

Waberer's

Recommendation: Buy (unch.)

Target price (e-o-y): HUF 1,785 (unch.)

Share price: HUF 1,280

Share price close as of 08/27/2019	HUF 1,280	Bloomberg	WABERERS HB
Number of diluted shares [million]	17.7	Reuters	WABE.HU
Market capitalization [HUF bn/EUR mn]	23.0/76	Free float	28%
Daily turnover 12M [HUF million]	20	52 week range	HUF 990 – 2,890

Waberer's explores strategic options of insurance business

- **Waberer's announced it would explore strategic options regarding its insurance business. While the Company did not define what explore means, we believe the Company is also contemplating on selling the business.**
- **Waberer's acquired a 100% stake in WHB for EUR 13 mn in 2016. The main goal was to establish an insurance company, which can insure the fleet and provide vehicle insurance to third parties. According to recent study published by the Hungarian Insurance Association (MABISZ), Waberer Hungaria (WHB) is the 3rd largest insurer in the Hungarian vehicle insurance market with a market share of c.13%. Reaching a profit margin of c.9% and an outstanding combined ratio of 70/71% also means that WHB is one of the most profitable P&C insurers in the CEE region.**
- **WHB's total revenues amounted to ca. EUR 73mn in 2018, out of which 3rd party insurance sales accounted for almost 78%. The rest was made up by insurance fees collected from the transportation divisions of Waberer's. The Insurance segment (3rd party only) reported a net profit of ca. EUR 8.3mn out of which profits on third-party insurance sales represented EUR 5.2mn.**
- **WHB has available capital of EUR 58 mn, or EUR 3.3 a share (HUF 1,090), which underpins our fair value estimate of HUF 1,010 a share for WHB. We note that our fair value estimate is based on cash flows from third-party sales and does not count on revenue coming from other divisions of Waberer's. However, if Waberer's decided to sell the insurance company, the acquisition price should reflect the present value of cash flows from Waberer's as well, and thus the insurance segment itself should be valued at above HUF 1,600 a share, or at 125% of the current share price. It would also imply that the rest of the Company is worth zero, considering the current share price.**
- **WHB is no doubt the most profitable and strategic arm of the Waberer's Group that we think contributes greatly to stabilize the Group's liquidity position. Also, it remains questionable what Waberer's would do with the proceeds from the sale of WHB: would it pay an extra dividend or plough back that into its RCL and ITS businesses.**
- **We are of the view that a partial sale of WHB is the most likely outcome of this process at this stage. We believe in the synergy between the core transportation and**

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non-core insurance businesses, thus it would be irrational to sell more than 50% stake of WHB and lose the controlling rights. However, an up to 49% sale of the WHB stake would be value-accretive above HUF 1000 per share that should be honored by the market. Otherwise, we also take into account that the Management want to be 100% focused on the core business. In this case, the insurance unit is likely to be considered as a segment what might divide the Management's attention.

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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.
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Valuations and risks:

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