CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
27 May 2021

AutoWallis

Rating: Buy (prev. Accumulate)
Target price (12-m): HUF 153 (prev. HUF 142)
Share price: HUF 98

HUF million	Q1/21	Q1/20	Ch. (%)
Revenue	48 708	20 152	141.7
EBITDA	1 465	509	187.8
EBIT	744	181	311.0
Net profit	411	-592	n.a.
EBITDA margin	3.0%	2.5%	0.5pps
PAT margin	0.8%	-2.9%	3.7pps
EPS	1.15	-2.15	n.a.
DPS	0.0	0.0	0.0
BVPS	29.0	34.0	-14.7

Share price close as of 27/05/2021	HUF 98	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	324.3	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	31.8 / 91.0	Free float	30.97%
Daily turnover 12M [EUR th]	282	52 week range	HUF 65 – 120

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Warming up

- AutoWallis posted very sound results for 1Q21 with EBITDA growing by 188% YoY to HUF 1.46bn. At the same time, the management raised both revenue and EBITDA guidance by as much as 5% for 2021 expecting revenue in the range between HUF 230bn and HUF 253bn and EBITDA between HUF 5.7bn and HUF 6.3bn, which we find very encouraging.

Positives:

- AutoWallis delivered a 142% growth in revenues in 1Q21 to HUF 48.7bn. Top-line performance was driven by both key segments (wholesale: + 165% YoY, retail: +115% YoY) thanks largely to last year's acquisitions and transactions, and to some extent, organic growth and efficiency improvements
- In addition to the increase in the number of vehicles sold, there was also a significant growth in the number of rental days (+43% YoY), albeit from a low base. Service activity also expanded remarkably (+153% YoY) driven by organic growth in addition to acquisitions made last year.
- Net debt declined to HUF 13.9bn as of the end of Q1/21 (2.3x net debt to annualized EBITDA) compared to HUF 19.2bn at the end 2020.

Negatives:

- We did not find any worrying developments in AutoWallis's first quarter report.

Q1/21 sales figures reflect the positive impact of last year's transactions

- According to AutoWallis' Q1/21 sales report, in the wholesale business, the number of new vehicles sold jumped almost fourfold to 4,555 units (+ 382.5% YoY). The outstanding growth was driven by a 32.5% increase (1,251 vehicles) of organic expansion and Opel sales, which began in four countries earlier this year, wholesale sales of this brand alone increased the sales number by 250% YoY or 3,304 units. The retail business also performed well amid the still shrinking domestic market (-1% YoY).
- The number of new vehicle sales without the impact of last year's transactions increased by 42% YoY, while incorporating the impact of last year's transactions (Iniciál Autóház, Wallis Kerepesi, domestic Jaguar and Land Rover sales and the Ljubljana BMW dealership) vehicles sales increased by 238% to 1,678 units.
- The number of used vehicle sold also advanced by 132% to 434 units, including transactions (in an apple-to-apple comparison there was an 8% fall sales in terms of the number of vehicles sold).
- The service hours increased by 40 percent without last year's transactions, while due to the four transactions mentioned overall it increased by 152.7% YoY to 29,447.
- Restrictions due to the coronavirus pandemic are still holding back growth opportunities in the car rental area, but the number of rental days has already increased by 43% YoY and economies of scale improved thanks to expansion (the fleet size declined by 22% YoY and the number of leases by 48%, respectively).

Operation highlights in Q1/2021

	Q1/21	Q1/20	Ch (%)
Wholesale			
No. of vehicles sold	4 555	944	383
Retail			
No. of new vehicles sold	1 678	496	238
No. of used vehicles sold	434	187	132
Total no. of vehicles sold	**6 667**	**1 627**	**310**
Service hours	29 447	11 655	153
Fleet size (in terms of rented cars)	421	539	-22
Rents	1 862	3 610	-48
Rental days	30 320	21 211	43

Source: AutoWallis' Q1/2021 earnings report

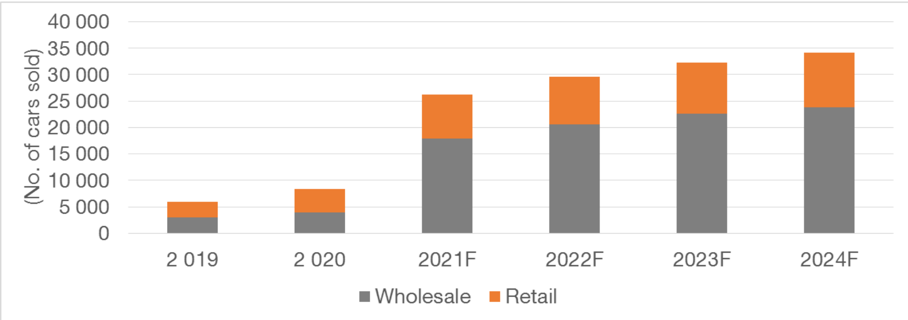
- COGS grew less than sales, therefore gross margin improved from 10% to 12% in Q1/21 mainly due to positive FX movements and higher sales volumes. The 152% increase in personnel expenses was a result of the acquisitions of dealerships made last year (ie. new domestic Jaguar Land Rover retail business launched in last April, BMW retail in Ljubljana and Opel wholesale activities were launched in four countries in December).
- EBITDA rose by 188% YoY to HUF 1.46bn, implying an EBITDA margin of 3% compared to 2.5% in the same period a year ago.
- Financial expenses decreased by 79% YoY, partly due to lower exchange rate losses in the wake of the HUF strengthening against the EUR over the course of Q1/21. However, interest expenses rose slightly, which was attributed to the financing of acquisitions executed last year.

- Net income came to HUF 411mn compared to HUF -592mn in the same period a year earlier.
- We point that AutoWallis's net debt declined to HUF 13.9bn as of the end of Q1/21 (2.3x net debt to annualized EBITDA) compared to HUF 19.2bn at the end 2020 while the pandemic is seemingly abating and therefore sales performance is improving.

Outlook

- The management raised both revenue and EBITDA guidance by as much as 5% for 2021 expecting revenue in the range between HUF 230bn and HUF 253bn and EBITDA between HUF 5.7bn and HUF 6.3bn, which we find very encouraging.
- We believe supportive trends may be observed in all CEE and SEE vehicles markets (including both the used and new cars segments) where AutoWallis is present. Said this, AutoWallis could take advantage of rebounding business travels and tourism once COVID vaccine rollouts speed up in Europe and organically expand its operating margins primarily as a result of rebound in automotive service activities (e.g. car rent) and lean operations.

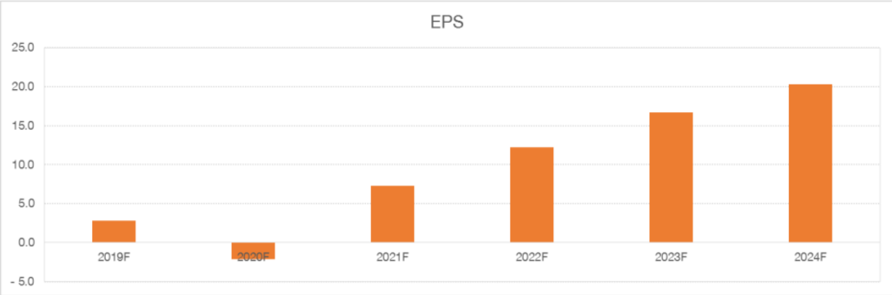
AutoWallis' car sales estimates for the period between 2021 and 2024



Source: AutoWallis, Concorde's estimates

- We acknowledge AutoWallis' strenuous efforts to improve not only sales performance but also efficiency of its operation. We raise both revenue and EBITDA estimates for 2021 to HUF 242bn and HUF 6bn compared to our previous estimate of HUF 227bn and HUF 5.6bn, implying a full-year EBITDA margin of 2.5%.
- We penciled the positive impact of both synergies and growth potential inherent in the recent transactions on sales and earnings in our estimates, while also believing that the recovery in service revenues, containing above-average margins, will be rapid and significant after the pandemic abates. Nevertheless, the market environment remains volatile, in our view.

AutoWallis’ EPS estimates for the period between 2021 and 2024 (HUF bn)



Source: AutoWallis, Concorde’s estimates

- We expect AutoWallis not to pay meaningful dividend until the current growth cycle ends.
- AutoWallis’ B+ rating was reaffirmed by Scope Ratings last November in light of recovering vehicles market conditions, improving its outlook from stable to positive. We expect net debt/EBITDA ratio to improve constantly in the years to come, if all else remaining the same.
- We lift our DCF-based 12-month TP to HUF 153 from HUF 142 per share, which leaves a 56% upside from the current share price. We upgrade our rating on AutoWallis from Accumulate to Buy.
- We once again stress that our 12-month TP is highly sensitive to AutoWallis’ operating margin developments. We assume a significant improvement in AutoWallis’ ROIC 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. However, we reckon that AutoWallis can turn out to be a poorly perform stock for quite a while because of its low free float affecting its market liquidity on a low-liquidity emerging stock market. Despite an enviable set of economic characteristics, entrenched competitive position (there not many car dealer companies that come and dislodge AutoWallis from the CEE and SEE vehicle markets) We are afraid that the upside potential of valuation might only be realized after AutoWallis’ sales exceed the EUR 1 bn threshold level.

Fair value (HUF)	146.7
12-m TP (HUF)	152.5
w/o acquisitions	

	2019	2020	2021	2022	2023	2024	2025	TV1	TV2
Revenue growth	19.18%	17.46%	174.20%	14.68%	11.75%	8.26%	8.26%	3.00%	3%
EBIT/ Rev.	2.40%	0.74%	1.44%	2.00%	2.36%	2.62%	2.62%	2.62%	3%
Tax	27.25%	-65.49%	15.00%	15.00%	15.00%	15.00%	17.00%	17.00%	17%
RONIC		-53.71%	15.07%	67.92%	84.80%	38.91%	7.00%	9.70%	10%
ND/V	23.62%	24.47%	32.45%	33.30%	28.56%	21.90%	13.24%	13.24%	13%
r_A	8.48%	8.64%	6.63%	7.58%	7.58%	8.86%	9.84%	9.84%	9.84%
r_D	5.56%	9.56%	3.32%	3.76%	4.60%	6.25%	6.25%	6.25%	6.3%
ROIC	9.09%	1.37%	8.57%	12.70%	15.98%	17.72%	16.63%	16.29%	15.97%
NOPLAT	1 313	226	2 975	4 736	6 245	7 488	7 916	8 154	8 398
g (NOPLAT)							3.0%	3.0%	
DIC	2 023	18 236	2 593	1 779	3 194	5 336	2 449	2 522	2 598
IC									
14 442 213	16 465	34 701	37 295	39 074	42 268	47 604	50 053	52 575	55 173
Risk free rate	2.5%	2.7%	0.6%	1.6%	1.6%	2.8%	3.5%	3.5%	3.5%
Beta multiple	1.2	1.5	1.4	1.4	1.3	1.3	1.2	1.2	1.2
Levered beta	1.221	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.532
ERP	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Unlevered cost of equity	8.5%	8.6%	6.6%	7.6%	7.6%	8.8%	9.4%	9.4%	9.4%
Levered cost of equity	9.4%	8.3%	8.2%	9.5%	8.8%	9.6%	10.4%	10.4%	10.4%
Net debt	9 800	11 154	22 138	24 057	21 314	16 882	10 804	11 128	11 462
Net debt (calculated)	9 800	11 154	22 138	24 057	21 314	16 882	10 804	11 128	11 462
D/E	30.9%	32.4%	48.0%	49.9%	40.0%	30.0%	30.0%	30.0%	30.0%
E/V	76.4%	75.5%	67.6%	66.7%	71.4%	78.1%	86.8%	86.8%	86.8%
r_E	9.4%	8.3%	8.2%	9.5%	8.8%	9.6%	10.4%	10.4%	10.4%
WACC	8.1%	10.2%	6.5%	7.4%	7.4%	8.7%	9.7%	9.7%	9.7%
P&L	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**TV1**	TV2
Rev.	75 271	88 413	242 427	278 023	310 680	336 358	364 158	375 082	386 335
D&A	1 326	1 590	2 375	2 252	2 210	2 117	3 642	3 751	3 863
EBIT	1 804	655	3 500	5 572	7 347	8 809	9 537	9 824	10 118
Financial rev.	-544	-1 066	-734	-904	-980	-1 056	-676	-696	-717
PBT	1 260	-410	2 765	4 668	6 367	7 754	8 862	9 128	10 118
Tax	343	269	415	700	955	1 163	1 507	1 552	1 720
Net Income	917	-679	2 350	3 968	5 412	6 591	7 355	7 576	8 398
Net compr. income	951	-658	2 378	3 992	5 438	6 616	7 384	7 605	8 398
CF									
EBIT	1 804	655	3 500	5 572	7 347	8 809	9 537	9 824	10 118
EBITDA	3 130	2 246	5 875	7 824	9 557	10 926	13 179	13 574	
NOPLAT	1 313	226	2 975	4 736	6 245	7 488	7 916	8 154	8 398
DIC	2 023	18 236	2 593	1 779	3 194	5 336	2 449	2 522	2 598
FCFF	-710	-18 010	381	2 957	3 051	2 152	5 467	5 631	5 800
Interest	-544	-1 066	-734	-904	-980	-1 056	-676	-696	-717
Tax shield	148	-698	110	136	147	158	115	118	122
Ddebt	1 354	10 984	1 920	-2 744	-4 432	-6 078	324	334	344
FCFD	958	9 220	1 296	-3 512	-5 265	-6 976	-237	-244	-251
FCFE	247	-8 790	1 677	-555	-2 214	-4 823	5 231	5 388	5 549
dividend	-575	0	0	0	0	0	0	0	
Dcash	822	-8 790	1 677	-555	-2 214	-4 823	5 231	5 388	
FCFF									
FCFF	-710	-18 010	381	2 957	3 051	2 152	5 467	5 631	5 800
D/V	24%	24%	32%	33%	29%	22%	13%	13%	13%
WACC	8.12%	10.17%	6.47%	7.39%	7.38%	8.66%	9.70%	9.70%	9.70%
Value of firm (bop)	**41 497**	**45 579**	**68 224**	**72 255**	**74 641**	**77 102**	**81 626**	**84 075**	**86 597**
APV									
FCFF	-710	-18 010	381	2 957	3 051	2 152	5 467	5 631	5 800
r_A	8.48%	8.64%	6.63%	7.58%	7.58%	8.86%	9.84%	9.84%	9.84%
PV(FCFF)	40 503	44 648	66 515	70 544	72 935	75 414	79 947	82 345	84 816
TS	148	-698	110	136	147	158	115	118	122
PV(TS)	994	930	1 709	1 712	1 706	1 688	1 679	1 730	1 782
Value of firm (bop)	**41 497**	**45 579**	**68 224**	**72 255**	**74 641**	**77 102**	**81 626**	**84 075**	**86 597**
FCFE									
FCFE	247	-8 790	1 677	-555	-2 214	-4 823	5 231	5 388	5 549
r_E	9%	8%	8%	9%	9%	10%	10%	10%	10%
PV(E)	31 697	34 425	46 086	48 198	53 327	60 220	70 823	72 947	75 136
D	9 800	11 154	22 138	24 057	21 314	16 882	10 804	11 128	11 462
Value of firm (bop)	**41 497**	**45 579**	**68 224**	**72 255**	**74 641**	**77 102**	**81 626**	**84 075**	**86 597**
EVA									
NOPLAT	1 313	226	2 975	4 736	6 245	7 488	7 916	8 154	8 398
IC at the beginning	14 442	16 465	34 701	37 295	39 074	42 268	47 604	50 053	52 575
WACC	0	0	0	0	0	0	0	0	0
EVA	139	-1 448	730	1 979	3 360	3 828	3 299	3 299	3 299
PV(EVA)	27 055	29 113	33 522	34 961	35 567	34 834	34 022	34 022	34 022
Value of firm (bop)	**41 497**	**45 579**	**68 224**	**72 255**	**74 641**	**77 102**	**81 626**	**84 075**	**86 597**

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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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