

Waberer's

Recommendation: BUY (unch.)

Target price (e-o-y): HUF 1,785 (unch.)

Share price: HUF 1,280

EUR million	Q3/18	Q3/19	chg. YoY %
Revenue	182.6	169.8	-7%
EBITDA	18.9	12.5	-34%
Adj. EBITDA	19.0	15.3	-19%
EBIT	0.6	-4.6	-870%
Net income	-2.8	-8.5	205%
Adj. Net income	-2.7	-5.6	110%
Rec. EBITDA margin	10.4%	9.0%	-1.4ppts
EBIT margin	0.2%	-2.7%	-3.1ppts
Rec. Profit margin	-1.5%	-3.3%	-1.8ppts



Share price close as of 07/11/2019	HUF 1,280	Bloomberg	WABERERS HB
Number of diluted shares [million]	17.7	Reuters	WABE.HU
Market capitalization [HUF bn/EUR mn]	22.8/69	Free float	28%
Daily turnover 12M [HUF million]	16	52 week range	HUF 990 – 2,490

Not convincing, but showing up positive signs

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- Waberer's Q3/19 results (7th/Nov) were disappointing once again, affected by negative one-offs due to consulting expenses related to the transformation programme. Despite Management's hopes, strong recovery is very unlikely in Q4/19, in our view, which is in line with our previous forecast, however, Audi contract, effective from Dec/19, may support the results in the ongoing quarter. ITS (International) segment has continued its worrisome performance, but RCL (Regional Contract Logistics) and WHB was capable of delivering adequate results to support the Group's financials and to offset the suffering of the ITS.
- Waberer's posted a recurring net loss of EUR 5.6 million for Q3/19 vs. a recurring net loss of EUR 2.7 mn seen in Q3/18, predominantly driven by (1) the trashy performance of ITS segment (despite favourable fuel prices) and (2) non-realised FX losses, amounted to EUR 1.1mn. The Company accrued a net loss of EUR 19mn in the first 9M of 2019, vs our FY19 forecast of EUR -21mn. In this aspect, we are looking forward a challenging quarter once again and a recurring loss of c.EUR 2mn for Q4/19.
- Total Group sales amounted to EUR 169.8 mn, down by 7.1% YoY in Q3/19 predominantly due to lower volumes as a result of the fleet reduction programme. EBITDA shrunk by 19% YoY to EUR 15.3mn. Waberer's reported loss on operational level as EBIT reached EUR -1.7mn in Q3/19.

Segments:

- **International (ITS):** Due to the weak European economic environment, International Transportation segment suffered. Revenues declined by 12% YoY on lower volumes, while gross profit slumped 24% YoY in Q3. It was predominantly driven by higher wages (+8% YoY) and transit costs (+12% YoY). As a result of the consulting expense, which amounted

to EUR 2.9mn, EBITDA deteriorated further, with an EBITDA margin of 4.2%. Excluding one-off items, the measure was at 6.6% in the reported quarter, compared to 9.2% in Q3/18.

- **Regional Contract Logistics (RCL):** Hungarian economy showed resilience despite being a slowdown in the EU in the recent quarters. It supported the Company to reach a revenues growth of 2% YoY, which was also attributable to the repricing effort. **Gross profit surprisingly jumped by 26% YoY, while EBITDA increased by 13% YoY in Q3/19 on higher-margin activities.**
- **Insurance:** Due to the strategic review of the insurance arm of Waberer's, it's still unclear what will happen with the outstandingly profitable WHB. In Q3, revenues were up by 17%, while WHB (from 3rd party activity) earned an EBITDA of EUR 1.6mn (+25% YoY).
- **According to the statement, net leverage improved to 5.4x (covenant at 3.5x)** as of the end of Sept from 5.7x as of Q2/19 - this declining trend is expected to continue going forward. It was broadly as a result of fleet size reduction (further 260 trucks to be handed back in Q3/19 vs. Q2/19), **More importantly, CEO highlighted that measures started influencing margins and will be material in the quarters to come. Truck efficiency is at those levels seen in the same period last year, while the Group remained financially stable.**
- **Opinion: We reiterate our recommendation on BUY, with a TP of HUF 1,785 per share.**
We are of the view that short-term and long-term measures will likely result in a margin improvement in the next quarters as it happened in Q3. However, we put a blame on ITS segment, which is continuously deteriorate the value of the Group. We see that it is still unable to recover, which demonstrates the very low pricing power of Waberer's on the European routes. More importantly, the regulatory framework is shifting toward a more unpredictable and unfavourable direction, which aims at shrinking the Eastern European hauliers out of the Western European market. We therefore cannot exclude the continuation of the fleet reduction programme. We remind the investors that, in our view, RCL and WHB are the two segments, which can create value for investors, while ITS has been pulling down the results for a long time due to the inefficient capacities.
- **Risks:** Fuel price increase, restrictive measures from the side of the EU, and Brexit, which are beyond the scope of the Company, still pose the biggest risks.

Profit and loss [EUR million]	Q3/18	Q3/19	chg. YoY%
Revenue	182.6	169.8	-7.1%
OPEX	-150.3	-140.3	-6.7%
Gross profit	32.3	29.4	-8.8%
Others	-13.4	-17.0	26.6%
EBITDA	18.9	12.5	-34.0%
Non-recurring items	0.1	2.9	2533.0%
Recurring EBITDA	19.0	15.3	-19.2%
<i>α/w ITS</i>	<i>12.5</i>	<i>7.8</i>	<i>-37.6%</i>
<i>α/w RCL</i>	<i>5.2</i>	<i>5.9</i>	<i>13.5%</i>
<i>α/w Insurance (3rd party)</i>	<i>1.3</i>	<i>1.6</i>	<i>23.1%</i>
D&A	-18.3	-17.1	-6.6%
EBIT	0.6	-4.6	-870.2%
Recurring EBIT	0.7	-1.7	-342.9%
Net financial result	-0.9	-2.5	180.1%
EBT	-0.2	-7.1	2913.5%
Tax	-2.5	-1.3	-47.8%
Net income	-2.8	-8.5	205.3%
Recurring Net income	-2.7	-5.6	109.8%
Rec. Ebitda margin	10.4%	9.0%	-1.4ppts
Rec. EBIT margin	0.4%	-1.0%	-1.4ppts
Rec. Profit margin	-1.5%	-3.3%	-1.8ppts

Source: Waberer's

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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:

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