

# Waberer's

Recommendation: Buy (unch.)

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

Share price: HUF 1,195

Share price close as of 22/10/2020	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

## What happens at Waberer's?

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As an extension to our report published on 20 Oct Tuesday morning, in this report, we assess the previously announced transaction(s), taking into account the notification on acquisitions of option rights.

Three transactions have been announced so far:

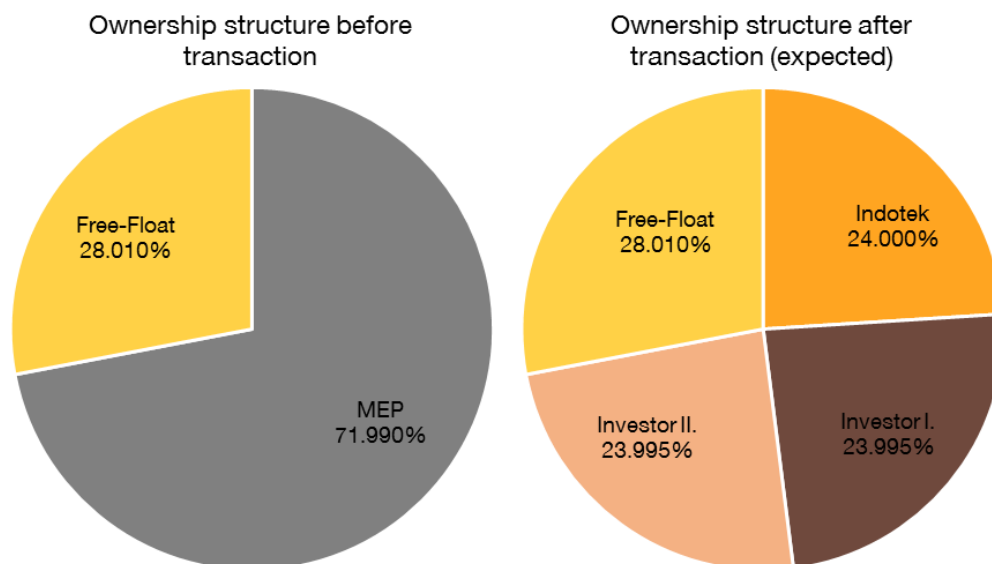
- The majority owner, CEE Transport Holdco, i.e. Mid Europa Partners (MEP), is selling one-third of its 71.99% stake or 24% of all shares in the Waberer's group to Trevelin, which is owned by Indotek.
- Indotek also acquired a transferable option (long call - LC) to buy the remaining 47.99 percent stake from MEP.
- MEP acquired a long put (LP) to sell a 47.99 percent stake.

This is interesting whether the value of the two rights (LC and LP) that the two parties would have to pay to each other equals, but we assume that there was no cash transfer associated with these options and it was incorporated into the purchase price of the 24% stake. However, we stress that details have not been disclosed so far, which makes difficult to assess the transaction. How these options have been valued is a particularly interesting question on a theoretical level, so as the strike price and the expiry date of the options are also unknown.

The benefits of this transaction are as follows, in our view:

- **MEP will certainly be able to sell its shareholding at a pre-determined price until a pre-determined date**, so it will no longer be able to exit below this exercise price, plus it has got rid of the risk of being stuck in an investment in Waberer's.
- **if the strike price agreed in the option (both LP and LC) is much deeper than the current stock price, MEP cannot start to sell its existing shares on the market** because Indotek has a call option, and if it exercises the option, MEP has to deliver the shares, ergo should also take them back immediately.
- **Indotek may transfer the LC option to other investor(s), ie choose its future business partners**, thereby assuming that in certain cases the sale of the Long call option could generate a positive cash flow for Indotek in the event of selling its LC option. We could also interpret it as a "commission" as they help to sell the remaining stake of MEP in Waberer's. It also determines that no one else will have a lower entry price than Indotek.

It would be most logical for Indotek to sell the existing long call option to two parties equally. As a result, three large owners would appear at Waberer's, where no one has more than 24 percent of the voting rights, thus avoiding a mandatory takeover bid for minority as well. To sum it up, we guess that the expected shareholder structure will be as follows:



Source: Waberer's, Concorde Research

### WHAT WILL HAPPEN TO THE COMPANY?

This is doubtful, at this stage, but in the very short term, a significant upside risk evaporated as a result of the transaction as Indotek doesn't aim to delist Waberer's. In addition, at this point of time we think that it might be reasonable to clean up the balance sheet in the first round and to put the asset portfolio in order, which may also lead to book value adjustments. There are several options, including to split the group or overhaul the business as follows, resulting in plenty of downside and upside risks.

- 1) First off, **Indotek will likely delegate new board members** so as to have more insights into the operations.
- 2) **Waberer's might sell off Polish Link** that was purchased from the proceeds of the IPO in 2017. As part of the Waberer's' loss-making International Transportation segment, Link is particularly a value-creating, cash-generating, positive-return asset right now. At the time of Link's acquisition, around EUR 32 mn worth of goodwill was written to the books. However, if it were sold at a lower price than c. EUR 32mn, book value would have to be adjusted for the difference between the sale price and the goodwill. It would result in positive cash-flow, but book value should drop in line with this difference.
- 3) **The vast part of ITS segment in capacity and revenue terms, which is operated with a Hungarian location, is a loss-making unit. Although, this part of the business is recovering on operational level, we are a bit concerned over the future of the business** due to the high competition and the protectionist European disputes. New Executive Board of Waberer's, once it will be appointed, may decide to cease ITS operations if they realize that they are not in a position to overhaul the international segment very quickly. Taking into account that restructuring of ITS is taking place, **ITS segment has to deliver profitable quarters and the Management has to prove their ability in 2021 in order to continue the operations of this segment, in our view.**

4) **All resources might be allocated to Regional Contractual Logistics (RCL)**, which is one of if not the most significant players in the Hungarian logistics and transportation market. **We think that Waberer's could definitely benefit from the appearance of Indotek.** As a result, Waberer's, which clearly has both direct and indirect impact on the Hungarian supply chain, could strengthen its position (e.g. transportation with own-fleet or subcontractors and warehouse activities). Moreover, we see that there's room to support the whole transportation segment, which has got a blow due to covid, in Hungary at Government level, not to mention the fact that Indotek may help Waberer's exploit new business opportunities, bring new customers. As a reminder, Waberer's signed a 3-year contract for in-house logistics services with Audi last year, but this profitable service can be provided to other large companies in Hungary.

5) **The future of the Insurance segment also raises questions, but we wouldn't be surprised if this high-value-added, cash generative asset were sold in the mid-term.** In 2016, the Waberer Group acquired 100% of the insurer for EUR 14 million, at a Price to Book ratio of c1.2x. Since then, BV of Waberer Hungaria has nearly quadrupled and profitability improved, implying a significantly higher value for the well-managed asset. Insurance Company (Waberer Hungaria) is worth HUF 1,325 a share, in our view, more than the current share price of Waberer's at BSE. **Certainly, it's been a particularly great investment, but we stress that, if occurs, any proceeds from divestments may differ to a great degree from our fair equity value estimation.** As a result, divestment of the business at a significantly lower valuation may hurt minority shareholder's interest, as well as banks or creditors may also prevent sales of the business unit.

## CONCLUSION

While there are no details, we assume that MEP gets rid of its investment in Waberer's at a significant discount. We also conclude that it can also be ruled out that the minority will make a quick profit on its investment because it's very likely that there will be no takeover and delisting, i.e. there will be no mandatory takeover bid.

**As long as there is no new direction, strategy, the future is uncertain.** Now we have outlined possible scenarios that could be realized in part or in full, and that carries a lot of positive and negative risks at the same time.

**At this point, we remain cautiously BUY-rated as Waberer's stock appears to be a value trap.**

In addition, the 3rd quarter report, which will be published in November, will not be as bright yet, as one-off items may worsen the bottom line result due to transformation-related costs.

However, whatever happens with ITS and Insurance segments, RCL, which according to our calculations can currently be worth HUF 1,450 a share alone, may be worth more in the future. Thanks to the new shareholder structure, it may appreciate and generate even more cash, from which minority shareholders could ultimately benefit.

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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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