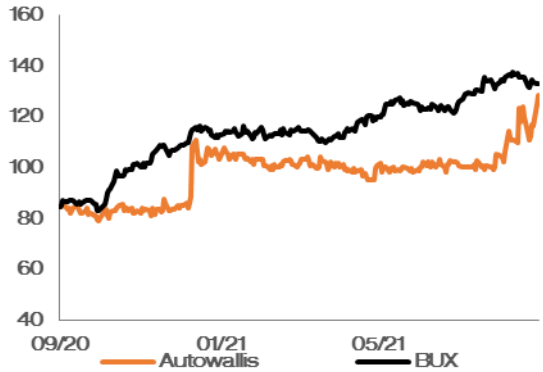
CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
29 September 2021

AutoWallis

Rating: Buy (unch.)
Target price (12-m): HUF 165 (prev. HUF 153)
Share price: HUF 127

HUF million	2020	2021E	2022E
Revenue	88 413	202 503	251 228
EBITDA	2 201	6 044	8 268
EBIT	611	3 473	5 408
Net profit	-858	1 962	3 456
EBITDA margin	2.5%	3.0%	3.3
PAT margin	-0.9%	1.0%	1.4
EPS	-2.6	6.0	10.7
DPS	0.0	0.0	0.0
BVPS	26.9	33.0	43.6
P/E	-48.0	21.0	11.9
P/BV	4.7	3.9	2.9
EV/EBITDA	30.0	12.4	9.3



Share price close as of 29/09/2021	HUF 127	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	324.3	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	41.3 / 114.6	Free float	30.97%
Enterprise value [HUF bn/EUR mn]	66.0 / 183.3	52 week range	HUF 76 – 135
Daily turnover 12M [HUF mn/EUR th]	23.3/65.8	EURHUF	360.0

Strategy update

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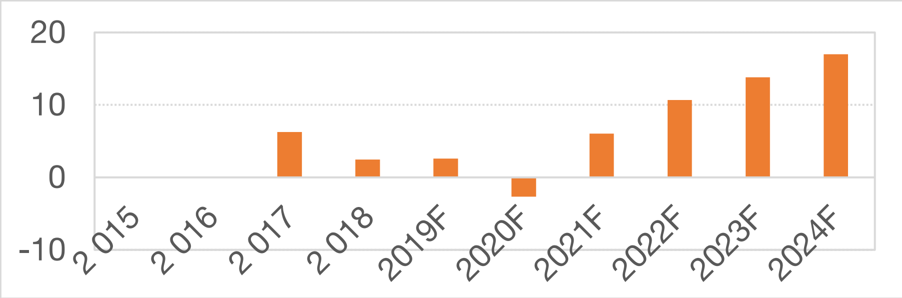
- AutoWallis published its new guidance for revenue and EBITDA by 2025. Accordingly, management anticipates EBITDA may grow to HUF 14-15.2 bln on revenue of HUF 400-433 bln by 2025, compared to EBITDA of HUF 5.5-6.2 bln on sales of HUF 191-212 bln that they are expecting for 2021. AutoWallis plans to achieve a ROE above the level in 2020 that we think is a realistic goal.
- Sales growth 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 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 planned public retail and institutional share offering in the rest of the year, which may amount to HUF 6-8 billion, or min. 20% of total outstanding shares (compared to HUF 6-8 bln expected previously).
- New earnings guidance prompts us to raise our revenue, net income and EBITDA forecasts for the period between 2021 and 2025. Our new 2025 net income and EBITDA estimates are HUF 7.2 bln and HUF 13.7 bln on revenue of HUF 416.6 bln,

implying an EPS of 20.4 and ROE of 25% in 2025 without the impact of the capital increase planned. We previously estimated EBITDA at HUF 12.3 bln on revenue of HUF 341 bln.

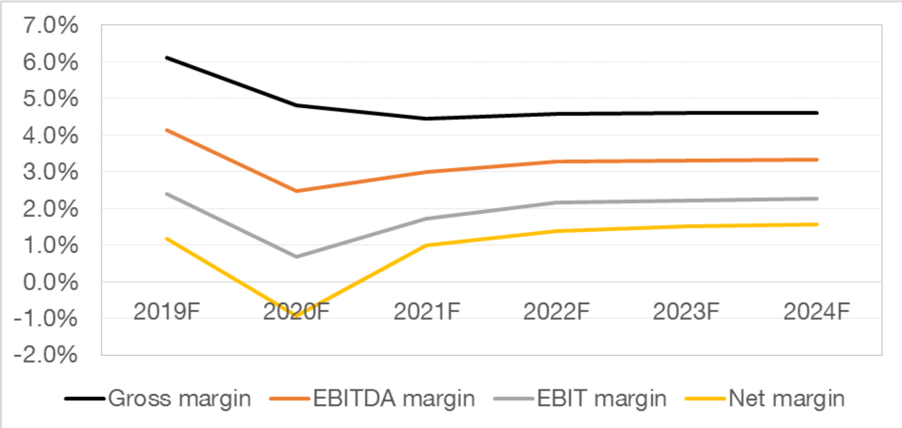
AutoWallis' EPS expected for the period between 2021 and 2024 (HUF)



Source: AutoWallis and Concorde's estimate

- Due to the increase of the weight of wholesale activity as a percentage of total sales the average EBITDA margin may decrease temporarily. However, the persistent supply shortage in premium cars, high value-added services, such as car rental, fleet management, expansion and acquisition of service activities, as well as increasing economies of scale and exploiting real estate and cross-selling synergies may boost EBITDA margin to over 3% in outer years on our calculation.

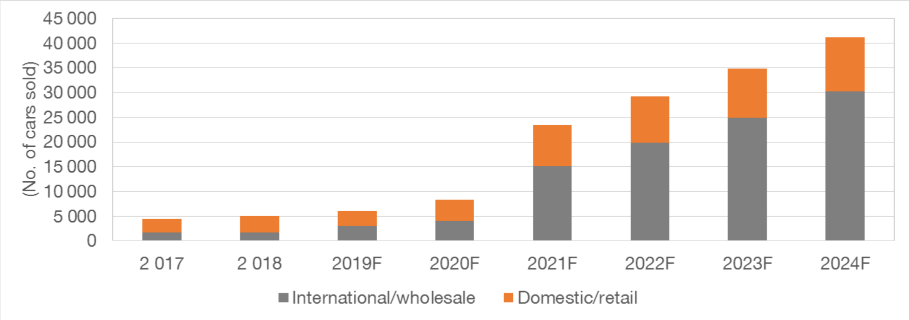
AutoWallis' margins expected for the period between 2021 and 2024



Source: AutoWallis and Concorde's estimate

- AutoWallis' strategic goal is to be the leading automotive and mobility provider in the Central and Eastern European region by the end of the decade. To this end, it has made a number of acquisitions in the past year and plans to make more in the near future. When selecting strategic targets, AutoWallis pays special attention to assessing the range of possible synergies, achieving the optimal plant size and higher cash flows, and the possibility of integrating the management and process control systems of the entity to be acquired. The pricing of transactions is always driven by shareholder value creation, as evidenced by the recent international acquisition, during which AutoWallis, according to our calculations, intends to take over Slovenian Avto Aktiv's assets without encumbrance at an EV / EBITDA multiple of as low as 2x.

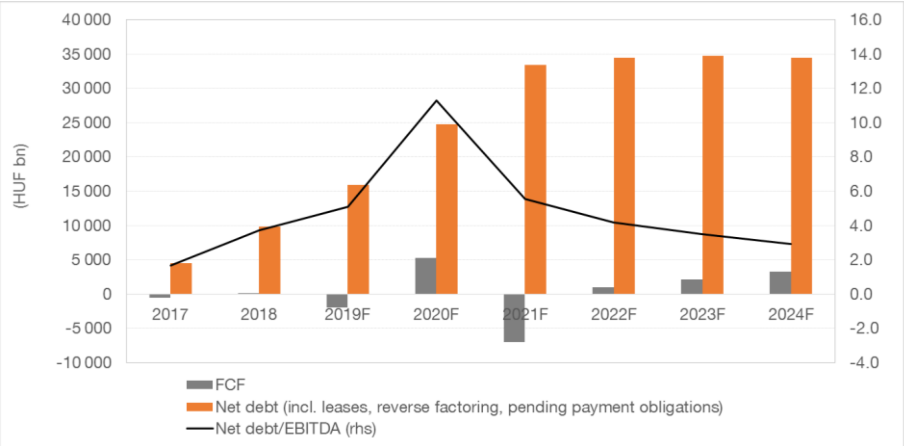
Estimate for AutoWallis' number of new and used vehicles sold



Source: AutoWallis and Concorde's estimate

- AutoWallis strives to keep an optimal capital structure, with further bond issuances and borrowing in the offing. In the past year, AutoWallis raised HUF 9.69 billion in external funding in the form of long-term corporate bonds issued under the Growth Bond Program launched by the NBH. The proceeds from the issue have been used for acquisitions, the development of e-mobility and the financing of green investments (for example, energy-saving improvements in existing properties, the production and use of renewable energy as much as possible). Both AutoWallis and the bonds issued are rated B +, while Scope Ratings Gmbh considers the company's debt repayment capabilities and prospects to be stable. AutoWallis' net debt increased to HUF 23.7 billion by the end of June from HUF 21.6 billion at the end of 2020, which corresponds to a 3.9x net debt / annual EBITDA ratio compared to 10.1x at the end of last year. If the fundraising is successful, AutoWallis' capital and liquidity position may be further strengthened, supporting the feasibility of its growth strategy, while the market liquidity of the shares may be improved. We expect net debt / EBITDA and net debt ratio (which include loans, long-term bonds, lease and reverse factoring obligations, contingent purchase price payments and cash & equivalents),to fall to below 3x and 59% by 2025, respectively, compared to 5x and 76% currently, as result of higher internally generated free cash flows.

AutoWallis' free cash flow generation and ND/EBITDA ratio



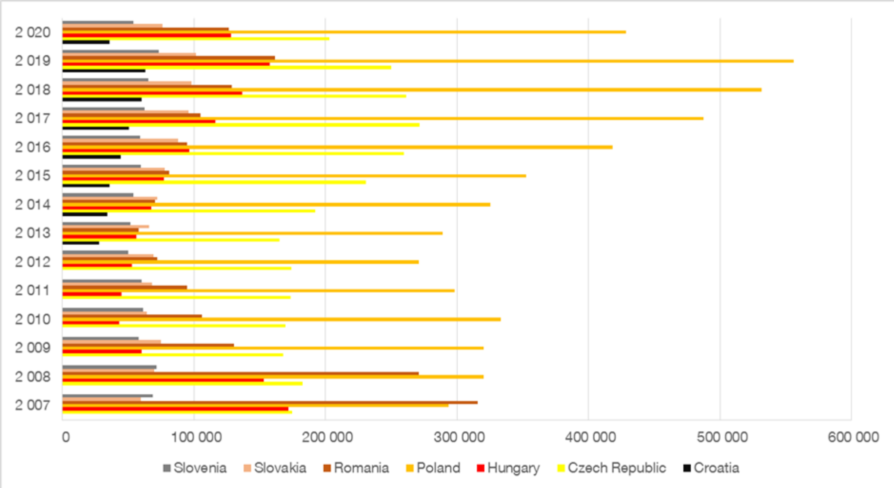
Source: AutoWallis and Concorde's estimate

Market outlook

- Although the rate of rebound in the pan-European car market in the first half of the year was striking, carmakers and dealers cannot recline early. Indeed, there are increasingly obvious signs that the global shortage of semiconductors (chips) will not end before 2023. The reason for the chip shortage is quite prosaic. Semiconductor manufacturing typically takes place in Asian countries, where capacities have now become scarce, and in many places vaccination is low, so that new waves of the epidemic repeatedly force some countries to introduce restrictions and lockdowns.

According to the latest industry forecasts, the chip supply could be restored in the second half of 2022 at the earliest, so there will be a chance for a real recovery in the car market only in 2023. The IHS Markit forecasts that about 7 million fewer cars could be produced this year due to difficulties in supplying raw materials.

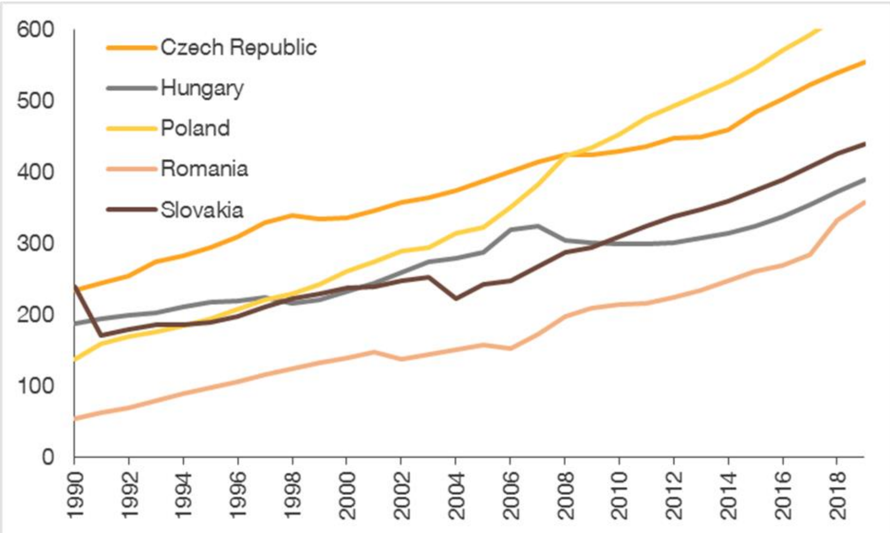
New cars sold in CEE



Source: Association Auxiliaire de l'Automobile

- The increase in raw material prices appears to have also spilled over into the used car market, which, however, had a beneficial effect on margins on used cars. The main reason for this is that the growing domestic purchasing power over the years has not collapsed even during the epidemic thanks to the government rescue packages to deal with the economic crisis. Due to supply difficulties and the extension of the production time or the postponement of the delivery of orders, the number of vehicles to be sold in the coming year, if only temporarily, will certainly fall short of what AutoWallis forecast earlier. Because of this, total sales could be 10 to 15% less for the next two years than AutoWallis had originally planned. However, it is important to note that lost sales can be made up as soon as the coronavirus epidemic subsides.

Number of vehicles per thousand inhabitants



Source: Eurostat

- Overall, the first half of the year showed that AutoWallis responded well to the changed business environment, as the dynamic increase in sales was accompanied by a significant improvement in EBITDA margin. The company took advantage of the opportunities offered by the virus situation: it made several acquisitions and made its operation more efficient. All this leads us to conclude that, despite the current difficulties in the supply chain of raw materials, AutoWallis will continue to be able to maintain its profitability in the future through the expansion of the range of automotive services and more efficient operation. Of course, in order to maintain and further improve profitability, it is essential that international air passenger traffic recover as soon as possible in AutoWallis' main markets.

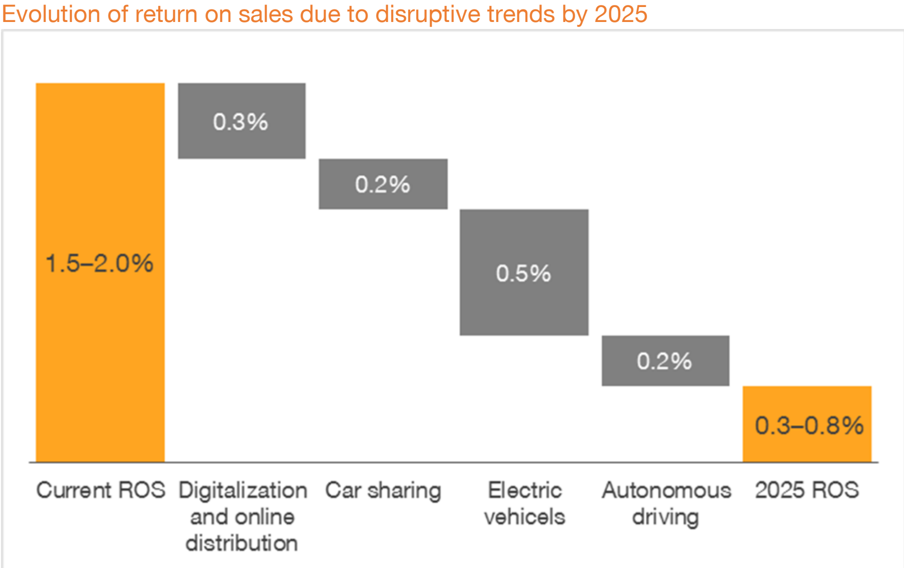
The number of arrivals at Budapest Airport (th)

2016	2017	2018	2019	2020	H1/20	H1/21	Ch. (H1/H1)
5 519	6 323	7 131	7 819	1 857	1 417	289	-79,6%

Source: Hungary's Central Statistical Office

- AutoWallis previously planned sales revenue of HUF 230-253 billion for 2021 and more than HUF 400 billion by 2025, but its fulfillment has become highly doubtful due to the protracted global semiconductor shortage and supply chain disruption. However, the loss 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 the carmakers will not cut prices even after the chip shortage is resolved, instead they intend (this time consciously) to limit production of new cars, thereby supporting their pricing power and profitability. BMW says the situation has improved a lot in the past 24 months making it possible to sell new cars at a significantly higher margin than a year ago.
- In our view, the role of car dealers in direct sales, vehicle configuration and information flow will decrease in the future as digital channels for buying cars become more popular. They will be given a role in the selection and purchasing processes. It is also worth noting that soaring raw material prices (energy prices, in particular), together with rapidly rising labor costs and on-going supply chain disruptions all point to higher operational costs going ahead, inevitably putting pressure on margins. Although digitalisation offers new opportunities to offset a decline in profitability, car dealers are feeling the pinch, for many are already contenting with cut-throat competition as well as higher labor costs and will likely be unable to fully offset the causes of narrowing margins in the long run, even though in some form (eg showrooms) they struggle to remain in contact with customers.

Evolution of return on sales due to disruptive trends by 2025



Source: Bain & Company

- All this suggests that consolidation in the regional car markets should accelerate in the next few years. Those market players who will be able to operate efficiently and have access to relatively cheap external sources to finance their expansion, as well as having an appropriate corporate governance model and the necessary technological background, will certainly be at the forefront of this process. With transactions completed over the past year, AutoWallis has proven that it has the ability to make its way into premium markets and segments, while creating value for shareholders and integrating the assets acquired into its existing operation.

Valuation

- Based on the comparative assessment, AutóWallis no longer stands out from the European competitors at all. The previous overvaluation was eliminated by the dynamic growth of EBITDA, while the share price - in a somewhat incomprehensible way - did not follow the improvement in earnings and profitability for a long time. It is clear that as management plans key revenue and earnings figures, as transparency improves and the company's ambitious medium-term objectives become more credible, the interest of all capital market participants in both the company's bonds and equities will increase.

Comparative valuation

Ticker	EV/EBITDA FY0	EV/EBITDA FY1	EV/EBITDA FY2	EV/EBITDA FY0	P/E FY1	Sales growth	EBITDA margin
AUTOWALL HB Equity	10.3	7.7	7.7	7.7	19.3	17.5	2.4%
SIX2 GR Equity	20.2	10.4	7.3	7.3	35.2	-38.8	27.4%
INCH LN Equity	12.0	8.8	7.4	7.4	17.1	-27.1	0.2%
STRN NA Equity	12.2	0.2	9.0	9.0	0.3	-24.1	2.0%
MOTR LN Equity	13.4	25.7	13.8	10.0	22.0	-29.1	2.5%
KAMUX FH Equity	15.4	15.3	12.2	12.2	23.9	10.0	5.6%
DOAS TI Equity	5.8	4.9	4.7	4.7	6.3	92.0	8.5%
APR PW Equity	12.0	8.6	8.2	8.2	11.0	12.9	10.4%
CAR PW Equity	12.7	9.0	8.9	8.9	13.5	4.5	7.0%
LOOK LN Equity	3.9	2.6	2.7	2.7	5.3	-22.7	2.3%
BILIA SS Equity	8.2	6.6	6.6	6.6	9.8	2.2	8.5%
DIE BB Equity	61.6	32.4	29.4	29.4	18.4	-12.7	1.7%
MEKO SS Equity	8.8	7.7	7.4	7.4	12.0	-2.8	13.7%

Source: Bloomberg

- We finetuned our 12-month target price based on our discounted cash flow model from HUF 153 to HUF 165 per share, which is 30% more than the current share price. Although the upcoming capital increase could increase the number of shares by as much as one-fifth, we believe AutoWallis will continue to invest the proceeds of the capital increase in activities in a value creative way, as it did last year. We expect no dividend to be paid in the coming years.

Sensitivity analysis

		LT NOPLAT Growth (%)				
	165.3	1%	2%	3%	4%	5%
WACC	5.5%	100.0	127.4	166.8	228.2	338.4
	6.5%	99.3	126.7	166.1	227.6	338.0
	7.5%	98.5	126.0	165.4	227.0	337.6
	8.5%	97.8	125.3	164.7	226.4	337.1
	9.5%	97.1	124.6	164.1	225.8	336.7

Fair value (HUF)	149.1
12-m TP (HUF)	165.3

	2019	2020	2021	2022	2023	2024	2025	TV1
Revenue growth	19.2%	17.5%	129.0%	24.1%	19.4%	17.8%	17.8%	3.0%
EBIT/ Rev.	2.4%	0.7%	1.7%	2.2%	2.2%	2.3%	2.3%	2.3%
Tax	29.0%	-45.7%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
RONIC		19.3%	15.9%	14.7%	88.3%	34.1%	26.6%	7.5%
ND/V	18.7%	31.6%	35.7%	41.0%	41.3%	39.8%	38.4%	40.0%
r_A	8.2%	8.3%	8.5%	9.1%	9.1%	7.8%	7.8%	7.7%
r_D	6.2%	7.5%	3.7%	2.7%	2.3%	2.4%	2.4%	2.4%
ROIC	8.84%	3.48%	11.03%	12.10%	14.45%	16.04%	17.07%	16.45%
NOPLAT	1 277	332	2 675	4 164	5 129	6 192	7 297	7 516
g (NOPLAT)							3.0%	3.0%
DIC	-4 904	14 699	10 163	1 093	3 115	4 148	2 934	3 022
IC								
14 442 213	9 538	24 238	34 400	35 493	38 608	42 756	45 689	48 711
Risk free rate	2.5%	2.7%	2.9%	3.5%	3.4%	3.7%	3.5%	3.5%
Beta multiple	1.2	1.7	1.4	1.5	1.5	1.2	1.2	1.2
Levered beta	1.105	1.6	1.6	1.6	1.6	1.6	1.6	1.6
ERP	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Unlevered cost of equity	8.2%	8.3%	8.5%	9.1%	9.1%	9.4%	9.2%	9.2%
Levered cost of equity	8.6%	8.7%	11.2%	13.6%	13.8%	11.5%	11.2%	11.2%
Net debt	9 800	15 918	24 791	33 897	35 869	36 894	37 511	40 287
Net debt (calculated)	9 800	15 918	24 791	33 897	35 869	36 894	37 511	40 287
D/E	23.0%	46.2%	55.5%	69.5%	70.2%	30.0%	30.0%	30.0%
E/V	81.3%	68.4%	64.3%	59.0%	58.7%	60.2%	61.6%	60.0%
r_E	8.6%	8.7%	11.2%	13.6%	13.8%	11.5%	11.2%	11.2%
WACC	7.8%	9.4%	8.2%	8.9%	8.9%	7.6%	7.6%	7.5%
P&L	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**TV1**
Rev.	75 273	88 413	202 503	251 228	299 947	353 485	416 579	429 077
D&A	1 326	1 590	2 571	2 860	3 262	3 714	4 166	4 291
EBIT	1 798	611	3 473	5 408	6 661	8 042	9 477	9 761
Financial rev.	-612	-1 200	-925	-920	-838	-877	-891	-957
PBT	1 186	-589	2 548	4 488	5 823	7 165	8 586	8 804
Tax	343	269	586	1 032	1 339	1 648	1 975	2 025
Net Income	842	-858	1 962	3 456	4 484	5 517	6 611	6 779
Net compr. income	877	-836	1 990	3 480	4 510	5 542	6 641	6 810
CF								
EBIT	1 798	611	3 473	5 408	6 661	8 042	9 477	9 761
EBITDA	3 124	2 201	6 044	8 268	9 923	11 756	13 643	14 052
NOPLAT	1 277	332	2 675	4 164	5 129	6 192	7 297	7 516
DIC	-4 904	14 699	10 163	1 093	3 115	4 148	2 934	3 022
FCFF	6 181	-14 367	-7 488	3 071	2 014	2 044	4 364	4 495
Interest	-612	-1 200	-925	-920	-838	-877	-891	-957
Tax shield	177	-548	213	211	193	202	205	220
Ddebt	6 118	8 873	9 106	1 972	1 025	617	2 776	1 209
FCFD	5 683	7 125	8 393	1 264	380	-58	2 090	471
FCFE	11 864	-7 242	905	4 335	2 394	1 986	6 453	4 966
dividend	-575	0	0	0	0	0	0	0
Dcash	12 439	-7 242	905	4 335	2 394	1 986	6 453	4 966
FCFF								
FCFF	6 181	-14 367	-7 488	3 071	2 014	2 044	4 364	4 495
D/V	18.7%	31.6%	35.7%	41.0%	41.3%	39.8%	38.4%	*40.0%*
WACC	7.8%	9.4%	8.2%	8.9%	8.9%	7.6%	7.6%	*7.5%*
Value of firm (bop)	**52 445**	**50 362**	**69 461**	**82 666**	**86 944**	**92 626**	**97 650**	**100 719**
APV								
FCFF	6 181	-14 367	-7 488	3 071	2 014	2 044	4 364	4 495
r_A	8.2%	8.3%	8.5%	9.1%	9.1%	7.8%	7.8%	*7.7%*
PV(FCFF)	49 389	47 234	65 526	78 607	82 725	88 218	93 097	96 015
TS	177	-548	213	211	193	202	205	220
PV(TS)	3 056	3 128	3 936	4 059	4 218	4 408	4 553	4 704
Value of firm (bop)	**52 445**	**50 362**	**69 461**	**82 666**	**86 944**	**92 626**	**97 650**	**100 719**
FCFE								
FCFE	11 864	-7 242	905	4 335	2 394	1 986	6 453	4 966
r_E	8.6%	8.7%	11.2%	13.6%	13.8%	11.5%	11.2%	11.2%
PV(E)	42 645	34 443	44 670	48 769	51 075	55 732	60 138	60 431
D	9 800	15 918	24 791	33 897	35 869	36 894	37 511	40 287
Value of firm (bop)	**52 445**	**50 362**	**69 461**	**82 666**	**86 944**	**92 626**	**97 650**	**100 719**
EVA								
NOPLAT	1 277	332	2 675	4 164	5 129	6 192	7 297	7 516
IC at the beginning	14 442	9 538	24 238	34 400	35 493	38 608	42 756	45 689
WACC	0	0	0	0	0	0	0	0
EVA	149	-564	680	1 106	1 987	3 246	4 043	4 107
PV(EVA)	38 003	40 823	45 224	48 266	51 451	54 018	54 894	55 029
Value of firm (bop)	**52 445**	**50 362**	**69 461**	**82 666**	**86 944**	**92 626**	**97 650**	**100 719**

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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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