AUTO PARTNER

Pilot suport program for analitycal coverage

Bloomberg: APR PW, Reuters: APR.WA

CEE Equity Research

Car parts distribution, Poland

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1Q20E impacted by sudden pandemic outbreak; Rebound from April's trough expected in 2Q20E

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Auto Partner (Buy, TP PLN8.5)

1H20E results preview

- Auto Partner faced a tough challenge in **1Q20E** with sudden drop of demand in March (monthly sales declined 3% y/y vs. +20% in February 2020). The company has not had much time to respond on costs' side so the adverse effect of operating leverage was high. We believe March's financial results should erase good financial performance from Jan – Feb period. Summing up, we expect Auto Partner's sales higher by just 13% y/y at PLN370mn in 1Q20E, vs. the company's ambition to expand by over 20% y/y. The aforementioned adverse effect of operating leverage should result in EBITDA margin decline by 2.2pp to 5.1% as opex/sales ratio should increase 2.4pp to 22.5% in 1Q20E. We expect net profit to come in at PLN10mn (2pp y/y margin decline to 2.7%);
- With regards to **2Q20E**, we expect that Auto Partner reached a trough in April with sales declining 14% y/y that month. As of May the company should have been seeing demand rebound along with unfreezing economy, in our view. We expect flat y/y sales in May and 5% y/y growth in June. All in all, we expect that Auto Partner's sales should decline 3% y/y to PLN380mn in 2Q20E. We also expect gross margin rebound by 1pp to 25.5% from a previous year's all time low at 24.5% (depressed by promotions at that time). We also expect some costs saving initiatives, however opex/sales ratio should increase 0.5pp y/y to 19.6% as it was not enough to cover missing sales from April. All in all, we believe that Auto Partner might be able to improve net profit by 21% y/y to PLN16mn in 2Q20E mainly thanks to gross margin rebound from previous year low.

Fig. 1. Auto Partner: 1H20E forecast

PLNmn	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20E	*y/y*	2Q20E	*y/y*
Sales	303.4	303.7	293.9	326.7	392.9	391.5	367.9	**370.2**	13%	**379.6**	-3%
EBITDA	23.9	23.8	20.9	24.0	21.5	25.0	24.5	**19.0**	-21%	**26.7**	24%
EBITDA margin	7.9%	7.8%	7.1%	7.3%	5.5%	6.4%	6.7%	**5.1%**	-2.2	**7.0%**	1.6
EBIT	21.7	21.6	18.6	21.6	19.3	22.3	20.6	**14.8**	-32%	**22.4**	16%
EBIT margin	7.2%	7.1%	6.3%	6.6%	4.9%	5.7%	5.6%	**4.0%**	-2.6	**5.9%**	1.0
Net profit	16.7	15.9	13.2	15.4	13.3	15.6	14.5	**9.9**	-36%	**16.1**	21%
Net margin	5.5%	5.2%	4.5%	4.7%	3.4%	4.0%	3.9%	**2.7%**	-2.0	**4.2%**	0.9

Source: Company data, Santander Brokerage Poland

Fig. 2. Auto Partner: Financial forecast summary

PLNmn	2017	2018	2019	2020E	2021E
Sales	915	1,155	1,477	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

No recommendations, TPs or forecasts were altered in this note.

Santander Biuro Maklerskie

Bank of 2018 in Poland according to The Banker magazine

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CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
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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.
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