AUTO PARTNER

Santander Biuro Maklerskie

Pilot Support Program for Analytical Coverage

Reuters: APR.WA Bloomberg: APR PW

CEE Equity Research

Car Parts distribution, Poland

26 March 2021, 08:15 CET

Expecting strong 4Q20E results

Buy maintained, TP up to PLN13.3

We are reiterating our Buy rating with a new 12M target price of PLN13.3 vs. the prior PLN12.2 ahead of 4Q20 results release. We think that Auto Partner offers an attractive valuation (2021E P/E of 9.4x), growth profile (2020/23E EPS CAGR at 11%) and quality (pre-lease ROCE of 27%). AP should also substantially decrease its financial leverage (2020E net debt/EBITDA at just 0.4x) and return to dividend payments in 2021 (2021E DY at 0.9%). 1-3Q20 results confirmed proved that Auto Partner benefits from (1) 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. We also expect that Auto Partner should continue gaining market share to 11.0% in 2022E from 9.2% in 2019. In the short term, we expect that 4Q20E should also come in strong for Auto Partner with net profit growth at 92% y/y, according to our estimates.

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 cost pressure, which should help them to noticeably improve revenues and record positive effects of operating leverage. 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 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%) would 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 should be the main culprit behind such strong results. We also expect that Auto Partner is likely to report net debt at low tens.

Solid 2021E outlook. In an interview for PAP, Deputy CEO presented outlook on 2021E, which pointed to faster sales growth than 13% y/y in 2020E and similar net margin to 5.1%/6.4% in 2018 and 2020E, respectively. We expect sales of PLN2.0bn (+23% y/y) and net profit at PLN125mn (margin of 6.1%) in 2021E.

Forecasts change. We negligibly changed our net profit forecasts by 1% up in 2020-22E on slightly higher margins.

Higher than expected pressure on margin in 2021E is a key risk to our forecasts.

Valuation. An equally weighted valuation derived from our DCF model (PLN14.8) and a comparable valuation (PLN11.8) implies a 12M TP at PLN13.3 (48% upside).

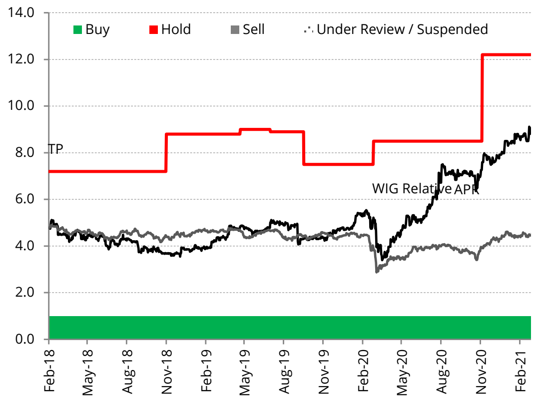
Auto Partner: Financial summary and ratios*

PLNmn	2017	2018	2019	2020E	2021E	2022E
Revenue	915	1,155	1,479	1,663	2,040	2,385
EBITDA	62	90	104	167	187	200
EBIT	55	81	84	144	163	174
Net profit	35	59	59	107	125	135
P/E (x)	18.8	9.1	9.9	9.8	9.4	8.6
EV/EBITDA (x)	13.2	8.2	7.8	7.0	5.9	5.2
Dividend yield	0.0%	0.0%	0.4%	0.0%	1.0%	1.2%

*Source: Company data, Santander Brokerage Poland estimates, * forecasts include impact of IFRS16, 2017-19 ratios calculated on historical annual share price averages*

Recommendation	Buy
Portfolio weighting	-

Price (PLN, 24 March 2021)	8.94
Target price (PLN, 12M)	13.3
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	1,663	0%	2,040	2,040	0%	2,385	2,385	0%
EBITDA	167	165	1%	187	185	1%	200	197	1%
EBIT	144	143	1%	163	161	1%	174	171	1%
Net profit	107	106	1%	125	123	1%	135	134	1%

Source: Santander Brokerage Poland estimates

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	235	274
as % of sales	11.4%	12.4%	12.6%	12.2%	12.4%	11.5%	11.7%	11.4%	11.5%	11.5%
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**	**411**	**486**
as % of sales	18.5%	20.0%	19.8%	19.3%	20.2%	19.4%	20.2%	19.9%	20.2%	20.4%
other operating profit	0	-3	-2	-1	-2	-2	-4	-1	0	0
EBIT	**30**	**24**	**25**	**44**	**55**	**81**	**84**	**144**	**163**	**174**
margin	8.4%	5.6%	4.9%	6.3%	6.0%	7.0%	5.7%	8.7%	8.0%	7.3%
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**	**167**	**187**	**200**
growth	55.1%	-16.6%	8.6%	62.7%	26.5%	44.6%	15.9%	60.3%	12.3%	6.9%
margin	9.4%	6.5%	5.8%	6.9%	6.8%	7.8%	7.0%	10.0%	9.2%	8.4%

Source: Company data, Santander Brokerage Poland estimates

Valuation

Fig. 3. Auto Partner: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	**14.8**	14.5	*1.8%*
Comparable valuation (based on 2020-2022E)*	**11.8**	9.9	*18.9%*
Target Price (PLN/share)**	**13.3**	12.2	*8.7%*

*Source: Santander Brokerage Poland estimates, * based on a peer valution (PLN11.0/share) and mid-cycle valuation (PLN12.5), ** 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 estimates

Fig. 5. Auto Partner: DCF analysis

PLNmn	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales	**2,040**	**2,385**	**2,670**	**2,711**	**2,738**	**2,765**	**2,793**	**2,821**	**2,849**	**2,878**
EBIT	163	174	188	184	179	174	168	163	158	152
Cash taxes on EBIT	34	36	39	38	37	36	35	34	33	32
NOPAT	**129**	**137**	**148**	**145**	**141**	**137**	**133**	**129**	**125**	**120**
Depreciation	19	21	23	26	29	31	31	31	30	29
Change in operating WC	49	43	20	8	5	5	5	5	5	5
Capital expenditure	23	27	30	30	30	30	30	31	31	32
FCF	**76**	**88**	**123**	**133**	**135**	**133**	**129**	**124**	**119**	**113**
WACC	7.9%									
PV FCF 2021-2030	775									
Terminal growth	2.5%									
Terminal Value (TV)	2,205									
PV TV	1,033									
Total EV	**1,809**									
Net debt (-)	67									
Equity value	**1,742**									
Number of shares (m)	131									
Month	4									
Current Equity Value (PLN)	**1,793**									
Current Value per share (PLN)	13.7									
12M target price (PLN)	**14.8**									
Revenue growth	22.7%	16.9%	12.0%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
FCF growth	-27.2%	15.9%	39.1%	8.8%	1.2%	-1.5%	-2.5%	-4.2%	-4.4%	-4.7%
Nopat margin	6.3%	5.8%	5.6%	5.4%	5.2%	5.0%	4.8%	4.6%	4.4%	4.2%
Capex/Revenues	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%

Source: Company data, Santander Brokerage Poland estimates

Comparable valuation

Fig. 6. Auto Partner: Comparable valuation

Name	Price	Mkt. cap. (USD)	2021E	P/E 2022E	2023E	DY 2021E
MEKONOMEN	116.4	770	9.5	8.7	8.4	116.4
INTER CARS	339.0	1,239	13.2	12.2	11.7	339.0
Average			**11.3**	**10.4**	**10.1**	
Auto Partner	**8.5**	**295**	**8.9**	**8.2**	**7.5**	**8.5**
prem./disc.			-21%	-21%	-25%	
price per share			10.8	10.8	11.4	
Average (PLN)			**11.0**			

Source: Bloomberg, Company data, Santander Brokerage Poland estimates

Fig. 7. Auto Partner: Mid-cycle valuation

	P/E(x)		EV/EBITDA(x)	
	2021E	2022E	2021E	2022E
Net profit & EBITDA (PLNmn)	125	135	187	200
Target multiple (x)*	11.7	11.7	8.9	8.9
Price per share (PLN)	11.2	12.1	12.7	14.2
Avg. implied price (PLN)	**12.5**			

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

4Q20E results preview

Fig. 8. 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 estimates

Financials

Fig. 9. Auto Partner: Income statement forecasts

PLNmn	2018	2019	2020E	2021E	2022E	2023E
Sales	1,155	1,479	1,663	2,040	2,385	2,670
COGS	848	1,092	1,186	1,466	1,725	1,935
Gross profit	307	387	477	574	659	736
OPEX, of which	224	299	332	411	486	548
depreciation	9	20	22	24	26	29
POS	83	88	145	163	174	188
other operating income	0	0	0	0	0	0
other operating costs	0	1	0	0	0	0
other profit/loss	-2	-4	-1	0	0	0
EBIT	81	84	144	163	174	188
EBITDA	90	104	167	187	200	217
financial cost (profit)	7	10	9	5	2	1
PBT	74	74	135	158	171	187
tax	16	16	28	33	36	39
net profit	59	59	107	125	135	148
Gross margin	26.6%	26.2%	28.7%	28.2%	27.7%	27.6%
EBITDA margin	7.8%	7.0%	10.0%	9.2%	8.4%	8.1%
net margin	5.1%	4.0%	6.4%	6.1%	5.7%	5.5%
Sales growth	26.2%	28.1%	12.4%	22.7%	16.9%	12.0%
Gross profit growth	27.0%	26.0%	23.2%	20.5%	14.8%	11.6%
EBITDA growth	44.6%	15.9%	60.3%	12.3%	6.9%	8.4%
Net profit growth	68.1%	0.1%	81.7%	17.2%	8.4%	9.1%

Source: Company data, Santander Brokerage Poland estimates

Fig. 10. Auto Partner: Balance sheet forecasts

PLNmn	2018	2019	2020E	2021E	2022E	2023E
Current assets	**544**	**596**	**621**	**682**	**799**	**944**
cash and equivalents	22	26	23	18	75	187
accounts receivable	82	101	100	123	143	161
inventories	435	461	490	534	573	589
other assets	5	8	8	8	8	8
Fixed assets	**67**	**136**	**132**	**136**	**142**	**148**
PPE	60	126	118	122	127	132
intangibles	6	8	12	13	13	14
investments & other	2	2	2	2	2	2
Total assets	**611**	**732**	**753**	**819**	**941**	**1,092**
Current liabilities	**183**	**203**	**118**	**139**	**159**	**176**
bank debt	76	102	0	0	-	-
accounts payable	98	66	91	112	131	147
other current liabilities	9	14	4	5	6	7
Long-term liabilities	**113**	**156**	**156**	**86**	**66**	**66**
bank debt	110	90	90	20	-	-
finance lease	0	61	61	61	61	61
other long-term liabilities	3	5	5	5	5	5
Equity	**315**	**372**	**479**	**593**	**716**	**850**
common stock	13	13	13	13	13	13
other capital	244	300	359	455	568	690
net profit	59	59	107	125	135	148
Total liabilities and equity	**611**	**732**	**753**	**819**	**941**	**1,092**
ROCE	22.3%	20.1%	27.7%	27.3%	25.9%	23.8%
Net debt	164	166	128	63	-15	-126
Net debt/EBITDA	1.8	1.6	0.4	0.0	-0.4	-0.9

Source: Company data, Santander Brokerage Poland estimates

Fig. 11. Auto Partner: Cash flow statement forecasts

PLNmn	2018	2019	2020E	2021E	2022E	2023E
Cash flow from operations	**22**	**15**	**117**	**104**	**122**	**160**
Net profit	59	59	107	125	135	148
Depreciation and amortisation	9	20	17	19	21	23
Changes in WC, o/w	**-54**	**-77**	**-2**	**-46**	**-41**	**-18**
inventories	-73	-29	-29	-44	-39	-16
receivables	-19	-20	1	-23	-21	-17
payables	38	-29	26	21	19	16
Other, net	9	14	-9	1	1	1
Cash flow from investment	**-5**	**-13**	**-14**	**-23**	**-27**	**-30**
Additions to PPE and intangibles	-5	-13	-14	-23	-27	-30
Change in long-term investments	0	0	0	0	0	0
Other, net	0	0	0	0	0	0
Cash flow from financing	**-12**	**2**	**-106**	**-86**	**-38**	**-19**
Change in long-term borrowing	2	15	0	-70	-20	0
Change in short-term borrowing	0	0	-102	0	0	0
Change in equity and profit distribution	1	1	0	0	0	0
Dividends paid	0	-3	0	-11	-12	-14
Other, net	-16	-12	-5	-5	-5	-6
Net change in cash and equivalents	**5**	**4**	**-3**	**-5**	**57**	**111**

Source: Company data, Santander Brokerage Poland estimates

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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.

When particular stocks are marked with Overweight/Underweight/Neutral - such information should not be construed as investment recommendation concerning a given financial instrument.

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Any change in weight of stocks already included in the portfolio should not be construed as investment recommendation. Such changes are aimed exclusively at making the total weight of all stocks equal 100%.

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.
It is possible for the analyst to indicate different recommendation (buy, sell, hold) than specified in the definition, with a given total expected rate of return on investment, where it is justified due to additional market factors, industry trends, etc. In such case, relevant clarification of the investment recommendation meaning presented in the recommendation is included in the document.

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.

Global statistics presenting the rating of the covered companies and the share of companies provided with investment banking in the past 12M are available at: https://www.santander.pl/inwestor/global-statistics
A list of all recommendations on any financial instrument or issuer that were disseminated by Santander Brokerage Poland during the preceding 12 month period can be found on: https://www.inwestoronline.pl/r/res/wykaz_tabel/wykaz_rekomendacji_eng.pdf
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The Stock performance charts in this report include line graphs of the securities' daily closing prices for one year period. Information relating to a longer period (max 3 years) is available upon request.
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