

## Pilot support program for analytical coverage

Bloomberg: APR PW, Reuters: ARPR.WA

CEE Equity Research

Car Parts, Poland

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## Sound 4Q20E expected

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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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

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**The warranted equity method (WEV)** is based on the formula  $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$  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.

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