AUTO PARTNER

Pilot suport program for analitycal coverage

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CEE Equity Research

Car parts distribution, Poland

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Tomasz Sokolowski, *Equity Analyst*

+48 22 586 8236,
tomasz.sokolowski@santander.pl

4Q19E net profit in line with expectations

Auto Partner (Buy, TP PLN8.5)

4Q19 results review

- Auto Partner reported good results in 4Q19 with EBITDA coming in 17% higher y/y and 7% ahead of our forecast. Positive surprise would be even larger if not for other operating loss at PLN1.8mn. Auto Partner delivered higher than expected gross profit at PLN102mn (margin of 27.7%) vs. SANe at PLN97mn (gross margin at 26.5%);
- 4Q19 net profit came in line with our expectations due to higher than expected tax effective rate at 23.8% vs. SANe at 19%;
- Operating costs amounted to 21.6% in relation to sales vs. 20.6% last year. Opex were driven mainly by sales costs (12.7% in sales vs. 11.8% last year; PLN47mn vs. PLN35mn last year);
- Pre-lease net debt stood at PLN166mn or 1.7x annualized EBITDA.

Comment: Neutral. Management fulfilled its promises, which were given in a guidance during a conference meeting after 2Q19 that gross margin should return to 'normal' levels in 2H19. It was the case as gross margin stood at 26.0% and 27.7% in 3-4Q19, respectively. In a letter to shareholders, the company warned that current business slowed down since March (sales declined 3% y/y) due to covid-19 and it might last at least to the end of lock down. Earlier, the company guided at +20% y/y sales growth and net margin improvement to c5.0%. In current circumstances, guidance is unachievable, in our view creating a risk to our forecasts.

Tomasz Sokolowski +22 586 8236

Fig. 1. Auto Partner: 4Q19 results review*

	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	y/y	q/q	Cons.	SAN
Sales	303.4	303.7	293.9	326.7	392.9	391.5	367.9	25%	-6%	369	366.8
EBITDA	23.9	23.8	20.9	24.0	21.5	25.0	24.5	17%	-2%	24.7	23.0
EBITDA margin	*7.9%*	*7.8%*	*7.1%*	*7.3%*	*5.5%*	*6.4%*	*6.7%*	(0.5)	0.3	*6.7%*	*6.3%*
EBIT	21.7	21.6	18.6	21.6	19.3	22.3	20.6	11%	-8%	20.8	20.4
EBIT margin	*7.2%*	*7.1%*	*6.3%*	*6.6%*	*4.9%*	*5.7%*	*5.6%*	(0.7)	(0.1)	*5.6%*	*5.6%*
Net profit	16.7	15.9	13.2	15.4	13.3	15.6	14.5	10%	-7%	14.1	14.9
Net margin	*5.5%*	*5.2%*	*4.5%*	*4.7%*	*3.4%*	*4.0%*	*3.9%*	(0.5)	(0.0)	*3.8%*	*4.1%*

*Source: Company data, Santander Brokerage Poland, * results adjusted by IFRS16 impact*

Fig. 2. Auto Partner: Financial forecast summary

PLNmn	2017	2018	2019	2020E	2021E
Sales	915	1155	1477	1,810	2,231
EBITDA	62	90	100	134	145
EBIT	55	81	82	114	123
net profit	35	59	58	83	91
P/E	18.8	9.1	10.1	7.0	6.4
EV/EBITDA	13.2	7.8	8.1	5.9	5.3
DY	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland, 2017-19 ratios calculated on avg. historical prices

Santander Brokerage Poland

Jana Pawla II Avenue 17
00-854 Warszawa
fax. (+48) 22 586 81 09

Equity Research Department

Kamil Stolarski, CFA, *Head of Equity Research* *Strategy, Financials*	tel. (+48) 22 586 81 00	kamil.stolarski@santander.pl
Paweł Puchalski, CFA, *Equity Analyst* *Telecommunications, Metals & Mining, Power*	tel. (+48) 22 586 80 95	pawel.puchalski@santander.pl
Grzegorz Balcerski, *Securities Broker, Investment Advisor* *Equity Analyst, Games, Health Care, Industrials*	tel. (+48) 22 534 16 10	grzegorz.balcerski@santander.pl
Tomasz Krukowski, CFA, *Equity Analyst* *Oil&Gas, CEE Non-Financials*	tel. (+48) 22 586 81 55	tomasz.krukowski@santander.pl
Adrian Kyrcz, *Equity Analyst* *Construction, Real Estate, IT*	tel. (+48) 22 586 81 59	adrian.kyrcz@santander.pl
Tomasz Sokołowski, *Equity Analyst* *Consumer Goods, Retail*	tel. (+48) 22 586 82 36	tomasz.sokolowski@santander.pl
Michał Sopiel, *Equity Analyst* *Industrials, Oil&Gas, Chemicals, Quantitative Analysis*	tel. (+48) 22 586 82 33	michal.sopiel@santander.pl

Sales & Trading Department

Kamil Kalemba, *Head of Institutional Equities*	tel. (+48) 22 586 80 84	kamil.kalemba@santander.pl
Mateusz Choromański, CFA, Head of Sales *Securities Broker, Investment Advisor*	tel. (+48) 22 586 80 82	mateusz.choromanski@santander.pl
Robert Chudala	tel. (+48) 22 586 85 14	robert.chudala@santander.pl
Alex Kamiński	tel. (+48) 22 586 80 63	alex.kaminski@santander.pl
Błażej Leśków, *Securities Broker*	tel. (+48) 22 586 80 83	blazej.leskow@santander.pl
Michał Stępkowski, *Securities Broker*	tel. (+48) 22 586 85 15	michal.stepkowski@santander.pl
Marek Wardzyński, *Securities Broker*	tel. (+48) 22 586 80 87	marek.wardzynski@santander.pl

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CPI – consumer price index
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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.
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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.
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