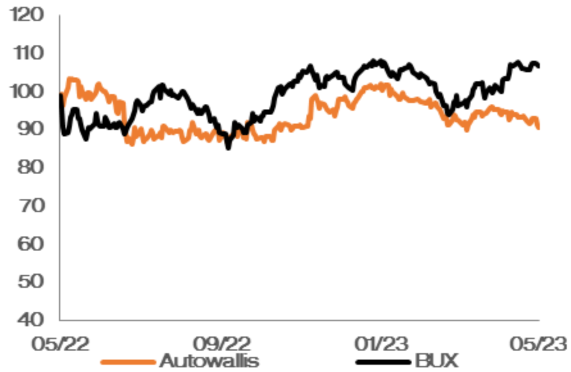
CONCORDE RESEARCH

CEE Equity Research | Car dealership | Hungary
30 May 2023

AutoWallis

Rating: BUY (unch.)
Target price (12-m): HUF 199 (unch.)
Share price: HUF 95

HUF million	2022	2023E	2024E
Revenue	270 166	378 590	447 727
EBITDA	14 455	19 268	22 726
EBIT	10 951	12 936	14 947
Net profit	8 300	12 758	14 502
EBITDA margin	5.4%	5.1%	5.1%
PAT margin	3.1%	3.4%	3.2%
EPS	19.3	28.8	32.8
DPS	0.0	0.0	0.0
BVPS	83.4	103.1	135.9
P/E (x)	4.9	3.3	2.9
P/BV (x)	1.1	0.9	0.7
EV/EBITDA (x)	2.8	4.5	3.8



Share price close as of 13/04/2023	HUF 95	Bloomberg	AUTOWALL HB
Number of diluted shares [mn]	442.3	Reuters	AUTW.HU
Market capitalization [HUF mn/EUR mn]	42 106 / 113.3	Free float	38.32%
Enterprise value [HUF mn/EUR mn]	86 092 / 231.7	52 week range	HUF 86 – 103
Daily turnover 12M [EUR th]	18	EURHUF (x)	371.6

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Record results for Q1/23 appear to be unsustainable

- AutoWallis posted revenue of more than HUF 100 bln for Q1/23 (+74% YoY). The expansion was primarily organic (the sales of the Slovenian Avto Aktiv, the purchase of which was closed in the spring of 2022), and was driven by wholesale of Opel and SsangYong vehicles, so AutoWallis continues to move on a stable growth path and exceeded the industry trend. The acquisition of Renault Hungária, which AutoWallis implemented jointly with the Portuguese company Salvador Caetano in the last quarter of 2022, also contributed significantly to the outstanding sales performance. It is worth noting that more than half of AutoWallis' revenues have already come from export.
- EBITDA rose by 74% YoY to HUF 5.64 bln, resulting in an EBITDA margin of 5.6% (up from 5.4% in Q1/22), while total net profit attributable to shareholders of the parent company came in at HUF 4.97 bln (+167% YoY). As a result, EPS was HUF 11.55 in Q1/23 compared with HUF 4.38 in Q1/22 and HUF 19.27 in FY2022, exceeding our estimate.

- AutoWallis maintained its healthy capital structure, with the consolidated equity adequacy ratio staying at 27% at the end of March 2023. The net debt/EBITDA ratio (including leases) stood at 2.59x at the end of March 2023 compared to 2.62x at the end of 2022. In the past two years AutoWallis has strengthened its capital adequacy by increasing the portion of long - term fixed forint financing in its capital structure and the necessary resources to implement the growth plans set out in its medium-term strategy).

Sales breakdown by countries

Source: Autowallis, Concorde

- AutoWallis sold 13,800 cars in Q1/23 (+19% YoY). Sales revenue in the Group's wholesale business increased to HUF 63.4 bln (+71% YoY), while its retail business increased to HUF 37.2 bln (+80% YoY).
- The wholesale business increased the number of vehicles sold by 113% to 11,223 units. The EBITDA margin of the wholesale business improved from 5.4% to 6.0%, however there is the sign that demand has already become more price sensitive in the past month, which is reflected in deteriorating gross margin QoQ (12.4% in Q1/23 vs. 16.8% in Q4/22).
- In the retail division AutoWallis sold 2,091 new (+26% YoY) and 486 used (unch, YoY) vehicles, which was already strengthened by Avto Aktiv and Opel brands. The EBITDA margin of the retail business declined from 5.4% to 4.9% YoY, while gross margin also dropped significantly QoQ from 24.6% to 19.2%, mainly due to of the transaction effect of the Slovenian expansion (transaction effect was actually 70%). The value of the services used increased by 50% compared to the base period, which was primarily attributable to higher volume and increasing cost logistics activities related to increased sales volumes of Opel and SsangYong cars.
- We note that margin erosion clearly reflects the effect of the margin normalization that has started in the industry due to the reappearance of stocks. It is worth highlighting that the economic slowdown in the CEE region, rising prices and interest rates, as well as narrowing financing opportunities affect adversely the demand in the car market, which may inevitably lead to a decrease in the price and/or margins of new and used cars. Demand for mid-range car brands has started to ebb, but deliveries are still determined by previous delivery delays, and the increase in the price level of motor vehicles and mobility services has so far offset the decrease in volume sold. All of this may further stimulate the consolidation that has already been ongoing in the car dealer segment, and, in our view, can support the growth strategy of AutoWallis.
- In the service area of the retail business, the number of service hours increased by 52% YoY. In Hungary, Sixt, represented by AutoWallis, increased the number of rental events by ca. 10% YoY, while the number of

rental days also rose by 10% YoY thanks to growing tourism. With Nelson Flottalízing Kft. joining the Group at the beginning of the year, the long-term car rental and fleet management services significantly they rose. As a result, the Group served its customers' needs with 3,565 vehicles in the first quarter (+429% YoY). The number of passengers arriving at the Budapest International Airport in the first quarter reached a total of 2.9 million, which is 46.4% more than the traffic of the same period last year, and only 8 percent less than before the epidemic.

- The 62% YoY increase in personnel expenses was primarily driven by the acquisitions carried out in 2021 and 2022 and the resulting increase in the number of employees (the average number of employees increased by 201 to 912 in Q1/23), as well as the wage increases implemented following rapid consumer inflation and the tight labor market.
- The net financial income in 2022 was HUF 269 mln, which corresponds to a more than 500% YoY increase compared to the previous year, which was a combined result of the increased interest rates and the unrealized exchange and derivative transaction gains.
- The acquisition of Renault Hungária was completed in October 2022, which AutoWallis implemented together with Salvador Caetano in 50%/50% ownership. As a result, 50% of the result of Renault Hungária is recorded as the result from the associated and jointly managed enterprises, and it amounted to HUF 691 mln, or 12% of total pre-tax profit. in Q1/23.

Consolidated financial and operational highlights

	Q1/23	Q1/22	Ch (%)	FY22	FY21	Ch (%)
Total vehicle sales	13 800	7 410	18.8	31 303	25 034	25.0
- new vehicles	13 314	6 925	19.9	29 488	23 421	25.9
- used vehicles	486	485	2.7	1 815	1 613	12.5
Total revenue	**100 545**	**57 702**	**74.2**	**270 166**	**194 956**	**38.6**
Gross margin	*14.9%*	*15.0%*	*-10bps*	*16.8%*	*14.1%*	*267bps*
EBITDA	**5 644**	**3 125**	**80.6**	**14 455**	**7 821**	**84.8**
EBITDA margin	*5.6%*	*5.4%*	*20bps*	*5.4%*	*4.0%*	*140bps*
Net income (parent)	**4 974**	**1 860**	**167.4**	**8 300**	**3 100**	**167.8**
EPS	**11.55**	**4.38**	**163.9**	**19.27**	**8.95**	**115.3**
Net debt/EBITDA (x)	2.59-	n.a.	n.a.	2.62	0.66	297.0
Wholesale business						
No. of new vehicles sold	11 223	5 266	113.1	22 174	16 501	34.4
Revenue (HUF bln)	**63 356**	**37 061**	**71.0**	**158 936**	**110 864**	**43.4**
Gross margin	*12.4%*	*12.7%*	*-30bps*	*14.4%*	*12.1%*	*230bps*
EBITDA	**3 828**	**2 013**	**90.2**	**9 206**	**4 509**	**104.2**
EBITDA margin	*6.0%*	*5.4%*	*60bps*	*5.8%*	*4.1%*	*170bps*
Retail business						
No. of new vehicles sold	2 091	1 659	26.0	7 314	6 920	5.7
No. of used vehicles sold	486	485	0.2	1 815	1 613	12.5
Total no. of vehicles sold	2 577	2 144	20.2	9 129	4 263	114,1
Revenue (HUF bln)	**37 189**	**20 641**	**80.2**	**111 230**	**84 092**	**32.3**
Gross margin	*19.2%*	*19.1%*	*10bps*	*20.2*	*16.7*	*350bps*
EBITDA	**1 816**	**1 112**	**63.3**	**5 249**	**3 312**	**58.5**
EBITDA margin	*4.9%*	*5.4%*	*-50bps*	*4.7*	*3.9*	*80bps*
Service hours	45 004	29 679	51.6	163 862	130 375	25.7
Fleet size (for car rental)	3 565	674	428.9	877	603	45.4
Rents (units)	4 556	4 155	9.7	22 525	15 648	43.9
Rental days	43 060	39 185	9.9	211 511	164 132	28.9

Source: AutoWallis' Q1-4/22 interim report

Outlook and Valuation

- In the last 2 months it has become clear that demand for passenger cars has notably weakened. Although the car manufacturers and dealers could easily meet the demand by overcoming the supply problems of the past years, it seems that the various headwinds are still weighing on passenger car demand, including high inflation eroding household real incomes, weak sentiment, high uncertainty, and tightening financial conditions. Of course, this may just reflect some delays in passenger car purchases (there is no comprehensive survey on this yet), but there reportedly is a very serious drop of 30-40 percent in the recent sales statistics of new cars, for example in Hungary, just as the total retail turnover also fell enormously in the last half-year, and the housing market has also completely frozen. The stronger forint can support car sales, but margins will likely tend to deteriorate, as the costs related to maintaining the operation (e.g. wages) are increasing rapidly.
- Recovery cycles will largely be determined by the normalization of semiconductor supplies that started in the final quarter of 2022 and abating inflation. Leading indicators, including PMI data, started to pick up in late 2022 but remain at levels indicative of a mild recession. Still, with energy-related risks having diminished recently, we became a little more optimistic for regional markets where AutoWallis is present.
- We hold our view that longer-term EU car market growth prospects will remain challenging. Looking beyond the short-term headwinds to growth, structural factors, such as dull demographics, increasingly constraining transport legislation, and disruptive social evolutions (e.g., shifts in transport habits and relationship with cars), which could hamper vehicle sales potential, will likely restrain market growth rates in EU. The transfer to electrification has already led to a phase of uncertainty because it is not clear which concept (plug-in hybrid electric, battery electric, compressed natural gas, fuel cell, gasoline, or diesel) will come out on top. In addition, OEMs' fleet CO2 emissions targets starting from 2020/21 will be a huge challenge for all participants and will affect the market structure, powertrain mix, and car prices. On the positive side, growth in Central European countries should become more sustainable, as the market is far from saturated, and new demand, i.e., newcomers to the new-car market, should keep building, along with wealth and income gains.
- We raised our short-term earnings estimates, but did not change our long-term growth rate and margin forecasts. Our new EBITDA estimates for 2023 and 2024 are HUF 19.3 bln and HUF 22.7 bln (+17% higher compared to our previous estimates), on new revenue forecasts of HUF 378.6 bln (+41% YoY) and HUF 447.7 bln (+18% YoY). Our new EPS estimates are HUF 28.8 for 2023 and HUF 32.8 for 2024 (vs. HUF 20.9 and HUF 22.3 previously).
- AutoWallis is trading at extremely low EV/EBITDA and P/E multiples, based on our 2023 earnings estimates, of 3.3x and 4.5x, respectively. We revised up our 12-TP from HUF 199 to HUF 205 per share, implying a 116% upside potential from the current share price. However, we note that AutoWallis will likely not pay a dividend for quite some time for at least two reasons: 1) it focuses on growth and therefore reinvests its entire cash flow; 2) as long as external financing remains key to financing rapid growth, AutoWallis must maintain an adequate level of equity.
- We maintain our BUY rating on AutoWallis.

Fair value (HUF)	156.5
12-m TP (HUF)	205

	2023F	2024F	2025F	2026F	TV
Revenue growth	41.3%	18.3%	18.3%	3.0%	3.0%
EBIT/ Rev.	3.4%	3.3%	3.3%	3.3%	3.3%
Tax	15.0%	15.0%	23.0%	23.0%	23.0%
RONIC	25.3%	11.7%	7.0%	11.4%	11.4%
ND/V	5.0%	5.3%	3.3%	6.0%	6.0%
r_A	12.6%	13.8%	14.4%	11.5%	11.5%
r_D	7.4%	7.6%	7.6%	7.6%	7.6%
ROIC	29.14%	24.23%	20.83%	20.34%	19.89%
NOPLAT	10 987	12 704	13 610	14 018	14 439
Risk free rate	7.8%	7.8%	8.2%	6.0%	6.0%
Unlevered beta	0.8	0.8	0.8	0.8	0.8
Beta multiple	1.0	1.3	1.2	1.2	1.2
Levered beta	1.2	1.2	1.2	1.2	1.216
ERP	6.0%	6.0%	6.0%	6.0%	6.0%
Unlevered cost of equity	12.6%	12.6%	13.0%	10.8%	10.8%
Levered cost of equity	12.9%	14.1%	14.6%	11.8%	11.8%
Net debt	4 391	5 363	3 781	7 368	7 589
Net debt (calculated)	4 391	5 363	3 781	7 368	7 589
D/E	5.3%	30.0%	30.0%	30.0%	30.0%
E/V	95.0%	94.7%	96.7%	94.0%	94.0%
r_E	12.9%	14.1%	14.6%	11.8%	11.8%
WACC	12.5%	13.7%	14.3%	11.4%	11.4%
P&L	**2023F**	**2024F**	**2025F**	**2026F**	**TV**
Rev.	378 590	447 727	529 491	545 375	561 737
D&A	6 342	7 780	5 295	5 454	5 617
EBIT	12 926	14 946	17 675	18 205	18 752
Financial rev.	-326	-405	-286	-557	-574
PBT	12 600	14 540	17 389	17 649	18 752
Tax	1 890	2 181	4 000	4 059	4 313
Net Income	10 710	12 359	13 390	13 589	14 439
Net compr. income	12 741	14 498	15 707	15 941	14 439
CF					
EBIT	12 926	14 946	17 675	18 205	18 752
EBITDA	19 268	22 726	22 970	23 659	
NOPLAT	10 987	12 704	13 610	14 018	14 439
DIC	14 722	12 919	3 577	3 684	3 795
FCFF	-3 735	-215	10 033	10 334	10 644
Interest	-326	-405	-286	-557	-574
Tax shield	49	61	66	128	132
Ddebt	972	-1 582	3 588	221	228
FCFD	695	-1 927	3 368	-208	-214
FCFE	-3 040	-2 142	13 401	10 126	10 430
dividend	0	0	0	0	
Dcash	-3 040	-2 142	13 401	10 126	10 430
FCFF					
FCFF	-3 735	-215	10 033	10 334	10 644
D/V	5.0%	5.3%	3.3%	*6.0%*	*6.0%*
WACC	12.5%	13.7%	14.3%	*11.4%*	*11.4%*
Value of firm (bop)	**87 314**	**102 007**	**116 190**	**122 801**	**126 485**
APV					
FCFF	-3 735	-215	10 033	10 334	10 644
r_A	12.6%	13.8%	14.4%	*11.5%*	*11.5%*
PV(FCFF)	86 152	100 747	114 818	121 298	124 937
TS	49	61	66	128	132
PV(TS)	1 162	1 259	1 372	1 503	1 549
Value of firm (bop)	**87 314**	**102 007**	**116 190**	**122 801**	**126 485**
FCFE					
FCFE	-3 040	-2 142	13 401	10 126	10 430
r_E	12.9%	14.1%	14.6%	11.8%	11.8%
PV(E)	82 924	96 644	112 410	115 433	118 896
D	4 391	5 363	3 781	7 368	7 589
Value of firm (bop)	**87 314**	**102 007**	**116 190**	**122 801**	**126 485**
EVA					
NOPLAT	10 987	12 704	13 610	14 018	14 439
IC at the beginning	37 702	52 424	65 343	68 920	72 604
WACC	0	0	0	0	0
EVA	6 256	5 525	4 249	6 151	6 151
PV(EVA)	49 612	49 583	50 847	53 881	53 881
Value of firm (bop)	**87 314**	**102 007**	**116 190**	**122 801**	**126 485**

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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.

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