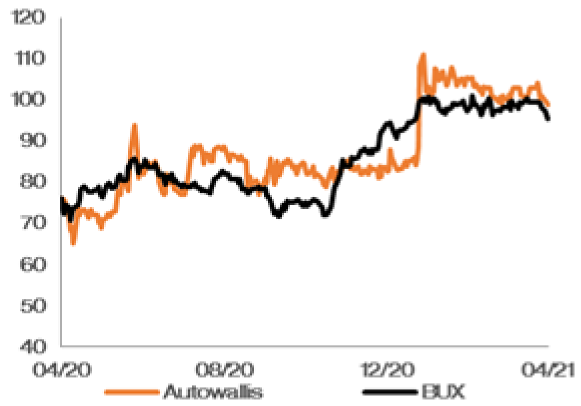
CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
16 April 2021

AutoWallis

Rating: Accumulate (unch.)
Target price (12-m): HUF 142 (prev. HUF 130)
Share price: HUF 100

HUF million	2020	2021F	2022F
Revenue	88 413	227 223	260 556
EBITDA	2 139	5 577	7 444
EBIT	655	3 169	5 128
Net profit	-679	2 070	3 594
EBITDA margin	2.4%	2.5%	2.9%
PAT margin	-0.7%	0.9%	1.4%
EPS	-2.1	6.4	11.1
DPS	0.0	0.0	0.0
BVPS	28.3	34.7	45.8
P/E	-47.7x	15.7x	9.0x
P/BV	3.5x	2.9x	2.2x
EV/EBITDA	25.5x	10.0x	7.2x



Share price close as of 14/04/2021	HUF 100	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	324.3	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	32.8 / 91.4	Free float	30.97%
Daily turnover 12M [EUR th]	282	52 week range	HUF 65 – 120

On track to get promoted to the premier league

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As weak as it gets in 2020

- The total comprehensive income was a loss of HUF 0.66 bn in 2020, compared to HUF 0.95 bn profit in 2019. The primary reason why earnings went in to the red was the COVID-19 pandemic-triggered lockdowns and travel restrictions, which exerted a drag on incomes from normally high-margin service activities (e.g. car renting), while the weaker HUF against the EUR, which combined with the planned costs relating to the acquisitions of the new dealerships and the effect of a shift in the product mix of the international business line, i.e.an increase in the number of models with lower profit margins, also weighed on earnings.
- Sales of HUF 88.4 bn were up 19% YoY despite the coronavirus pandemic, which hit the automotive services business segment, in particular. The decline in car rental sales was offset by an increase in international automotive and parts sales as well as domestic retail turnover of newly acquired subsidiaries. The AutoWallis Group increased vehicle sales by

39.4% in 2020, within which the Wholesale Division's new vehicle sales increased by 34.3%, and its retail business grew by 42.6%.

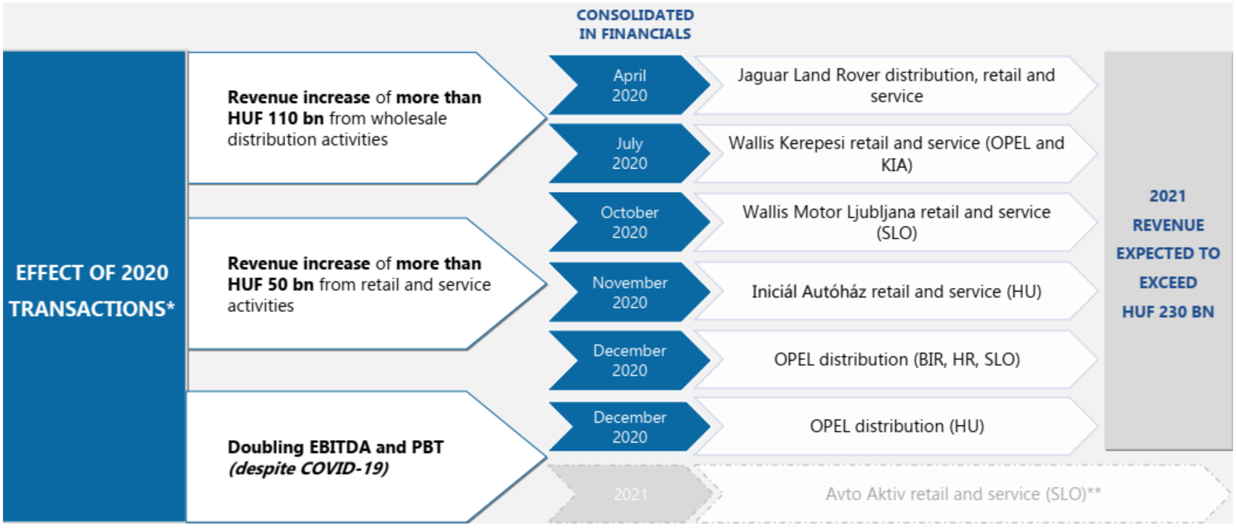
- Aftermarket activity remained strong in terms of sales (car servicing and vehicle parts sales), as did international distribution segment (+2% YoY); the latter thanks to higher group sales. Meanwhile, the number of service hours was up 34%, but the fleet size for car rental dropped by 60% and the number of rental transactions fell by 27% YoY
- COGS grew by 20% YoY, faster than sales, therefore gross margin dropped from 14.4% to 12.6% in 2020 mainly due to fluctuations in supply and demand due to the coronavirus situation and adverse FX movements which were partially offset by higher sales volumes. The 52% increase in personnel expenses also exceeded that of sales, driven by the acquisitions of dealerships.
- EBITDA decreased by 28% YoY to HUF 2,139 million, which was mainly worsened by the impact of the sudden and drastic drop of tourism and therefore car rental, and by the start-up costs of the new domestic Jaguar Land Rover retail business launched in April, BMW retail in Ljubljana and Opel wholesale activities launched in four countries in December.
- The loss on the financial income and expenses lines was HUF 1.1 bn, which is close to twice as high as losses in 2019. The primary reason for this outstanding amount of losses was the significant weakening of the HUF against the EUR (FX loss was HUF 691 million). In addition to exchange rate effects, there was an increase of HUF 0.15 million in interest expenses, which was related to new companies acquired and the issuance of a new bond. We note that the rapid devaluation of the HUF and other regional currencies against the EUR as a result of COVID-19 resulted in a significant exchange rate loss booked among financials; however we note that, such events generally have a delayed inflationary effect in car markets, and so AutoWallis is also typically able to implement a price increase later. For items relating to export activities which are typically invoiced in euros and for financing arrangements which are also generally denominated in euros, this effect (being naturally hedged) is observable only during the closing of accounts at the end of the period as an unrealized exchange rate difference.
- Net debt increased YoY to HUF 19.2 bn vs. HUF 11.2 bn in 2019. AutoWallis issued bonds in a total value of HUF 3.04 bn under the NBH's Bond for Growth Bond Program. Net debt ratio decreased from 73.1% to 65.2%, while net debt-to-EBITDA ratio temporarily jumped to 8.9x from 3.7x partly due to the FX impact, on our calculation. We reckon the indebtedness as relatively high, with a potential for a significant decrease in the mid run.

Increased appetite for inorganic growth

- Over the course of 2020, AutoWallis announced a number of sizeable transactions, as follows, in an attempt to increase its revenue fivefold by 2025 from HUF 75 bn in 2019 by having access to capital markets and relatively cheap external financial resources, thus becoming a leading mobility service provider in the Central and Eastern European region:
  - the acquisition of the largest Hungarian Opel dealership Wallis Kerepesi Ltd (with annual sales of over 2,100 vehicles) and K85 Ltd. (the owner of the dealership real estate);
  - winning the distribution rights for OPEL vehicles inSlovenia, Croatia and Bosnia-Herzegovina (with annual sales of 11,700 vehicles)
  - winning the exclusive distributor rights of Jaguar and Land Rover models in Hungary (with annual sales over 500 vehicles);

- the acquisition of the largest BMW dealership in Slovenia (with annual sales close to 800 vehicles i); and also importantly, signing an agreement with another significant player on the Slovenian car market, Avto Aktiv retailing 6 brands (BMW, MINI, Jaguar, Land Rover, Toyota, Suzuki) with annual sales of over 850 vehicles;
- the acquisition of a 60% stake in Iniciál Autóház, a market leader in Western Hungary selling and servicing seven high-profile car brands (Dacia, Nissan, Opel, Peugeot, Renault, Suzuki and Toyota), with annual sales of over 3,500 vehicles; while car service turnover is also significant in addition to the substantial new and used vehicle sales.

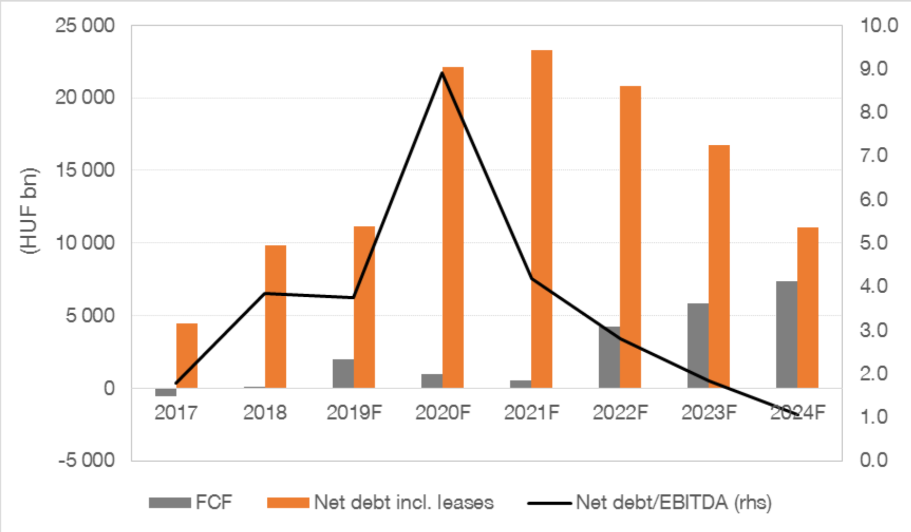
AutoWallis' transactions closed in 2020



*Note: * On 2019 basis, if plans achieved ** Initial agreement signed (on Nov 13th, 2020), not presented in 2020 forecast figures*
Source: AutoWallis

- AutoWallis financed these transactions with
  - issuing new shares in an amount of HUF 1.37 bn subscribed by domestic institutional investors, therefore increasing free float from 14% to over 30%;
  - issuing bonds in a value of HUF 3.04 bn;
  - and receiving back dividend in a total amount of HUF 560 mn from its principal stockholder, WAM.
- AutoWallis plans to issue additional shares targeting domestic retail investors in an amount of approx.. HUF 1.5-2 bn this year. As a result of these capital increases, AutoWallis aims to achieve a 20% equity-to-liabilities ratio to supplement debt capacity by up to HUF 15 bn. With EBITDA rising substantially AutoWallis' ND/EBITDA ratio should fall well below 2x by 2025 on our estimate.

AutoWallis' ND/EBITDA ratio



Source: AutoWallis, Concorde's estimate

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

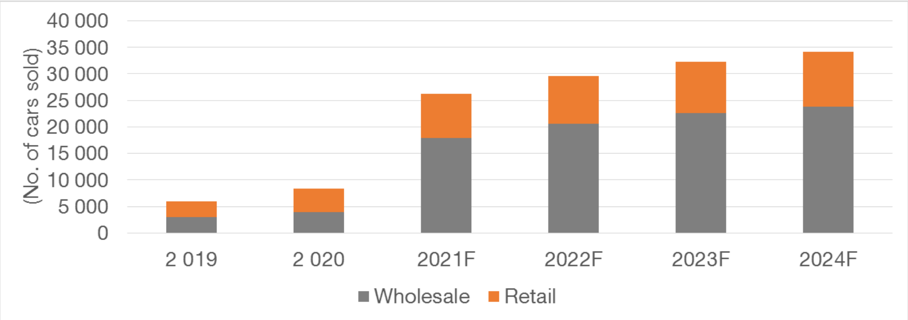
	Q1/21	Q1/20	Ch (%)
Wholesale			
No. of vehicles sold	4 555	944	383
Retail			
No. of new vehicles sold	1 678	496	238
No. of used vehicles sold	434	187	132
Total no. of vehicles sold	**6 667**	**1 627**	**310**
Service hours	29 447	11 655	153
Fleet size (in terms of rented cars)	421	539	-22
Rents	1 862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

Source: AutoWallis' Q1/2021 sales report

Outlook

- Despite structural headwinds (such as economic rigidities in the labor market as well as the service sector, low market power, large misallocated capital stocks, declining population, weak private credit demand, relatively low corporate profit margins along with deleveraging in the wake of a liquidity trap and poor trend growth etc.), which exert a drag on economic vigor, recent economic data in Europe foretell the recovery (in both relative and nominal terms) of passenger vehicles sales. Registration volume and fiscal stimulus bode well for the vehicles markets, while regulatory efforts could increase significantly, prompting a shift in the mix of new cars sold towards hybrids and EVs. For the Eurozone the anticipated increase in growth for 2021 is markedly less than global economic growth (just 3.9% after a fall of 6.8% in Europe's GDP in 2020 vs. 5.6%). The sustainable growth rate of carmakers' and car dealers' earnings is a function of the return on equity and the dividend payout ratio, which though currently being at their lows, is set to gradually improve in the coming years, driven, among others by new service and mobility solutions.

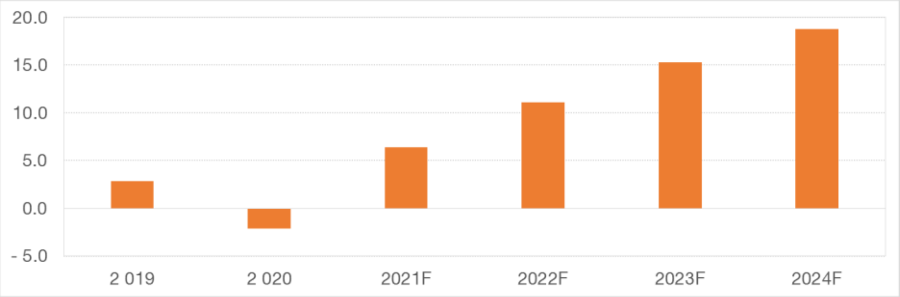
AutoWallis' car sales estimates for the period between 2021 and 2024



Source: AutoWallis, Concorde's estimates

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.

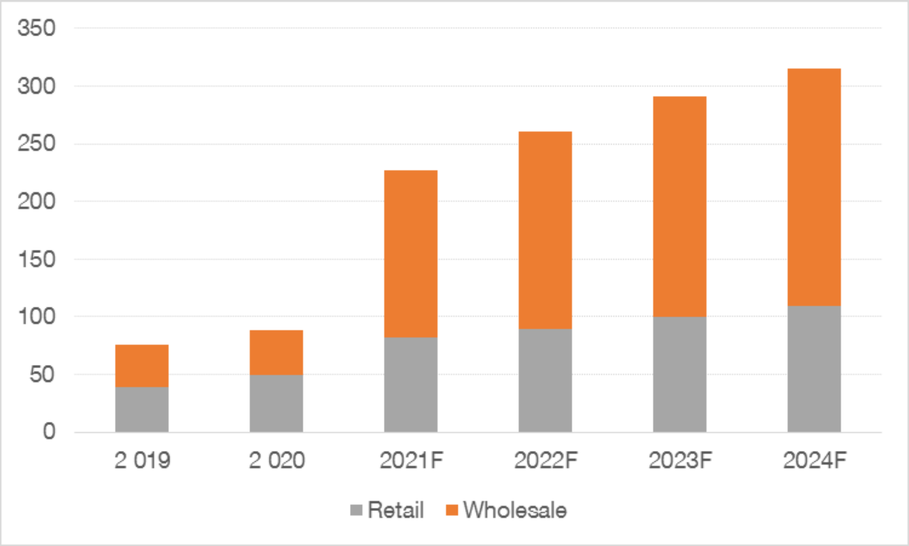
AutoWallis' EPS estimates for the period between 2021 and 2024 (HUF bn)



Source: AutoWallis, Concorde's estimates

- AutoWallis' revenue and EBITDA goals of HUF 90-100 bn and HUF 4.3-4.6 bn of the Strategy 2019 are expected to be exceeded already in 2021, respectively, as a result of the transactions closed in 2020.

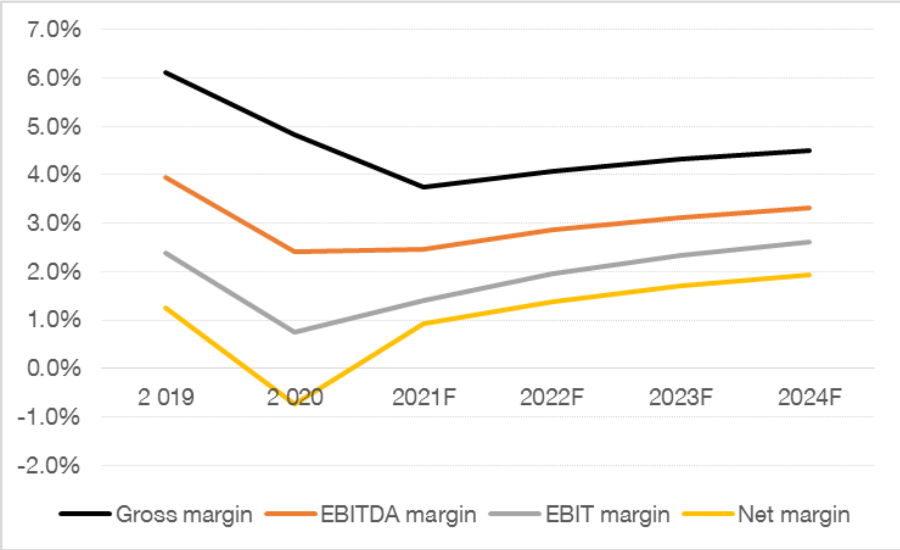
AutoWallis' sales estimates for the period between 2021 and 2024 (HUF bn)



Source: AutoWallis, Concorde's estimate

- AutoWallis anticipates reaching revenue of more than HUF 230 bn and EBITDA of nearly HUF 6 bn in 2021, and it also has ambitious goals of annual revenue of more than HUF 400 bn and EBIT(DA) margin of approx. 3.5%, implying EBITDA of around. HUF 14 bn, to be achieved by 2025. While we believe AutoWallis can grow significantly in the forthcoming years thanks to the aforementioned acquisitions, car rental and fleet management, accessory businesses and new mobility solutions, we are a bit less optimistic about revenue and EBITDA stream coming in by 2025 than what management guidance suggests. We are expecting EBITDA to increase to around HUF 12 bn on revenue of HUF 340 bn in 2025.

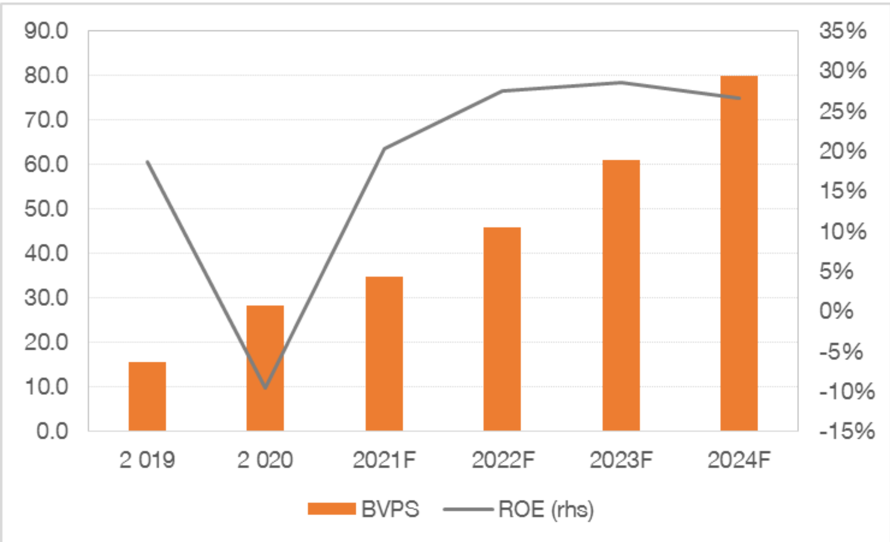
AutoWallis' margin estimates for the period between 2021 and 2024



Source: AutoWallis, Concorde's estimate

- 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. Extending economic lockdowns and potential revival of wage pressure, surging yields are among the key macro risks we identify but AutoWallis has proved that it has the ability to deal with such headwinds successfully, simultaneously taking care of its FCFF.

AutoWallis' ROE estimates for the period between 2021 and 2024



Source: AutoWallis, Concorde's estimate

- 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. In case of failure to meet the condition, AutoWallis would be obliged to repurchase bonds it issued in the framework of NBH's Bond for Growth program. Odds for such a scenario seem very unlikely at this point.

- Our DCF model points to HUF 142 per share 12-month TP (implying a 42% upside), up from HUF 130 previously.
- The comparative valuation implies some discount over a two-year time horizon. AutoWallis is now trading at P/E and EV/EBITDA multiples, based on our new 2022 earnings estimates, of 9.0x and 7.2x. We are thus reiterating our Accumulate recommendation for the stock.

AutoWallis' comparative valuation

Ticker	Last Price	YTD RETURN	Mkt Cap EUR	EV	EV/SALES	EV/EBITDA FY1	EV/EBITDA FY2	P/E FY2
AUTOWALL HB Equ	100	17	91	152	0.6	10.0	7.2	9.0
SIX2 GR Equity	108	10	4 348	6 174	2.8	8.9	6.5	44.4
INCH LN Equity	784	22	3 548	3 645	0.4	9.1	7.6	19.3
STRN NA Equity	12	1	70	276	0.4	9.8	9.5	8.8
MOTR LN Equity	260	-9	270	306	0.3	19.5	14.5	35.6
KAMUX FH Equity	14	5	574	627	0.8	14.3	12.5	22.9
DOAS TI Equity	29	0	650	841	0.4	5.1	4.5	6.7
APR PW Equity	10	28	293	330	0.7	8.7	8.0	12.8
CAR PW Equity	320	36	994	1 215	0.5	10.0	9.4	15.3
LOOK LN Equity	72	243	324	485	0.1	3.6	3.3	48.0
BILIA SS Equity	138	36	1 399	1 665	0.4	6.6	6.7	11.7
DIE BB Equity	85	25	4 701	3 719	0.8	27.8	24.6	13.2
MEKO SS Equity	134	47	743	1 201	0.8	7.3	6.9	10.9
OTOEL GA Equity	7	15	344	667	1.3	4.6	4.2	11.9

Source: Bloomberg, Concorde's estimate

- **Risks**: We attribute the highest potential opportunity to easing of tensions related to COVID-19 spread and upswing of the economic sentiment, at least in the EU. The highest risks, are related to extending lockdowns and potential revival of wage pressure. Also importantly, climbing yields increase the discount factor applied to the long-term deferred cash flows that contribute a large proportion of the intrinsic value of growth stocks. Aside macroeconomic headwinds, there is the risk of poor execution of consolidating recently acquired assets.
- We once again stress that our 12-month TP is highly sensitive to AutoWallis' operating margin developments. We reiterate our Accumulate rating on AutoWallis. 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. We emphasize, however, that a "good" company, which is able to deliver formidable excess return over cost of capital on a sustainable basis due to its competitive advantages and supporting economic cycles does not necessarily equate with a "good investment". 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 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. We are afraid that the upside potential of valuation might only be realized after AutoWallis' sales exceed the EUR 1 bn threshold level, and therefore it gets promoted to the premier league of European car dealers while also appearing as a takeover target on the radar screen of large competitors.

Fair value (HUF)	133.9
12-m TP (HUF)	142.3

	2019	2020	2021	2022	2023	2024	2025	TV1
Revenue growth	19.18%	17.46%	157.00%	14.67%	11.74%	8.26%	8.26%	3.00%
EBIT/ Rev.	2.40%	0.74%	1.39%	1.97%	2.34%	2.60%	2.60%	2.60%
Tax	27.25%	-65.49%	15.00%	15.00%	15.00%	15.00%	17.00%	17.00%
RONIC		-53.71%	13.53%	74.10%	102.23%	43.15%	7.00%	9.63%
ND/V	25.53%	26.43%	34.29%	34.13%	29.58%	23.08%	14.48%	14.48%
r_A	8.48%	8.64%	6.63%	7.58%	7.58%	8.82%	9.78%	9.78%
r_D	5.56%	9.56%	3.31%	3.86%	4.69%	6.28%	6.28%	6.28%
ROIC	9.09%	1.37%	7.76%	11.80%	15.11%	16.98%	16.06%	15.75%
NOPLAT	1 313	226	2 694	4 359	5 794	6 978	7 377	7 598
DIC	2 023	18 236	2 248	1 403	2 745	4 831	2 298	2 367
IC								
14 442	16 465	34 701	36 949	38 352	41 097	45 928	48 226	50 593
Risk free rate	2.5%	2.7%	0.6%	1.6%	1.6%	2.8%	3.5%	3.5%
Beta multiple	1.2	1.6	1.4	1.4	1.4	1.3	1.2	1.2
Levered beta	1.246	1.6	1.6	1.6	1.6	1.6	1.6	1.6
ERP	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%
Levered cost of equity	9.5%	8.3%	8.4%	9.5%	8.8%	9.6%	10.4%	10.4%
Net debt	9 800	11 154	22 138	23 305	20 818	16 735	11 095	11 428
Net debt (calculated)	9 800	11 154	22 138	23 305	20 818	16 735	11 095	11 428
D/E	34.3%	35.9%	52.2%	51.8%	42.0%	30.0%	30.0%	30.0%
E/V	74.5%	73.6%	65.7%	65.9%	70.4%	76.9%	85.5%	85.5%
r_E	9.5%	8.3%	8.4%	9.5%	8.8%	9.6%	10.4%	10.4%
WACC	8.1%	10.3%	6.5%	7.4%	7.4%	8.6%	9.6%	9.6%
P&L	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**TV1**
Rev.	75 271	88 413	227 223	260 556	291 136	315 182	341 214	351 450
D&A	1 326	1 590	2 261	2 149	2 107	2 019	3 412	3 515
EBIT	1 804	655	3 169	5 128	6 816	8 209	8 887	9 154
Financial rev.	-544	-1 066	-733	-901	-977	-1 052	-697	-718
PBT	1 260	-410	2 436	4 228	5 839	7 158	8 190	8 436
Tax	343	269	365	634	876	1 074	1 392	1 434
Net Income	917	-679	2 070	3 594	4 963	6 084	6 798	7 002
Net compr. income	951	-658	2 098	3 618	4 990	6 109	6 826	7 031
CF								
EBIT	1 804	655	3 169	5 128	6 816	8 209	8 887	9 154
EBITDA	3 130	2 246	5 430	7 277	8 923	10 228	12 300	12 669
NOPLAT	1 313	226	2 694	4 359	5 794	6 978	7 377	7 598
DIC	2 023	18 236	2 248	1 403	2 745	4 831	2 298	2 367
FCFF	-710	-18 010	446	2 956	3 049	2 147	5 078	5 231
Interest	-544	-1 066	-733	-901	-977	-1 052	-697	-718
Tax shield	148	-698	110	135	147	158	119	122
Ddebt	1 354	10 984	1 167	-2 486	-4 083	-5 640	333	343
FCFD	958	9 220	544	-3 252	-4 913	-6 534	-246	-253
FCFE	247	-8 790	990	-296	-1 865	-4 386	4 832	4 977
dividend	-575	0	0	0	0	0	0	0
Dcash	822	-8 790	990	-296	-1 865	-4 386	4 832	4 977
FCFF								
FCFF	-710	-18 010	446	2 956	3 049	2 147	5 078	5 231
D/V	26%	26%	34%	34%	30%	23%	14%	*14%*
WACC	8.09%	10.29%	6.46%	7.38%	7.37%	8.61%	9.63%	*9.63%*
Value of firm (bop)	**38 391**	**42 209**	**64 563**	**68 288**	**70 374**	**72 515**	**76 609**	**78 907**
APV								
FCFF	-710	-18 010	446	2 956	3 049	2 147	5 078	5 231
r_A	8.48%	8.64%	6.63%	7.58%	7.58%	8.82%	9.78%	*9.78%*
PV(FCFF)	37 355	41 234	62 805	66 523	68 611	70 764	74 861	77 107
TS	148	-698	110	135	147	158	119	122
PV(TS)	1 036	976	1 758	1 765	1 763	1 751	1 747	1 800
Value of firm (bop)	**38 391**	**42 209**	**64 563**	**68 288**	**70 374**	**72 515**	**76 609**	**78 907**
FCFE								
FCFE	247	-8 790	990	-296	-1 865	-4 386	4 832	4 977
r_E	9%	8%	8%	10%	9%	10%	10%	10%
PV(E)	28 591	31 056	42 426	44 983	49 556	55 780	65 513	67 479
D	9 800	11 154	22 138	23 305	20 818	16 735	11 095	11 428
Value of firm (bop)	**38 391**	**42 209**	**64 563**	**68 288**	**70 374**	**72 515**	**76 609**	**78 907**
EVA								
NOPLAT	1 313	226	2 694	4 359	5 794	6 978	7 377	7 598
IC at the beginning	14 442	16 465	34 701	36 949	38 352	41 097	45 928	48 226
WACC	0	0	0	0	0	0	0	0
EVA	144	-1 468	452	1 631	2 966	3 441	2 954	2 954
PV(EVA)	23 949	25 744	29 862	31 339	32 022	31 418	30 681	30 681
Value of firm (bop)	**38 391**	**42 209**	**64 563**	**68 288**	**70 374**	**72 515**	**76 609**	**78 907**

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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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