CONCORDE RESEARCH

CEE Equity Research | Transportation | Hungary
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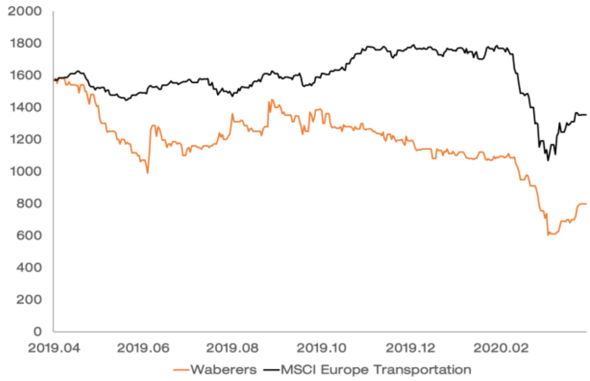
# Waberer's

## Recommendation: BUY (unch.)
## Target price (e-o-y): Under revision (prev. HUF 1,785)
## Share price: HUF 800

| EUR million | Q4/18 | Q4/19 | chg. YoY % |
|---|---|---|---|
| Revenue | 185.9 | 171.6 | -8% |
| EBITDA | 5.0 | -2.1 | -142% |
| Rec. EBITDA | 11.3 | 15.8 | 40% |
| Rec. EBIT | -8.6 | -0.6 | 26% |
| Net income | -17.6 | -22.2 | 26% |
| Rec. Net income | -11.4 | -4.2 | -63% |
| Rec. EBITDA margin | 6.1% | 9.2% | 3.1ppts |
| Rec. EBIT margin | -4.6% | -0.3% | 4.3ppts |
| Rec. Profit margin | -6.1% | -2.4% | 3.7ppts |




| | | | |
|---|---|---|---|
| Share price close as of 04/13/2020 | HUF 800 | Bloomberg | WABERERS HB |
| Number of diluted shares [million] | 17.7 | Reuters | WABE.HU |
| Market capitalization [HUF bn/EUR mn] | 14.1/40 | Free float | 28% |
| Daily turnover 12M [HUF million] | 10 | 52 week range | HUF 604 – 1,650 |

## Despite the loss, margins continued to improve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- **Waberer's reported recurring net loss of EUR 4.2mn for Q4/19, but margins continued to improve significantly at Group level, which was attributable to the RCL and Insurance units. In contrast, International Transportation segment just shows little signs of recovery. We have to revise our TP as our estimates are ineffective, in our view, given that Waberer's halted the operation of 1200 trucks due to coronavirus pandemic. We hold our recommendation on BUY as we believe that the company is undervalued, but we have to revisit forecasts.**

- **Briefly, Waberer's International posted its FY19 and Q4/19 results on Thursday, AMC.** The haulier reported a net recurring loss of EUR 23mn compared to our estimate of EUR -21mn for the year. Total revenues amounted to EUR 696mn, not materially below our estimate of EUR 701mn in 2019. However, reported net loss came in at EUR 42mn vs EUR -21mn a year earlier. Non-recurring items amounted to EUR 18.4mn in 2019 driven by a meaningful goodwill impairment, which arose from the acquisition of Hungarocamion in 2004, in an extent of roughly EUR 16mn in the 4th quarter of the year. As a result, BV melted down to EUR 104mn as at the end of 2019, with a goodwill of EUR 31mn left on the BS. In 2019, ITS' fleet shrank by 20%, in line with the planned reduction.

- **Q4/19 Summary:** Waberer's posted a recurring net loss of EUR 4.2 million for Q4/19 vs. a recurring net loss of EUR 11.4 mn seen in Q4/18. Revenues dropped by 8% YoY to EUR 172mn in the reported quarter predominantly driven by the fleet reduction programme in the ITS segment. This negative effect was partly mitigated by the higher revenues in the Regional Contract Logistics segment. At Group EBITDA level, the Company has achieved some improvements due to the stronger performance of RCL and Insurance segments.

EBITDA has increased by 40% YoY to EUR 15.8mn. EBIT was a touch below break-even at EUR -0.6mn in Q4/19. Net income was up by 7.2mn YoY at EUR -4.2mn. In Q4/19, the Company has recorded a goodwill impairment of EUR 15.9mn, which significantly distorted the reported numbers.

- **COVID-19 impact:** Less than a month ago, ex-CEO Mr Ziegler resigned, while the Group's CFO Mr. Erdelyi has been promoted to CEO to lead the Company. The new Management decided to remain in place its previously announced measures, including fleet reduction in the ITS so as to get back on track to achieve profitability. They added that Novel coronavirus has had a serious impact on the operations and financials in light of the significant drop in demand and unpredictable prices for international transportation services. In response, the Mgmt. has introduced special measures with immediate effect due to coronavirus pandemic. The measures are including the halting of a significant portion of the fleet (1200 trucks) in ITS segment. Most discretionary spending has also been suspended. The Company is also rationalising its workforce to match the decline in demand. A combination of HR measures introduced involve a hiring freeze, wage renegotiation and an unpaid leave programme. The Company is in talks with its creditors and shareholders to ensure its liquidity position amid the unprecedented times.
- **While ITS is unable to operate under normal circumstances, RCL segment has seen a rapid increase in order number in light of the growing demand for food transport.** In addition, governmental measures may help to keep the company viable despite being negatively affected by the coronavirus. **Debt moratorium has a significant positive impact on the Group's Cash-flow as at least EUR 30mn of lease and interest payment has been deferred, based on our estimate.**
- **In accordance with the Company's communication, RCL and Insurance segments (WHB) as well as Polish Link, which was acquired after the IPO, are up for sale. We are still of the view that these units might be attractive businesses to potential buyers. In contrast, ITS is loss-making, operating a fleet of more than 2,500 trucks, excluding Link's fleet of around 500 trucks. It makes sense to take into consideration that significantly lower fuel prices and debt moratorium should spur the liquidity position of Waberer's in the first half of 2020. In addition, we look forward gradual wage cuts and a huge relief due to easing labor shortage for the coming months.**

| Profit and loss [EUR million] | Q4/18 | Q4/19 | chg. YoY% |
|---|---|---|---|
| **Revenues** | **185.9** | **171.6** | -8% |
| Direct costs | -155.7 | -139.5 | -10% |
| **Gross profit** | **30.2** | **32.1** | **6%** |
| OPEX | -25.2 | -34.3 | 36% |
| Non-recurring items | 6.2 | 17.9 | 189% |
| **EBITDA** | **5.0** | **-2.1** | **-142%** |
| **Recurring EBITDA** | **11.3** | **15.8** | **40%** |
| D&A | -19.8 | -16.5 | -17% |
| **EBIT** | **-14.8** | **-18.6** | **26%** |
| **Recurring EBIT** | **-8.6** | **-0.6** | **-93%** |
| Net financial result | -1.7 | -0.9 | -47% |
| Tax | -1.1 | -2.7 | 145% |
| **Net income** | **-17.6** | **-22.2** | **26%** |
| **Recurring Net income** | **-11.4** | **-4.2** | **-63%** |
| Rec. Ebitda margin | 6.1% | 9.2% | 3.1ppts |
| EBIT margin | -4.6% | -0.3% | 4.3ppts |
| Rec. Profit margin | -6.1% | -2.4% | 3.7ppts |

Source: Waberer's

**Segments:**

- **International (ITS):** Due to the volatile prices in the European transportation market, business is very challenging. Revenues declined by 16% YoY on lower volumes, while gross profit slumped 21% YoY in Q4 driven by higher wages (+9%). As a result, EBITDA was down by 8% YoY, but EBITDA margin improved somewhat on quarterly basis to 4.6% in Q4/19 from 4.1% in Q3/19 due to higher utilization and fleet reduction programme.
- **Regional Contract Logistics (RCL):** Hungarian economy was much more resilient despite being experienced a slowdown in the EU in the recent quarters. It supported the unit to reach revenues growth of 12% YoY, which was also attributable to the repricing effort. **Gross profit rose by 34% YoY, while EBITDA jumped by 63% YoY in Q4/19 on higher-margin activities. EBITDA margin improved by 4.9ppt to 15.8% in Q4/19 from 10.9% in Q4/18. However, it was a touch below Q3/19 margin figures.**
- **Other segment:** Due to the strategic review of the insurance arm of Waberer's, it's still unclear what will happen with WHB, which delivered outstanding numbers for 2019. In Q4, revenues were up by 8%, while WHB (from 3rd party activity) earned an EBITDA of EUR 4.4mn vs. EUR 1.3mn a year earlier. This huge difference was however attributable partly to the different taxation method of MTPL policyholders. As a result, insurance tax related items have been reclassified in the P&L, while MTPL fees have been adjusted accordingly.
- **According to the statement, net leverage improved to 3.3x** as at the end of Dec/19, which is far below the levels saw in the previous quarters. According to IFRS 16, the Company introduced a new accounting methodology. Accordingly, leased assets (fleet, a few buildings) are not acquired anymore with the possibility to buy the truck when lease period expires. Instead, the new methodology assumes that truck are handed back to lessors at the end of lease periods, with the contractual lease payments activated on the BS. It has resulted in a total net debt reduction of EUR 100mn by the end of 2019. If utilization continues to improve, net leverage should decline gradually.
- **Opinion: Amid pandemic fears, it's not easy to estimate the financial impact of COVID-19. The Company has suffered from the weakness of the auto sector as order number dropped significantly over the last 2 years. However, Mgmt. addressed cost reduction measures to mitigate the losses in its flagship ITS unit. At this moment, we think that it makes sense to withdraw our estimates as it's unclear whether the Company sells any of its business units or not in the near term. In addition to expected asset sales, ITS segment will be unable to reach revenues of EUR 525mn in 2020, given that the Management halted the operation of 1200 trucks immediately shortly after order book plummeted in mid-March. We therefore have to revisit our estimates. We reiterate our BUY recommendation, but TP is under review.**

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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. |

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