AUTO PARTNER

Pilot Support Program for Analytical Coverage

Reuters: APR.WA Bloomberg: APR PW

Santander

CEE Equity Research

Car Parts distribution, Poland

05 March 2020, 08:19 CET

Strong net margin guidance

Buy maintained, TP up to PLN8.5

We are reiterating our Buy rating on the stock. We are increasing 12-month target price to PLN8.5 from PLN7.5 on the back of the increased 2020E net profit forecast by 6%. In our forecasts we are reflecting the company's guidance on net profit margin improvement in 2020E. Auto Partner plans to improve its net profitability to 5.1% reported in 2018 thanks to improving logistics efficiency, which should lead to positive effects of operating leverage. Auto Partner expects 2019E net profitability at 4.0% is likely to be temporarily lower due to the increased investments in logistics capacity (10 new branches opened in 2019) and price investments in 2Q19. Additionally, the company plans to further grow its sales in a pace above 20% y/y in 2020E. We estimate slower y/y sales growth at +23% this year vs. +28% in 2019E, we also remain more cautious on net profit margin, where we see only a 60bps increase to 4.6% this year. In the mid-run, we forecast Auto Partner to sustain its double-digit growth momentum, with revenue and EPS 3-year CAGRs of respectively 21% and 26%. We think that the recent decline of its share price on Covid-19 worries was an overreaction, which brought its valuation to 2020E P/E at 8.0x, implying a 31% discount to its historical average P/E.

Forecast change. We cut 2019E net profit forecast by 8% due to lower than we had previously expected margins in 4Q19E. We increased our 2020E net profit forecast by 6% so as to better reflect the company's guidance. 2021E net profit forecast remains untouched. We expect that 2021E's net margin might be again adversely impacted by investments in a new warehouse in the Western Poland. Our forecasts grow substantially as of 2022E, as we believe that the new warehouse (completed in 2021E) will give rise to the company's business expansion.

Controllable risk of Covid-19. We see the risk as very low unless viral panic breaks out in Poland resulting in severe decline of people's traffic on the streets or roads. Auto Partner imports mainly own brand Maxgear (c20% of annual sales) from China. The company is in constant contact with suppliers and delays do not exceed two weeks. With inventory holding period amounting to 155 days, the company feels comfortable with its stock level.

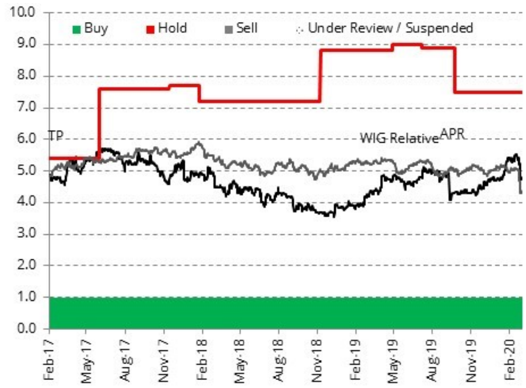
Valuation and risks. An update to the DCF model implies a value of PLN11.2 per share, while a comparable valuation implies an equity value at PLN5.8 per share. Assuming a 50% weight to DCF and comparable valuations, we set our 12M TP at PLN8.5 (up from PLN7.5), which offers a 66% upside vs. the current price.

Auto Partner: Financial summary and ratios*

PLNmn	2017	2018	2019E	2020E	2021E	2022E
Revenue	915	1,155	1,477	1,810	2,231	2,617
EBITDA	62	90	102	134	145	179
EBIT	55	81	84	114	123	155
Net profit	35	59	59	83	91	117
P/E (x)	18.8	9.1	9.8	8.0	7.4	5.7
EV/EBITDA (x)	13.2	8.2	7.9	5.9	5.3	3.9
Dividend yield	0.0%	0.0%	0.5%	0.5%	0.6%	0.7%

*Source: Company data, Santander Brokerage Poland, * forecast include impact of IFRS16, 2017-19 ratios calculated on historical annual share price averages*

Recommendation	**Buy**
Portfolio weighting	**-**
Price (PLN, 03 March 2020)	5.1
Target price (PLN, 12M)	8.5
Market cap. (PLNmn)	582
Free float (%)	50.0
Number of shares (mn)	131



The chart measures performance against the WIG index.

Main shareholders	% of votes
K. Gorecka	27.1%
A. Gorecki	23.1%
PZU OFE	9.1%
NN OFE	9.0%
Aegon OFE	5.6%
Santander TFI	5.2%

Source: GPW

Company description

Auto Partner is the third largest car parts distributor in Poland.

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Forecast change

Fig. 1. Auto Partner: Valuation summary

	2019E			2020E			2021E			2022E		
	New	Prev.	chng.	New	Prev.	chng.	New	Prev.	chng.	New	Prev.	chng.
Sales	**1,477**	1,470	0%	**1,810**	1,802	0%	**2,231**	2,220	0%	**2,617**	2,392	9%
EBITDA	**102**	99	3%	**134**	118	14%	**145**	133	9%	**179**	141	27%
EBIT	**84**	90	-6%	**114**	108	6%	**123**	122	1%	**155**	128	22%
Net profit	**59**	64	-8%	**83**	79	6%	**91**	90	1%	**117**	95	24%

Source: Santander Brokerage Poland

Valuation

Fig. 2. Auto Partner: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	**11.2**	9.2	*21.3%*
Comparable valuation (based on 2019-2021E)*	**5.8**	5.8	*0.8%*
Target Price (PLN/share)**	**8.5**	7.5	*13.3%*

*Source: Santander Brokerage Poland, * based on a comparable valution (PLN5.4/share) and mid-cycle valuation (PLN6.3), ** 50% DCF, 50% comparable valuation*

DCF

Fig. 3. Auto Partner: WACC calculation

Risk-free rate	3.0%
Un-levered beta	1.0
Levered beta	1.34
Equity risk premium	5.0%
Cost of equity	**9.7%**
Risk-free rate	3.0%
Debt risk premium	1.0%
Tax rate	19.0%
After tax cost of debt	**3.2%**
%D	29%
%E	71%
WACC	**7.8%**

Source: Santander Brokerage Poland

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Fig. 4. Auto Partner: DCF analysis

PLNmn	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Sales	**1,477**	**1,810**	**2,231**	**2,617**	**2,690**	**2,730**	**2,757**	**2,785**	**2,813**	**2,841**
EBIT	84	114	123	155	154	151	147	143	139	134
Cash taxes on EBIT	18	24	26	33	32	32	31	30	29	28
NOPAT	**66**	**90**	**97**	**123**	**122**	**119**	**116**	**113**	**109**	**106**
Depreciation	9	10	12	13	15	17	19	20	20	20
Change in operating WC	64	61	50	45	18	8	5	5	5	5
Capital expenditure	13	15	19	21	22	22	22	22	22	23
FCF	**-1**	**25**	**40**	**70**	**97**	**106**	**107**	**105**	**103**	**98**
WACC	7.8%									
PV FCF 2019-2028	458									
Terminal growth	2.5%									
Terminal Value (TV)	1,959									
PV TV	925									
Total EV	**1,384**									
Net debt (-)	164									
Equity value	**1,220**									
Number of shares (m)	131									
Month	15									
Current Equity Value (PLN)	**1,331**									
Current Value per share (PLN)	10.2									
12M target price (PLN)	**11.2**									
Revenue growth	27.9%	22.5%	23.2%	17.3%	2.8%	1.5%	1.0%	1.0%	1.0%	1.0%
FCF growth	n.a.	n.a.	60.7%	72.5%	39.6%	8.7%	1.7%	-1.8%	-2.8%	-4.3%
Nopat margin	4.5%	5.0%	4.4%	4.7%	4.5%	4.4%	4.2%	4.1%	3.9%	3.7%
Capex/Revenues	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%

Source: Company data, Santander Brokerage Poland

Comparable valuation

Fig. 5. Auto Partner: Comparable valuation

Name	Price	Mkt. cap. (USD)	2019E	P/E 2020E	2021E	2019E	EV/EBITDA 2020E	2021E	DY 2019E
ADVANCE AUTO	133.0	9,207	16.8	14.8	13.4	9.2	8.7	10.5	0.2%
GENUINE PARTS	89.0	12,944	15.7	15.2	14.4	10.8	10.5	0.0	3.4%
UNI-SELECT	10.7	341	15.2	15.5	15.0	6.2	5.5	6.7	3.4%
LKQ CORP	29.9	9,171	12.8	11.8	10.7	10.8	9.7	9.4	0.0%
Avg. - U.S.			**15.1**	**14.3**	**13.4**	**9.2**	**8.6**	**6.7**	**1.7%**
MEKONOMEN	75.0	443	7.3	6.6	6.0	3.8	3.7	3.5	3.0%
LOOKERS	0.4	203	12.5	10.8	9.8	3.5	3.1	3.8	6.8%
Avg. - Europe			**9.9**	**8.7**	**7.9**	**3.6**	**3.4**	**3.7**	**4.9%**
Average *			**12.5**	**11.5**	**10.6**	**6.4**	**6.0**	**5.2**	**3.3%**
Inter Cars	222	790	**14.3**	**14.0**	**12.6**	**9.8**	**9.5**	**8.8**	0.3%
Auto Partner	**5.1**	**168**	**11.3**	**8.0**	**7.4**	**8.8**	**6.6**	**5.9**	**0.3%**
prem./disc.			-9.8%	-30.1%	-30.8%	36.4%	10.3%	13.5%	-90.3%
Implied price			5.7	7.3	7.4	3.3	4.5	4.3	
Avg. price (PLN)			**5.4**						

*Source: Bloomberg, Company data, Santander Brokerage Poland, * average of the U.S. and European peers*

Fig. 6. Auto Partner: Mid-cycle valuation

	2019E	P/E(x) 2020E	2019E	EV/EBITDA(x) 2020E
Net profit & EBITDA (PLNmn)	59	83	93	124
Target multiple (x)*	11.7	11.7	8.9	8.9
Price per share (PLN)	5.3	7.4	5.0	7.3
Avg. implied price (PLN)	**6.3**			

*Source: Company data, Santander Brokerage Poland, * average mid-cycle 1Y P/E forward and mid-cycle 1Y EV/EBITDA forward*

4Q19 results preview

Fig. 7. Auto Partner: 4Q19E results preview

PLNmn	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19E	y/y	q/q
Sales	240.4	253.9	303.4	303.7	293.9	326.7	392.9	391.5	366.8	25%	-6%
EBITDA	11.0	21.1	23.9	23.8	20.9	24.0	21.5	25.0	23.0	10%	-8%
EBITDA margin	4.6%	8.3%	7.9%	7.8%	7.1%	7.3%	5.5%	6.4%	6.3%	(0.9)	(0.1)
Adj. EBITDA	11.5	19.7	25.6	19.3	21.2	23.5	22.1	25.0	23.0	8%	-8%
EBIT	9.1	19.0	21.7	21.6	18.6	21.6	19.3	22.3	20.4	10%	-9%
EBIT margin	3.8%	7.5%	7.2%	7.1%	6.3%	6.6%	4.9%	5.7%	5.6%	(0.8)	(0.2)
Net profit	4.5	12.9	16.7	15.9	13.2	15.4	13.3	15.6	14.9	13%	-4%
Net margin	1.9%	5.1%	5.5%	5.2%	4.5%	4.7%	3.4%	4.0%	4.1%	(0.4)	0.1
Adj. Net profit	6.6	12.9	17.2	12.3	12.9	14.9	13.5	15.6	14.9	15%	-4%

*Source: Company data, Santander Brokerage Poland, * EBITDA and net profit in 3Q18 were inflated by PLN4.5mn by the reversal of provision on too conservative accounting of loyalty programs*

Financials

Fig. 8. Auto Partner: Income statement forecasts *

PLNmn	2017	2018	2019E	2020E	2021E	2022E
Sales	**915**	**1,155**	**1,477**	**1,810**	**2,231**	**2,617**
COGS	673	848	1,095	1,338	1,648	1,934
Gross profit	**242**	**307**	**382**	**472**	**582**	**683**
OPEX, of which	185	224	296	358	459	528
depreciation	7	9	18	20	21	24
POS	**57**	**83**	**86**	**114**	**123**	**155**
other operating income	0	0	0	0	0	0
other operating costs	1	0	0	0	0	0
other profit/loss	(1)	(2)	(2)	0	0	0
EBIT	**55**	**81**	**84**	**114**	**123**	**155**
EBITDA	**62**	**90**	**102**	**134**	**145**	**179**
financial cost (profit)	11	7	9	9	8	7
PBT	**44**	**74**	**75**	**105**	**115**	**149**
tax	9	16	16	22	24	31
net profit	**35**	**59**	**59**	**83**	**91**	**117**
Gross margin	26.4%	26.6%	25.9%	26.1%	26.1%	26.1%
EBITDA margin	6.8%	7.8%	6.9%	7.4%	6.5%	6.8%
net margin	3.8%	5.1%	4.0%	4.6%	4.1%	4.5%
Sales growth	29.7%	26.2%	27.9%	22.5%	23.2%	17.3%
Gross profit growth	33.3%	27.0%	24.5%	23.6%	23.2%	17.3%
EBITDA growth	26.5%	44.6%	14.0%	30.9%	8.3%	23.4%
Net profit growth	1.1%	68.1%	1.1%	40.4%	9.4%	28.7%

*Source: Company data, Santander Brokerage Poland, * forecast include impact of IFRS16 as of 2020*

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Fig. 9. Auto Partner: Balance sheet forecasts *

PLNmn	2017	2018	2019E	2020E	2021E	2022E
Current assets	**447**	**544**	**619**	**724**	**841**	**980**
cash and equivalents	17	22	14	33	68	132
accounts receivable	63	82	105	128	158	185
inventories	363	435	495	558	610	657
other assets	4	5	5	5	5	5
Fixed assets	**59**	**67**	**127**	**134**	**144**	**155**
PPE	52	60	63	67	73	81
intangibles	5	6	7	7	8	8
investments & other	2	2	2	2	2	2
Total assets	**506**	**611**	**746**	**858**	**985**	**1,135**
Current liabilities	**207**	**183**	**206**	**235**	**271**	**305**
bank debt	138	76	76	76	76	76
accounts payable	62	98	125	153	189	222
other current liabilities	7	9	4	5	6	7
Long-term liabilities	**44**	**113**	**168**	**171**	**174**	**177**
bank debt	43	110	110	110	110	110
finance lease	0	0	56	58	61	64
other long-term liabilities	2	3	3	3	3	3
Equity	**255**	**315**	**372**	**452**	**540**	**653**
common stock	13	13	13	13	13	13
other capital	207	244	300	356	436	523
net profit	35	59	59	83	91	117
Total liabilities and equity	**506**	**611**	**746**	**858**	**985**	**1,135**
ROCE	20.5%	22.3%	19.6%	21.8%	20.3%	21.9%
Pre-IFRS16 net debt	164	164	172	211	179	118
Pre-IFRS16 net debt/EBITDA	2.6	1.8	1.8	1.2	0.9	0.3

*Source: Company data, Santander Brokerage Poland, * forecast include impact of IFRS16 as of 2020*

Fig. 10. Auto Partner: Cash flow statement forecasts *

PLNmn	2017	2018	2019E	2020E	2021E	2022E
Cash flow from operations	**-79**	**22**	**17**	**46**	**67**	**100**
Net profit	35	59	59	83	91	117
Depreciation and amortisation	7	9	9	10	12	13
Changes in WC, o/w	**-133**	**-54**	**-56**	**-58**	**-47**	**-42**
inventories	-118	-73	-60	-63	-53	-47
receivables	-23	-19	-23	-24	-30	-27
payables	8	38	27	28	36	33
Other, net	12	9	-5	1	1	1
Cash flow from investment	**-16**	**-5**	**-13**	**-15**	**-19**	**-21**
Additions to PPE and intangibles	-13	-5	-13	-15	-19	-21
Change in long-term investments	0	0	0	0	0	0
Other, net	-3	0	0	0	0	0
Cash flow from financing	**101**	**-12**	**-12**	**-12**	**-14**	**-14**
Change in long-term borrowing	51	2	0	0	0	0
Change in short-term borrowing	0	0	0	0	0	0
Change in equity and profit distribution	58	1	0	0	0	0
Dividends paid	0	0	-3	-3	-4	-4
Other, net	-9	-16	-9	-9	-10	-10
Net change in cash and equivalents	**6**	**5**	**-8**	**19**	**35**	**64**

*Source: Company data, Santander Brokerage Poland, * forecast include impact of IFRS16 as of 2020*

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Mid-caps – if a stock is included into a mid-cap portfolio it means that, according to the authors of this document, a particular stock price may outperform the WIG20 index during one month. Stocks are added to or deleted from the list on the basis of the requirement to rotate the stocks included in the list.
Any change in weight of stocks already included in the portfolio should not be construed as investment recommendation. Such changes are aimed exclusively at making the total weight of all stocks equal 100%.
Explanations of special terminology used in the recommendation:
EBIT – earnings before interest and tax
EBITDA – earnings before interest, taxes, depreciation, and amortization
P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

Recommendation definitions:
Buy – indicates a stock's total return to exceed more than 10% over the next twelve months.
Hold - indicates a stock's total return to be in range of 0%-10% over the next twelve months.
Sell - indicates a stock's total return to be less than 0% over the next twelve months.

It is possible for the analyst to indicate different recommendation (buy, sell, hold) than specified in the definition, with a given total expected rate of return on investment, where it is justified due to additional market factors, industry trends, etc. In such case, relevant clarification of the investment recommendation meaning presented in the recommendation is included in the document.

In preparing this document Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.
The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

Global statistics presenting the rating of the covered companies and the share of companies provided with investment banking in the past 12M are available at: https://www.santander.pl/inwestor/global-statistics
A list of all recommendations on any financial instrument or issuer that were disseminated by Santander Brokerage Poland during the preceding 12 month period can be found on: https://www.inwestoronline.pl/r/res/wykaz_tabel/wykaz_rekomendacji_eng.pdf
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All the prices of financial instruments which have been mentioned in the report correspond to the rates at which the last transactions on these financial instruments were realized during a given day unless otherwise indicated.
The Stock performance charts in this report include line graphs of the securities' daily closing prices for one year period. Information relating to a longer period (max 3 years) is available upon request.
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