AUTO PARTNER

Pilot Support Program for Analytical Coverage

Reuters: APR.WA Bloomberg: APR PW

CEE Equity Research

Car Parts distribution, Poland

13 November 2020, 08:10 CET

Stunning 3Q20P delivery

Buy maintained, TP up to PLN12.2

We are reiterating our Buy rating with a new 12M target price of PLN12.2 vs. the prior PLN8.5 as we think that Auto Partner offers an attractive valuation (2021E P/E of 7.5x) taking into account its growth profile (2019/22E EPS CAGR at 32%) and quality (pre-lease ROCE of 27%). AP should also greatly decrease its financial leverage (2020 net debt/EBITDA at just 0.4x) and return to dividend payments from 2021 (2021 DY at 1.1%). 3Q20 preliminary results have shown that AP is likely to record a record high net profit in 2020E benefiting from (1) the car repair market's immunity to Covid-19, (2) operating costs' control and (3) structural gross margin increase in the car parts industry. We believe that these factors are likely to persist at least in the mid-term, driving our net profit forecasts by 27%/35% in 2020-21E. We also expect that Auto Partner should continue to gain market share to 11.0% in 2022E from 9.2% in 2019. In the short term, we expect that 4Q20E should also be a good period for Auto Partner with EPS growth at 88% y/y, according to our early estimates. However, please note that the risk of a hard lockdown is high and its realization might cause some short-term difficulties.

Preliminary 3Q20 results proved that the stunning delivery in 2Q20 was no exception. Just to recall, Auto Partner improved net profit by 145% to PLN33mn at that time, mainly thanks to a gross margin improvement by 5.8pp y/y to 30.3% resulting from a price tag increase, tailwinds from Fx and battered supply during the pandemic (problems of local competitors). 3Q20 prelims indicated that this positive mix of factors should have remained intact as net profit grew again by 135% to PLN37mn, not to mention that AP delivered our FY20E forecast with a net profit of PLN82mn in 1-3Q20. In our view, most of these factors should persist in the mid-term. We expect AP to keep on gaining market share, growing its sales above 20% in 2021E, however we predicted a slightly lower (51bps) gross margin likely to be achieved this year than the record high 28.7%.

4Q20 preview. We believe that most drivers behind strong 2-3Q20 results should be maintained in 4Q20E. Therefore, we expect net profits of PLN27mn (+88% y/y), and an EBITDA of PLN41mn (+69% y/y) on sales of PLN424mn (+15% y/y) in 4Q20E.

Forecast change. We are noticeably increasing our assumptions on margins in 2020/22E, which results in a 27%/35%/14% growth in net profit forecast.

Further intensification of Covid-19 resurgence is a risk, which might affect sales growth, however only in the short term, in our view.

Valuation and risks. An equally weighted valuation derived from our DCF model (PLN14.5) and a comparable valuation (PLN9.9) implies a 12M TP at PLN12.2 (72% upside).

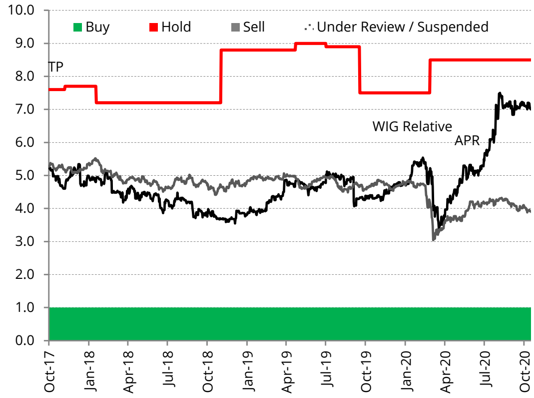
Auto Partner: Financial summary and ratios*

PLNmn	2017	2018	2019	2020E	2021E	2022E
Revenue	915	1,155	1,479	1,663	2,040	2,385
EBITDA	62	90	104	165	185	197
EBIT	55	81	84	143	161	171
Net profit	35	59	59	106	123	134
P/E (x)	18.8	9.1	9.9	9.0	7.7	7.1
EV/EBITDA (x)	13.2	8.2	7.8	6.5	5.5	4.8
Dividend yield	0.0%	0.0%	0.4%	0.0%	1.1%	1.3%

*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, 10 November 2020)	7.26
Target price (PLN, 12M)	12.2
Market cap. (PLNmn)	929
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: Forecast changes

	2020E			2021E			2022E		
	New	Prev.	chng.	New	Prev.	chng.	New	Prev.	chng.
Sales	**1,663**	1,810	-8%	**2,040**	2,231	-9%	**2,385**	2,617	-9%
EBITDA	**165**	134	23%	**185**	145	28%	**197**	179	10%
EBIT	**143**	114	25%	**161**	123	30%	**171**	155	10%
Net profit	**106**	83	27%	**123**	91	35%	**134**	117	14%

Source: Santander Brokerage Poland

Main assumptions

Fig. 2. Auto Partner: Main assumptions

PLNmn	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	**355**	**425**	**519**	**705**	**915**	**1,155**	**1,479**	**1,663**	**2,040**	**2,385**
chng.		20%	22%	36%	30%	26%	28%	12%	23%	17%
Poland	280	347	423	549	663	770	910	964	1,122	1,264
chng.		24%	22%	30%	21%	16%	18%	6%	16%	13%
Foreign markets	75	78	96	157	252	385	569	698	918	1,121
chng.		4%	23%	63%	61%	53%	48%	23%	31%	22%
logistics capacity (k sqm)	41	48	52	68	87	89	104	105	116	119
chng.		16%	9%	31%	28%	2%	17%	1%	10%	3%
sales/avg. sqm (kPLN)	9.6	9.6	10.4	11.8	11.8	13.2	15.4	15.9	18.5	20.3
chng.		0%	9%	13%	0%	12%	17%	4%	16%	10%
Gross profit	**96**	**112**	**130**	**181**	**242**	**307**	**387**	**477**	**574**	**659**
margin	26.9%	26.3%	25.1%	25.7%	26.4%	26.6%	26.2%	28.7%	28.2%	27.7%
Sales costs	40	53	65	86	113	133	173	189	237	277
as % of sales	11.4%	12.4%	12.6%	12.2%	12.4%	11.5%	11.7%	11.4%	11.6%	11.6%
Logistics	15	20	26	35	51	73	101	113	143	172
as % of sales	4.2%	4.7%	5.1%	5.0%	5.6%	6.3%	6.9%	6.8%	7.0%	7.2%
G&A*	7	8	6	10	14	18	25	30	34	40
as % of sales	2.0%	2.0%	1.2%	1.4%	1.6%	1.6%	1.7%	1.8%	1.7%	1.7%
Operating costs	**66**	**85**	**103**	**136**	**185**	**224**	**299**	**332**	**414**	**488**
as % of sales	18.5%	20.0%	19.8%	19.3%	20.2%	19.4%	20.2%	19.9%	20.3%	20.5%
other operating profit	0	-3	-2	-1	-2	-2	-4	-2	0	0
EBIT	**30**	**24**	**25**	**44**	**55**	**81**	**84**	**143**	**161**	**171**
margin	8.4%	5.6%	4.9%	6.3%	6.0%	7.0%	5.7%	8.6%	7.9%	7.2%
Depreciation	3	4	5	5	7	9	20	22	24	26
as % of sales	1.0%	0.9%	0.9%	0.7%	0.7%	0.8%	1.4%	1.3%	1.2%	1.1%
EBITDA	**33**	**28**	**30**	**49**	**62**	**90**	**104**	**165**	**185**	**197**
growth	55.1%	-16.6%	8.6%	62.7%	26.5%	44.6%	15.9%	59.1%	11.9%	6.8%
margin	9.4%	6.5%	5.8%	6.9%	6.8%	7.8%	7.0%	9.9%	9.1%	8.3%

Source: Santander Brokerage Poland

Valuation

Fig. 3. Auto Partner: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	**14.5**	11.2	*29.2%*
Comparable valuation (based on 2020-2022E)*	**9.9**	5.8	*71.2%*
Target Price (PLN/share)**	**12.2**	8.5	*43.5%*

*Source: Santander Brokerage Poland, * based on a comparable valution (PLN8.9/share) and mid-cycle valuation (PLN10.9), ** 50% DCF, 50% comparable valuation*

DCF

Fig. 4. Auto Partner: WACC calculation

Risk-free rate	3.0%
Un-levered beta	1.0
Levered beta	1.17
Equity risk premium	5.0%
Cost of equity	**8.8%**
Risk-free rate	3.0%
Debt risk premium	1.0%
Tax rate	19.0%
After tax cost of debt	**3.2%**
%D	17%
%E	83%
WACC	**7.9%**

Source: Company data, Santander Brokerage Poland

Fig. 5. Auto Partner: DCF analysis

PLNmn	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	**1,663**	**2,040**	**2,385**	**2,670**	**2,711**	**2,738**	**2,765**	**2,793**	**2,821**	**2,849**
EBIT	143	161	171	185	181	176	171	166	160	155
Cash taxes on EBIT	30	34	36	39	38	37	36	35	33	32
NOPAT	**113**	**127**	**135**	**146**	**143**	**139**	**135**	**131**	**127**	**122**
Depreciation	17	19	21	23	26	29	31	31	31	30
Change in operating WC	14	49	43	20	8	5	5	5	5	5
Capital expenditure	14	23	27	30	30	30	30	30	31	31
FCF	**103**	**74**	**86**	**120**	**131**	**133**	**131**	**127**	**122**	**116**
WACC	7.9%									
PV FCF 2020-2029	754									
Terminal growth	2.5%									
Terminal Value (TV)	2,239									
PV TV	1,049									
Total EV	**1,803**									
Net debt (-)	166									
Equity value	**1,637**									
Number of shares (m)	131									
Month	11									
Current Equity Value (PLN)	**1,755**									
Current Value per share (PLN)	13.4									
12M target price (PLN)	**14.5**									
Revenue growth	12.4%	22.7%	16.9%	12.0%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%
FCF growth	n.a	-28.0%	15.8%	39.7%	8.9%	1.2%	-1.6%	-2.6%	-4.3%	-4.5%
Nopat margin	6.8%	6.2%	5.7%	5.5%	5.3%	5.1%	4.9%	4.7%	4.5%	4.3%
Capex/Revenues	0.8%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%

Source: Company data, Santander Brokerage Poland

Comparable valuation

Fig. 6. Auto Partner: Comparable valuation

Name	Price	Mkt. cap. (USD)	2020E	P/E 2021E	2022E	DY 2021E
MEKONOMEN	92.5	603	10.1	7.9	7.2	2.8%
INTER CARS	208.0	777	10.6	11.7	10.8	n.a.
Average			**10.3**	**9.8**	**9.0**	**2.8%**
Auto Partner	**7.1**	**246**	**9.0**	**7.7**	**7.1**	**1.1%**
prem./disc.			-13%	-21%	-21%	-60%
price per share			8.3	9.2	9.2	
Average (PLN)			**8.9**			

Source: Bloomberg, Company data, Santander Brokerage Poland

Santander

Fig. 7. Auto Partner: Mid-cycle valuation

		P/E(x)		EV/EBITDA(x)
	2020E	2021E	2020E	2021E
Net profit & EBITDA (PLNmn)	106	123	165	185
Target multiple (x)*	11.7	11.7	8.9	8.9
Price per share (PLN)	9.4	11.0	10.7	12.5
Avg. implied price (PLN)	**10.9**			

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

4Q20 results preview

Fig. 8. Auto Partner: 4Q19E results preview

PLNmn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20P	4Q20P	*y/y*	*q/q*
Sales	293.9	326.7	392.9	391.5	367.9	371.1	396.7	469.0	424.3	15%	-10%
EBITDA	20.9	24.0	21.5	25.0	24.5	24.7	48.6	52.5	41.4	69%	-21%
EBITDA margin	7.1%	7.3%	5.5%	6.4%	6.7%	6.6%	12.2%	11.2%	9.8%	3.1	(1.5)
EBIT	18.6	21.6	19.3	22.3	20.6	19.0	42.9	46.8	35.7	73%	-24%
EBIT margin	6.3%	6.6%	4.9%	5.7%	5.6%	5.1%	10.8%	10.0%	8.4%	2.8	(1.6)
Net profit	13.2	15.4	13.3	15.6	14.5	12.7	32.6	36.6	27.3	88%	-26%
Net margin	4.5%	4.7%	3.4%	4.0%	3.9%	3.4%	8.2%	7.8%	6.4%	2.5	(1.4)

Source: Company data, Santander Brokerage Poland

Financials

Fig. 9. Auto Partner: Income statement forecasts

PLNmn	2017	2018	2019	2020E	2021E	2022E
Sales	**915**	**1,155**	**1,479**	**1,663**	**2,040**	**2,385**
COGS	673	848	1,092	1,186	1,466	1,725
Gross profit	**242**	**307**	**387**	**477**	**574**	**659**
OPEX, of which	185	224	299	332	414	488
depreciation	7	9	20	22	24	26
POS	**57**	**83**	**88**	**145**	**161**	**171**
other operating income	0	0	0	-	-	-
other operating costs	1	0	1	-	-	-
other profit/loss	(1)	(2)	(4)	(2)	-	-
EBIT	**55**	**81**	**84**	**143**	**161**	**171**
EBITDA	**62**	**90**	**104**	**165**	**185**	**197**
financial cost (profit)	11	7	10	9	5	2
PBT	**44**	**74**	**74**	**134**	**156**	**169**
tax	9	16	16	28	33	35
net profit	**35**	**59**	**59**	**106**	**123**	**134**
Gross margin	26.4%	26.6%	26.2%	28.7%	28.2%	27.7%
EBITDA margin	6.8%	7.8%	7.0%	9.9%	9.1%	8.3%
net margin	3.8%	5.1%	4.0%	6.4%	6.0%	5.6%
Sales growth	29.7%	26.2%	28.1%	12.4%	22.7%	16.9%
Gross profit growth	33.3%	27.0%	26.0%	23.2%	20.5%	14.8%
EBITDA growth	26.5%	44.6%	15.9%	59.1%	11.9%	6.8%
Net profit growth	1.1%	68.1%	0.1%	79.9%	16.8%	8.2%

Source: Company data, Santander Brokerage Poland

Fig. 10. Auto Partner: Balance sheet forecasts

PLNmn	2017	2018	2019	2020E	2021E	2022E
Current assets	**447**	**544**	**596**	**620**	**680**	**795**
cash and equivalents	17	22	26	22	16	71
accounts receivable	63	82	101	100	123	143
inventories	363	435	461	490	534	573
other assets	4	5	8	8	8	8
Fixed assets	**59**	**67**	**136**	**132**	**136**	**142**
PPE	52	60	126	118	122	127
intangibles	5	6	8	12	13	13
investments & other	2	2	2	2	2	2
Total assets	**506**	**611**	**732**	**752**	**816**	**937**
Current liabilities	**207**	**183**	**203**	**118**	**139**	**159**
bank debt	138	76	102	0	0	-
accounts payable	62	98	66	91	112	131
other current liabilities	7	9	14	4	5	6
Long-term liabilities	**44**	**113**	**156**	**156**	**86**	**66**
bank debt	43	110	90	90	20	-
finance lease	0	0	61	61	61	61
other long-term liabilities	2	3	5	5	5	5
Equity	**255**	**315**	**372**	**478**	**591**	**712**
common stock	13	13	13	13	13	13
other capital	207	244	300	359	454	565
net profit	35	59	59	106	123	134
Total liabilities and equity	**506**	**611**	**732**	**752**	**816**	**937**
ROCE	20.5%	22.3%	20.1%	27.5%	27.1%	25.7%
Pre-IFRS16 net debt	164	164	166	129	65	-10
Pre-IFRS16 net debt/EBITDA	2.6	1.8	1.6	0.4	0.0	-0.4

Source: Company data, Santander Brokerage Poland

Fig. 11. Auto Partner: Cash flow statement forecasts

PLNmn	2017	2018	2019	2020E	2021E	2022E
Cash flow from operations	**-79**	**22**	**15**	**116**	**103**	**120**
Net profit	35	59	59	106	123	134
Depreciation and amortisation	7	9	20	17	19	21
Changes in WC, o/w	**-133**	**-54**	**-77**	**-2**	**-46**	**-41**
inventories	-118	-73	-29	-29	-44	-39
receivables	-23	-19	-20	1	-23	-21
payables	8	38	-29	26	21	19
Other, net	12	9	14	-9	1	1
Cash flow from investment	**-16**	**-5**	**-13**	**-14**	**-23**	**-27**
Additions to PPE and intangibles	-13	-5	-13	-14	-23	-27
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**	**2**	**-106**	**-86**	**-38**
Change in long-term borrowing	51	2	15	0	-70	-20
Change in short-term borrowing	0	0	0	-102	0	0
Change in equity and profit distribution	58	1	1	0	0	0
Dividends paid	0	0	-3	0	-11	-12
Other, net	-9	-16	-12	-5	-5	-5
Net change in cash and equivalents	**6**	**5**	**4**	**-4**	**-7**	**55**

Source: Company data, Santander Brokerage Poland

Santander Brokerage Poland

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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.

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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.

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