CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
01 September 2022

AutoWallis

Rating: BUY (unch.)
Target price (12-m): HUF 167 (prev. HUF 182)
Share price: HUF 88

HUF million	2021	2022E	2023E	2024E
Revenue	194 956	247 853	295 771	348 457
EBITDA	7 851	10 048	12 371	14 403
EBIT	4 959	6 345	7 793	9 641
Net profit	3 224	5 239	6 357	7 800
EBITDA margin	4.0%	4.1%	4.2%	4.1%
PAT margin	1.7%	2.2%	2.3%	2.3%
EPS	9.1	12.6	16.1	19.0
DPS	0.0	0.0	0.0	0.0
BVPS	57.1	69.6	85.8	104.7
P/E (x)	9.7	7.0	5.5	4.6
P/BV (x)	1.5	1.3	1.0	0.8
EV/EBITDA (x)	6.4	5.0	4.0	3.5

Share price close as of 01/09/2022	HUF 88	Bloomberg	AUTOWALL HB
Number of diluted shares [mln]	425.2	Reuters	AUTW.HU
Market capitalization [HUF mln/EUR mln]	37 494 / 93.5	Free float	49.06%
Enterprise value [HUF mln/EUR mln]	49 746 / 124 0		
Daily turnover 12M [EUR th]	93	52 week range	HUF 83 – 135

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On track to deliver exceptional growth this year

- AutoWallis posted exceptionally strong revenue of HUF 73 bln for Q2/21 (+50% YoY), therefore during the first six month of 2022 it generated two-third of revenue (HUF 131 bln) of the entire last year (HUF 195 bln. In addition to the organic expansion growth driven by wholesale of OPEL and SsangYong vehicles. The Slovenian AvtoAktiv's retail sales also contributed to the outstanding sales performance.
- EBITDA rose 23% YoY to HUF 3.8 bln, resulting in an EBITDA margin of 5.14% (up from 3.47% in Q2/21), while total net profit attributable to shareholders of the parent company came in at HUF 2 bln compared to a loss of HUF 1.14 bln in the same period of last year, primarily are due to effective cost management and good pricing measures. As a result, AutoWallis' earnings per share (EPS) were HUF 4.76 in Q2/22 and HUF 9.14 in H1/22 compared with HUF 2.49 and HUF 3.52 YoY, respectively.
- Wholesale sales went up by 56% YoY to HUF 41.8 bln, primarily driven by newly-acquired Opel sales spanning four countries. Sales of the retail division also rose significantly (+43% YoY) to HUF 31.6 bln as a combined result of organic growth and

the acquisitions and transactions carried out last year. In the meantime, the Hungarian passenger car market as a whole fell by 11% in the first six months.

- With a favorable trend in vehicle sales (there were 7,969 vehicles sold in Q2/22; +60% YoY), car rental also increased significantly in Q2/22 (+106% YoY), with the number of rental days jumping to 44,225; +23% YoY), and also helped AutoWallis to improve operating margins.

Operation highlights in Q2/22

	Q1/22	Q1/22	Ch (%)
Total vehicle sales	7 969	4 988	59.8
- o/w new vehicles	7 517	4 580	64.1
Total revenue	**73.344**	**48 943**	**48.6**
EBITDA	**3 775**	**1 697**	**122.5**
EBITDA margin	*5.2%*	*3.5%*	*168 bps*
Net income	**2 024**	**803**	**152.1**
EPS	**4.76**	**2.49**	**91.2**
ND/EBITDA (x)	1.52-	5.92	-7.43
Wholesale business			
No. of new vehicles sold	5 393	2 830	90.6
Revenue (HUF bln)	**46 458**	**30 256**	**53.5**
Gross margin	*14.1%*	*11.8%*	*223 bps*
EBITDA	**2 584**	**799**	**123.4**
EBITDA margin	*5.6%*	*2.6%*	*292 bps*
Pre-tax profit (HUF mln)	2 931	736	298.2
Retail business			
No. of new vehicles sold	2 124	1 750	21.4
No. of used vehicles sold	452	408	10.8
Total no. of vehicles sold	2 576	2 158	19.4
Revenue (HUF bln)	**34 281**	**23 782**	**44.1**
Gross margin	*17.7%*	*16.3%*	*141 bps*
EBITDA	**1 482**	**982**	**50.9**
EBITDA margin	*4.3%*	*4.1%*	*20 bps*
Pre-tax profit (HUF mln)	1 868	169	n.a.
Total no. of vehicles sold	**7 969**	**4 988**	**59.8**
Service hours	48 304	33 219	45.4
Fleet size (in terms of rented cars)	786	478	64.4
Rents	5 225	2 534	106.2
Rental days	44 225	35 863	23.3

Source: AutoWallis' 1H/22 interim report.

- Although supply disruptions have led to a slowdown in sales of certain vehicle brands for the past year, margins have improved partly due to a price increase in the used car market, therefore it was an improvement in terms of profitability. Within the costs, the purchase value of the goods sold increased less than the sales revenue, As a result, gross profit rose by 30% to HUF 111 bln, and gross margin increased from 12% to 15% in the first half of the year. At the same time, the production difficulties of car manufacturers in the wake of rising energy prices have already had an adverse effect on the market as a whole and may continue to affect volumes in the remainder of the year. The almost 50 percent increase in personnel expenses was mainly due to the increase in headcount resulting from the organizational development measures implemented in 2021 and the wage increase implemented to follow the changes in the labor market.
- The AutoWallis Group's consolidated EBITDA margin increased to 5.2 percent from 3.5 percent previously. The increase in EBITDA in the Wholesale business (from HUF 0.8 bln to HUF 2.6 bln and 123% YoY, respectively) was mainly due to higher volume of new car sales, including SsangYong, while wholesale EBITDA margin more than doubled from 2.6 percent to 5.6 percent YoY. The EBITDA of the Retail business increased from HUF 1 bln ro HUF 1.5 bln, or 51 percent YoY, typically due to improving margins and efficient cost management measures, so the retail EBITDA

margin also improved somewhat from 4.1 percent to 4.3 percent YoY. We note that there was further expansion in the service area of the Retail business: the number of service hours advanced considerably to 48,304 (+ 45%), while Sixt, represented by AutoWallis, and more than doubled (+ 123%) the number of rental events. The number of rental days also increased by 23 percent to 44,225, also adding to the improvement in the Retail business' margin.

- Net debt-to-EBITDA ratio stood at 1.52x at the end of 30, June, 2022 compared with 5.92x at the end of June, 2021, signaling that AutoWallis maintained its robust capital position (ie. strengthened its capital adequacy while also increasing portion of long - term fixed forint financing in the capital structure and the necessary resources to implement the growth plans set out in its medium-term strategy).

Outlook and Valuation

- We see AutoWallis on track to implement its strategy, which seems feasible to us despite the current economic and business uncertainties, so that by the end of the decade, AutoWallis could be a leading automotive and mobility provider in the CEE region, and its outstanding liquidity and strong balance sheet, and the diversification already achieved makes AutoWallis' resilience to economic downturns.
- AutoWallis' gross margin eventually widened in Q2/22 as a result of supply chain disruptions, and the shortage of supply led to growing demand for used cars, thereby improving overall profitability. Although the first-half net income of HUF 4.1 bln already exceeded full last year's profit of HUF 3.2 bln, while EBITDA of HUF 6.9 bln also reached 88 percent of last year's full-year EBITDA of HUF 7.82 bln, but their long-term sustainability is currently hardly predictable due to the difficulties facing the automotive industry (shortages of raw materials, supply disruptions, increasing delivery times, rising energy prices and looming recession) amid a rising yield and ERP environment. We therefore feel it appropriate to maintain both our EBITDA estimate for 2022-25 while reducing our 12-m PT from HUF 182 a share to HUF 167 amid a rising yield environment and the risk of looming recession in the wake of a severe energy crisis likely to take hold for a while. Our TP still leaves a 90% upside potential from the current share price.
- AutoWallis is now trading at EV/EBITDA and P/E multiples, based on our 2022 earnings estimates, of 7x and 5x, respectively, which reflects its historically lowest and thus very compelling valuation.
- We reiterate our BUY rating on AutoWallis.

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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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Valuations and risks:

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