

Waberer's

Recommendation: Buy (unch.)

Target price (e-o-y): HUF 1,910 (unch.)

Share price: HUF 1,195

Share price close as of 19/10/2020	HUF 1,195	Bloomberg	WABERERS HB
Number of diluted shares [million]	17.7	Reuters	WABE.HU
Market capitalization [HUF bn/EUR mn]	21.1/58	Free float	28%
Daily turnover 12M [HUF million]	10	52 week range	HUF 600 – 1,360

Indotek buys stake in Waberer's, uncertainty remains

- Mid Europa Partners (MEP) agreed to sell 24% of the issued share capital in Waberer's to Trevelin Holding Zrt. (member of Indotek Group). They also granted a call option to Indotek over Mid Europa's remaining 47.99% stake. The transaction is expected to close by the end of Q1/21. Waberer's CEO added that they look forward to be supported by Indotek to complete the restructuring program and further build on the strengths of Waberer's.

Opinion:

- We have mixed feelings. **On one hand, it's worth noting that the appearance of a new shareholder, namely Indotek, is undoubtedly positive for Waberer's, given that they probably see significant upside potential in the Company.** We strongly believe that **Indotek is in the position in Hungary to back Waberer's' ambitions.** Waberer's has an important role in the logistics segment in Hungary and Indotek will very likely support Waberer's to gain further market share on the regional market, which is expected to lead to improving operational results, in our view.
- The story is nuanced by the fact that Indotek informed that it may sell the option to third parties. This also means that Indotek has not only acquired ownership in Waberer's, but can also choose its future business partners. Thus, **it is easy to imagine that 2 or even more strategic shareholders will appear among Waberer's shareholders.** This reduces, on the one hand, the likelihood of the company being delisted and, on the other hand, may be key to the operation, as unforeseen synergies may emerge at this point as a result of the diversified ownership structure. In addition, it's been confirmed by Indotek as the CEO said that the company has no plans to delist Waberer's and is set to mandate an investment adviser to seek potential investors from the logistics industry, Bloomberg reported Monday afternoon.
- There are a couple of uncertainties around the transaction.** We are not aware of the details, but we think that Indotek may have acquired the stake from MEP at a deeply discounted price. More importantly, it is unknown how much Indotek pays for the call option and how MEP and Indotek set the Strike price of the option. These figures should be also disclosed to see the value of the transaction clearly.

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- It's worth focusing on the outlook. Waberer's is in the midst of a transitory period, but the operation is improving. Waberer's is set to cut its fleet significantly in the ITS segment in order to reduce its exposure to its losses-making unit.
- Indotek may bring new impetus, but it's worth taking a step back. It is also unknown what Indotek intends to do with the strategic arms of Waberer's. We think that both Regional Contractual Logistics and Insurance segments are great investments from Indotek's point of view, but ITS (international transportation) is loss-making. As a result, it would make sense to cease ITS operations in the near-term and focus on RCL and Insurance. If it took place, Waberer's would be able to recover faster than expected and may deliver profit on Group level next year.
- It is not at all surprising that Indotek will not buy the full stake of MEP in Waberer's, as in this case it would have to make a mandatory takeover bid for the minority shareholders. This would also have meant that the takeover bid should have been € 5.9/sh based on the 2019 audited results, which is significantly higher than the share price. We expect BVPS to fall by as much as 1.0-2.0 euros to roughly € 3.9-4.9/sh by the end of this year, which could be indicative for next year. This would mean that, in the event of the purchase of the remaining stake of Mid Europa, the buyer would have to make a binding bid to the minority shareholders at the new book value even if Indotek doesn't aim to delist Waberer's. However, it is also interesting whether Waberer's will book further impairments or not at the end of this year. Waberer's has a goodwill balance of EUR 32mn, which relates mainly to Link, but the Polish arm of Waberer's delivered positive operating results pre-covid, thus further impairment would not be reasonable, in our view, but poses a significant risk.
- We remain Buy-rated and reiterate our target price of HUF 1,910/sh. Given current uncertainties around covid, international segment may suffer in the rest of the year, which could result in deeper losses in FY20 compared to our previous estimates. We are of the view that minority shareholders don't need to concern over liquidity issues thanks to debt moratoria and the new strategic investor. Risks, however, remain elevated. On operational level, concerns over Brexit and coronavirus loom Waberer's. Furthermore, in the case of further write-offs or impairments, the value of equity could deteriorate further. Although, Indotek doesn't plan to delist Waberer's in the future, book value per share could be implicative in case of a buyout and delisting.

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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:

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Valuations and risks:

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