Auto Partner (Buy, TP PLN12.2)

Pilot support program for analitycal coverage

Bloomberg: APR PW, Reuters: ARPR.WA

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Car Parts, Poland

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Sound 4Q20E expected

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4Q20E should be a strong period for Car parts distributors with expected combined sales and net profit growth at 13%/77% y/y, respectively. Industry should benefit from continued car repairs market and lack of costs pressure, which should help them to noticeably improve revenues and record positive effects of operating leverage. Besides, thanks to strong profit improvement balance sheets of industry should further improve increasing odds for dividend payments in 2021. We remain positive on the sector.

- We expect **Auto Partner** to report sales of PLN432mn (+17% y/y), EBITDA at PLN42mn (+71% y/y) and net profit at PLN27.8mn (+92% y/y) in 4Q20E. We expect that, besides sales growth, gross margin increase by 132bps to 29.0% (PLN125mn, +17% y/y) coupled with positive effects of operating leverage (opex/sales down by 1pp to 20.6%) have driven 4Q20E results. We think that growing market of car repairs, AP's continued ability to gain market share and lack of costs pressure were the main culprit behind such strong results. We also expect that Auto Partner is likely to report a low teen value of net debt.

Fig. 1. Auto Partner: 4Q20E results preview

PLNmn	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20E	*y/y*	*q/q*
Sales	293.9	326.7	392.9	391.5	367.9	371.1	396.7	469.5	431.6	17%	-8%
EBITDA	20.9	24.0	21.5	25.0	24.5	24.7	48.6	52.8	42.0	71%	-21%
EBITDA margin	7.1%	7.3%	5.5%	6.4%	6.7%	6.6%	12.2%	11.3%	9.7%	3.1	(1.5)
EBIT	18.6	21.6	19.3	22.3	20.6	19.0	42.9	46.8	36.3	76%	-22%
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	27.8	92%	-24%
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

Fig. 1. Auto Partner: forecasts and ratios

Year to Dec, PLNmn	2017	2018	2019	2020E	2021E	2022E
Sales	915	1,155	1,479	1,663	2,040	2,385
EBITDA (pre lease)	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	10.4	8.9	8.2
EV/EBITDA (pre lease)	13.2	7.8	7.8	7.4	6.3	5.5
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Data, Santander Brokerage Poland historical 2017-19 valuation ratios based on historical average prices

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

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Explanations of special terminology used:
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
Overweight/Underweight/Neutral - means that, according to the authors of this document, the stock price may perform better/worse/neutrally than the WIG20 index in a given month.

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In preparing this document Santander Brokerage Poland applies 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 pay-out history. Main disadvantage of the DDM valuation method is that dividend pay-outs are based on a large number of parameters and assumptions, including dividend pay-out ratio.
The 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.
The 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.
The 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.