



CEE Equity Research | Car dealership | Hungary
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AutoWallis

Rating: Accumulate (unch.)

Target price (12-m): 130 (prev. HUF 149)

Share price: HUF 83

HUF million	2019	2020F	2021F
Revenue	75 273	77 580	87 596
EBITDA	2 981	2 485	3 665
EBIT	1 802	1 477	2 716
Net profit	914	495	1927
EBITDA margin	4.0%	3.2%	4.2%
PAT margin	1.3%	0.6%	2.2%
EPS	3.4	1.8	7.1
DPS	0.0	0.0	0.0
BVPS	18.7	20.5	27.7
P/E	24.5	45.3x	11.6x
P/BV	4.4x	4.0x	3.0x
EV/EBITDA	11.3x	13.2x	8.7x

Share price close as of 31/01/2020	HUF 83	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	270.3	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	22.4 / 65	Free float	14.34%
Daily turnover 12M [EUR th]	147	52 week range	HUF 51 – 137

Q1/20 solid underlying results reflected strength but COVID-19 virus is reshaping the earnings outlook

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- AutoWallis's Q1/20 operating results were not yet materially affected by the steep economic downturn triggered by the outbreak of the coronavirus pandemic. Clean EBITDA increased by 35% YoY to HUF 667mn on sales revenue rising by 10% YoY to HUF 20.2bn. Domestic sales advanced by 21%, international sales by 1%, and revenue from its Automotive Services Business unit by 13% in value terms. Reported net losses came in at HUF 582mn negatively affected by FX and one-time losses (of HUF 581mn and HUF 158mn, respectively). Adjusting for FX and one-time losses, clean net income was HUF 157mn, compared to HUF 116mn in the same period a year earlier.
- In Q1/20 AutoWallis sold a total of 1,627 cars representing 16% growth YoY. Although the European passenger car market saw the number of newly registered units sold fall down drastically (-26% YoY), according to ACEA2 statistics, the CEE region where AutoWallis is distributing premium car brands still remained relatively strong.

- Overall underlying operating costs rose in line with net sales growth resulting in more or less flat reported EBIT YoY.

AutoWallis' Q1/20 consolidated operating highlights (HUF th)

	Q1 2020	Q1 2019	Changes
Revenue	20 151 946	18 295 732	+10%
International Distribution Business Unit	9 079 944	9 023 948	+1%
Domestic Distribution Business Unit	9 238 505	7 649 029	+21%
Automotive Services Business Unit	1 833 496	1 622 755	+13%
Expenditure			
Material cost	554 860	558 695	-1%
Contracted services	608 755	646 775	-6%
Cost of goods sold	18 096 961	16 216 225	+12%
Personnel expenses	486 880	391 061	+25%
EBITDA**	509 023	544 693	-7%
Sales result	76 962	240 615	-68%
Total overall result	- 582 450	115 670	-604%

	Q1 2020	Q1 2019	Changes
International Distribution Business Unit			
Number of new vehicles sold (pcs.)	696	568	+22,5%
Domestic Distribution Business Unit			
Number of new vehicles sold (pcs.)	744	617	+20,6%
Number of used vehicles sold (pcs.)	187	217	-13,8%
Automotive Services Business Unit			
Number of service hours (hours)	11,655	11,367	+2,5%
Rental Fleet Size (pcs.)	539	445	+21,1%
Number of rental events (pcs.)	3,610	4,755	-24,1%

Source: AutoWallis

- Financial loss amounted to HUF 705mn in Q1/20, mainly due to unrealized FX loss of HUF 581mn on open exceptionally high level of inventories outstanding at the end of March due to the coronavirus measures imposed in the Balkans and the high supplier stock invoiced in euros and unpaid for liquidity management reasons. The rapid depreciation of the HUF and other regional currencies against the EUR due to the corona epidemic poses a significant exchange rate risk for domestic sales, however, this as AutoWallis believes should have a delayed price-boosting effect in the domestic car markets. As export activities are typically invoiced in euros, this effect with natural coverage only appears as an unrealized exchange rate difference at the closing of the relevant accounting period.

Outlook

- EU car markets growth is no doubt dented by the ongoing economic meltdown across the EU in the wake of the coronavirus pandemic. AutoWallis' Central European markets have also been declining to varying degrees, but typically to a smaller extent hitherto than other international markets thanks to relatively healthier CEE economies. The low interest rate environment and abundance of both monetary and fiscal emergency funds and stimulus programs should help buttressing economic growth throughout the European region in the coming years, together with significant government subsidies granted to encourage the purchase of various new passenger mostly for new cars with a purely electric drive chain.
- The transition of automotive companies to new technologies (production of electric cars) is very costly and the new EU environmental rules, which come into force this year, also weigh heavily on OEMs' profits, accompanied by a reduction of certain support and subsidies, which AutoWallis aims to offset by volume growth later this year in the relevant international and domestic distribution segments.
- Even doing so, it is very likely that the high-margin Automotive Service Business unit, which usually accounts for about half of AutoWallis' annual EBITDA will suffer from

the severe decline in the number of passengers arriving at Budapest International Airport. Although AutoWallis is likely to do its best to align operating costs to lower sales, we are increasingly concerned that EBITDA of this segment will decline materially in 2020 YoY, and so will AutoWallis' consolidated EBITDA.

- We cut our EBITDA estimates for the next three years (not accounting for the impact of any international M&A transactions but taking into account the impact of consolidating OPEL distribution activity into the Group's figures) to HUF 2.48bn, HUF 3.7bn and HUF 4.6bn from HUF 3.4bn, HUF 4.1bn and HUF 4.8bn, respectively. Accordingly, we also reduced our estimate for 5-year organic EPS CAGR to 28% from 31%, driven also by higher financial costs than expected previously.
- We expect EBITDA margin to improve from 3.2% in 2019 to only 4.4% by 2024 vs. management guidance for organic EBITDA margin of 5.6%. The primary drivers of organic EBITDA margin improvements and value creation remain new distribution agreements, like the one initialed recently with Jaguar Land Rover, organic regional growth, higher-margin add-on and aftermarket services, and cost reduction measures. International distribution is likely to generate relatively higher margins thanks to market penetration and income convergence towards EU levels.
- We believe investor sentiment towards AutoWallis will be determined by how successful it will be able to implement its ambitious five-year strategy presented in May 2019. We note that we focus on cash flows generated only from current businesses and disregard management guidance for earnings from acquisitions in the future.
- As we assume neither acquisitions nor dividend payments in the coming years but constantly improving capital intensity, thus leverage should decline constantly after 2020 (ND/EBITDA may rise to 4.2x in 2020 from 3.7x at the end of 2019, and then decline to the region of 2x by 2023). We note, however, that should AutoWallis carry out sizeable M&A, its leverage will remain high going forward.
- AutoWallis's shares look a little bit overvalued compared to its peers based on 8.7x 2021 EV/EBITDA. Besides expected fast earnings growth we assume a significant improvement in AutoWallis' ROIC from 7..5% in 2020 to 22.9% by 2024, driven mainly by expected EBITDA margin expansion, which thus is likely to exceed peers' ROIC ratio, justifying relatively higher valuation multiples for AutoWallis.
- That we assume no dividend payments and inorganic growth in the coming years leads us to set, on the basis of future FCF performance, a new 12-month TP at HUF 130 vs. HUF 150 previously, which still leaves a 59% upside potential from the current share price. We stress that our TP is highly sensitive to AutoWallis' operating margin developments. If no margin improvement occurs in the coming years, we will feel it appropriate to reduce our TP to HUF 101, yet implying a 23% upside potential from the current share price, all else remaining constant.
- We keep our Accumulate rating on AutoWallis.

TP sensitivity and DCF valuation

		LT NOPLAT Growth (%)					
		129.9	-1%	0%	2%	3%	4%
WACC	7.6%	93.6	103.4	130.4	150.1	176.7	
	8.6%	93.4	103.1	130.1	149.8	176.4	
	9.6%	93.1	102.8	129.9	149.5	176.1	
	10.6%	92.8	102.5	129.6	149.2	175.8	
	11.6%	92.5	102.3	129.3	148.9	175.5	

Source: Concorde's estimate

Fair value (HUF) **119.3**
 12-m TP (HUF) **129.9**

w/o acquisitions	2020	2021	2022	2023	2024	2025	TV1
ND/V	26.64%	23.94%	20.41%	16.24%	11.24%	5.08%	5.08%
r _A	8.64%	8.77%	9.22%	9.15%	9.08%	9.66%	9.66%
r _D	7.90%	3.77%	5.53%	5.94%	6.44%	6.44%	6.44%
ROIC	7.47%	14.12%	16.99%	20.28%	22.87%	21.45%	20.94%
NOPLAT	1 226	2 255	3 024	3 911	4 732	5 364	5 471
g (NOPLAT)						2.0%	2.0%
DIC	-453	1 836	1 486	1 409	4 311	1 117	1 140
IC							
14 442 213	15 963	17 799	19 285	20 694	25 004	26 122	27 261
Risk free rate	2.7%	2.8%	3.2%	3.2%	3.1%	3.7%	3.7%
Beta multiple	1.3	1.3	1.2	1.2	1.1	1.0	1.0
Levered beta	1.3	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%	6.0%
Unlevered cost of equity	8.6%	8.8%	9.2%	9.1%	9.1%	9.7%	9.7%
Levered cost of equity	8.9%	10.3%	10.2%	9.8%	9.4%	9.8%	9.8%
Net debt (calculated)	11 154	10 452	9 592	8 069	5 805	2 838	2 895
D/E	36.3%	31.5%	25.6%	19.4%	12.7%	5.4%	5.4%
E/V	73.4%	76.1%	79.6%	83.8%	88.8%	94.9%	94.9%
r _E	8.9%	10.3%	10.2%	9.8%	9.4%	9.8%	9.8%
WACC	8.3%	8.6%	9.0%	9.0%	9.0%	9.6%	9.6%
P&L	2020	2021	2022	2023	2024	2025	TV1
Rev.	77 580	87 596	98 955	112 063	127 027	143 990	146 870
D&A	1 315	1 117	1 153	1 195	1 242	1 440	1 469
EBIT	1 477	2 716	3 643	4 712	5 701	6 462	6 591
Financial rev.	-881	-394	-531	-479	-374	-183	-187
PBT	597	2 322	3 112	4 232	5 327	6 279	6 405
Tax	101	395	529	719	906	1 067	1 089
Net Income	495	1 927	2 583	3 513	4 421	5 212	5 316
Net compr. income	504	1 949	2 598	3 531	4 438	5 232	5 336
CF							
EBIT	1 477	2 716	3 643	4 712	5 701	6 462	6 591
EBITDA	2 793	3 833	4 796	5 906	6 943	7 902	8 060
NOPLAT	1 226	2 255	3 024	3 911	4 732	5 364	5 471
DIC	-453	1 836	1 486	1 409	4 311	1 117	1 140
FCFF	1 679	419	1 538	2 502	421	4 246	4 331
Interest	-881	-394	-531	-479	-374	-183	-187
Tax shield	150	67	90	81	64	31	32
Ddebt	-702	-859	-1 523	-2 264	-2 967	57	58
FCFD	-1 433	-1 187	-1 964	-2 662	-3 277	-95	-97
FCFE	246	-768	-426	-161	-2 856	4 151	4 234
dividend	0	0	0	0	0	0	0
Dcash	246	-768	-426	-161	-2 856	4 151	4 234
FCFF							
FCFF	1 679	419	1 538	2 502	421	4 246	4 331
D/V	27%	24%	20%	16%	11%	5%	5%
WACC	8.28%	8.61%	9.03%	8.98%	8.96%	9.60%	9.60%
Value of firm (bop)	41 864	43 652	46 993	49 696	51 658	55 863	56 980
APV							
FCFF	1 679	419	1 538	2 502	421	4 246	4 331
r _A	8.64%	8.77%	9.22%	9.15%	9.08%	9.66%	9.66%
PV(FCFF)	41 236	43 119	46 481	49 227	51 228	55 457	56 566
TS	150	67	90	81	64	31	32
PV(TS)	628	532	512	469	430	406	414
Value of firm (bop)	41 864	43 652	46 993	49 696	51 658	55 863	56 980
FCFE							
FCFE	246	-768	-426	-161	-2 856	4 151	4 234
r _E	9%	10%	10%	10%	9%	10%	10%
PV(E)	30 710	33 200	37 401	41 627	45 853	53 025	54 086
D	11 154	10 452	9 592	8 069	5 805	2 838	2 895
Value of firm (bop)	41 864	43 652	46 993	49 696	51 658	55 863	56 980
EVA							
NOPLAT	1 226	2 255	3 024	3 911	4 732	5 364	5 471
IC at the beginning	16 416	15 963	17 799	19 285	20 694	25 004	26 122
WACC	0	0	0	0	0	0	0
EVA	-133	880	1 417	2 179	2 879	2 963	2 963
PV(EVA)	25 448	27 689	29 194	30 412	30 964	30 859	30 859
Value of firm (bop)	41 864	43 652	46 993	49 696	51 658	55 863	56 980

Source: Concorde's estimate

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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%
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