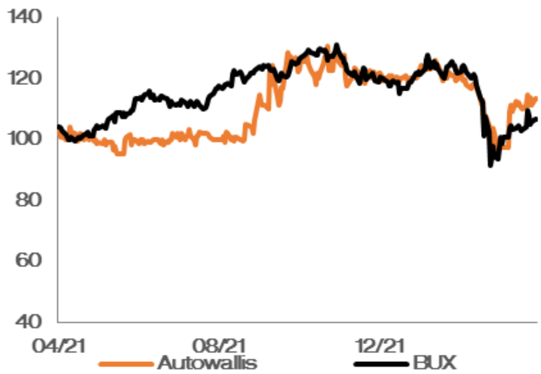
CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
13 April 2022

AutoWallis

Rating: BUY (unch.)
Target price (12-m): HUF 182 (unch.)
Share price: HUF 107

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)	11.8	8.5	6.6	5.6
P/BV (x)	1.9	1.5	1.2	1.0
EV/EBITDA (x)	4.8	4.0	3.2	2.8



Share price close as of 12/04/2022	HUF 107	Bloomberg	AUTOWALL HB
Number of diluted shares [million]	425.2	Reuters	AUTW.HU
Market capitalization [HUF bn/EUR mn]	45.5 / 120.5	Free float	49.1%
Daily turnover 12M [EUR th]	100	52 week range	HUF 91 – 135

Equity Analyst

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

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

Stepping on the gas

- AutoWallis posted very strong EBITDA of HUF 7.8 bln (+254% YoY), exceeding our estimate by 13%, and was much higher than management of HUF 5.5-6.2 bln.
- Sales more than doubled in 2021 to HUF 195 bln, driven by growth in both domestic and regional markets in addition to a number of acquisitions implemented, inter alia, in 2020 (ie. the Jaguar-Land Rover dealership opened in April last year, Wallis Kerepesi, Wallis Motor Ljubljana and the acquisition of Hungarian Initial Group and import rights of Opel cars in the CEE region, in Croatia, Slovenia, Bosnia and Herzegovina and Hungary). As a result of these transactions, in addition to the premium brands, AutoWallis could extend its sales mix to mid-range car brands, allowing it to target a much wider range of customers, especially in the field of fleet sales.
- Revenue from wholesale business close to tripled while retail business reported more than doubled sales revenue. Importantly, this growth was also due to improving operational efficiency, so gross margin increased from 12.6% to 14.1%, while our EBITDA margin improved from 2.6% to 4.0%. This margin improvement is mainly thanks to the fact that AutoWallis was able to implement a successful and efficient

pricing policy throughout the year in both the purchase and sale of new and used cars.

- Through its green bond issue last year and institutional and retail share subscription, AutoWallis raised a total of HUF 16 bln funds to finance new acquisitions and developments after HUF 4.7 bln bond issuance and capital increase in the previous year. Net debt-to-EBITDA ratio dropped from 11.3x to 0.4x in 2021 on our estimate.
- All this means that AutoWallis has a robust capital position (ie. strengthening capital adequacy and the increasing portion of long - term fixed forint financing in the capital struture) and the necessary resources to implement the growth plans set out in its medium-term strategy. All resources can serve the purpose of further developing the AutoWallis Group, even at a rate that exceeds its original financial targets, thus increasing shareholder value. Outstanding liquidity and strong balance sheet, and the diversification already achieved fortifies AutoWallis' resilience to economic downturns.
- 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.
- The slowdown in production and supply difficulties due to the lack of chips significantly reduced the number of new cars sold, especially in the fourth quarter of last year. The EU car market, for example, saw a 2.4% drop in new vehicle registrations compared to 2020 but the number of new passenger car sold in the relevant market of the AutoWallis Group continued to increase in 2021 and was 2.1% higher than in 2020. In addition to this, the rise in vehicle prices confirms that the demand for car purchases has not decreased, and in fact while supply difficulties temporary exerted a barrier to market growth, they largely contributed to margin improvements across the entire supply chain.
- Meanwhile, AutoWallis achieved 226.4% growth in new car sales, significantly outpacing both the 2.1% growth in its relevant regional markets and the 1.5-2.4% decline in the wider European market. Of this increase, the acquisition effect was 197.9% and the organic growth effect was 28.4%, the latter alone is several times higher than the average market growth even within the CEE region.
- Due to the restrictions, the number of service services started to grow again, and together with the effect of transactions implemented in 2020, the number of service hours increased by 98.1% to 130,375 hours for the whole of 2021. Of this outstanding result, organic growth was 17,375 hours, or 26.4%, while transactions added 71.7% to total growth. Car rental was adversely affected by measures taken last year to prevent the spread of the coronavirus epidemic. The level of tourism and business travel is now permanently lower (the incoming passenger traffic of Budapest Liszt Ferenc International Airport was only 28.8% in 2021 compared to 2019 and only 22.7% compared to 2020). Nevertheless, AutoWallis witnessed 61.9% more rental days (164,132 compared to 101,405) with only 41.9% more fleets, which shows that economies of scale have improved, and that AutoWallis was able to respond well to changes in the business environment occurring due to COVID restrictions..

Operation highlights in 2021

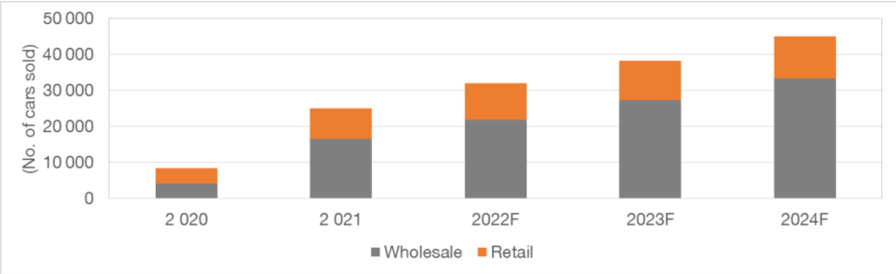
	FY2021	FY2020	Ch (%)
Wholesale	**16 501**	**3 980**	**314.6**
No. of vehicles sold	16 501	3 980	314.6
Revenue (HUF bln)	110 864	38 527	187.8
Gross margin	*12.1%*	*8.3%*	*380 bps*
Pre-tax profit (HUF mln)	3 011	-285	n.a.
Retail	**8 533**	**4 396**	**94.1**
No. of new vehicles sold	6 920	3 196	116.5
No. of used vehicles sold	1 613	1 200	34.4
Revenue (HUF bln)	84 092	49 885	68.6
Gross margin	*16.7%*	*16.0%*	*70 bps*
Pre-tax profit (HUF mln)	1 154	-303	n.a.
Total no. of vehicles sold	**25 034**	**8 376**	**198.9**
Service hours	130 375	65 823	98.1
Fleet size (in terms of rented cars)	603	425	41.9
Rents	15 648	9 616	62.7
Rental days	164 132	101 405	61.9

Source: AutoWallis' 2021 full year sales report

Outlook

- The Russia-Ukraine war has not yet exerted any adverse impact on AutoWallis' financial performance. However there may be an escalation of the crisis entailing further sanctions and long-term economic effects (raw materials and shortage of parts in the manufacture of motor vehicles, as well as inflationary effects, financing difficulties, interest rate increases, etc.), which may eventually put a drag on Western-European car manufactures' production and thus may affect indirectly AutoWallis' operation.
- Also importantly, accelerating inflation, chip supply problems and rising interest rates have not yet had a significant impact on sales. Adverse macroeconomic effects on sales are expected to be delayed more than usual (6-18 months later) due to increased order backlog in the aftermath of supply chain disruptions. Having said that, temporary or even more permanent chip or other raw material and component supply difficulties for some brands could negatively impact sales numbers for the next period.
- Due to mounting cost pressure in the automotive industry and large investment needs for a switch into electric cars it is very likely that Original Equipment Manufacturers (OEMs) will continue to trim their wholesale activities in countries outside their European core markets. This will provide an opportunity for mid-sized regional car distributors, like AutoWallis, to acquire long-term wholesale rights for car brands.
- As part of implementing its inorganic growth strategy in the CEE. AutoWallis has made an agreement with the Slovenian Avto Aktiv Intermercatus car dealer, based on which AutoWallis takes over Avto Aktiv Intermercatus' ommercial activity in Slovenia, and related properties. In addition, AutoWallis together with Salvador Caetano Auto, SGPS, S.A. has established AutoWallis Caetano Holding, a 50/50% joint venture aimed at the acquisition of Renault Hungaria that owns the Hungarian import rights for Renault, Dacia and Alpine brands. Renault Hungaria generated ca. HUF 70 bln in revenue and and EBITDA margin of around 3% last year. AutoWallis may consolidate the numbers of the newly established joint venture according to equity-method until it gains management rights, thus the results from the joint venture will be recorded as earnings from associated companies (HUF 1 bln p.a. on our estimate), not affecting consolidated EBITDA.

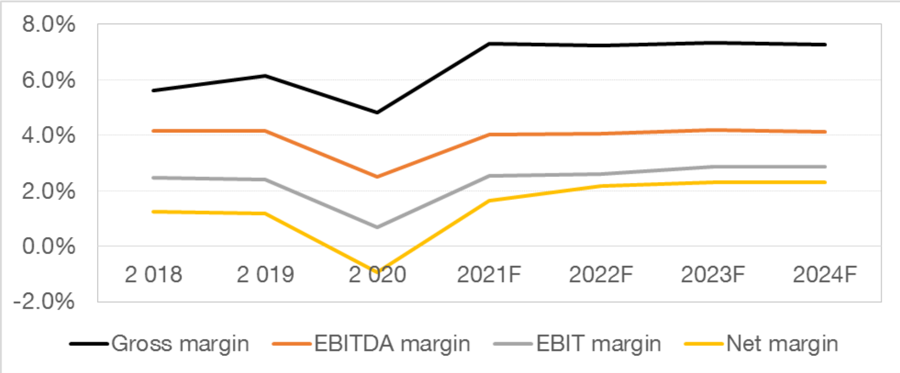
AutoWallis' number of cars sold between 2020 and 2024



Source: AutoWallis, Concorde's estimates

- AutoWallis aims to be the leader of consolidation in CEE automotive market. To wit, it also intends to actively develop not only its distributor position but also its service businesses, in particular fleet management and related mobility activities. Synergies are of particularly importance, therefore AutoWallis focuses on improving its international management team structure and digital transformation and data asset management ability. AutoWallis wants to cover the entire value chain, integrate trade and services portfolio under a single brand, thus exploiting operating and sales synergies between group members.
- AutoWallis has set up a Green Funding Framework whereby it intends to develop e-mobility, thus increasing the number of charging points, installing fast chargers and increasing the number of electric or hybrid vehicles in its own and rental car fleets. AutoWallis does not engage in any activities that could harm the environment. In addition, AutoWallis has embarked on green investments that will result in additional energy savings in its current properties and will seek to maximize the production and use of renewable energy during its operations.
- A significant part of AutoWallis's operations are on the basis of HUF, while costs, investments and the vast majority of its funding is denominated and generated in HUF. In the wholesale business (56% of total revenue), however, EUR-denominated sales represent a significant part (periodically up to 50%). Although AutoWallis strives to mitigate FX risks by natural hedging, accommodative pricing rules, hedging transactions, etc., the FX risk is not at all can be excluded and hedging transactions themselves may be insufficient.to compensate for abnormal FX developments.
- In the CEE countries where AutoWallis has presence (in particular in Hungary), dynamically rising wage levels, and labor shortage may affect negatively the profitability of its operation. Personnel expenses rose by 144% YoY last year mainly due to acquisitions implemented in 2020 but also to rapid wage inflation. The average number of employees in the AutoWallis Group in 2020 as a result of the transactions, increase by almost 30% to 695 people in 2021.
- AutoWallis seeks in part through its existing business activities and / or new developments, investments, to realize acquisitions. It cannot be ruled out that there will be events related to the acquired companies that could adversely affect AutoWallis' business and profitability. For example, SsangYong Motor Company is still undergoing a reorganization process, while Stellantis, a group of 14 car brands, resigned in the EU in the second quarter of 2021, all retailer contracts within the EU, mainly due to renewable industry regulations. The measure also has a negative impact on AutoWallis' own (Opel) distribution business, although it does not affect its 5-year importer (wholesale) agreements in 2020.
- We believe that supportive sales 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 also take advantage of rebounding business travels and tourism after the epidemic situation improves in Europe which with a leaner operation also makes it possible to organically expand operating margins.

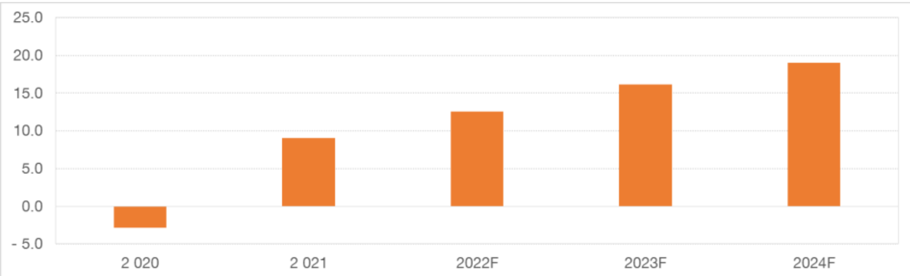
AutoWallis' margins between 2019 and 2024



Source: AutoWallis, Concorde's estimates

- 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 and macroeconomic conditions remain very volatile, in our view.
- Robust EBITDA growth and margin improvements in 2021 prompt us to raise EBITDA estimate for 2022 from 9.7 bln to 10 bln. At the same time we feel it appropriate to also raise our EBIDTA estimates by 5% for 2023 and 2024, respectively to HUF 12.4 bln and HUF 14,4 bln, resulting in a 3-year EPS CAGR of 28% on our estimate.

AutoWallis' EPS estimates for the period between 2020 and 2024 (HUF)



Source: AutoWallis, Concorde's estimates

- We expect AutoWallis not to pay meaningful dividend until it implements its ambitious medium-term growth strategy.
- AutoWallis' B+ rating was reaffirmed by Scope Ratings last November in light of recovering vehicles market conditions, improving its outlook from stable to positive. We expect net debt/EBITDA ratio to remain constantly below 1x in the years to come, if all else remaining the same.
- Although the capital market interest rate environment has become very challenging recently we leave our DCF-based 12-month TP unchanged at HUF 182 per share due to roll-over and an increase in our FCF estimates for the coming years. Our TP leaves a 70% upside potential from the current share price. We note that our 12-month TP is highly sensitive to AutoWallis' operating margin developments, leverage and certainly the cost of funding.
- AutoWallis is now trading at EV/EBITDA and P/E multiples, based on our new 2022 earnings estimates, of 8.5x and 4.0x, respectively, which is the historical lowest valuation and thus compelling.
- We reiterate our BUY rating on the stock.

12-m TP (HUF)	180.1					
	2021	2022	2023	2024	2025	TV1
Revenue growth	120.5%	27.1%	19.3%	17.8%	17.8%	3.0%
EBIT/ Rev.	2.5%	2.6%	2.9%	2.9%	2.9%	2.9%
Tax	22.2%	23.0%	23.0%	23.0%	23.0%	23.0%
RONIC	27.8%	-17.0%	18.3%	15.7%	16.2%	8.2%
ND/V	33.6%	4.8%	6.5%	5.5%	5.1%	35.0%
r_A	8.2%	11.7%	12.7%	15.6%	12.0%	8.2%
r_D	3.2%	0.0%	0.0%	0.0%	0.0%	0.0%
ROIC	11.42%	18.35%	18.35%	17.87%	17.60%	17.03%
NOPLAT	3 860	4 985	6 498	7 709	9 082	9 354
g (NOPLAT)					3.0%	3.0%
DIC	-6 619	8 253	7 717	8 465	3 322	3 422
IC						
15 040 192	27 163	35 417	43 133	51 598	54 921	58 343
Risk free rate	2.9%	6.3%	7.3%	7.3%	4.4%	4.4%
Unlevered beta	0.9	0.9	0.9	0.9	0.9	0.9
Beta multiple	1.4	1.0	1.1	1.2	1.2	1.2
Levered beta	1.4	1.4	1.4	1.4	1.4	1.4
ERP	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Unlevered cost of equity	8.2%	11.7%	12.7%	12.7%	9.7%	9.7%
Levered cost of equity	10.8%	12.3%	13.6%	16.5%	12.6%	12.6%
Net debt	24 791	3 315	5 221	5 084	5 473	39 924
Net debt (calculated)	24 791	3 315	5 221	5 084	5 473	39 924
D/E	50.6%	5.0%	6.9%	30.0%	30.0%	30.0%
E/V	66.4%	95.2%	93.5%	94.5%	94.9%	65.0%
r_E	10.8%	12.3%	13.6%	16.5%	12.6%	12.6%
WACC	8.0%	11.7%	12.7%	15.6%	12.0%	8.2%
P&L	**2021**	**2022**	**2023**	**2024**	**2025**	**TV1**
Rev.	194 956	247 853	295 771	348 457	410 529	422 845
D&A	2 882	3 574	3 932	4 392	4 105	4 228
EBIT	4 959	6 474	8 439	10 011	11 795	12 149
Financial rev.	-793	0	0	0	0	0
PBT	4 165	6 474	8 439	10 011	11 795	12 149
Tax	923	1 489	1 941	2 303	2 713	2 794
Net Income	3 242	4 985	6 498	7 709	9 082	9 354
Net compr. income	3 224	5 338	6 845	8 072	9 510	9 796
CF						
EBIT	4 959	6 474	8 439	10 011	11 795	12 149
EBITDA	7 841	10 048	12 371	14 403	15 900	16 377
NOPLAT	3 860	4 985	6 498	7 709	9 082	9 354
DIC	-6 619	8 253	7 717	8 465	3 322	3 422
FCFF	10 479	-3 269	-1 219	-756	5 760	5 932
Interest	-793	0	0	0	0	0
Tax shield	176	0	0	0	0	0
Ddebt	-21 477	1 906	-137	389	34 451	1 198
FCFD	-22 094	1 906	-137	389	34 451	1 198
FCFE	-11 616	-1 362	-1 356	-367	40 210	7 130
dividend	0	0	0	0	0	0
Dcash	-11 616	-1 362	-1 356	-367	40 210	7 130
FCFF						
FCFF	10 479	-3 269	-1 219	-756	5 760	5 932
D/V	33.6%	4.8%	6.5%	5.5%	5.1%	*35.0%*
WACC	8.0%	11.7%	12.7%	15.6%	12.0%	*8.2%*
Value of firm (bop)	**73 741**	**69 162**	**80 499**	**91 942**	**107 016**	**114 068**
APV						
FCFF	10 479	-3 269	-1 219	-756	5 760	5 932
r_A	8.2%	11.7%	12.7%	15.6%	12.0%	*8.2%*
PV(FCFF)	73 579	69 162	80 499	91 942	107 016	114 068
TS	176	0	0	0	0	0
PV(TS)	162	0	0	0	0	0
Value of firm (bop)	**73 741**	**69 162**	**80 499**	**91 942**	**107 016**	**114 068**
FCFE						
FCFE	-11 616	-1 362	-1 356	-367	40 210	7 130
r_E	10.8%	12.3%	13.6%	16.5%	12.6%	12.6%
PV(E)	48 950	65 848	75 278	86 858	101 543	74 144
D	24 791	3 315	5 221	5 084	5 473	39 924
Value of firm (bop)	**73 741**	**69 162**	**80 499**	**91 942**	**107 016**	**114 068**
EVA						
NOPLAT	3 860	4 985	6 498	7 709	9 082	9 354
IC at the beginning	33 782	27 163	35 417	43 133	51 598	54 921
WACC	0	0	0	0	0	0
EVA	1 157	1 816	1 999	992	2 905	4 851
PV(EVA)	39 959	41 999	45 082	48 809	55 418	59 147
Value of firm (bop)	**73 741**	**69 162**	**80 499**	**91 942**	**107 016**	**114 068**

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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%
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:

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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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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