



CEE Equity Research | Car dealership | Hungary
03 July 2020

AutoWallis

Rating: Accumulate (unch.)

Target price (12-m): 130 (unch.)

Share price: HUF 83

HUF million	2019	2020F	2021F
Revenue	75 273	77 580	87 596
EBITDA	2 981	2 485	3 665
EBIT	1 802	1 477	2 716
Net profit	914	495	1927
EBITDA margin	4.0%	3.2%	4.2%
PAT margin	1.3%	0.6%	2.2%
EPS	3.4	1.8	7.1
DPS	0.0	0.0	0.0
BVPS	18.7	20.5	27.7
P/E	24.5	45.3x	11.6x
P/BV	4.4x	4.0x	3.0x
EV/EBITDA	11.3x	13.2x	8.7x

Share price as of 2/07/2020	HUF 83	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	270.3	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	22.4 / 65	Free float	14.34%
Daily turnover 12M [EUR th]	147	52 week range	HUF 51 – 137

On track to create value by acquisitions

Equity Analyst

Attila Vágó
+361 489 2265
a.vago@con.hu

55-61 Alkotás
Street,
Budapest
www.con.hu

- Following the acquisition of a 60% stake in ICL AUTÓ Ltd., formerly owned by the main founder of the Inicial Group, which is the largest car dealership company in Western Hungary by sales, AutoWallis acquires a 40% minority stake in Autóház Ltd. (Inicial) with a HUF 1.16bn in-kind capital increase. In fact, the acquisition will be made with a mixture of cash and own stock. AutoWallis will issue 13,589,503 new shares (representing 5% of the current outstanding ordinary shares) at a price of HUF 85.36 each (which is the average stock exchange share price of the last 30 days) to be transferred to Inicial's financial investor, DC-INI Asset Manager (DC-INI) in exchange for the minority stake in Autóház Ltd. AutoWallis has undertaken to buy back 8,589,503 new shares from DC-INI at the price of HUF 93 (in a total amount of HUF 799mn).
- AutoWallis' share capital will increase by HUF 170mn to HUF 3.727bn, while the rest amount of HUF 990mn will be put in its capital reserve. AutoWallis

will introduce the newly issued ordinary shares on the regulated market of the BSE.

- DC-INI will be prohibited to sell its remaining 5mn AutoWallis shares until 31 May, 2021. The annual volume sold may not exceed one third of the volume of 5mn ordinary shares, the daily marketable volume must not exceed 20% of the 180-day average daily liquidity; (iv) the minimum selling price is 85% of the 30-day average price, with 10% of the opening price on the stock exchange. A lower sale offer cannot be made (this restriction applies to exchange-traded and over-the-counter transactions equally).
- AutoWallis aims to purchase an additional 20% stake in Autóház Ltd. to have majority ownership in Autóház Ltd. AutoWallis will use own shares for the acquisition to make it more efficient, as it does not have to raise more capital for the transaction.
- In 2019, Autóház Ltd. achieved EBITDA of more than HUF 600 mn and profit-before tax of HUF 400mn on net sales of HUF 19.3bn (compared to AutoWallis' corresponding figures of HUF 2.98bn, HUF 1.26bn and HUF 75.27bn). Autóház's had a small amount of debt on its B/S of ca. HUF 300mn at the end of 2019 compared to the book value of its real estate assets of around HUF 2.2bn and retained earnings reserves of HUF 2.4bn.
- Assuming that AutoWallis will be willing to pay a meaningful control premium (that can go up to 70-100%) for the additional 20% in order to gain management right over Autoház Ltd., whereby gaining access to Autóház's cash flows and control of the firm's strategy, the acquisition of the 60% stake places Autóház's value at around HUF 3.5-3.6bn on an enterprise value basis, or 6xEBITDA on our estimate. The transaction can be considered as an accretive acquisition as AutoWallis's earnings multiples (P/E and EV/EBITDA) are greater than that of Autóház Ltd, thus the addition of Autóház Ltd is likely to increase the total value of the combined value of the two companies (AutoWallis is believed to add the acquired business's pro-forma EBITDA/earnings ratio to its own EBITDA/earnings ratio.)
- The amount of the control premium should reflect the incremental value (synergy) that can possibly be generated in Autóház Ltd., or the value of Autóház's real estate that AutoWallis wants to utilize as sales points to expand its activities in Western Hungary after the completion of the acquisition, otherwise a control premium would be unnecessary. We believe that the combined value of the two firms will be greater than the sum of their separate values. To fully realize the potential synergies, the two companies must integrate efficiently and effectively (joint sales, controlling, financing, management, harmonized strategy etc.).
- If AutoWallis monetizes Autóház's larger retained earnings reserves after gaining ownership control by leveraging Autóház's real estate assets (in a way of letting Autóház take loan and pay handsome dividend, i.e. optimizing the capital structure), the acquisition will certainly pay off and the cash part of the transaction will recover quickly.
- Inicial Group is engaged in distributing car models of Renault, Dacia, Nissan, Toyota, Peugeot, Suzuki and KIA in Western Hungary. ICL Autó started its operation in February, at first with the sales and servicing of KIA vehicles. AutoWallis and ICL Autó plan on distributing other brands as well later on in Western Hungary. ICL AUTÓ will be run by the CEO of the Inicial Group.
- **Comment.** We are pleased with this acquisition as we believe that it fits well into AutoWallis' strategy aiming to continue expansion via acquisitions and organic growth in a value creative way. By means of the acquisition of a

controlling ownership interest in Autoház AutoWallis is making an important step to achieve one of its strategic goals of further increasing the proportion of high added value services in its revenues, for which the dealerships and service points serve as an important basis too.

- Our 12-m TP is HUF 130, which still leaves a 53% upside potential from the current share price. We once again stress that our TP is highly sensitive to AutoWallis' operating margin developments. We reiterate our Accumulate rating on AutoWallis., and will review our TP after the acquisition of the majority ownership interest in Autóház Ltd. is completed.

DISCLAIMER

Concorde Securities Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interests that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For analysts' certification and other important disclosures, please refer to the "Disclaimer" section at the end of this report.

DISCLAIMER I.

This research report has been prepared by Concorde Securities Ltd., a full-service Hungarian investment banking, investment management and brokerage firm. Concorde Securities Ltd. is under the supervision of the National Bank of Hungary in its capacity as financial supervisory authority.

Concorde Securities Ltd. is registered in Hungary and does not have any subsidiaries, branches or offices outside of Hungary. Therefore we are not allowed to provide direct investment banking services to US investors and restrictions may apply to our potential investment banking services according to your country's jurisdiction. For important disclosures to U.S. investors, please refer of the "Notice to U.S. Investors" section at the end of this Disclaimer.

Our salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are their own and may be contrary to the opinions expressed in our research products, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed by our analysts or traders.

Our research, sales and trading professionals are paid based on the profitability of the respective divisions of Concorde Securities Ltd., which from time-to-time may include revenues from the firm's capital market activity. Concorde Securities Ltd. does not prohibit analysts, salespeople and traders from maintaining a financial interest in the securities or futures of any companies that they cover or trade on their clients' behalf in strict compliance with the Hungarian Capital Markets Act.

ANALYSTS CERTIFICATION

The research analysts undersigned and responsible for the preparation of this report hereby certify that (i) the views expressed in this research report accurately reflect their personal views about any and all of the securities or issuers referred to in this research report; (ii) no part of the analysts' compensation was, is or will be directly or indirectly related to the specific recommendation or views expressed in this report and (iii) no part of their compensation is tied to any specific investment transactions performed by Concorde Securities Ltd.

Name and job title of individuals involved in the production of this report are disclosed at the end of this report.

Concorde Securities Ltd. is a leading manager and underwriter of Hungarian equity offerings. We have investment banking and other business relations with a substantial percentage of the companies traded on the Budapest Stock Exchange

and covered by our research department. Concorde Securities Ltd, its directors and employees may have a position in these securities, which may change at any time.

Concorde Securities Ltd. acted as Lead Manager of the private and public share placement of the shares of FHB in 2003, Masterplast in 2012 and Duna House in 2016. Concorde Securities Ltd. acted as the Co-lead Manager of Gedeon Richter's exchangeable bond issue in September 2004. Concorde Securities Ltd. has provided financial advice to Magyar Telekom.

EXPLANATION OF RATINGS AND METHODOLOGY

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)

Research disclosures:

Concorde Securities Ltd. may have published other investment recommendations in respect of the same securities/instruments recommended in this report during the preceding 12 months. Disclosure of previous investment recommendations produced by Concorde Securities Ltd. in the previous 12 months can be found at [Rating history](#). (<https://www.con.hu/wp-content/uploads/2016/04/Rating-history.pdf?tstamp=201710021038>)

GENERAL

This report is provided for information purposes only and does not represent an offer for sale, or the solicitation of any offer to buy or sell any securities.

The information, and any opinions, estimates and forecast have been obtained from sources believed by us to be reliable, but no representation or warranty, express or implied is made by us as to their accuracy or completeness. The information, opinions, estimates and forecasts may well be affected by subsequent changes in market conditions. This document may not be reproduced in whole or in part, or published for any purpose.

REPRODUCTION OR REBROADCAST OF ANY PORTION OF THIS RESEARCH REPORT IS STRICTLY PROHIBITED WITHOUT THE WRITTEN PERMISSION OF CONCORDE SECURITIES LTD.

DISCLAIMER II.

This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and Concorde Securities Ltd. (registered seat: H-1123 Budapest Alkotás utca 50., company registration number: 01-10-043521, hereinafter: Investment Service Provider)

BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these.

The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.

NOTICE TO U.S. INVESTORS

This report was prepared, approved, published and distributed by Concorde Securities Ltd. located outside of the United States (a “non-US Group Company”). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker dealer, on behalf of Concorde Securities Ltd. only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”)) pursuant to the exemption in Rule 15a-6, and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. (“FINRA”) or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) Concorde Securities Ltd. is the employer of the research analyst(s) responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Concorde Securities Ltd. solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by Concorde Securities Ltd. or an authorized affiliate of Concorde Securities Ltd. This document does not constitute an offer of, or an invitation by or on behalf of Concorde Securities Ltd. or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Concorde Securities Ltd. or its Affiliates consider to be reliable. None of Concorde Securities Ltd. accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA does not make a market in the subject securities.

Sales:

Norbert Harcsa
+36 1 489 2340
n.harcsa@con.hu

Tamas Hegedus
+ 36 1 489 2388
t.hegedus@con.hu

Trade:

Steve Simon
+36 1 489 2335
i.simon@con.hu

Peter Rimar
+36 1 489 2230
p.rimar@con.hu