CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
12 July 2021

AutoWallis

Rating: Buy (unch.)
Target price (12-m): HUF 153 (unch.)
Share price: HUF 100

Share price close as of 27/05/2021	HUF 100	Bloomberg	AUTOWALL HB
Number of listed shares [million]	324.3	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	32.3 / 91.8	Free float	30.97%
Daily turnover 12M [EUR th]	282	52 week range	HUF 76 – 120

AutoWallis plans to raise capital to fund growth

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- AutoWallis plans to raise capital publicly to the tune of HUF 4-6.5 bn, targeting both institutional and retail investors in the second half of the year. If it turns out to be the case, the capital increase may result in an increase of as much as 15 percent in the number of outstanding shares of AutoWallis.
- We guess that the planned capital increase is necessary to make it possible for AutoWallis to tap debt market again in the future, without breaching covenants, in order to secure funds for its growth plans aimed at becoming a major vehicle trading company and mobility service provider in the Central and Eastern European region by the end of the decade.
- We point that AutoWallis's net debt declined to HUF 13.9 bn in the first quarter of 2021 (implying a 2.3x net debt-to-annualized EBITDA ratio) compared to HUF 19.2 bn at the end 2020 (8,9x ND/EBITDA). AutoWallis' B+ rating was reaffirmed by Scope Ratings last November in light of recovering vehicles market conditions, improving its outlook from stable to positive.
- Our DCF-based 12-month TP is currently HUF 153 a share, which theoretically leaves a 53% upside from the current share price. We note, however, that if capital increase takes place in the planned amount and at an issue price close to the current share price (HUF 100), which is deemed challenging, we will feel the need to revise our TP and Buy rating on the stock accordingly.

- AutoWallis most recently raised its capital last December in a total value of HUF 1.4 bn in the framework of a prive placement with the involvement of institutional investors (Széchenyi Alapok, Generali Alapkezelő Zrt., Dialóg Befektetési Alapkezelő Zrt.), issuing 16,501,486 new "C" type ordinary shares with a nominal value of HUF 12.5 per share and at an issue price of HUF 83 (offering no discount to share price prevailing at that time). As a result, the share capital of AutoWallis increased by HUF 206.3 mn from HUF 3.85 bn to HUF 4.05 bn.
- On April 6, 2021, Wallis Asset Management Zrt. (the principal stockholder) contributed its share in DALP Ltd. to AutoWallis. In return for the contribution to this business share, AutoWallis issued a total of 15,400,000 series "C" ordinary shares with a nominal value of HUF 12.5 per share and an issue price of HUF 100, which were subscribed by Wallis Asset Management, and as a result of which the share capital of AutoWallis increased by HUF 192.5 mn from HUF 4.05 bn to HUF 4.25 bn, while the remaining HUF 1.35 bn was transferred to the capital reserve. Currently, AutoWallis's share capital consists of 339,713,680 ordinary shares, out of which 324.313.680 pieces are being listed and embody the same shareholder rights (one share is one vote).
- AutoWallis' management has recently 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, while the pandemic is seemingly abating and therefore sales performance is improving.
- We are expecting FY21 EBITDA to come in the region of HUF 6 bn on sales revenue of HUF 242bn, 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.

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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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