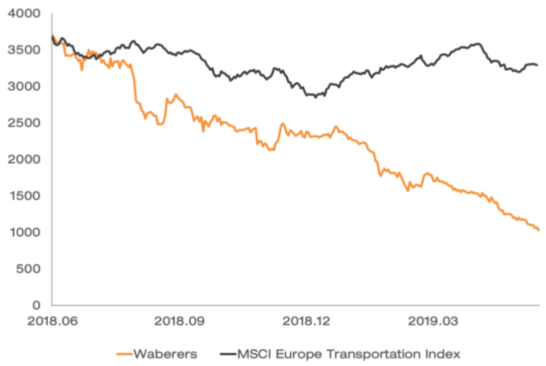
CONCORDE RESEARCH

CEE Equity Research | Transportation | Hungary
08 August 2019

Waberer's

Initiation of coverage
BUY
Target price (e-o-y): HUF 1,785
Share price: HUF 1,215

EUR million	2018	2019F	2020F
Revenue	732	701	737
EBITDA	57	64	73
EBIT	-9	-6	4
Net profit	-21	-18	-8
Profit margin	-3%	-3%	-1%
Truck number	4 450	4 137	3 987
P/E	n.a	n.a	n.a
EV/EBITDA	8.0x	5.7x	5.0x
EBITDA/truck [ths EUR]	12.8	15.5	18.3



Share price close as of 08/08/2019	HUF 1,215	Bloomberg	WABERERS HB
Number of diluted shares [million]	17.7	Reuters	WABE.HU
Market capitalization [HUF bn/EUR mn]	21.5/66	Free float	28%
Daily turnover 12M [HUF million]	20	52 week range	HUF 990 – 3,300

DRIVING OUT OF MUD

Equity Analyst

Gabor Bukta
+361 489 2272
g.bukta@con.hu

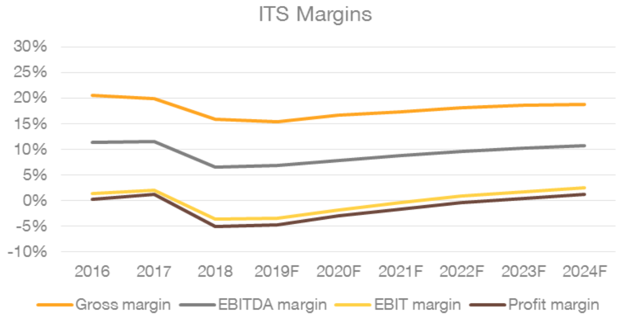
55-61 Alkotás Street,
Budapest
www.con.hu

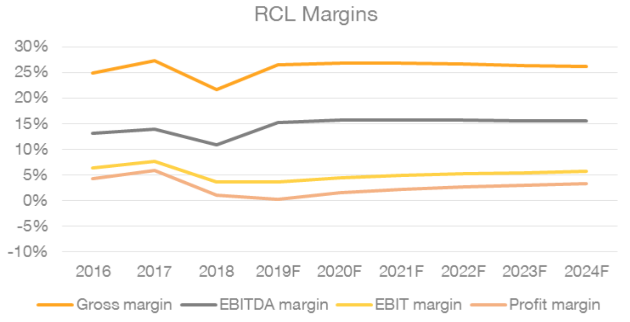
- **We initiate a coverage of Waberer's International Plc. with a BUY rating and a TP of HUF 1,785, implying a 47% upside potential.**
- **The key to get back on track might be the arrival of the new CEO, who is an experienced crisis manager hired from DHL. We believe in short-term measures initiated by the Management, but we are of the view that they have to deliver at least two consequent profitable quarters in 2020 to believe in the turnaround.**
- **We see the company is not teetering on the edge of bankruptcy despite accruing losses quarter by quarter.** In addition, **Waberer's has some valuable assets, which is worth** more than the current share price, in our opinion. However, **if the Company continues to make losses on Group level, it may sooner or later become insolvent**. According to our sum-of-the-parts valuation method, **RCL segment is worth ca. HUF 1,370 per share, while Waberer Hungaria is worth ca. HUF 1,010 per share. ITS segment is a loss-making unit**, suffering from structural issues and mounting risks, **thus we believe this is deteriorating the fair value of Waberer's (HUF -400 per share) at this stage.**
- **We expect a rec. net loss of EUR 21mn and EUR 8mn in '19F and '20F, respectively. The Group will hardly be able to make profit in 2020 amid Brexit uncertainties and recession fears.** However, we expect Waberer's to be profitable in 2021 on Group level on the back of mid-term measures.
- **Waberer's is trading at a FY0 EV/EBITDA multiple of 5.7x, well below the peer group's median of 6.6x. It doesn't reflect the outlook and recovery story of the Company.**

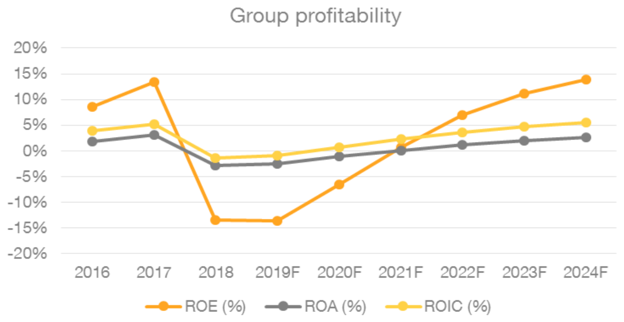
Investment case

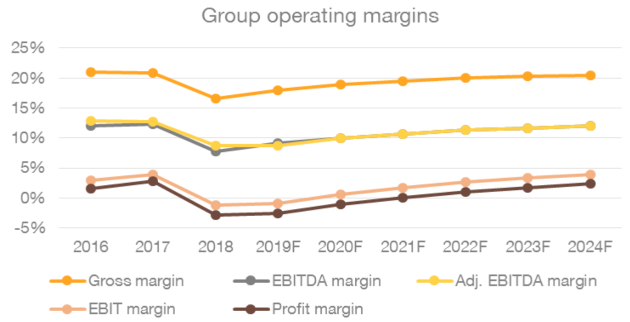
- **We initiate a coverage of Waberer's International Plc. with a BUY rating and a TP of HUF 1,785, implying a 47% upside potential.**
- It's going to be very difficult but not impossible to get back on track after a rapidly changing economic environment, as well as company-specific structural issues challenged Waberer's over the past couple of quarters. As European transportation industry is characterized by oversupply at the moment, companies begun to suffer in the EU.
- **We see the company is not teetering on the edge of bankruptcy despite accruing losses quarter by quarter.** In addition, **Waberer's has some valuable assets, which is worth** more than the current share price, in our opinion. However, if the Company continues to make losses on Group level, it may sooner or later become insolvent. **According to our sum-of-the-parts valuation method, RCL segment is worth ca. HUF 1,370 per share, while Waberer Hungaria is worth ca. HUF 1,010 per share. ITS segment is a loss-making unit**, suffering from structural issues and mounting risks, **thus we believe this is deteriorating the fair value of Waberer's (HUF -400 per share) at this stage. We also applied a DLOM of 10%** due to the fact that liquidity of the shares has been very limited at the BSE since its IPO in 2017.
- **Net revenues are expected to fall 4% YoY to EUR 701mn in '19F on Group level. As a result of the implementation of IFRS 16, it's more practical to highlight the evolution of EBIT, instead of showing EBITDA's trajectory. We assume that the Group will achieve a reported EBIT of EUR -6mn and EUR 4mn in '19F/'20F, respectively, compared to a net loss of EUR 9mn in 2018.**
- **We expect a rec. net loss of EUR 21mn and EUR 8mn in '19F and '20F, respectively. The Group will hardly be able to make profit in 2020 amid Brexit uncertainties and recession fears**. However, we expect Waberer's to be profitable in 2021 on Group level on the back of mid-term measures if the Management restructures its loss-making core operation. However, WHB is a very profitable unit, operating with a profit margin of 8-9%.
- On a segment level, **we are of the view that operating margins will improve somewhat in 2019, however the company will continue to make huge losses in ITS. As a result, the Company has to restructure the business model to become viable, which might take a longer time. We assume that ITS segment will deliver a net recurring loss of ca. EUR 26mn and ca. EUR 16mn in '19F and '20F**, respectively. **All of this means that we don't expect net income to reach break-even within 2-3 years.**
- **Regarding RCL segment, operating margins will very likely shrink in 2019 predominantly due to higher wages, transit and fuel costs. As a result, the Company has to restructure this segment as well, which might take a longer time. However, we assume that RCL segment will deliver a net profit of ca. EUR 0mn and ca. EUR 2mn in '19F and '20F**, respectively**. This means that we don't expect net income to plunge below zero over our investment horizon.**
- **WHB is without doubt the most profitable and strategic arm of the Group. At first glance, it may seem a little weird that a transportation company has its own insurance activity. However, it should make sense to have it if the cost of insurance, which represents one the largest cost items, is taken into account, and also that how much more expensive Waberer's would be able to insure its own trucks and how much more vulnerable position it would be in as a whole, if it did not have its own insurance company.**
- Reaching a profit margin of ca. 8-9% also means that WHB is one of the most profitable insurers in the region. On the basis of the average of earnings multiples of WHB's peers (10.6x) we estimate that **WHB is worth at least ca. HUF 1,010 (EUR 3.1) per share** (excluding PV of future CFs coming from renewables)**. However, we believe that WHB should be trading at an even higher P/E multiple because of its outstanding profitability compared to its peers.**
- **Waberer's is trading at a FY0 EV/EBITDA multiple of 5.7x, well below the peer group's median of 6.6x. It doesn't reflect the outlook and recovery story of the Company.**

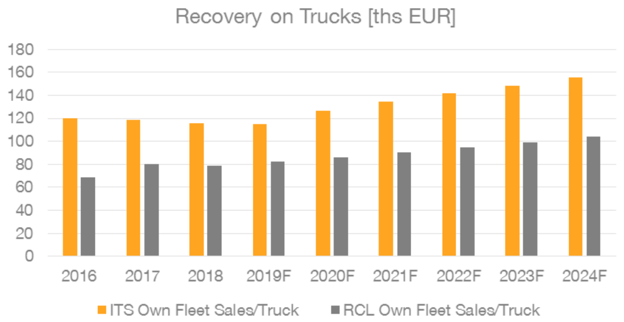
WABERER'S IN CHARTS

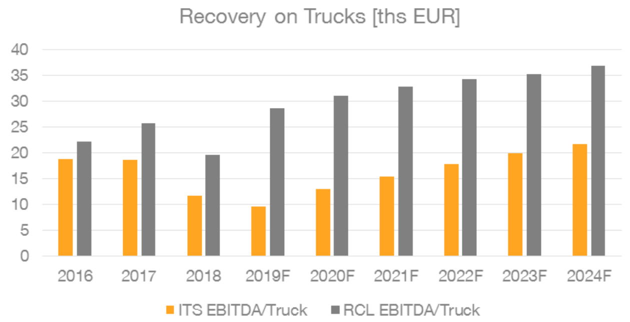


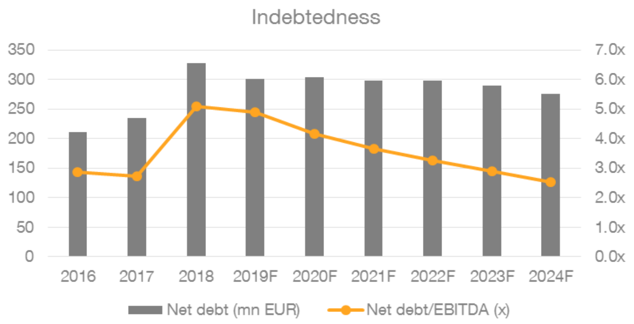


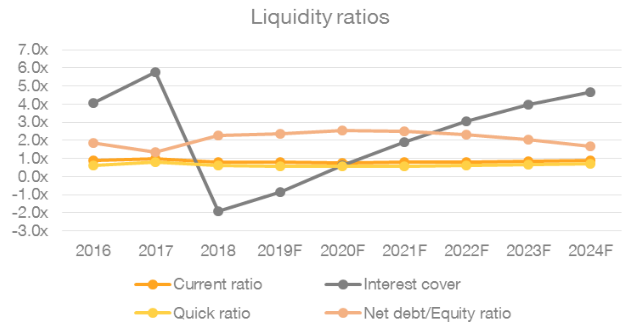


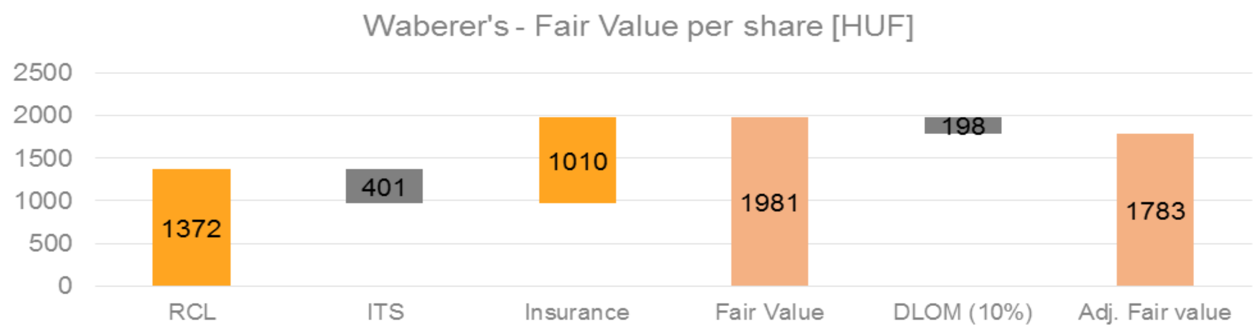












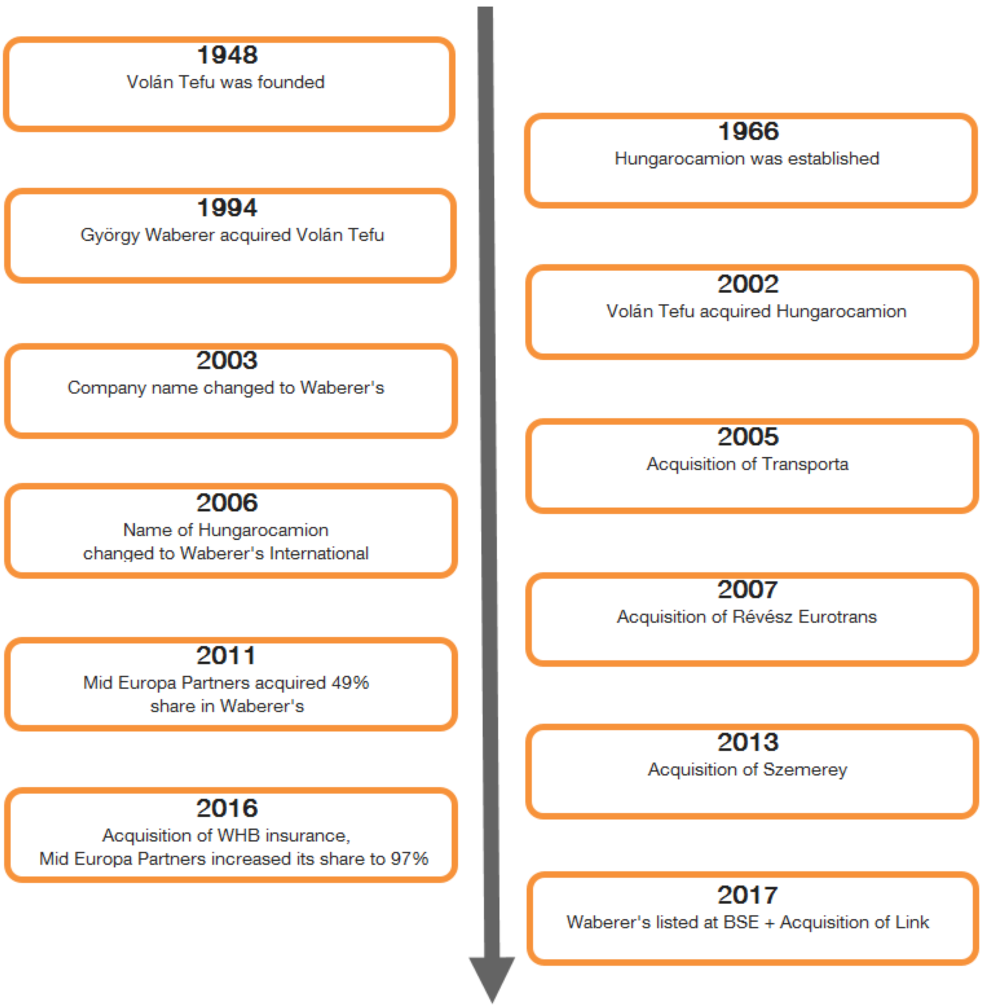
Source: Waberer's, Concorde estimate

Q2/19 results

- **Waberer's Q2/19 results are disappointing, affected by negative one-offs, recovery is said to shift toward H2/19.**
- **Waberer's posted a recurring net loss of EUR 9.1 million for Q2/19 vs. a recurring net loss of EUR 0.1 mn seen in Q2/18, predominantly driven by (1) IT issues stemmed from the implementation of a new SAP-based transportation management system; (2) postponed Brexit end-date**. In March, warehouses were filled in the UK, which had a positive impact on Q1/19 results, whereas transportation services inbound to the United Kingdom dropped dramatically in April. It resulted in more intensifying competition in continental Europe in the first half of Q2/19, which led to 5-10% lower prices on a YoY basis.
- Total Group sales amounted to EUR 172.7 mn, down by 6.4% YoY in Q2/19 predominantly due to lower volumes, which was mainly attributable to the fleet reduction programme.
- Proportion of International Transportation segment's (ITS) sales shrunk in Q2/19 on yearly comparison, which was attributable to the guided fleet reduction programme. On the other hand, Waberer's reported a revenue growth of 6.9% in Regional Contract Logistics (RCL).
- Direct costs rose by merely 1.8% YoY to EUR 146.8mn in Q2/19 driven by (1) lower number of trucks; (2) higher fuel/transit prices and (3) higher personnel costs, resulting in a gross profit of EUR 25.9mn (-26.1% YoY).
- Recurring EBITDA dropped by 41.0% YoY to EUR 12.0mn from EUR 20.3mn (pro forma) on higher fuel/transit/personnel costs amid concerns over weakening demand on the Company's key markets, Brexit uncertainty and tightening labour market.
- In terms of ITS, EBITDA fell 61.2% YoY to EUR 5.1mn, while the Group recorded an EBITDA of EUR 5.1mn (-4.3% YoY) in Q2/19 in the RCL segment. It implies that **RCL could achieve the same EBITDA level with ca. 800 trucks, while ITS is operating about 3400 trucks.**
- Recurring EBIT reached a net loss of EUR 5.9mn in Q2/19 vs. EUR +3.3mn in Q2/18. Financial expenses decreased to EUR 1.7mn in Q2/19 from EUR 3.6mn in Q2/18 due to (1) the reduction of the fleet and (2) the fact that implied interest rate for H1/19 remained under 1.5%.
- **According to the statement, net leverage increased to 5.7x (covenant at 3.5x)** as of the end of June from 4.3x as of the end of 2018 partly as a result of the implementation of IFRS 16. In case of improving efficiency and further fleet size reduction (further 300 trucks to be handed back until the end of 2019), negative trend is expected to turn around by the end of the year. **More importantly, CEO highlighted that the Company is in the mid of a transitory period, added that short-term measures contributed to improving yield results. However, positive effects of measures seem to be slower-than-expected. Waberer's also stressed that the financial position of the Group remained stable despite record high net leverage.**
- **CEO has also given an insight into the Group's current situation.** He mentioned that Waberer's suffered from one-offs in April. Firstly, **Waberer's implemented a new SAP-based transportation management system in April,** which had serious functionality and performance issues in the first weeks, **led to complete breakdown of the system and loss of orders** on a couple of days. Secondly, **the industry was impacted by** the aftermath of the end-March Brexit date due to **a meaningful drop in orders from the UK**. It contributed to a yield pressure across continental Europe.
- **Mr Ziegler also noted that they are back to utilisation levels seen in 2017**, which was one of the most relevant facts why bottom line deteriorated over the previous quarters.
- **Opinion: We are of the view that short-term and long-term measures will likely result in a margin improvement in H2. However, Brexit, which is beyond the scope of the Company, poses the biggest risk.**

History

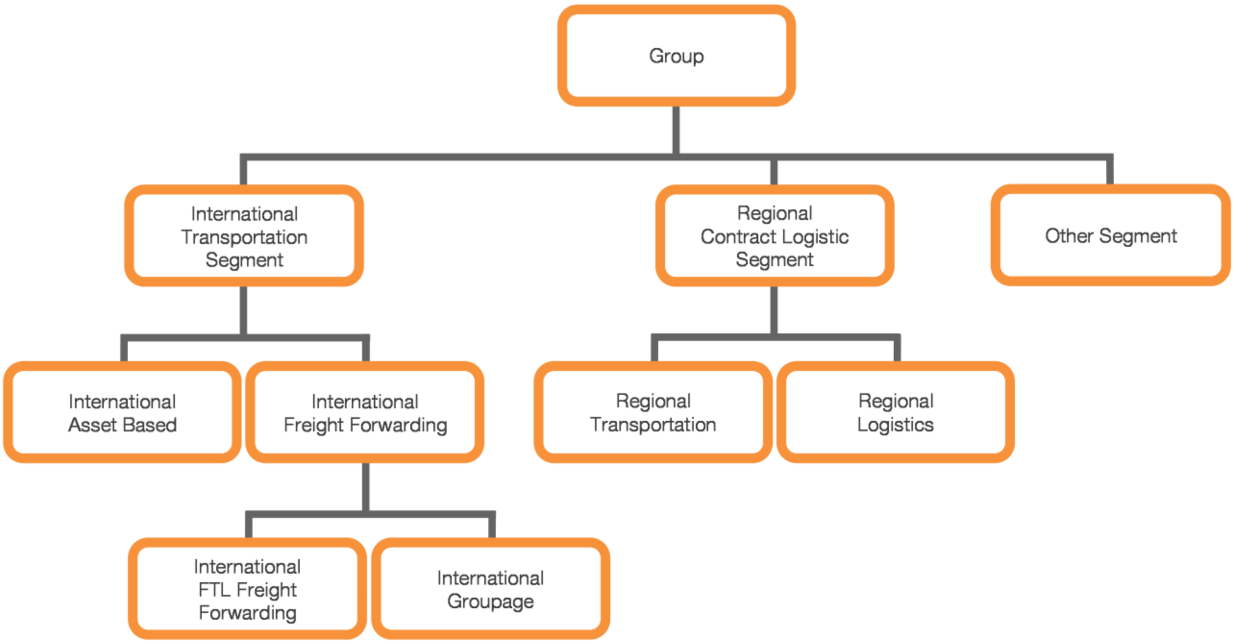
- Waberer's International has a more than 70-year history and a strong track record of acquisitions. In 1948, Volan Tefu was founded for the purpose of road cargo transportation. Later in 1966, Hungarocamion was established. Greater excitement occurred after the regime change in 1989 as György Waberer and his associates could seize the opportunity to privatise Volan Tefu in 1994. Eight years later, Volan Tefu managed to acquire Hungarocamion to establish the largest transportation and logistics provider in Central Europe.
- In 2003, Volan Tefu has been changed to Waberer. Thanks to the prosperous economy and success, Waberer's acquired dozens of smaller companies and continued its regional expansion. Taking the first step, Hungarocamion was named Waberer's International, while in 2007, the Company took over one of the largest Hungarian competitors, Revesz Eurotrans.
- Following the global financial crisis, Gyorgy Waberer was in talks to sell its stake in the Company. As a result, Mid Europe Partners (MEP), a London-based private equity player, focusing on CEE, acquired a 49% stake in Waberer's Holding in 2012 and gradually increased its share to 97% by 2016.
- After buying out of the rest of Gyorgy Waberer's stake, MEP intended Waberer's International to go public sooner or later at the Budapest Stock Exchange. As a result, for the second attempt in 2017, Waberer's IPO was priced at HUF 5,100 per share and the Company raised about EUR 47mn in net proceeds to acquire its Polish rival Link. Waberer's has a free float of 28% after the transaction.



Source: Waberer's

Company Overview

- Waberer's International is one of Europe's leading transportation and logistics service providers, operating with a fleet of over 4,300 trucks and more than 5,600 truck drivers.
- The Company consists of three business units.

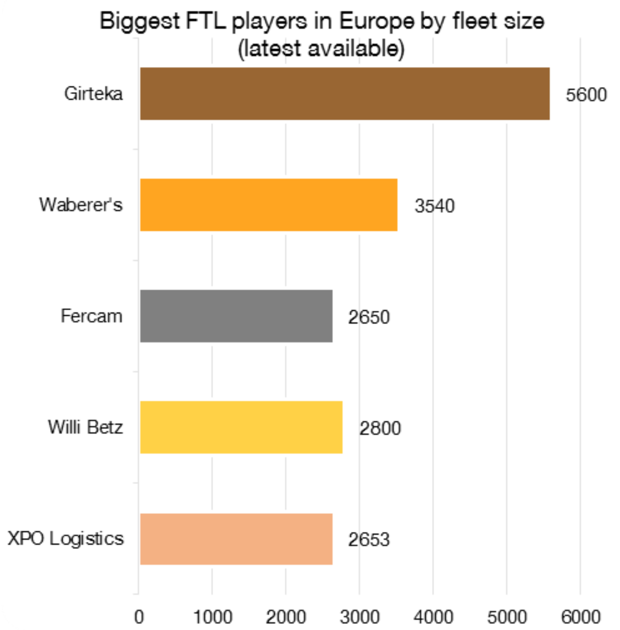


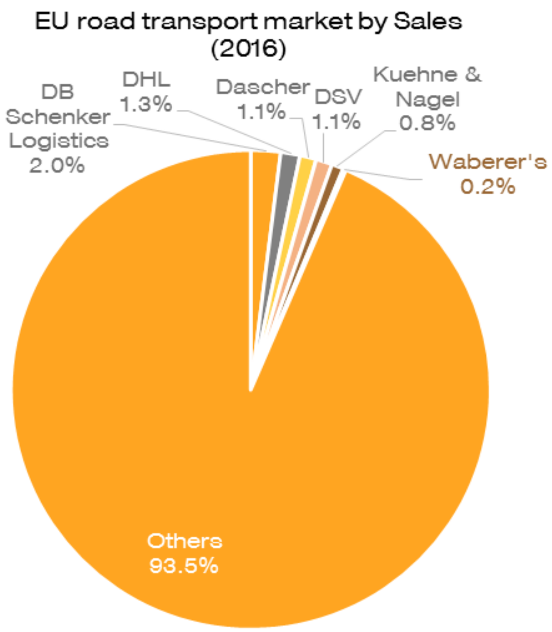
Source: Waberer's

- International Transportation Segment (ITS), operating with more than 3400 trucks, accounts for ca. 71%/59% of the total revenues/EBITDA, respectively. As an owned fleet operator, Waberer's provides long-haul FTL services and freight-forwarding beyond the borders in Europe. Due to the highly competitive market, Waberer's failed to grow organically and non-organically on a quarterly basis in Q1/19 for the first time since its IPO, which shows that the sector is broadly affected by economic cycles. Nevertheless, the acquisition of Polish rival Link was not a well-timed transaction either. Recent developments and management decisions led to a significant reduction in fleet size, which meant in the end that the Company's ITS arm shrunk back to pre-IPO levels. At this stage, we are cautious on this segment. If supply-demand imbalance remains on the EU market, we still look forward further pricing pressure, which may trigger dynamic, downside optimisation in fleet size.
- The Regional Contractual Logistics (RCL) arm of Waberer's is the market leader in Hungary. The HU-based haulier focuses on domestic FTL and LTL transportation and warehousing services, whereas it also provides repair and maintenance services to third parties. RCL, operating with a fleet of 800 trucks and offering a total warehousing capacity of ca. 214,000sqm, accounts for ca. 21%/32% of the total sales/EBITDA, respectively. Thanks to its leading position, Waberer's is well-positioned in the domestic market. In our view, RCL creates value for the investors as the Co. can exploit the economies of scale in the region.
- Other segment comprises the insurance business unit. WHB, the youngest arm of the Group, joined the Company in 2016. The insurance company offers many kind of insurance solutions (e.g. vehicle insurance, CASCO) related to domestic and international transportation, whereas it does not offer life insurance services. In our view, WHB, which accounts for ca. 8%/9% of the total revenues/EBITDA, respectively, has stable profitability and represents a meaningful value in the share price.

A glimpse at the industry outlook

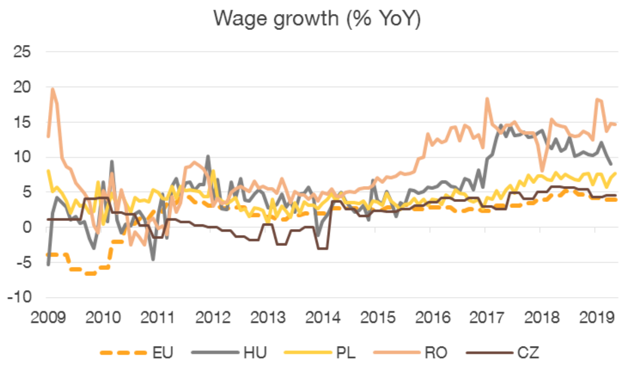
- Over the past two decades, European Logistics Centres has developed on the back of growing demand for Asian and North American import products. Especially in the Benelux countries, an enhanced volume of goods incentivised market participants to invest into infrastructure. Besides that, CEE countries joined the EU and integrated to the common customs area. This process opened the doors for many truckers to enter the international market. Additionally, lower cost operators could attract WE customers, thus these companies could rapidly gain market share.
- Since the mid-2000s, substantial reforms have been adopted to improve the productivity in the CEE region via EU Cohesion Fund. Joining the EU also meant that free movement of goods and labour aided the regional corporations to expand their activities across Europe. CEE-based, predominantly Polish and Hungarian truckers could attract Western European customers to opt for their services on the back of significantly lower shipping fees. The advantage was mostly due to the low cost base, which stemmed from the cheap workforce employed by the companies.
- **However, road transport is one of the most fragmented markets in Europe,** meaning that the sector is characterized by rivalry and aggressive competition. In tandem with lower diesel fuel prices and consumer spending boost, operating margins significantly widened in the mid-2010s. Riding the fabulous flow, Waberer's reached outstanding profitability in recent years. It was also supported by market consolidation as fundamentally strong European truckers were active in M&A to expand their activities. As a result, the average EBIT margin of European carriers climbed somewhat before the global industry started to slow down in the EU. Notwithstanding, in light of higher labour and transit costs, such EBIT margins are not sustainable, in general.
- **Rivalry over acquiring new customers by nearly break-even pricing as well as higher salaries will likely push margins lower over the next years.** The operating environment is by no means easy for the market leaders, with margins low for the likes of DB Schenker, DHL Freight and Kuehne + Nagel, as DSV continues to lead the pack in terms of profitability. These operators are just reaching an EBITDA margin of between 6-10%. Due to the fact that the sector is basically capital intensive, high depreciation costs result in ultra-low profit margins. However, those companies have a FCF yield of 3-4% on average. As a result, transportation companies try to take advantage of economies of scale. The chart below shows the fragmentation of the sector. In Europe, Waberer's is vainly one of the biggest players, no one plays a price-setter role amid cut throat competition.

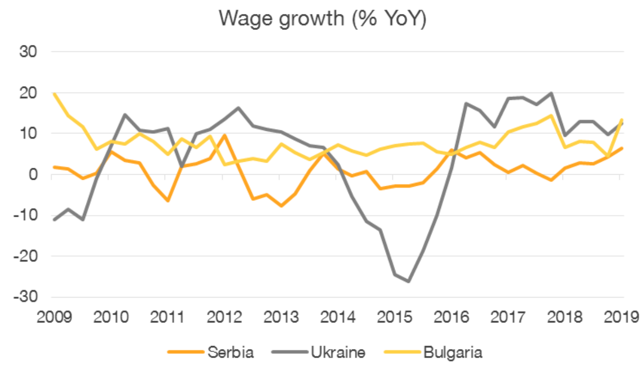


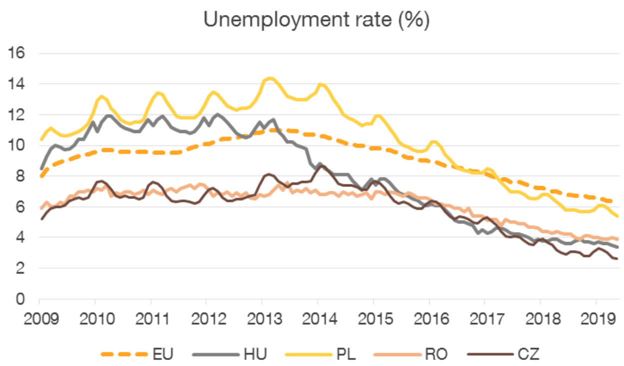


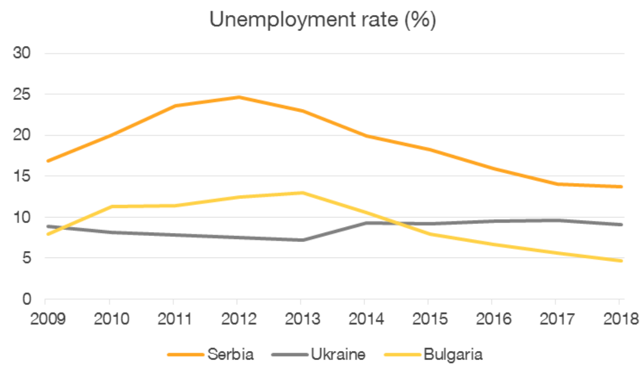
Source: Waberer's, Transport Intelligence

- This environment also influences the pricing power of the truckers, which makes even harder to retain existing customers or to gain market share. In another aspect, **road transport also competes with railroads and rail-road intermodal services**. We expect that if labour shortage does not soften going forward, green efficiency railroad transport will very likely attract new customers. In addition, initiatives to reduce the burden on the road network are in line with the European Union's transport policy, which aims to achieve 30% of road freight transport over 300kms by 2030 and more than half by 2050 by rail or waterway. **Nevertheless, rail transport** in particular **has been struggling to achieve its potential despite (1) its comparative advantages over medium and long distances and the fact that (2) it consumes significantly less energy**. According to an EC study, this is due to low quality and reliability, which derives from the lack of coordination in cross-border capacity offer, traffic management and planning of infrastructure works.
- **The competitive advantage of the CEE region** has lost its charm as the **wage convergence continued between the CEE and the rest of the EU.** A substantial proportion of Hungarian, Polish and Romanian drivers has immigrated or has been employed in Western European countries in the hope of a better life, which partly explains the record low unemployment rates in the region. We are of the view that aging drivers or labour shortage has become one of the greatest risks to the whole industry. As a result, hauliers have to hire Ukrainian or Balkan (generally Serbian, Bulgarian) drivers and to employ cheaper workforce to relieve the current pressure on the businesses.







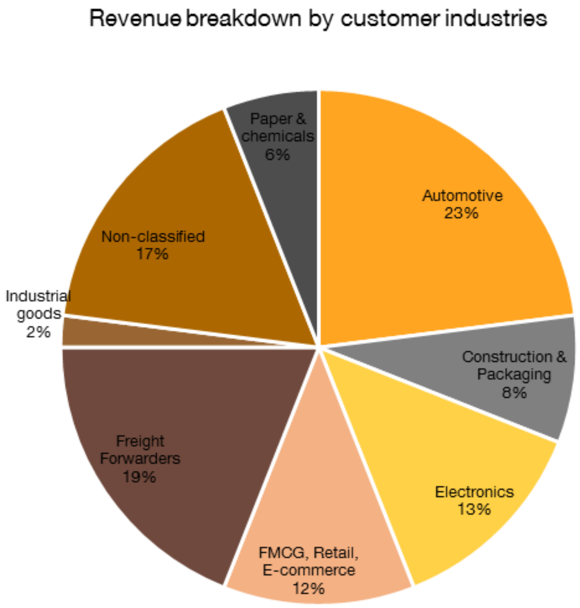


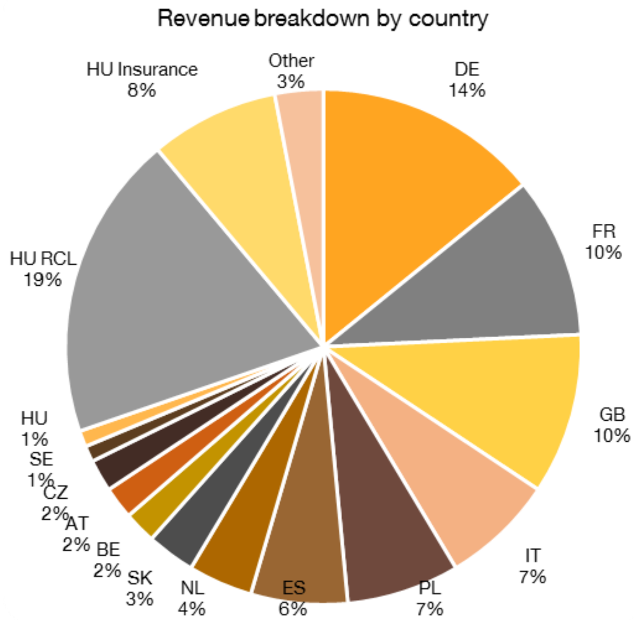
Source: Bloomberg

- **Regarding the regulatory framework**, the growing freight transport market increased the pollutant emission of diesel trucks, which has gradually led to an even more restrictive EU policy. As a result, hauliers are subject to some environmental laws and regulations. After the EU parliamentary elections held in May/19, we strongly believe that concerns over pollution and CO_2 emissions will intensify. It will likely result in higher regulatory requirements which will negatively influence the transportation companies, while economic slowdown will hurt the sector’s profitability further. All in all, the upcoming directives/rules might spread onto consumer prices, creating inflationary pressures in the EU.
- Moreover, EU proposals affecting minimum wage and cabotage rules threaten upheaval, while tech innovations pose a number of questions. Transport Intelligence expects that

disagreements over the EC's Mobility Package of reforms appear to reflect a West-East clash, with the proposals attempting to reach compromises. For example, the proposed rules on posted workers protect Western European companies more than the status quo, whereas the proposed changes to cabotage rules imply the opposite. Fortunately, Waberer's does not carry out cabotage activity in Western Europe.

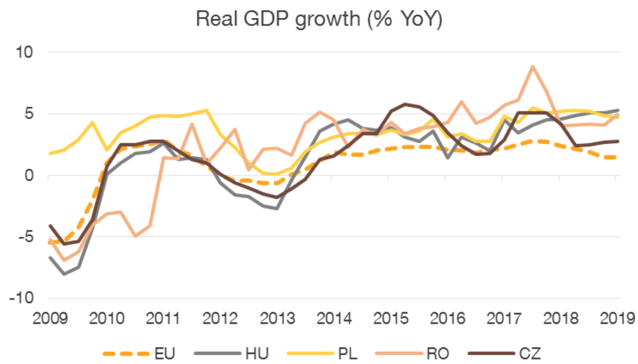
- **Waberer's has a significant exposure to three WE countries**, namely to Germany (w/ a revenue share of ca. 14%), France (w/ a revenue share of ca. 10%) and Great Britain (w/ a revenue share of ca. 10%).

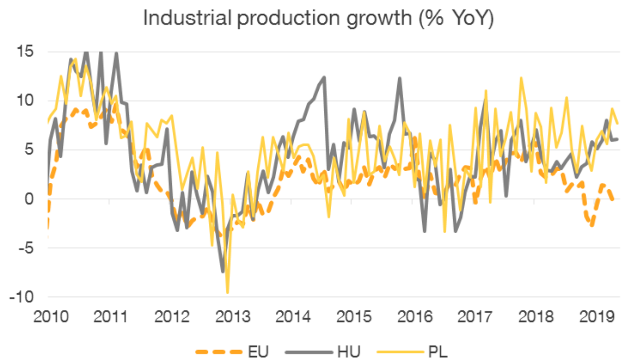




Source: Waberer's (latest available)

- **The German economy,** which has the greatest share of the EU international Road freight market, is the most exposed to grocery retailing and the automotive industry in the country. On the one hand, retailers (e.g. Aldi and Lidl) aggressively expand into other European countries and manage to continue their growing strategy. On the other hand, we experience that car sales continue to decline in China and WE, while many of the largest industrial and automotive companies issued profit warnings that recently jolted the sector. As Hungary is very dependent on the German economy and the region has a substantial role in the supply chain, we cannot turn a blind eye to the possibility of industrial production shrinking in the EU, especially in Germany, onwards.

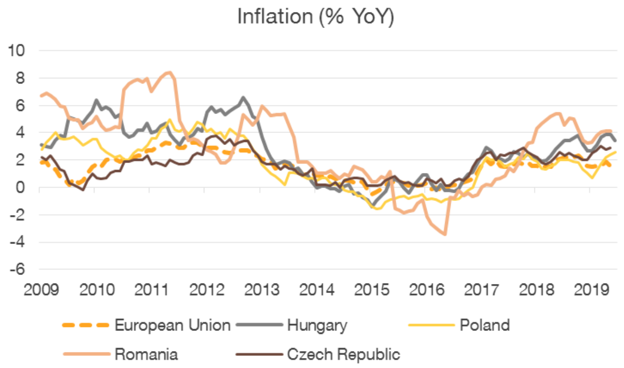


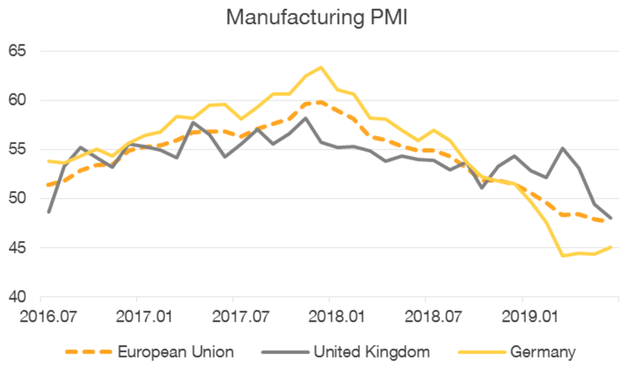


Source: Bloomberg

- **France** differs in a couple of features from Germany. French truckers had a solid market position as the Govt. intended to prefer local, regional players. The transport market was basically characterized by the low market share of the Central Eastern European and Spanish freight forwarders, while large national hauliers dominated the sector instead. However, it's much easier to do business in France nowadays, according to TI.

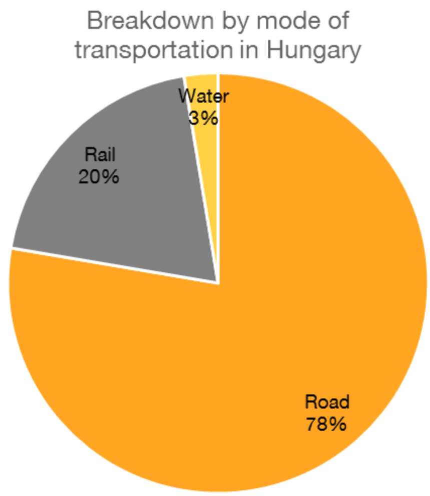
- It's hardly predictable what will happen with **Great Britain** once they leave the bloc. Political uncertainty is left unchanged as concerns over the Brexit deal haven't cleared up since the historic referendum. However, the clock is hurriedly ticking away over U.K. Ministers to manage the so-called Brexit that will likely cause more severe headaches until the exit day. What we see are just a couple of hopeless negotiations between EU and U.K. representatives, and it is dubious how the parties will create an agreement which will be beneficial for both. In case of a no-deal Brexit, the UK border is expected to be temporarily closed, which might cause disruption. Over 10% of total revenues for the Co. are derived from the UK. If trucks are unable to enter the UK, Waberer's will be hit as affected trucks will generate huge loss.

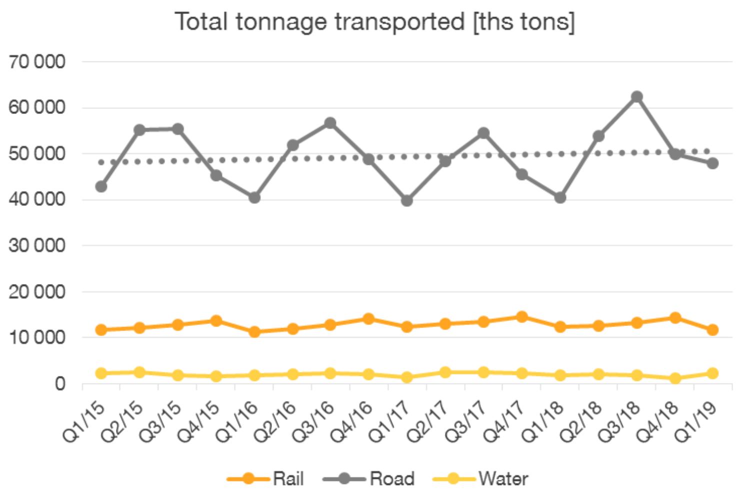




Source: Bloomberg

- Due to the fact that RCL account for ca. 21%/32% of the total sales/EBITDA, respectively, we also have a look at the Hungarian market outlook. In 2018, road transportation industry grew significantly predominantly in the mid-season boosted by construction. It resulted in a total turnover increase of 15% YoY. However, this trend will likely change over the next couple of years. According to MLSZKSZ (Association of Hungarian Logistics Service Centres), better cooperation between rail, water and road transport could reduce the number of lorries by 50,000 on public roads in Hungary a year. In addition, the development of combined freight transport would significantly reduce the burden on public roads. It would also alleviate the shortage of drivers, one of the major challenges facing the logistics sector. This would require the development of an appropriate incentive system, the simplification of railway regulations and investment.

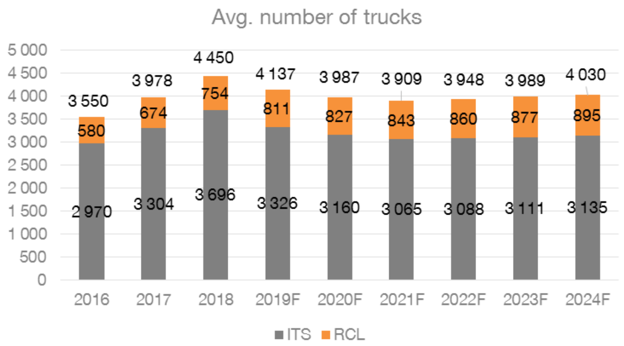


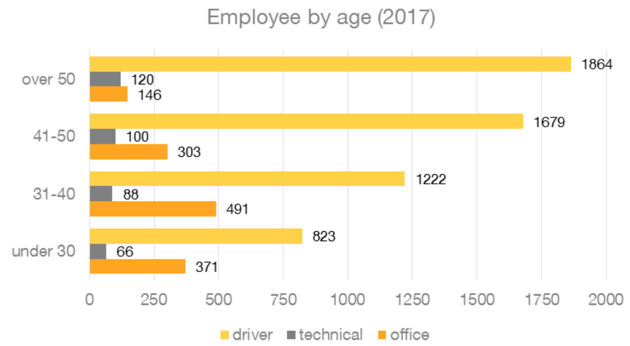


Source: Hungarian Central Statistical Office

Company-specific issues

- **Putting the blame on the weakening EU economy and labour shortage are not the only reasons why Waberer's is suffering since its IPO. We recognised several operational issues which have deteriorated the profitability over the last couple of quarters.**
- **Transparency. We are sure that truck operators are getting paid in different ways** and unfortunately black or grey work is widespread in the CEE region. **It means that drivers are officially working for minimum wages and they receive the rest of their salaries in cash resulting in tax avoidance. Waberer's, as a listed Company, has to operate transparently, thus they have a competitive disadvantage.** In our view, regulators should introduce new and strict measures to whiten the economy and incentivise carriers to eliminate this harmful system. All in all, other carriers might save a lot on tax aversion, thus we are suspecting that competitors are able to set lower prices than those of Waberer's.
- **Shrinking fleet size, despite Link acquisition.** After the IPO, Waberer's acquired the Polish Link, which was one of the main rivals of the Company in the region. The Hungarian carrier's Management promised that Waberer's would grow organically in the future or would be interested in M&A. In our view, Waberer's will continue to shrink its capacity in the ITS segment to operate more efficiently. However, this would help mitigate the wage pressure.





Source: Waberer's, Concorde estimate

- **Financials.** Waberer's operates amid a more favourable economic environment thanks to being a meaningful CEE exposure, but the Group cannot capitalise on it. Waberer's has a Net debt/EBITDA ratio of 5.7x as of 30th/Jun, which was well above its covenant of 3.5x. This is another reason why the carrier has to shrink the fleet size gradually in the near future. We are confident that the number of trucks will plunge below the levels which we saw before the acquisition of Link. Additionally, in the case of an increasing yield environment, Waberer's would have to pay more interest on its floating leases, which would cause another negative impact on the bottom line. Fortunately, it's not the case at the moment, but we are tracking the evolution of 3-month EURIBOR rates as the interest expense depends on it.
- **Waberer withdrawn brand name usage**. In Mar/19, Founder Mr. Gyorgy Waberer has officially withdrawn brand name usage rights. Accordingly, Waberer's International has a 3-year grace period, expiring on 26/Mar/2022 to rebrand the Company. Based on the company filling, costs will not be material nor significant, albeit they are a bit uncertain. In our opinion, it has long been known and expected. However, initiation of the new brand name will most likely cost some EUR millions due to the fact that the carrier has to repaint the trucks and trailers, which could be the most significant spending.
- **Based on our estimate**, **repainting** of the trailers **might cost min. EUR 400-500 per truck**, assuming that only the name will be repainted. Accordingly, the total expense is expected to reach min. EUR 2mn related to the new decoration of the trucks and trailers, which is significant, in our view, considering the current financials of the Company. Additionally, other expenses will certainly occur, which will further increases the total impact of the obligate change.

Upside risks

- **(1) Waberer's might be an M&A target in the forthcoming period.** It is conceivable that someone might make a bid for the stake of Mid Europa, who has an ownership of 72% in Waberer's. It means that the potential bidder should set a higher price than the current share price. But, as we mention below, tangible BV is around HUF 1,280 per share, in our view.

Liquiditation value – as of 30/06/19	Value
Total equity attributable to equity shareholders [EUR mn]	134.1
Intangible assets [EUR mn] (excl. Goodwill)	17.0
Goodwill [EUR mn]	47.6
Tangible BV [EUR mn]	**69.5**
Number of shares [mn]	17.7
EUR/share	3.9
HUF/share [EURHUF=325]	**1280**

Source: Concorde estimate

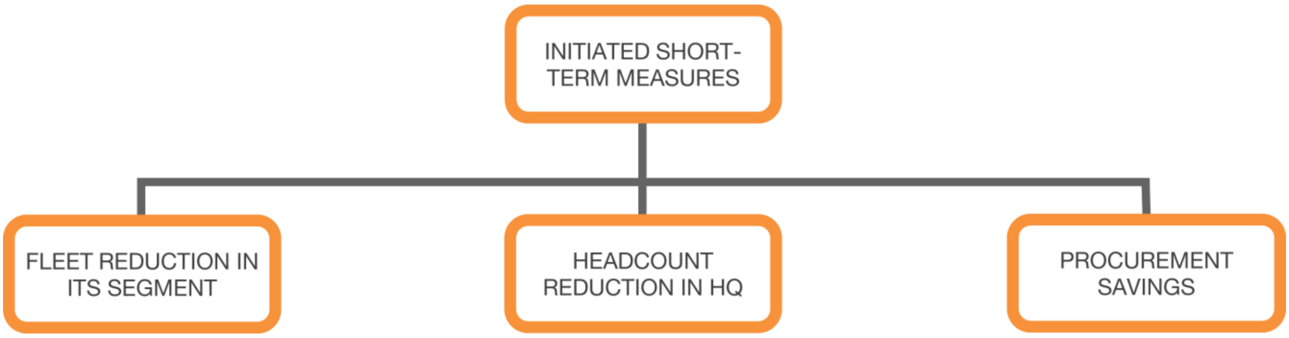
- **In our view,** the liquidation value of the company is min. EUR 69.5mn or HUF 1,280 per share as of 30/Jun/2019 due to the fact that intangible assets of Waberer's are valuable. Therefore, we assume that, based on the balance sheet, the company is trading well below its hypothetic liquidation value. However, if we took into consideration a bankruptcy procedure, which has a very limited possibility, in our view, a potential buyer would likely apply a discount rate of about 10-15%. With respect to applying this rate, discounted liquidation value of Waberer's would be roughly in the range of between HUF 1090-1150 per share. **Although, this is the worst case scenario.**
- **In another aspect**, equity value could be adjusted for goodwill exclusion. Waberer's has a BV of EUR 134.1mn (ca. HUF 2,460 per share). In case of eliminating the total goodwill balance of EUR 47.6mn, adj. BV is EUR 86.5mn or HUF 1,590 per share. In this case, Waberer's is trading at an adj. P/BV of 0.76x.
- **(2) Waberer's might be eligible for a significant compensation after the Company filed its damage claim on truck producers** due to the fact that producers might have set higher prices for trucks earlier. The Hungarian truck operator sued for damages of EUR 47.8mn, thus it could be a significant one-off income in the future.
- Earlier many cases were successfully conducted by German Courts. In case of Waberer's, ca. 7,000 trucks might be affected. Considering the total amount of the damage, Waberer's could receive up to EUR 47.8mn (EUR 2.7 per share). However, we expect the total compensation worth up to two-thirds of the initiated amount, based on recent cases. **The case to be continued at Munich Court, but we stress that this procedure might take a long time until the pronouncement of judgement.**

	Initiated	Concorde's base case
Compensation [EUR mn]	**47.8**	**31.9**
Number of shares [mn]	17.7	17.7
Total positive impact:		
EUR/share	2.7	1.8
HUF/share [EURHUF=325]	**880**	**585**

Source: Concorde estimate

Improvements in the operation

- **As a result of the very disappointing FY18 earnings,** we were not surprised that ex-CEO Mr. Ferenc Lajko resigned and left the Company after 19 years. Subsequently, the Board appointed DHL Freight COO Mr. Robert Ziegler as new CEO on 1st/Feb. We are of the view that it was a rational step as Mr. Ziegler proved his skills as a crisis manager earlier. Nevertheless, Mr. Ziegler's appointment is not a guarantee for Waberer's to stand up from the floor, but as we know, the new CEO managed to lead DHL UK out of loss-making as a crisis manager earlier. Immediately, **Mr. Ziegler and the Management initiated short-term efficiency measures** in order to improve profitability, which consisted of three strategic steps.

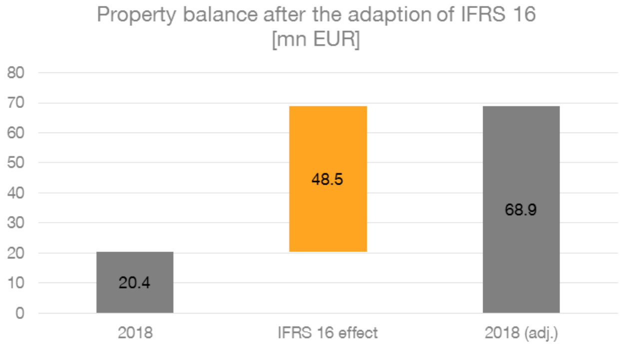


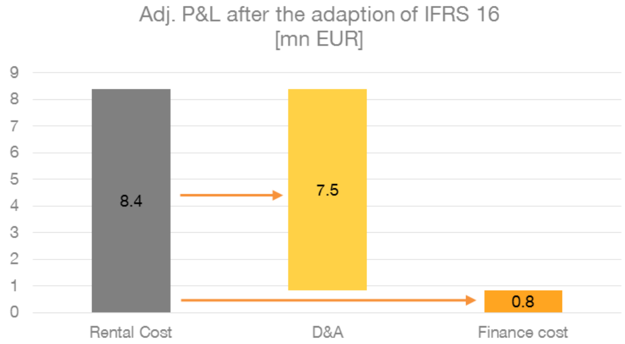
Source: Waberer's

- **First, BoD decided to launch a Fleet reduction programme** to optimise the portfolio in order to boost profitability. In the first phase, the Company managed to deactivate 300 trucks (ca. 8% of ITS fleet) in line with Mgmt.'s previous projection, moreover they are planning to hand back 300 more trucks in H2/19. According to the latest Co. presentation, Waberer's started to slash loss-making orders and capacity. Additionally, a new sales team has been formed to proactively develop top line results. We are somewhat confident about this step as the incentive system has been changed to a performance-based pay structure.
- **Second, Waberer's reduced the number of office employees by 200 headcount in Q1/19,** furthermore HR has frozen its hiring activity for white collar workers. The Company spends significant amount of cash to develop IT systems, thus we are of the view that the Co. will be able to lower the headcount in the mid-term on the back of digital transformation.
- **Third, Waberer's** also **set a goal to reduce direct costs** by using the Group's purchasing power and scale, which means that Mgmt. is committed to cost control. Fuel and transit costs account for over 40% of direct costs in ITS/RCL segments. Regarding the fuel costs, part of planned fuel savings have been materialised, however, we believe that trucks basically run with an acceptable consumption level and there is limited room for reaching gradual consumption gain. Regarding transit costs, a more efficient road planning system has been introduced, which could result in lower unit costs over the next years.
- **Besides that, Waberer's has continued to test and implement new solutions t**o raise its efficiency level and service quality. Regarding IT systems, the Company developed an SAP-based transportation management system in corporation with SAP to analyse and control its activities.
- **Taking into account the significance of the higher requirements posed ahead of truckers in the EU, Waberer's is committed to improving a cost efficient business model.** For the sake of reducing its ecological footprint, Waberer's has tested gas-based truck technologies with different vehicles. carbon and greenhouse gas emission have been found to be much lower than for diesel vehicles, however, low availability of gas fuelling stations makes technology difficult to apply.

Financing structure - Cost control is inevitable

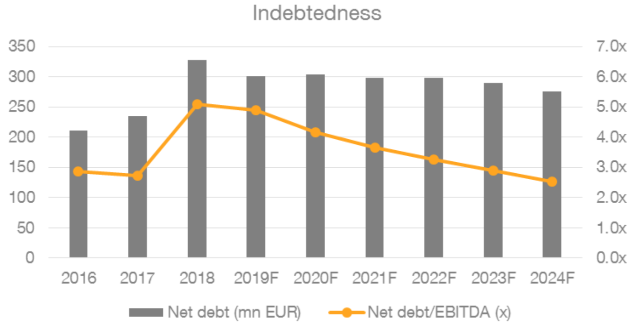
- Waberer's uses finance leases for acquiring vehicles, including trucks and trailers, which have a net value of ca. EUR 290mn, and uses operating leases for certain properties, which have a net value of ca. EUR 49mn on the balance sheet as of 30/Jun. The Group acquires vehicles and trailers with a maturity of 5 years, whereas the contracts were generally signed with a maturity of 4 years pre-2017.
- More importantly, we have to stress that Waberer's acquires the vehicles directly from the manufacturers, who provide repurchase guarantee during and also at the end of the term. In our view, it means that Waberer's is operating a very flexible business model, thus it is worthless dealing with the net debt to EBITDA covenant until the Co. would hurt the interest of the lessors. As Waberer's has no insolvency issues at this point, our opinion is that creditors will not force Waberer's to reduce its fleet size.

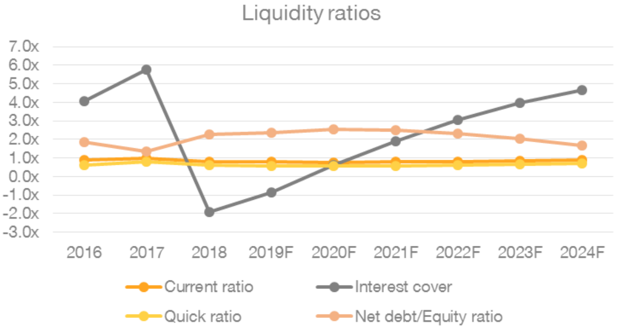




Source: Waberer's, Concorde estimate

- Due to the implementation of IFRS16, we obtained a more coloured picture of the B/S. In Q1/19 interim report, balance of total assets grew by EUR 48.5mn as a result of the consolidation of leased properties. It also resulted in record high indebtedness level. Income statement is also impacted as rental cost will no longer been reported. According to our estimate, rental cost will be divided into D&A and finance cost, thus operating leases will behave almost like finance leases.
- Despite looming the business, it is not necessary to be wary of the indebtedness ratios, in our view. We admit that the net debt to EBITDA multiple of ca. 5.7x (Q2/19) is worrisome, but the Co. operates a very flexible business model with a flexible asset cycle. Earlier, we experienced that Management was not willing to slow down procurement of the new trucks and expanded its fleet size regardless the efficiency and utilization. Half a year after the arrival of the new CEO, we see that the Mgmt. is much more margin-focused and they are poised to reduce capacity to boost profitability. Additionally, trucks are handed back after 4-5 years of use. In case of an economic recession, Waberer's would be able to cut the fleet size by ca. 600 trucks p.a., thus the Group could rapidly react to the changing economic conditions.





Source: Waberer's, Concorde estimate

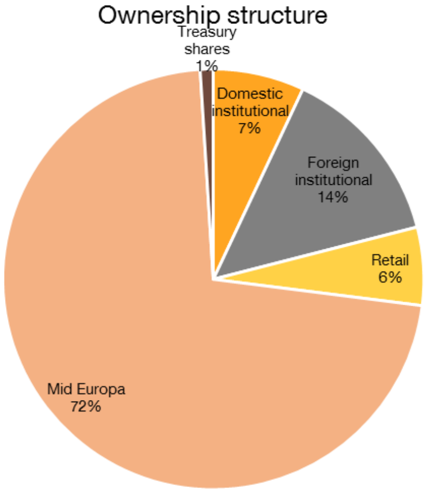
- Another approach is that Waberer's could sell off some valuable assets (e.g. one-two properties or WHB) from its portfolio or the Group could be mortgaging its properties to raise cash to cover expenses. In our opinion, either divesting the insurance company or selling 1-2 properties are not going to be a rational decision in light of the synergy, deriving from the fleet insurance and the profitable warehousing activity. As a result, we believe that in case of insolvency threat, the Company's most reasonable step would be mortgaging some warehouses and buildings to cover its short-term expenses.

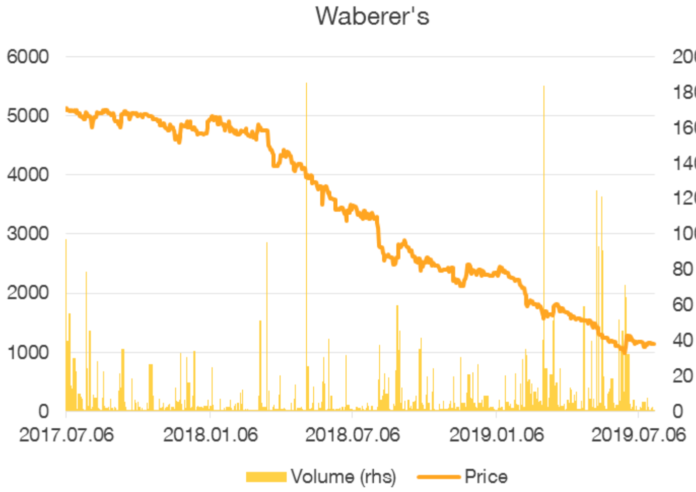
Risks

- **Market risk.** Waberer's operates in a highly competitive industry. Road transport is one of the most fragmented markets in Europe, meaning that the sector is characterized by rivalry and aggressive competition, whilst an oversupplied market put pressure on truckers. Moreover, road freight forwarding companies also have to compete with rail cargo. Initiatives to reduce the burden on the road network are in line with the European Union's transport policy, which are not supportive for truckers.
- **Macroeconomic risk.** Waberer's operates amid a flourishing economic environment in the CEE region. Most countries in the region could remain benign in terms of GDP growth. Poland and Hungary are sticking to loose monetary policy, at least formally, while Romania is raising rates for a while. In case of a slowdown, we see Waberer's to be resilient due to its geographical diversification and different business units, however weakness of the automotive industry continues to loom the Group's earnings.
- **Financial risk.** Most of the Group's revenues/expenses incur in EUR. However, at some Group members, functional currency is RON, PLN or HUF. Costs are just partly hedged naturally, but not covered totally with corresponding revenues. As a result, the Group holds an open FX position. In addition, the company has floating rate leases, depending on 3-month EURIBOR rate, which are not hedged. In case of increasing yield environment, Waberer's would have to pay more interest on leases, which would have another negative impact on bottom line.
- **Oil price / IMO2020 impact.** Carriers can pass-through increasing fuel costs onto their customers, but there is a 3-6-month lag which they can apply higher tariffs. Although, oil prices are not considered as high, strong USD against EUR put pressure on the truckers' operating margins as fuel expenses accounts for ca. 18% of total expenditures. We see that a fuel price increase could negatively influence Waberer's results in the coming years despite fuel price clause adjustments. Moreover, IMO2020 poses a huge threat ahead of carriers. As a result, diesel crack spread might rise gradually. Although, we add that we have seen downside trend in the recent months, because of recession fears. In terms of consumption, there is limited room for lowering it on average, thus the annualized impact of this is not much material, in our view, despite forecasting up to 0.5-1% fuel consumption savings p.a. going forward.
- **Insurance-specific risk.** Insurance business is a highly regulated market with unique risk characteristics. Waberer Hungaria complies with Hungarian regulatory framework. However, unexpected events beyond the company's control may disrupt operations, such as unanticipated increases in the severity of frequency of claims, severe weather events or catastrophes.
- **Liquidity/overhang risk:** The liquidity of the stock is very low at the BSE as a result of the low free-float. Mid Europa Partners is the largest shareholder, possesses around 72% of the total number of shares. Many investors see Mid Europa as a threat due to the huge share overhang. In addition, MEP attempted to sell over 10% of its stake after the lock-up period in 2018 without first announcing its intention, which was not honoured by investors. Since the IPO, daily average traded volume of the stock was some 9,000.

Ownership structure

- **Since the IPO, 72% of the total number of shares is owned by Mid Europa Partners (MEP) via CEE Transport Holding.** Due to the overhang, liquidity of the shares has been very limited at the BSE. However, MEP wanted to sell a bigger stake of the Company during the IPO process. Despite having an investment horizon of 5-7 years, we are of the view that MEP is not motivated to get rid of Waberer's at this moment as the current market value of the stake definitely plunged below the avg. cost price at which they took over the Group from Mr. Gyorgy Waberer.
- **During the IPO process,** Foreign and domestic institutions have bought less than half of the amount of shares offered for sale due to the limited visibility of the future growth and mounting risks**.** As of 25th of January, 2019, domestic/foreign institutional investors owns around 7%/14% of the shares, respectively, while retail investors represent about 6% of the shares. According to Bloomberg, Magellanes and Aegon are the largest institutional shareholders with an ownership stake of 1.60%/1.48%, respectively. Over the 1% threshold, Norges Bank owns 1.14% stake in the Company. However, we note that this picture might be distorted.





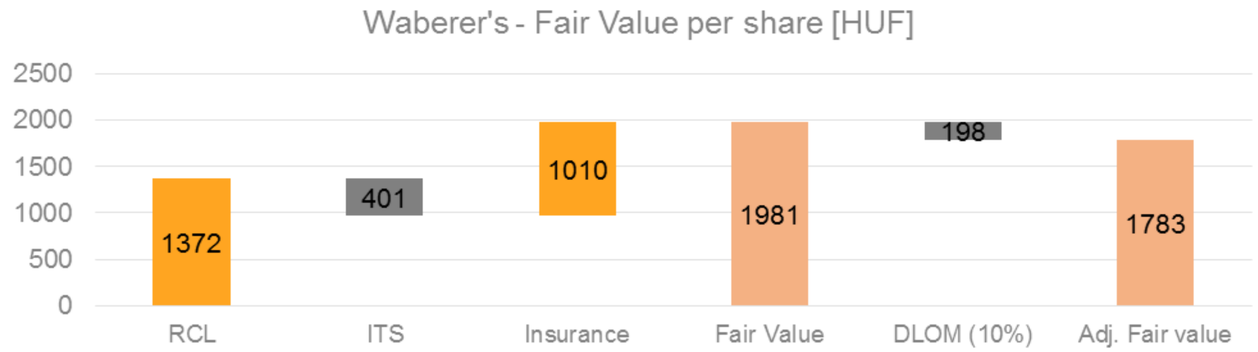
Source: Waberer's (latest available), Bloomberg

VALUATION – Sum-of-the-parts method

Summary

- **We initiate a coverage of Waberer's International Plc. with a BUY rating and a TP of HUF 1,785, implying a 47% upside potential.**
- Growing tariffs deteriorated the evolution of the volume, more than that of expected earlier by the previous Management. Due to the fragmented market, Waberer's has lost its competitiveness after increasing tariffs, which had a worse-than-expected negative impact on utilization. We believe that the fleet reduction programme will result in improving operating margins.
- **The key to be driving out of the mud** might be the arrival of the new CEO, who is an experienced crisis manager hired from DHL. We believe in short-term measures initiated by the Management earlier this year, but we are of the view that they have to deliver at least two consequent profitable quarter to believe in the turnaround. **However, this is anticipated to shift toward 2020, if Brexit uncertainties get more clearance.**
- **We see the company is not teetering on the edge of bankruptcy despite accruing losses quarter by quarter.** In addition, **Waberer's has some valuable assets, which is worth** more than the current share price, in our opinion. However, if the Company continues to make losses on Group level, it may sooner or later become insolvent. **According to our sum-of-the-parts valuation method, RCL segment is worth ca. HUF 1,370 per share, while Waberer Hungaria is worth ca. HUF 1,010 per share. ITS segment is a loss-making unit**, suffering from structural issues and mounting risks, **thus we believe this is deteriorating the fair value of Waberer's (HUF -400 per share) at this stage. We also applied a DLOM of 10%** due to the fact that liquidity of the shares has been very limited at the BSE since its IPO in 2017.
- **Net revenues are expected to fall 4% YoY to EUR 701mn in '19F on Group level. As a result of the implementation of IFRS 16, it's more practical to highlight the evolution of EBIT, instead of showing EBITDA's trajectory. We assume that the Group will achieve a reported EBIT of EUR -6mn and EUR 4mn in '19F/'20F, respectively, compared to a net loss of EUR 9mn in 2018.**
- **We expect a rec. net loss of EUR 21mn and EUR 8mn in '19F and '20F, respectively. The Group will hardly be able to make profit in 2020 amid Brexit uncertainties and recession fears**. However, we expect that Waberer's will likely be profitable in 2021 on Group level on the back of mid-term measures if the Management restructures its loss-making core operation. However, WHB is a very profitable unit, operating with a profit margin of 8-9%.
- On a segment level, **we are of the view that operating margins will improve somewhat in 2019, however the company will continue to make huge losses in ITS. As a result, the Company has to restructure the business model to become viable, which might take a longer time. We assume that ITS segment will deliver a net recurring loss of ca. EUR 26mn and ca. EUR 16mn in '19F and '20F**, respectively. **All of this means that we don't expect net income to reach break-even within 2-3 years.**
- **Regarding RCL segment, operating margins will very likely shrink in 2019 predominantly due to higher wages, transit and fuel costs. As a result, the Company has to restructure this segment as well, which might take a longer time. However, we assume that RCL segment will deliver a net profit of ca. EUR 0mn and ca. EUR 2mn in '19F and '20F**, respectively. **This means that we don't expect net income to plunge below zero over our investment horizon.**
- **WHB is without doubt the most profitable and strategic arm of the Group. At first glance, it may seem a little weird that a transportation company has its own insurance activity. However, it should make sense to have it if the cost of insurance, which represents one the largest cost items, is taken into account, and also that how much more expensive Waberer's would be able to insure its own trucks and how much more vulnerable position it would be in as a whole, if it did not have its own insurance company.**

- Reaching a profit margin of ca. 8-9% also means that WHB is one of the most profitable insurers in the region. On the basis of the average of earnings multiples of WHB's peers (10.6x) we estimate that **WHB is worth at least ca. HUF 1,010 (EUR 3.1) per share** (excluding PV of future CFs coming from renewables)**. However, we believe that WHB should be trading at an even higher P/E multiple because of its outstanding profitability compared to its peers.**
- **Waberer's is trading at a FY0 EV/EBITDA multiple of 5.7x, well below the peer group's median of 6.6x. In our view, it doesn't reflect the outlook and the current value of the Company, however storm clouds gathered beneath the sky.**



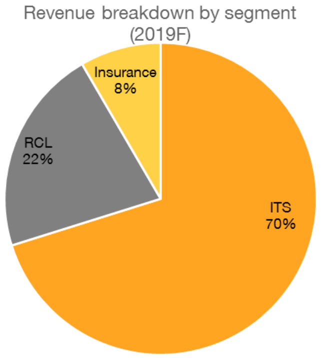
Valuation method

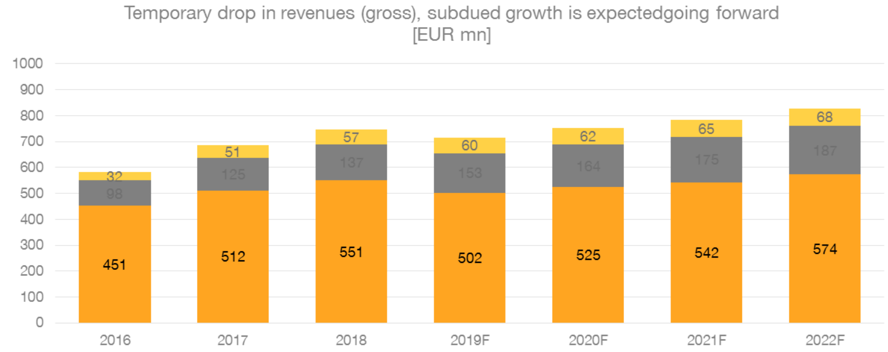
- **We used a sum-of the parts method, because we believe that the Group can be separated almost purely into three divisions. Core businesses are ITS and RCL, while Waberer's has a non-core insurance segment.**
- **Based on Annual reports of Waberer's International and stand-alone report of Waberer Hungaria, we are of the view that balance sheet items can be split into the 3 segments purely, which** makes possible to estimate the fair value of the business units. In addition, intra-segment transfers are not material, thus we can separate business units.
- **Net debt.** Waberer's is expected to reach a net debt of EUR 301mn by the end of 2019. On the one hand, the balance of vehicles and a proportion of properties are roughly equivalent with the balance of short and long term leasing liabilities. However, the company is expected to have a short-term loans and liabilities balance of EUR 28mn. All of this means that gross debt level will be ca. EUR 355mn in the end of 2019. On the other hand, Waberer's is anticipated to have a cash balance of ca. EUR 54mn in the end of 2019. According to WHB's most recent stand-alone report, the Insurance Company has a cash balance of ca. EUR 8mn, which has been consolidated on Group level. The remaining EUR 46mn was split pro rata between the two segments of the company. Waberer's has a minority balance of ca. EUR 0.1mn as of 30/06/2019, thus it has a negligible impact on the valuation.

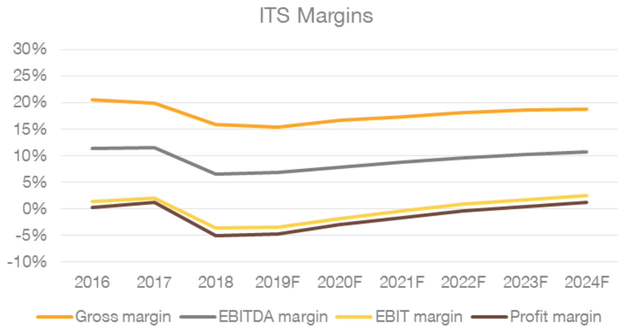
in EUR mn	Group	ITS	RCL	Insurance
Debt	355	247	109	0
Cash	54	37	9	8

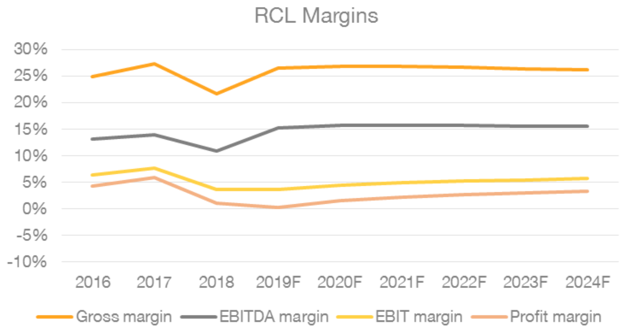
Source: Concorde estimate

- We have used the same WACC for RCL and ITS. We estimated a WACC of 6.8% for 2020F, 6.8% for 2021, 6.5% for 2022F, 6.2% for 2023F and 5.8% for 2024F. We believe that high net debt to EBITDA ratio is not sustainable for a long time, because creditors and lessors will not tolerate this high leverage. As we expect a gradual fleet size reduction in the short run, net debt will drop in tandem with the number of trucks. However, we forecast that recovery on trucks will improve gradually from H2/19. All of this means, net debt to EBITDA is anticipated to be reduced continuously in order to comply with covenant requirements. In addition, it will also contribute to a reducing cost of equity and D/V ratio. ***Please find our more detailed WACC assumptions in APPENDIX.***









Source: Concorde estimate

Sensitivity tables

In any cases, ITS is deteriorating the equity value at the moment. So far, there is a very limited visibility how long time restructuring will take.

		ITS NOPLAT TV growth				
		0.1%	0.2%	0.3%	0.4%	0.5%
Risk-Free	0.0%	-206	-245	-286	-328	-372
	0.5%	-321	-360	-401	-444	-488
	1.0%	-430	-469	-510	-553	-597
	1.5%	-533	-572	-613	-656	-700
	2.0%	-630	-670	-711	-754	-798

Source: Concorde estimate

RCL business is value-accretive, in our view, however it is needed to restructure as well.

		RCL NOPLAT TV growth				
		0.1%	0.3%	0.5%	0.7%	0.9%
Risk-Free	0.0%	1409	1438	1469	1503	1540
	0.5%	1319	1344	1372	1401	1433
	1.0%	1233	1255	1279	1305	1333
	1.5%	1152	1172	1192	1215	1239
	2.0%	1075	1092	1110	1129	1150

Source: Concorde estimate

VALUATION

ITS	2018	2019F	2020F	2021F	2022F	2023F	2024F
Revenue		502	525	542	574	606	638
Gross Profit		77	87	94	104	112	120
Gross margin		*15.4%*	*16.6%*	*17.4%*	*18.1%*	*18.5%*	*18.8%*
Recurring EBITDA		32	41	47	55	62	68
-D&A		-52	-50	-49	-50	-51	-52
EBIT		-18	-9	-2	5	11	16
EBIT margin		*-3.5%*	*-1.8%*	*-0.4%*	*0.8%*	*1.8%*	*2.5%*
-TAX (11.3%)			0	0	-1	-1	-2
NOPLAT			-9	-2	4	9	14
+D&A			50	49	50	51	52
+/- WC			1	0	1	1	1
- (CAPEX + Lease payment)			-48	-48	-51	-52	-53
Capex/Sales			*9%*	*9%*	*9%*	*9%*	*8%*
FCFF			-6	0	5	10	14
WACC			6.8%	6.8%	6.5%	6.2%	5.8%
DF			0.94	0.88	0.82	0.78	0.73
DCF			-6	0	4	8	11
NOPLAT (TV growth)		0.3%					
EV (TV)		172					
Enterprise Value (e-o-y 2019)		188					
-Debt (Estimated)		247					
+Cash (Estimated)		37					
-Minority		0					
Equity Value		-22					
Number of shares [mn]		17.7					
Fair Value [HUF]		-401					

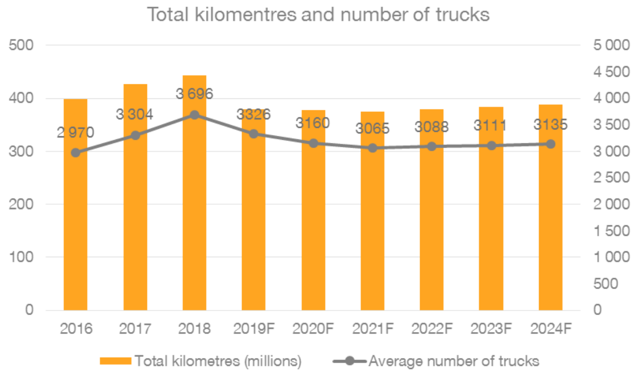
Source: Concorde's estimate

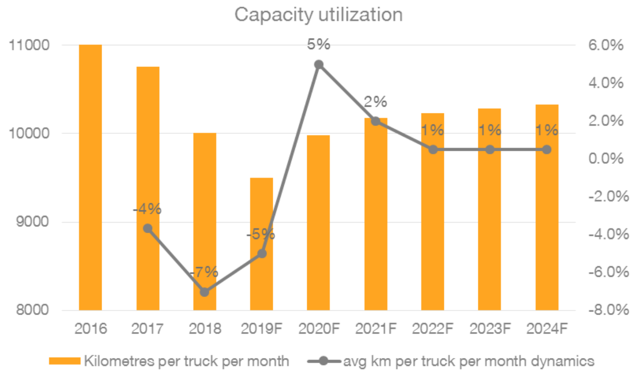
RCL	2018	2019F	2020F	2021F	2022F	2023F	2024F
Revenue		153	164	175	187	199	212
Gross Profit		41	44	47	50	52	55
Gross margin		*26.5%*	*26.8%*	*26.8%*	*26.7%*	*26.3%*	*26.2%*
Recurring EBITDA		23	26	28	29	31	33
-D&A		-18	-18	-19	-20	-20	-21
EBIT		5	7	9	10	11	12
EBIT margin		*3.6%*	*4.4%*	*4.9%*	*5.3%*	*5.4%*	*5.7%*
-TAX (11.3%)			-1	-1	-1	-1	-1
NOPLAT			6	8	9	9	11
+D&A			18	19	20	20	21
+/- WC			0	0	0	0	0
- (CAPEX + Lease payment)			-19	-19	-20	-21	-21
Capex/Sales			*11%*	*11%*	*11%*	*10%*	*10%*
FCFF			6	7	9	9	11
WACC			6.8%	6.8%	6.5%	6.2%	5.8%
DF			0.94	0.88	0.82	0.78	0.73
DCF			6	7	7	7	8
NOPLAT (TV growth)		0.5%					
EV (TV)		140					
Enterprise Value (e-o-y 2019)		174					
-Debt (Estimated)		109					
+Cash (Estimated)		9					
-Minority		0					
Equity Value		75					
Number of shares [mn]		17.7					
Fair Value [HUF]		1372					

Source: Concorde's estimate

International Transportation Segment

- **According to our estimate, ITS segment is deteriorating the equity value of the Company, worth ca. HUF -400 (EUR -1.2) per share.**
- **International Transportation Segment (ITS)**, operating with more than 3400 trucks, accounts for ca. 71%/59% of the total revenues/EBITDA, respectively. As an owned fleet operator, Waberer's provides long-haul FTL services and freight-forwarding beyond the borders in Europe. Due to the highly competitive market, Waberer's failed to grow organic and non-organic for the first time since its IPO on a quarterly basis, which shows that the sector is broadly affected by economic cycles. Nevertheless, acquisition of Polish rival Link was not such a well-timed transaction. Recent developments and management decisions ultimately led to a significant reduction in fleet size, which all in all resulted that the Company's ITS arm shrunk back to pre-IPO levels. At this stage, we are cautious on this segment. If supply-demand imbalance remains on the EU market, we still look forward further pricing pressure, which may trigger dynamic, downside optimisation in fleet size.
- **Capacity utilization.** Growing tariffs deteriorated the evolution of the volume, more than that of expected earlier by the Management. Revenues can be split into two major categories. The biggest problem is that ca. 50% of the International Transportation Segments (ITS) revenues stem from the "spot" market. Due to the fragmented market, Waberer's has lost its competitiveness after increasing tariffs, which had a worse-than-expected negative impact on utilization. In our view, a truck should run min. 11,500 km / month on average in terms of ITS. According to Q4/18 numbers, it was only 9,546 km per truck per month, down 15% YoY from 11,000km in 17Q3. In 16Q3, an avg. truck ran more than 11,500 km a month. We believe that capacity utilization in particular shows how big the trouble is, but according to the amended reporting method, we won't get a more coloured pic on the performance of this KPI. However, CEO mentioned in Q2/19 report that utilization is back to levels seen in 2017, which is very positive, in our view.
- **In terms of revenues, we expect ITS sales to decline by 9% YoY in '19F, but we assume that it will be on the rise from 2020.** We forecasted a fleet size reduction of ca. 10% YoY for '19F on average, which might be reduced further if EU macro doesn't recover soon. In the mid-term, we assume Waberer's to add ca. 1% capacity to the market, which is rather our pessimistic point of view, because this growth rate is likely below LT EU GDP growth.

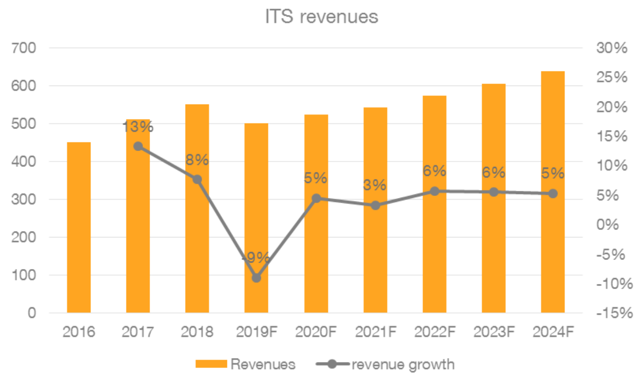


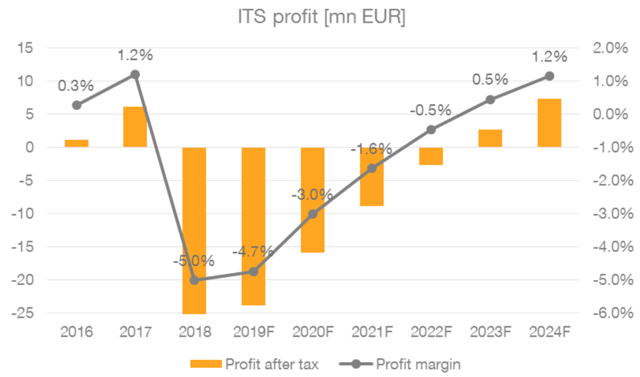


Source: Waberer's, Concorde estimate

- **However, we are also of the view that new Management is not chasing outstanding organic growth, whereas they are trying to operate with a viable business model. We strongly believe that margin-focused executives have the potential to drive Waberer's out of the loss-making.**
- **Revenues are expected to come in at EUR 502mn and EUR 525mn in 2019F and 2020F,** respectively. At this point, we highlight that increasing unit costs (wage, fuel and transit) were also took into consideration when we created our sales forecast.

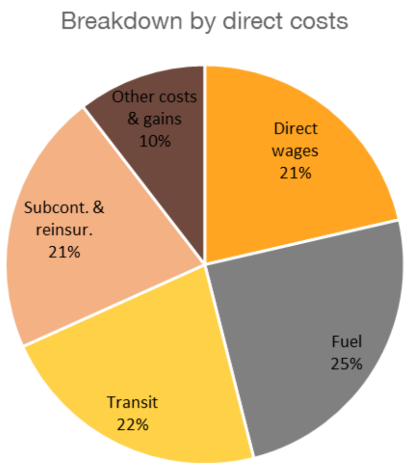
- In 2018, operating margins collapsed after the segment achieved a net profit margin of 1.8% a year earlier, which is not considered as an outstanding result in the industry. We are of the view that operating margins will improve somewhat in 2019, however the company will continue to make huge losses in ITS. As a result, the Company has to restructure the business model to become viable, which might take a longer time. We assume that ITS segment will deliver a net loss of ca. EUR 24mn and ca. EUR 16mn in '19F and '20F, respectively. All of this means that we don't expect net income to reach break-even within 2-3 years.

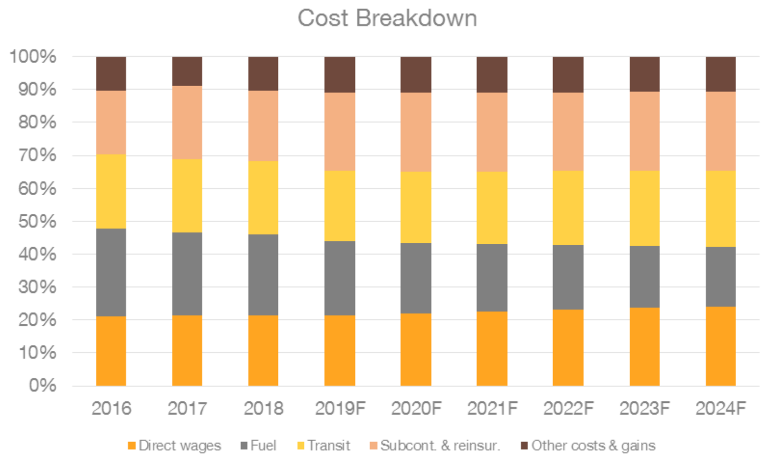




Source: Waberer's, Concorde estimate

- **Cost structure will likely change gradually in the future.** Albeit fuel costs account for ca. 25% of the total direct expenses in the ITS at the moment, transit and wage costs are expected to grow at a faster pace in the forthcoming years, in our view.
- On the one hand, we forecast a long-term **Brent price of 65 USD/bbl**. In terms of consumption, there is limited room for lowering it on average, thus the annualized impact of this is not much material, in our view, despite **forecasting up to 0.5-1% fuel consumption gains** p.a. going forward.
- On the other hand, regarding driver costs, we expect an average **direct wage growth of ca. 6-7% p.a** boosted by labour shortage over the forecasted period. In terms of **transit costs**, we assume that unit costs **will increase by ca. 5% p.a** in the coming years.



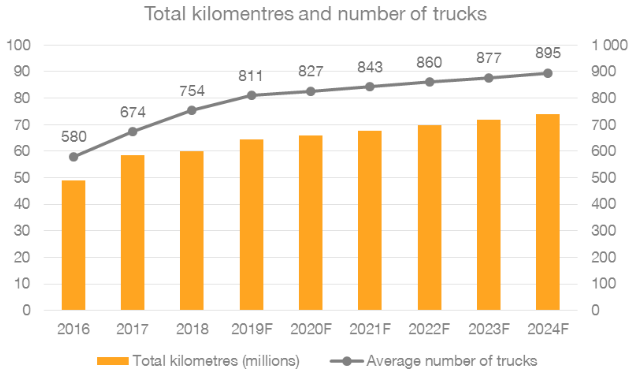


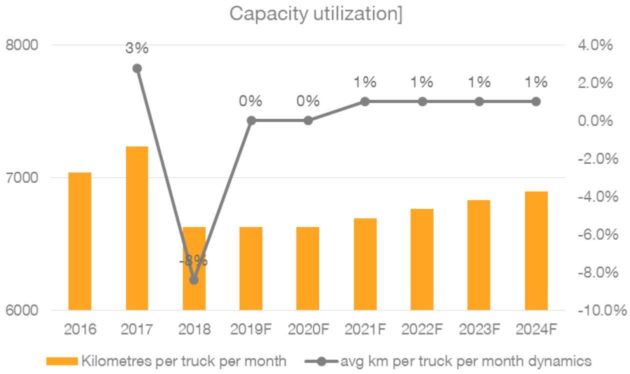
Source: Waberer's, Concorde estimate

- We expect an EBIT of EUR -18mn and EUR -9mn for '19F and '20F, respectively. Due to the implementation of IFRS 16, Gross profit and EBITDA should be adjusted for rental costs, which are no longer to be reported. As we show in this report on Page 13, rental costs have to be divided into D&A and interest expense. In terms of RCL segment, it has over EUR 7mn positive impact on EBITDA, whereas it is almost totally neutral both on EBIT and profit level as a result of the negligible financial expense.

Regional Contract Logistics

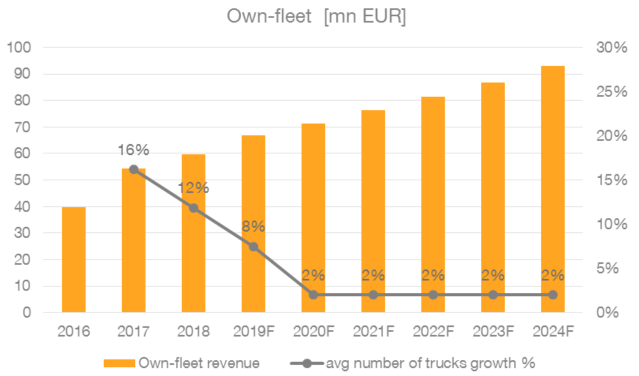
- **According to our estimate, RCL segment is worth ca. HUF 1,370 (EUR 4.2) per share.**
- **Regional Contractual Logistics (RCL)** arm of Waberer's is the market leader in Hungary. The Budapest-based haulier focuses on domestic FTL and LTL transportation and warehousing services, whereas it provides repair and maintenance services to third parties. RCL, operating with a fleet of 800 trucks and offering a total warehousing capacity of ca. 214,000sqm, accounts for ca. 21%/32% of the total sales/EBITDA, respectively. Thanks to its leading position, Waberer's is good-positioned in the domestic market. In our view, RCL creates value for the investors as the Co. can exploit the economies of scale in the region.
- **In terms of revenues, upward trend is expected to continue.** In contrast with ITS, we saw that truck number grew somewhat on quarterly basis in Q2/19, thus we believe that Waberer's can take advantage of the economies of scale in Hungary. We assume that both sub segments will deliver growing sales figures over the forecast period. **Own fleet (number of trucks) is expected to grow by 2% YoY post-2020, a touch below HU GDP growth**. Capacity utilization was also the reason why the company could not earn such an eye-catching profitability last year than in 2017. At this stage, trucks are expected to run 6,600kms on average per month, which might start to improve 2-3 years later.

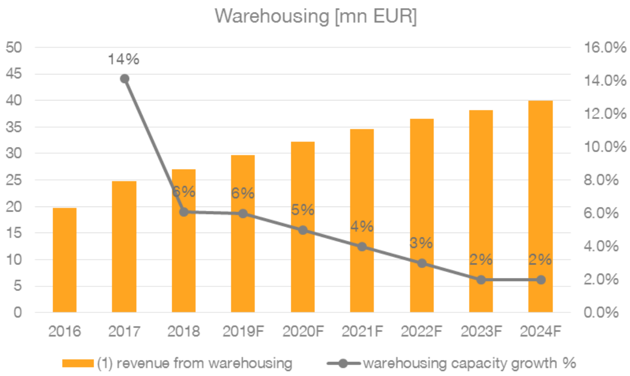




Source: Waberer's, Concorde estimate

- In addition, we previously mentioned that Waberer's owns valuable properties with the aim of achieving extra revenues and profit from logistics services. In our opinion, **warehousing activity is value-accretive in Hungary**, thus the Group will likely seek to grow gradually.

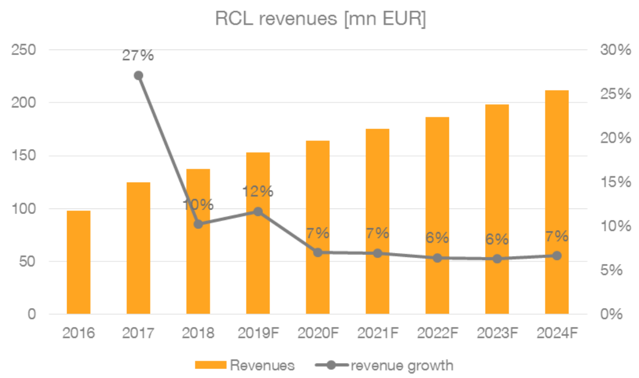


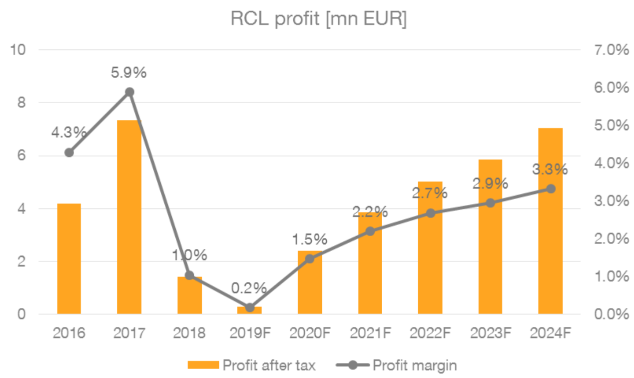


Source: Waberer's, Concorde estimate

- **Revenues are expected to come in at EUR 153mn and EUR 164mn in 2019F and 2020F,** respectively, on the back of growing fleet size and warehousing capacity. However, we highlight that increasing unit costs (wage, fuel and transit) were also took into consideration when we created our sales forecast.

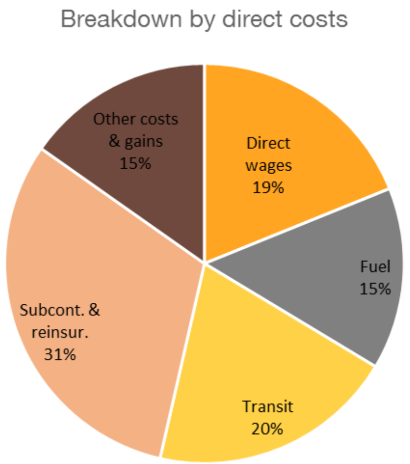
- **In 2018, operating margins collapsed after the segment achieved an outstanding profit margin of 5.9% a year earlier. We are of the view that operating margins will very likely shrink in 2019 predominantly due to higher wages, transit and fuel costs. As a result, the Company has to restructure the business model to remain viable, which might take a longer time. We assume that RCL segment will deliver a net profit of ca. EUR 0mn and ca. EUR 2mn in '19F and '20F**, respectively**. All of this means that we don't expect net income to plunge below zero over the investment horizon.**

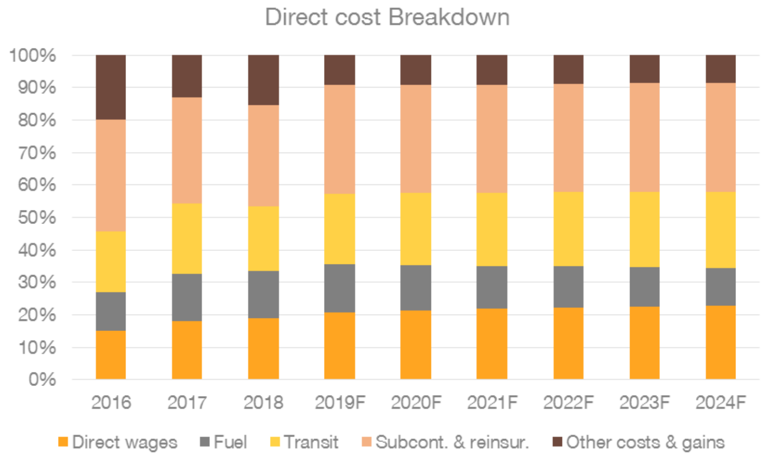




Source: Waberer's, Concorde estimate

- **Cost structure will likely change gradually in the future.** Albeit fuel costs account for ca. 15% of the total direct expenses in the RCL segment at the moment, transit and wage costs are expected to grow at a faster pace in the forthcoming years, in our view.
- On the one hand, we forecast a long-term **Brent price of 65 USD/bbl**. In terms of consumption, there is limited room for lowering it on average, thus the annualized impact of this is not much material, in our view, despite **forecasting up to 0.5-1% fuel consumption gains** p.a. going forward.
- On the other hand, regarding driver costs, we expect an average **direct wage growth of ca. 7-8% p.a** (somewhat higher than that of ITS due to domestic labour market conditions) boosted by labour shortage over the forecasted period. In terms of **transit costs**, we assume that unit costs **will increase by ca. 5-6% p.a** in the coming years.



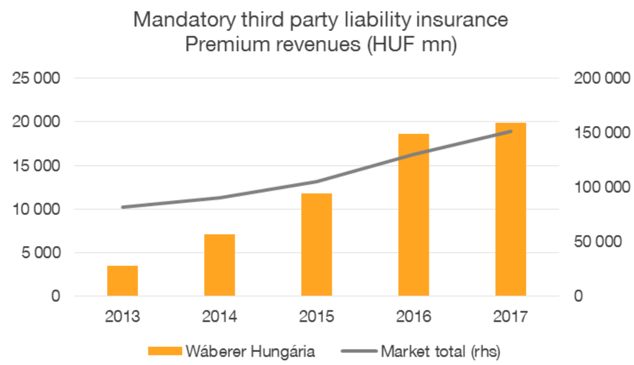


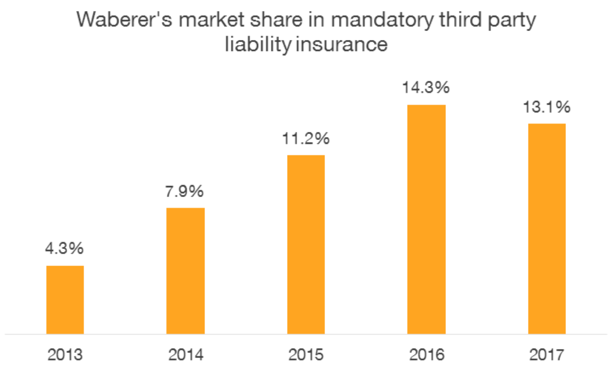
Source: Waberer's, Concorde estimate

- **We expect an EBIT of EUR 5mn and EUR 7mn for '19F and '20F, respectively. Due to the implementation of IFRS 16, Gross profit and EBITDA should be adjusted for rental costs, which are no longer to be reported. As we show in this report on Page 13, rental costs have to be divided into D&A and interest expense. In terms of RCL segment, it has over EUR 7mn positive impact on EBITDA, whereas it is almost totally neutral both on EBIT and profit level as a result of the negligible financial expense.**

Other segment - Insurance

- **WHB is no doubt the most profitable and strategic arm of the Group. At first glance, it may seem a little weird that a transportation company has its own insurance activity. However, it makes sense to have it if the cost of insurance, which represents one the largest cost items, is taken into account, and also that how much more expensive Waberer's would be able to insure its own trucks and how much more vulnerable position it would be in as a whole, if it did not have its own insurance company.**
- Reaching a profit margin of ca. 9% also means that WHB is one of the most profitable insurers in the region. On the basis of the average of earnings multiples of WHB's peers (10.6x) we estimate that **WHB is worth at least ca. HUF 1,010 (EUR 3.1) per share (excluding PV of future CFs coming from renewables). However, we believe that WHB should be trading at an even higher P/E multiple because of its outstanding profitability compared to its peers.**
- **Waberer's acquired a 100% stake in Waberer Hungaria (WHB) for EUR 13mn in 2016.** The main goal was to establish an insurance company, which can insure the fleet and provide vehicle insurance to third parties. Waberer's has reached significant cost savings, which stemmed from the synergy, while it continued to provide services to its subcontractors and other individuals. According to recent study published by MABISZ, WHB is the 3rd largest insurer in the Hungarian vehicle insurance market with a market share of c13%.
- **The vehicle insurance market is driven by a number of factors,** ie. the number of new and used vehicle sales and the development of the respective financing market. Furthermore, claim expenditures, determined by the number and composition of road accidents and price changes, are also decisive. Finally, the sector is largely influenced by the legislative environment, any changes of which could have a significant impact on market players.
- The vehicle insurance market has two major segments: the mandatory third party liability (MTPL) insurance and the optional casco (casualty and collision) insurance.
- The number of newly registered vehicles has increased permanently in Hungary since the financial crisis. However, over half of passenger cars entering circulation are used import vehicles. As a result, the average age of passenger cars has steadily been on the rise. A similar tendency is also true for freight vehicles. With the expanding vehicle stock, the number of road accidents have slowly grown up from its trough in 2012.
- Premium revenues from mandatory third party liability insurance have grown steadily in recent years across the sector, outpacing the rise in claim expenditures. Reasons for such dynamics include the growing number of cars and trucks, the decline in the rate of uninsured vehicles and rising average insurance premium.

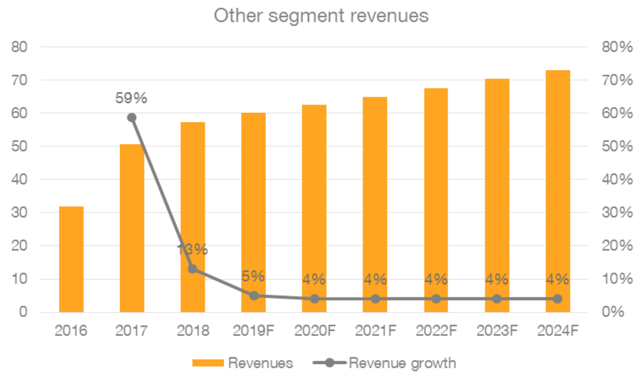


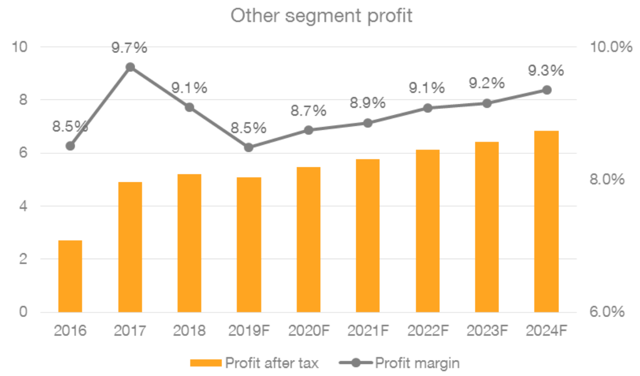


Source: Association of Hungarian Insurance Companies (MABISZ)

- WHB's total revenues amounted to ca. EUR 73mn in 2018, out of which 3rd party insurance sales accounted for almost 78%. The rest was made up by insurance fees collected from the transportation divisions of Waberer's. The Insurance segment (3rd party only) reported a net profit of ca. EUR 8.3mn out of which profits on third-party insurance sales represented EUR 5.2mn.

- **In the recent years, WHB grew significantly, but this tendency will be modest in the future, in our view, broadly in line with HU nominal GDP growth**. We expect an annual growth rate of 4% in terms of revenues despite being reached two-digit growth rates by the company in recent years. In terms of profitability, we expect deteriorating profitability for this year in light of H1/19 figures. We assume net profit to amount to EUR 5.1mn in FY19F, implying a profit margin of 8.5% (down 0.6ppts YoY). Going forward, profit margin will likely narrow to the range of between 9.0-9.5%. If the company could maintain this tendency, WHB would remain one of the most profitable insurers in the region. We believe this is not an excessive plan in light of the outstanding combined ratio of 70/71%, achieved in 2017/2018, respectively.





Source: Waberer's, Concorde estimate

- **Also, we add that available capital is roughly EUR 58mn, which underpins our fair value estimate for WHB.**

Name	Last Price (Local CUR)	Mkt Cap (EUR)	DIV yield	P/BV FY0	P/BV FY1	P/E FY0	P/E FY1	Profit margin	ROE
VIG	21.9	2 797	4.5%	0.6x	0.6x	9.2x	9.0x	2.7%	5.7%
UNIQA	8.1	2 503	6.9%	0.8x	0.8x	11.7x	10.9x	4.6%	6.9%
PZU	40.1	8 016	7.1%	2.1x	2.4x	10.6x	10.5x	8.4%	21.6%
AEGON	3.8	8 116	8.0%	0.4x	0.4x	5.4x	5.4x	5.1%	3.1%
Zurich	332.6	45 618	5.9%	1.6x	1.8x	12.5x	11.6x	7.9%	11.7%
Generali	16.3	25 603	5.9%	0.9x	0.9x	9.8x	9.7x	3.2%	10.9%
Allianz	199.2	84 535	4.8%	1.2x	1.2x	10.6x	9.8x	7.2%	12.0%
CIG	360.0	104	6.9%	1.9x	2.2x	15.9x	15.0x	9.0%	14.3%
Average			6.4%	1.3x	1.5x	10.8x	10.3x	6.8%	12.3%
Median			6.4%	1.4x	1.5x	10.6x	10.1x	7.6%	11.9%

	3rd party only		WHB total	
Waberer Hungaria 2018	EUR*	HUF	EUR*	HUF
Revenue [EUR mn/HUF bn]	57.2	18.6	73.4	23.9
Profit [EUR mn/HUF bn]	5.2	1.7	8.3	2.7
EPS	**0.3**	**95**	**0.5**	**153**
Profit margin	9%	9%	11%	11%
Book Value [EUR mn/HUF bn]	40.6	13.2	40.6	13.2
-Dividend [EUR mn/HUF bn]	4.2	1.4	4.2	1.4
Adj. Book Value [EUR mn/HUF bn]	36.5	11.9	36.5	11.9
Number of shares [mn]	17.7	17.7	17.7	17.7
Adj. BVPS [EUR/HUF]	2.1	0.7	2.1	0.7
Peer group median P/E FY0	**10.6x**	**10.6x**	**10.6x**	**10.6x**
Fair value per share	**3.1**	**1010**	**5.0**	**1615**

**EURHUF=325*

Source: Waberer Hungaria, e-beszamolo, Bloomberg, Concorde estimate

Peer Group Comparison

- **We believe that the greatest rivals are out of the stock exchanges, which makes it tricky to compare Waberer's to peer group. However, there are a couple of universal transportation companies listed in Western Europe.** We shortlisted a peer group, including DSV, Moller-Maersk, Kuehne & Nagel, Deutsche Post, STEF and Eddie Stobart. **The reason why we are not comfort with multiple-based valuation method is evident: these companies are worth much more than Waberer's. Additionally, most of them operates either air freight or rail freight business units as well.**
- **At first glance, it is weird that Net Debt to EBITDA is in line with EV to EBITDA multiple. The reason why Net Debt to EBITDA (calculated by Bloomberg) is higher is that this multiple was calculated using a Trailing 12M EBITDA, while EV to EBITDA is a forward multiple.**

Name	Last Price (local CUR)	Mkt Cap (EUR)	DIV yield	EV/EBITDA FY0	EV/EBITDA FY1	P/E FY0	P/E FY1	Profit margin	EBITDA margin	NET DEBT to EBITDA	ROIC	P/BV
Waberer's	1215.0	66	0.0%	5.7x	5.0x	-3.4x	-7.9x	-2.9%	7.8%	5.7	-2.9%	0.5
DSV	643.8	16 046	0.4%	14.3x	12.4x	27.9x	24.5x	5.1%	7.9%	1.9	21.6%	7.4
Moller-Maersk	7020.0	19 041	2.2%	6.5x	5.9x	58.2x	21.8x	8.0%	8.1%	3.4	0.9%	0.7
Kuehne & Nagel	142.8	15 710	4.3%	11.4x	10.6x	21.9x	20.2x	3.7%	5.8%	1.4	29.0%	9.1
Deutsche Post	28.6	35 395	4.3%	6.7x	6.1x	13.7x	11.6x	3.4%	10.5%	2.2	13.0%	2.9
STEF	76.0	1 001	3.3%	6.1x	5.8x	10.5x	10.0x	2.9%	7.7%	2.7	10.2%	1.4
Eddie Stobart	71.0	292	9.2%	5.9x	5.5x	6.6x	6.0x	1.9%	6.1%	3.1	7.8%	1.1
Average			3.9%	8.5x	7.7x	23.1x	15.7x	4.2%	7.7%	2.4	13.8%	3.8
Median			3.8%	6.6x	6.0x	17.8x	15.9x	3.5%	7.8%	2.4	11.6%	2.2
Premium/(Discount)				-14%	-16%	-119%	-150%					

Source: Bloomberg, Concorde estimate

APPENDIX

PROFIT AND LOSS [EUR MILLION]

Profit&Loss	2016	2017	2018	2019F	2020F	2021F	2022F
Revenue	572	674	732	701	737	768	812
OPEX	-453	-534	-610	-575	-597	-618	-650
Direct wages, benefits & allowances	-87	-104	-120	-115	-123	-130	-140
Fuel cost	-105	-117	-130	-113	-111	-110	-110
Toll fees and transit costs	-94	-111	-124	-117	-123	-129	-138
Cost of subcontractors and	-111	-144	-159	-162	-170	-178	-188
Others	-57	-58	-77	-68	-70	-72	-74
Gross profit	120	141	122	126	139	150	163
Indirect wages and benefits	-28	-34	-37	-35	-36	-37	-38
Others	-23	-24	-27	-26	-30	-31	-33
EBITDA	69	83	57	64	73	82	92
Non-recurring items	4	3	7	-3	0	0	0
Recurring EBITDA	74	86	64	62	73	82	92
Depreciation and amortization	-52	-56	-66	-70	-69	-69	-70
EBIT	17	27	-9	-6	4	13	21
Net financial result	-3	-4	-7	-7	-7	-7	-7
EBT	14	23	-16	-13	-3	6	14
Tax	-5	-5	-5	-5	-5	-6	-6
Net Income	9	18	-21	-18	-8	1	9
Recurring Net Income	14	21	-14	-21	-8	1	9

BALANCE SHEET [EUR MILLION]

	2016	2017	2018	2019F	2020F	2021F	2022F
Property	20	21	69	69	68	69	72
Vehicles	233	294	322	279	274	269	275
Total property, plant and equipment	262	324	399	356	351	348	356
Intangible assets	23	62	61	61	61	61	61
TOTAL NON-CURRENT ASSETS	344	453	543	500	495	491	500
Inventories	3	4	4	4	4	4	5
Trade receivables	88	119	114	117	123	128	135
Cash and cash equivalents	32	59	58	54	47	48	54
TOTAL CURRENT ASSETS	169	229	231	229	228	234	249
TOTAL ASSETS	513	681	774	729	723	726	749
Share capital	5	6	6	6	6	6	6
Reserves and retained earnings	102	163	139	120	112	113	122
Non-controlling interest	8	8	0	0	0	0	0
TOTAL SHAREHOLDERS' EQUITY	114	175	145	127	119	120	128
Long-term portion of leasing	162	207	261	232	229	226	230
TOTAL LONG-TERM LIABILITIES	211	278	342	314	310	307	311
Short-term loans and borrowings	15	5	18	28	28	28	28
Short-term portion of leasing	66	81	106	95	93	92	94
Trade payables	84	114	133	137	144	150	159
TOTAL CURRENT LIABILITIES	188	228	286	289	294	299	309
TOTAL EQUITY AND LIABILITIES	513	681	774	729	723	726	749

CASH-FLOW STATEMENT [EUR MILLION]

Simplified Cash Flow	2016	2017	2018	2019F	2020F	2021F	2022F
Profit/loss before tax	14	23	-16	-13	-3	6	14
D&A (excl. Impairment)	52	56	66	70	69	69	70
Working cap	8	2	18	2	1	1	1
Others	-3	3	13	-1	-2	-2	-2
Operating Cash-Flow	71	84	81	58	65	74	84
CAPEX (Lease payement)	-40	-59	-61	-56	-55	-55	-57
Investing Cash-Flow	-38	-59	-76	-64	-65	-66	-70
Financing Cash-Flow	-12	1	-7	3	-7	-7	-7
Changes in cash	21	27	-1	-3	-7	1	7
Cash and cash equivalents at the	32	59	58	54	47	48	54

DRIVERS & ASSUMPTIONS

Macro Assumptions	2016	2017	2018	2019F	2020F	2021F	2022F
Eurozone GDP growth (%)	1.9%	2.4%	1.9%	1.2%	1.3%	1.2%	1.5%
Hungary GDP growth (%)	2.3%	4.1%	4.9%	4.0%	2.9%	2.7%	2.5%
CEE GDP growth (%)	3.1%	5.0%	4.4%	3.5%	3.0%	2.7%	2.5%
EU Inflation (%)	0.0%	0.0%	0.0%	1.3%	1.3%	1.3%	1.3%
HU Inflation (%)	0.0%	0.0%	0.0%	4.0%	3.5%	3.0%	2.5%
Brent (USD/bbl)	45.1	54.8	71.6	67.0	65.0	65.0	65.0
EURUSD	1.11	1.13	1.13	1.13	1.16	1.18	1.21
EURIBOR 3M (%)	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%

Group	2016	2017	2018	2019F	2020F	2021F	2022F
Total number of employees	**6 270**	**7 255**	**8 077**	**7 363**	**7 125**	**6 999**	**7 060**
Average number of trucks	**3 550**	**3 978**	**4 450**	**4 137**	**3 987**	**3 909**	**3 948**
ITS	2 970	3 304	3 696	3 326	3 160	3 065	3 088
RCL	580	674	754	811	827	843	860
ITS	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
avg number of truck		11%	12%	-10%	-3%	-3%	1%
avg km per truck per month		-4%	-7%	-5%	2%	2%	1%
drivers per truck dyanmics		0%	-1%	0%	0%	0%	0%
RCL	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
avg number of truck		16%	12%	7%	2%	2%	2%
avg km per truck per month		3%	-8%	0%	0%	1%	1%
drivers per truck dyanmics		4%	-6%	-1%	0%	0%	0%
own fleet rev growth per km		15%	8%	4%	5%	4%	4%
warehousing capacity %		14%	6%	6%	5%	4%	3%
avg revs per used sqm %		10%	2%	4%	4%	3%	3%

KPIS

	2016	2017	2018	2019F	2020F	2021F	2022F
Price (HUF) (year-end)	5 100	4 700	2 300	1 160	1 160	1 160	1 160
EURHUF (year-end)	311	309	319	325	325	325	325
EPS (HUF)	162	322	-377	-337	-146	14	157
EPS growth (%)		99%	-217%	-11%	-57%	-110%	1014%
EPS (EUR)	0.5	1.0	-1.2	-1.0	-0.4	0.0	0.5
EPS growth (%)		100%	-214%	-12%	-57%	-110%	1014%
DPS (HUF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DPS (EUR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS (HUF)	1 872	2 923	2 612	2 326	2 180	2 194	2 351
BVPS growth (%)		56%	-11%	-11%	-6%	1%	7%
BVPS (EUR)	6.0	9.5	8.2	7.2	6.7	6.8	7.2
BVPS growth (%)		57%	-13%	-13%	-6%	1%	7%
TBVPS (HUF)	1 475	1 833	1 508	1 201	1 055	1 069	1 225
TBVPS growth (%)		24%	-18%	-20%	-12%	1%	15%
TBVPS (EUR)	4.7	5.9	4.7	3.7	3.2	3.3	3.8
TBVPS growth (%)		25%	-20%	-22%	-12%	1%	15%
Total no. of shares (mln)	17.7	17.7	17.7	17.7	17.7	17.7	17.7
Total no. of shares w/o Treasury	17.4	17.4	17.4	17.5	17.5	17.5	17.5
Book Value	106	167	145	127	119	119	128
Tangible Book Value	84	105	84	65	57	58	67
Market capitalization (EUR)	290	269	128	63	63	63	63
-Cash & Equivalents	-32	-59	-58	-54	-47	-48	-54
+Minority	8	8	0	0	0	0	0
+Total debt	243	293	385	355	350	346	352
Enterprise value	509	512	455	364	366	361	360
Invested Capital	391	535	594	536	523	519	533

Source: Concorde's estimate

MARGINS, MULTIPLES, RATIOS

GROUP margins	2016	2017	2018	2019F	2020F	2021F	2022F
Gross margin	21%	21%	17%	18%	19%	20%	20%
EBITDA margin	12%	12%	8%	9%	10%	11%	11%
Adj. EBITDA margin	13%	13%	9%	9%	10%	11%	11%
EBIT margin	3%	4%	-1%	-1%	1%	2%	3%
Profit margin	2%	3%	-3%	-3%	-1%	0%	1%
ITS margins	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
Gross margin	20%	20%	16%	15%	17%	17%	18%
EBITDA margin	11%	11%	7%	7%	8%	9%	10%
Adj. EBITDA margin	12%	12%	8%	6%	8%	9%	10%
EBIT margin	1%	2%	-4%	-4%	-2%	0%	1%
Profit margin	0%	1%	-5%	-5%	-3%	-2%	0%
RCL margins	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
Gross margin	25%	27%	22%	26%	27%	27%	27%
EBITDA margin	13%	14%	11%	15%	16%	16%	16%
EBIT margin	6%	8%	4%	4%	4%	5%	5%
Profit margin	4%	6%	1%	0%	1%	2%	3%
Insurance margins	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
Gross margin	16%	14%	13%	13%	13%	13%	13%
EBITDA margin	13%	14%	11%	11%	10%	10%	10%
EBIT margin	12%	13%	11%	10%	10%	10%	10%
Profit margin	9%	10%	9%	8%	9%	9%	9%
Multiples	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
P/E	31.6x	14.6x	n.a	n.a	n.a	82.5x	7.4x
P/BV	2.7x	1.6x	0.9x	0.5x	0.5x	0.5x	0.5x
P/TBV	3.5x	2.6x	1.5x	1.0x	1.1x	1.1x	0.9x
EV/CF	0.9x	1.1x	4.6x	n.a	n.a	2.6x	1.4x
EV/sales	0.9x	0.8x	0.6x	0.5x	0.5x	0.5x	0.4x
EV/EBITDA	7.4x	6.2x	8.0x	5.7x	5.0x	4.4x	3.9x
Dividend yield (%)	0%	0%	0%	0%	0%	0%	0%
FCF yield (%)	12%	10%	4%	-10%	0%	12%	22%
Recovery	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
Sales growth (%)		18%	9%	-4%	5%	4%	6%
ROE (%)	9%	13%	-13%	-14%	-6%	1%	7%
ROA (%)	2%	3%	-3%	-2%	-1%	0%	1%
ROIC (%)	4%	5%	-1%	-1%	1%	2%	4%
Net debt/EBITDA (x)	2.9x	2.7x	5.1x	4.9x	4.1x	3.6x	3.2x
Net debt (mn EUR)	211	234	327	301	303	298	297
CAPEX/Depreciation (x)	0.9x	1.2x	1.3x	1.0x	1.0x	1.0x	1.0x
Depreciation/Sales (%)	9%	8%	9%	10%	9%	9%	9%
Liquidity	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
Current ratio	0.9x	1.0x	0.8x	0.8x	0.8x	0.8x	0.8x
Interest cover	4.1x	5.8x	-1.9x	-0.8x	0.6x	1.9x	3.0x
Quick ratio	0.6x	0.8x	0.6x	0.6x	0.6x	0.6x	0.6x
Net debt/Equity ratio	1.9x	1.3x	2.3x	2.4x	2.6x	2.5x	2.3x
Working Cap turnover days	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
Receivables	2	2	2	2	2	2	2
Inventories	56	65	57	61	61	61	61
Payables	61	71	72	71	71	71	71
Recovery [in EUR ths]	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
ITS EBITDA/Truck	19	19	12	10	13	15	18
RCL EBITDA/Truck	22	26	20	29	31	33	34
ITS Own Fleet Sales/Truck	120	118	116	115	127	135	142
RCL Own Fleet Sales/Truck	68	80	79	83	86	90	95

Source: Concorde's estimate

BREAKDOWNS

REVENUE BREAKDOWN	2016	2017	2018	2019F	2020F	2021F	2022F
ITS	78%	74%	74%	70%	70%	69%	69%
RCL	17%	18%	18%	21%	22%	22%	23%
Insurance	5%	7%	8%	8%	8%	8%	8%
EBITDA BREAKDOWN	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
ITS	77%	72%	67%	52%	56%	58%	60%
RCL	18%	20%	23%	38%	35%	34%	32%
Profit margin	6%	8%	10%	10%	9%	8%	8%
EBIT BREAKDOWN	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
ITS	36%	39%	n.a	n.a	n.a	n.a	22%
RCL	39%	35%	n.a	n.a	n.a	n.a	46%
Insurance	24%	25%	n.a	n.a	n.a	n.a	32%
COST BREAKDOWN	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**
Direct wages	16%	16%	16%	16%	17%	17%	18%
Indirect wages	5%	5%	5%	5%	5%	5%	5%
Fuel	19%	18%	18%	16%	15%	15%	14%
Toll & transit	17%	17%	17%	16%	17%	17%	17%
Subcontractors & reinsurance	20%	22%	22%	23%	23%	24%	24%
Depreciation	9%	9%	9%	10%	9%	9%	9%
Others	14%	12%	13%	14%	14%	14%	14%

Source: Concorde's estimate

WACC

	2018	2019F	2020F	2021F	2022F	2023F	2024F
Risk free rate	-	-	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
ERP	-	-	*5.5%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*
Unlevered Beta	-	-	1.0x	1.0x	1.0x	1.0x	1.0x
Levered Beta	-	-	3.8x	3.8x	3.4x	3.0x	2.6x
Cost of equity	-	-	***21.6%***	***21.3%***	***19.4%***	***17.1%***	***14.6%***
cost of debt	-	-	2.0%	2.0%	2.0%	2.0%	2.0%
tax (company defined)	-	-	11.3%	11.3%	11.3%	11.3%	11.3%
cost of debt (tax adjusted)	-	-	**1.8%**	**1.8%**	**1.8%**	**1.8%**	**1.8%**
D/V	-	-	0.7x	0.7x	0.7x	0.7x	0.7x
WACC	-	-	**6.8%**	**6.8%**	**6.5%**	**6.2%**	**5.8%**

Source: Concorde's estimate

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