AUTO PARTNER (Buy, TP PLN8.5)

Santander Biuro Maklerskie

Pilot support program for analitycal coverage

Bloomberg: APR PW, Reuters: APR.WA

CEE Equity Research

Car parts distribution, Poland

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Very strong 2Q20 preliminary results

Auto Partner reported very strong 2Q20 preliminary results thanks to (1) quick revival of sales in May/June and (2) massive cost cutting. The company mentioned that satisfactory costs level was maintained, which should be still visible in results in coming quarters. We think that our FY20E forecast pointing at net profit of PLN83mn is fully achievable as well as company's net profit guidance at approx. 5%.

- Sales amounted to PLN768mn (+7% y/y) in 1H20;
- Gross profit amounted to PLN217mn (+19% y/y) in 1H20;
- Operating profit came in at PLN61.1mn (+50% y/y) in 1H20;
- Net profit amounted to PLN44.6mn (+54% y/y) in 1H20;
- Net debt decreased to PLN73mn vs. PLN148mn a year ago.
- In a comment, the company mentioned: (1) price increased since April, (2) lower purchases in April, which boosted operating cash flow in April and (3) massive operating costs decrease in April during lockdown and maintaining costs at satisfactory levels during 2Q20.
- 1H20 preliminary results imply 2Q20P sales of PLN398mn (+1% y/y), EBIT of PLN42mn (+118% y/y) and net profit of PLN32mn (+140% y/y);
- In the meantime, Auto Partner reported that sales in July amounted to PLN165mn (+19% y/y).

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Auto Partner: 2Q20P results review

PLNmn	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P	y/y	q/q
Sales	303.7	293.9	326.7	392.9	391.5	367.9	371.1	396.7	1%	7%
EBITDA	23.8	20.9	24.0	21.5	25.0	24.5	24.7	46.4	116%	88%
EBITDA margin	7.8%	7.1%	7.3%	5.5%	6.4%	6.7%	6.6%	11.7%	6.2	5.1
EBIT	21.6	18.6	21.6	19.3	22.3	20.6	19.0	42.1	118%	122%
EBIT margin	7.1%	6.3%	6.6%	4.9%	5.7%	5.6%	5.1%	10.6%	5.7	5.5
Net profit	15.9	13.2	15.4	13.3	15.6	14.5	12.7	31.9	140%	152%
Net margin	5.2%	4.5%	4.7%	3.4%	4.0%	3.9%	3.4%	8.0%	4.7	4.6

Source: Company data, Santander Equity Research

Auto Partner: Financial summary

PLNmn	2018	2019	2020E	2021E	2022E
Sales	1,155	1,477	1,810	2,231	2,617
EBITDA	90	100	134	145	179
EBIT	81	82	114	123	155
Net profit	59	58	83	91	117
P/E (x)	9.1	10.1	7.0	6.4	5.0
EV/EBITDA (x)	7.8	8.1	6.0	5.3	4.0
DY	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Equity Research, NOTE: 2018-19 multiples calculated at historical avg. prices

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

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