	125bps	2.77	1.52	125bps
Wholesale business						
No. of new vehicles sold	11 223	5 266	113.1	20 500	10 659	92.3
Revenue (HUF bln)	55 427	41 764	32.7	118 783	78 825	50.7
<i>Gross margin</i>	<i>13.4%</i>	<i>13.9%</i>	<i>-50bps</i>	<i>12.9%</i>	<i>13.4%</i>	<i>-50bps</i>
EBITDA	2 159	2 405	-10.2	5 987	4 418	35.5
<i>EBITDA margin</i>	<i>3.9%</i>	<i>5.8%</i>	<i>-190bps</i>	<i>5.0%</i>	<i>5.6%</i>	<i>-60bps</i>
Retail business						
No. of new vehicles sold	2 087	2 124	-1.7	4 178	3 783	10.4
No. of used vehicles sold	470	452	4.0	956	937	2.0
Total no. of vehicles sold	2 577	2 576	-0.7	5 134	4 720	8.8
Revenue (HUF bln)	38 370	31 580	21.5	75 559	52 221	44.7
<i>Gross margin</i>	<i>21.0%</i>	<i>17.3%</i>	<i>370bps</i>	<i>20.1%</i>	<i>18.0%</i>	<i>210bps</i>
EBITDA	2 569	2 483	87.4	4 385	2 483	76.6
<i>EBITDA margin</i>	<i>6.7%</i>	<i>4.3%</i>	<i>230bps</i>	<i>5.8%</i>	<i>4.8%</i>	<i>100bps</i>
Service hours	46 090	48 304	-4.6	91 094	77 983	16.8
Fleet size (for car rental)	3 281	786	317.4	3 281	786	317.4
Rents (units)	5 553	5 225	6.3	10 109	9 380	7.8
Rental days	43 558	44 225	-1.5	86 618	83 410	3.8

Source: AutoWallis' H1/2023 interim report, Concorde's estimate

- AutoWallis maintained its healthy capital structure, with the consolidated equity adequacy ratio staying at 27.5% at the end of June, 2023. The net debt/EBITDA ratio (including leases) stood at 2.8x at the end of June 2023 (vs. 2.6x YoY). In the past two years AutoWallis has 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 maintain our EBITDA estimates for 2023 and 2024 at HUF 19.3bn and HUF 22.7bn on sales revenue forecasts of HUF 378.6bn (+41% YoY) and HUF 447.7bn (+18% YoY), respectively. Our EPS estimates remained HUF 28.8 for 2023 and HUF 32.8 for 2024.
- AutoWallis is trading at extremely low EV/EBITDA and P/E multiples, based on our 2024 earnings estimates, of 4.3x and 3.3x, respectively. We keep our 12-TP at HUF 205 per share, implying a 90% upside potential from the current share price. However, we note that AutoWallis will likely not pay a dividend for quite some time for at least two reasons: 1) it focuses on growth and therefore reinvests its entire cash flow; 2) as long as external financing remains key to financing rapid growth, AutoWallis must maintain an adequate level of equity.
- We maintain our BUY rating on AutoWallis.

Fair value (HUF)	156.5				
12-m TP (HUF)	205				
	2023F	2024F	2025F	2026F	TV
Revenue growth	41.3%	18.3%	18.3%	3.0%	3.0%
EBIT/ Rev.	3.4%	3.3%	3.3%	3.3%	3.3%
Tax	15.0%	15.0%	23.0%	23.0%	23.0%
RONIC	25.3%	11.7%	7.0%	11.4%	11.4%
ND/V	5.0%	5.3%	3.3%	6.0%	6.0%
r _A	12.6%	13.8%	14.4%	11.5%	11.5%
r _D	7.4%	7.6%	7.6%	7.6%	7.6%
ROIC	29.14%	24.23%	20.83%	20.34%	19.89%
NOPLAT	10 987	12 704	13 610	14 018	14 439
Risk free rate	7.8%	7.8%	8.2%	6.0%	6.0%
Unlevered beta	0.8	0.8	0.8	0.8	0.8
Beta multiple	1.0	1.3	1.2	1.2	1.2
Levered beta	1.2	1.2	1.2	1.2	1.216
ERP	6.0%	6.0%	6.0%	6.0%	6.0%
Unlevered cost of equity	12.6%	12.6%	13.0%	10.8%	10.8%
Levered cost of equity	12.9%	14.1%	14.6%	11.8%	11.8%
Net debt	4 391	5 363	3 781	7 368	7 589
Net debt (calculated)	4 391	5 363	3 781	7 368	7 589
D/E	5.3%	30.0%	30.0%	30.0%	30.0%
E/V	95.0%	94.7%	96.7%	94.0%	94.0%
r _E	12.9%	14.1%	14.6%	11.8%	11.8%
WACC	12.5%	13.7%	14.3%	11.4%	11.4%
P&L	2023F	2024F	2025F	2026F	TV
Rev.	378 590	447 727	529 491	545 375	561 737
D&A	6 342	7 780	5 295	5 454	5 617
EBIT	12 926	14 946	17 675	18 205	18 752
Financial rev.	-326	-405	-286	-557	-574
PBT	12 600	14 540	17 389	17 649	18 752
Tax	1 890	2 181	4 000	4 059	4 313
Net Income	10 710	12 359	13 390	13 589	14 439
Net compr. income	12 741	14 498	15 707	15 941	14 439
CF					
EBIT	12 926	14 946	17 675	18 205	18 752
EBITDA	19 268	22 726	22 970	23 659	
NOPLAT	10 987	12 704	13 610	14 018	14 439
DIC	14 722	12 919	3 577	3 684	3 795
FCFF	-3 735	-215	10 033	10 334	10 644
Interest	-326	-405	-286	-557	-574
Tax shield	49	61	66	128	132
Ddebt	972	-1 582	3 588	221	228
FCFD	695	-1 927	3 368	-208	-214
FCFE	-3 040	-2 142	13 401	10 126	10 430
dividend	0	0	0	0	
Dcash	-3 040	-2 142	13 401	10 126	10 430
FOFF					
FCFF	-3 735	-215	10 033	10 334	10 644
D/V	5.0%	5.3%	3.3%	6.0%	6.0%
WACC	12.5%	13.7%	14.3%	11.4%	11.4%
Value of firm (bop)	87 314	102 007	116 190	122 801	126 485
APV					
FCFF	-3 735	-215	10 033	10 334	10 644
r _A	12.6%	13.8%	14.4%	11.5%	11.5%
PV(FCFF)	86 152	100 747	114 818	121 298	124 937
TS	49	61	66	128	132
PV(TS)	1 162	1 259	1 372	1 503	1 549
Value of firm (bop)	87 314	102 007	116 190	122 801	126 485
FCFE					
FCFE	-3 040	-2 142	13 401	10 126	10 430
r _E	12.9%	14.1%	14.6%	11.8%	11.8%
PV(E)	82 924	96 644	112 410	115 433	118 896
D	4 391	5 363	3 781	7 368	7 589
Value of firm (bop)	87 314	102 007	116 190	122 801	126 485
EVA					
NOPLAT	10 987	12 704	13 610	14 018	14 439
IC at the beginning	37 702	52 424	65 343	68 920	72 604
WACC	0	0	0	0	0
EVA	6 256	5 525	4 249	6 151	6 151
PV(EVA)	49 612	49 583	50 847	53 881	53 881
Value of firm (bop)	87 314	102 007	116 190	122 801	126 485

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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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