AUTO PARTNER

Pilot Support Program for Analytical Coverage

Reuters: APR.WA Bloomberg: APR PW

CEE Equity Research

Car Parts distribution, Poland

30 June 2021, 08:15 CET

Booming industry

Buy maintained, TP up to PLN16.5

We are reiterating our Buy rating for Auto Partner (APR) with a new 12M target price of PLN16.5 vs. the prior PLN13.3 ahead of the 2Q21E results release. We think that APR still offers an attractive valuation (2021E P/E of 10.1x), growth profile (2020/23E EPS CAGR at 18%) and quality (pre-lease ROCE of 34%). The 2020-21E period appears to be exceptional for the car parts industry with combined net profit of both Inter Cars (Buy, TP at PLN495) and APR doubling to PLN667mn vs. the 2019 level, according to our estimates. It is also marked by returns improvement (combined ROCE at 28% vs. 17% in 2019) and decrease of financial leverage (combined net debt/EBITDA down to 0.4x from 2.0x in 2019). The question is how long such exceptional industry surroundings might last. We think that 2022E should bring in a slowdown of results progression, however it should be more of a problem of high comparable base rather than a significant cyclical contraction. All in all, we expect APR to increase sales by 16% y/y, adj. EBITDA by 12% y/y (margin down by 31bps y/y to 9.7%) and adj. net profit by 7% y/y (margin down by 10bps y/y to 6.7%) in 2022E. We also think that investors should 'buy the industry' as both APR and CAR are trading with low multiples of 2021E/22E P/E at 10.1x/8.9x and 10.5x/9.4x, respectively, comparing to their hist. averages at 12.2x (APR) and 15.0x (CAR).

2Q21E preview. It should be another strong period for Auto Partner with expected sales and adj. net profit (by PLN2.5mn of state refund of labor costs) growth at 47%/36% y/y, respectively, as we see it. Auto Partner continues to benefit from the continued volume growth in the car repairs market and a favorable mix of higher average selling price coupled with the lack of cost pressure. Albeit we do not expect adj. net margin to reach the record level of 8.2% reached in the prior year (2Q20), it should stay close at 7.6% in 2Q21E. We expect Auto Partner to report sales of PLN583mn (+47% y/y), adj. EBITDA at PLN63mn (+27% y/y) and adj. net profit at PLN44mn (+36% y/y) in 2Q21E. We expect a gross margin decrease by 250bps to 27.8% (PLN162mn, +35% y/y) due to the high base from the previous year (30.3%, +577bps y/y). We expect some positive effects of operating leverage (opex/sales down by 1.3pp to 17.6%) adjusted by PLN2.5mn of state aid related to labor costs refund. We also expect that Auto Partner is likely to report net debt at low tens. We expect that net profit growth should decline to a low single-digit pace y/y in 2H21.

Forecasts change. We materially increased our EBITDA/net profit forecasts by double-digit amounts in 2021-23E on higher-than-earlier-assumed margins. Sales forecast went up by 4%/3%/5% in 2021-23E, respectively.

Risks. A sudden slowdown of the car repairs market growth and higher-than-expected pressure on margins in 2022E are key risks to our forecasts.

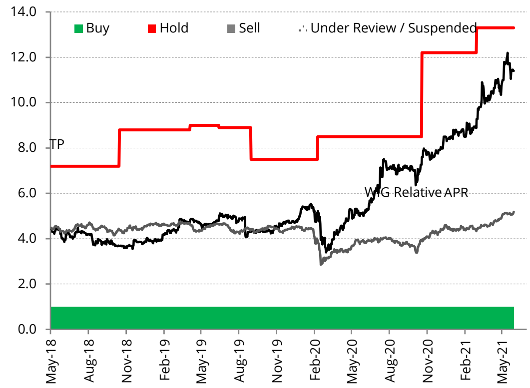
Valuation. We are increasing our TP to PLN16.5 per share due to the increased financial forecasts. Our TP derives from the DCF model (PLN17.9/share; 50% weight) and comparable valuation (PLN15.1, 50% weight). The latter includes (1) mid-cycle valuation at PLN15.5 (based on 12.2x/9.5x target P/E and EV/EBITDA multiple on 2021/22E net profit/EBITDA; in line with 5Y avg. multiples based on APR's hist. results) and (2) peer valuation (PLN14.7/share; based on 2021-23E P/E at 11.8x).

Auto Partner: Financial summary and ratios*

PLNmn	2018	2019	2020	2021E	2022E	2023E
Revenue	1,155	1,479	1,670	2,118	2,451	2,812
Adj. EBITDA	90	104	174	211	237	263
EBIT	81	84	150	197	210	234
Adj. net profit	59	59	111	145	164	184
P/E (x)	8.6	10.5	9.4	10.1	8.9	8.0
EV/EBITDA (x)	7.5	8.1	6.8	7.2	6.1	5.0
Dividend yield	0.0%	0.4%	0.0%	0.9%	1.3%	1.3%

*Source: Company data, Santander Brokerage Poland estimates, * forecasts include impact of IFRS16, 2018-20 ratios calculated on historical annual share price averages*

Recommendation	Buy
Price (PLN, 28 June 2021)	11.15
Target price (PLN, 12M)	16.5
Market cap. (PLNmn)	1,465
Free float (%)	50.0
Number of shares (mn)	131



The chart measures performance against the WIG index.

Main shareholders	% of votes
K. Gorecka	26.8%
A. Gorecki	22.9%
PZU OFE	8.9%
NN OFE	6.3%
Aegon OFE	6.3%

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

	2021E			2022E			2023E		
	New	Prev.	chng.	New	Prev.	chng.	New	Prev.	chng.
Sales	2,118	2,040	4%	2,451	2,385	3%	2,812	2,670	5%
EBITDA	211	187	13%	237	200	18%	263	214	23%
EBIT	197	163	21%	210	174	21%	234	185	26%
Net profit	145	125	16%	164	135	22%	184	146	26%

Source: Santander Brokerage Poland estimates

Main assumptions

Fig. 2. Auto Partner: Main assumptions

PLNmn	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	**425**	**519**	**705**	**915**	**1,155**	**1,479**	**1,670**	**2,118**	**2,451**	**2,812**
chng.	20%	22%	36%	30%	26%	28%	13%	27%	16%	15%
Poland	347	423	549	663	770	910	963	1,165	1,299	1,434
chng.	24%	22%	30%	21%	16%	18%	6%	21%	12%	10%
Foreign markets	78	96	157	252	385	569	707	953	1,152	1,378
chng.	4%	23%	63%	61%	53%	48%	24%	35%	21%	20%
logistics capacity (k sqm)	47	51	67	80	83	97	101	109	118	119
chng.	16%	9%	31%	19%	4%	18%	3%	8%	8%	1%
sales/avg. sqm (kPLN)	9.8	10.7	12.0	12.5	14.3	16.4	16.9	20.2	21.6	23.8
chng.	0%	9%	13%	4%	14%	15%	3%	20%	7%	10%
Gross profit	**112**	**130**	**181**	**242**	**307**	**387**	**477**	**582**	**661**	**756**
margin	26.3%	25.1%	25.7%	26.4%	26.6%	26.2%	28.5%	27.5%	27.0%	26.9%
Sales costs	53	65	86	113	133	173	185	221	255	313
as % of sales	12.4%	12.6%	12.2%	12.4%	11.5%	11.7%	11.1%	10.4%	10.4%	11.1%
Logistics	20	26	35	51	73	101	110	132	158	165
as % of sales	4.7%	5.1%	5.0%	5.6%	6.3%	6.9%	6.6%	6.2%	6.5%	5.9%
G&A*	8	6	10	14	18	25	29	31	38	44
as % of sales	2.0%	1.2%	1.4%	1.6%	1.6%	1.7%	1.8%	1.5%	1.5%	1.6%
Operating costs	**85**	**103**	**136**	**185**	**224**	**299**	**325**	**383**	**451**	**522**
as % of sales	20.0%	19.8%	19.3%	20.2%	19.4%	20.2%	19.4%	18.1%	18.4%	18.6%
other operating profit	-3	-2	-1	-2	-2	-4	-2	-2	0	0
EBIT	**24**	**25**	**44**	**55**	**81**	**84**	**150**	**197**	**210**	**234**
margin	5.6%	4.9%	6.3%	6.0%	7.0%	5.7%	9.0%	9.3%	8.6%	8.3%
Depreciation	4	5	5	7	9	20	24	24	27	30
as % of sales	0.9%	0.9%	0.7%	0.7%	0.8%	1.4%	1.4%	1.1%	1.1%	1.1%
EBITDA	**28**	**30**	**49**	**62**	**90**	**104**	**174**	**221**	**237**	**263**
growth	-16.6%	8.6%	62.7%	26.5%	44.6%	15.9%	67.3%	27.2%	7.1%	11.3%
margin	6.5%	5.8%	6.9%	6.8%	7.8%	7.0%	10.4%	10.4%	9.7%	9.4%

Source: Company data, Santander Brokerage Poland estimates

Valuation

Fig. 3. Auto Partner: Valuation summary

PLN/shr	New	Previous	Change
DCF valuation	17.9	14.8	*20.8%*
Comparable valuation (based on 2021-2023E)*	15.1	11.8	*27.9%*
Target Price (PLN/share)**	**16.5**	13.3	*24.0%*

*Source: Santander Brokerage Poland estimates, * based on a peer valution (PLN14.7/share) and mid-cycle valuation (PLN15.5), ** 50% DCF, 50% comparable valuation*

DCF

Fig. 4. Auto Partner: WACC calculation

Risk-free rate	3.0%
Un-levered beta	1.0
Levered beta	1.2
Equity risk premium	5.0%
Cost of equity	**9.0%**
Risk-free rate	3.0%
Debt risk premium	1.0%
Tax rate	19.0%
After tax cost of debt	**3.2%**
%D	20%
%E	80%
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	**2,118**	**2,451**	**2,812**	**2,853**	**2,882**	**2,910**	**2,940**	**2,969**	**2,999**	**3,029**
EBIT	197	210	234	227	219	211	203	195	186	178
Cash taxes on EBIT	38	41	46	44	43	41	40	38	36	35
NOPAT	**158**	**169**	**188**	**183**	**177**	**170**	**164**	**157**	**150**	**143**
Depreciation	18	20	22	25	28	30	31	31	30	29
Change in operating WC	75	59	42	9	6	6	5	6	6	6
Capital expenditure	11	27	31	31	32	32	32	33	33	33
FCF	**90**	**102**	**138**	**168**	**167**	**163**	**157**	**149**	**141**	**133**
WACC	7.9%									
PV FCF 2021-2030	931									
Terminal growth	2.5%									
Terminal Value (TV)	2,638									
PV TV	1,238									
Total EV	**2,169**									
Net debt (-)	82									
Equity value	**2,087**									
Number of shares (m)	131									
Month	6									
Current Equity Value (PLN)	**2,169**									
Current Value per share (PLN)	16.6									
12M target price (PLN)	**17.9**									
Revenue growth	26.8%	15.8%	14.7%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
FCF growth	-15.8%	13.6%	34.5%	21.9%	-0.4%	-2.6%	-3.5%	-5.0%	-5.4%	-5.8%
Nopat margin	7.5%	6.9%	6.7%	6.4%	6.1%	5.8%	5.6%	5.3%	5.0%	4.7%
Capex/Revenues	0.5%	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	138.1	918	10.7	9.7	9.1	2.8%
LKQ CORP	49.3	14,974	15.7	14.6	14.5	0.0%
INTER CARS	385.0	1,520	10.5	9.4	11.7	0.4%
Average			**12.3**	**11.2**	**11.7**	**1.1%**
Auto Partner	**11.2**	**388**	**10.1**	**8.9**	**8.0**	**0.9%**
prem./disc.			-18%	-21%	-32%	-14%
price per share			13.6	14.1	16.5	
Average (PLN)			**14.7**			

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)	145	164	211	237
Target multiple (x)	12.2	12.2	9.5	9.5
Price per share (PLN)	13.5	15.3	15.3	17.8
Avg. implied price (PLN)	**15.5**			

Source: Company data, Santander Brokerage Poland estimates

2-4Q21E results preview

Fig. 8. Auto Partner: 2-4Q21E results preview

PLNmn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	*y/y*	*q/q*	3Q21E	4Q21E
Sales	367.9	371.1	396.7	469.5	433.1	475.7	582.6	*47%*	*22%*	562.8	496.3
EBITDA	24.5	24.7	48.6	52.8	47.7	54.7	65.2	*34%*	*19%*	55.8	45.4
EBITDA margin	6.7%	6.6%	12.2%	11.3%	11.0%	11.5%	11.2%	*-1.1*	*-0.3*	9.9%	9.1%
Adj. EBITDA	26.3	25.1	49.4	52.3	48.7	47.2	62.7	*27%*	*33%*	55.8	45.4
EBIT	20.6	19.0	42.9	46.8	41.6	48.6	59.0	*38%*	*21%*	49.6	39.1
EBIT margin	5.6%	5.1%	10.8%	10.0%	9.6%	10.2%	10.1%	*-0.7*	*-0.1*	8.8%	7.9%
Net profit	14.5	12.7	32.6	36.6	29.1	37.8	46.3	*42%*	*23%*	38.7	30.2
Net margin	3.9%	3.4%	8.2%	7.8%	6.7%	7.9%	7.9%	*-0.3*	*0.0*	6.9%	6.1%
Adj. Net profit	15.4	12.7	32.6	36.6	29.1	31.7	44.3	*36%*	*40%*	38.7	30.2

Source: Company data, Santander Brokerage Poland estimates

Financials

Fig. 9. Auto Partner: Income statement forecasts

PLNmn	2018	2019	2020	2021E	2022E	2023E
Sales	1,155	1,479	1,670	2,118	2,451	2,812
COGS	848	1,092	1,194	1,536	1,790	2,057
Gross profit	307	387	477	582	661	756
OPEX, of which	233	319	348	408	478	552
depreciation	9	20	24	24	27	30
POS	83	88	152	198	210	234
other operating income	0	0	1	0	0	0
other operating costs	0	1	1	0	0	0
other profit/loss	-2	-4	-2	-2	0	0
EBIT	81	84	150	197	210	234
EBITDA	90	104	174	221	237	263
financial cost (profit)	7	10	12	7	6	5
PBT	74	74	138	190	204	229
tax	16	16	27	37	40	45
net profit	59	59	111	153	164	184
Gross margin	26.6%	26.2%	28.5%	27.5%	27.0%	26.9%
EBITDA margin	7.8%	7.0%	10.4%	10.4%	9.7%	9.4%
net margin	5.1%	4.0%	6.6%	7.2%	6.7%	6.5%
Sales growth	26.2%	28.1%	12.9%	26.8%	15.8%	14.7%
Gross profit growth	27.0%	26.0%	23.3%	22.0%	13.7%	14.3%
EBITDA growth	44.6%	15.9%	67.3%	27.2%	7.1%	11.3%
Net profit growth	68.1%	0.1%	89.0%	37.7%	7.4%	12.1%

Source: Company data, Santander Brokerage Poland estimates

Fig. 10. Auto Partner: Balance sheet forecasts

PLNmn	2018	2019	2020	2021E	2022E	2023E
Current assets	**544**	**613**	**643**	**790**	**927**	**1,103**
cash and equivalents	22	26	21	90	153	270
accounts receivable	82	118	130	164	190	218
inventories	435	461	481	525	574	604
other assets	5	8	10	10	10	10
Fixed assets	**67**	**136**	**147**	**140**	**148**	**157**
PPE	60	126	132	125	132	140
intangibles	6	8	13	13	14	15
investments & other	2	2	2	2	2	2
Total assets	**611**	**749**	**790**	**930**	**1,075**	**1,260**
Current liabilities	**183**	**220**	**216**	**224**	**243**	**263**
bank debt	76	102	77	77	77	77
accounts payable	98	83	91	115	133	153
other current liabilities	9	14	22	6	6	7
Long-term liabilities	**113**	**156**	**91**	**84**	**64**	**64**
bank debt	110	90	27	20	-	-
finance lease	0	61	57	57	57	57
other long-term liabilities	3	5	7	7	7	7
Equity	**315**	**372**	**483**	**622**	**768**	**932**
common stock	13	13	13	13	13	13
other capital	244	300	359	457	591	735
net profit	59	59	111	153	164	184
Total liabilities and equity	**611**	**749**	**790**	**930**	**1,075**	**1,260**
ROCE	22.3%	20.1%	30.4%	33.7%	29.5%	27.3%
Net debt	164	166	139	63	-19	-137
Net debt/EBITDA	1.8	1.6	0.5	0.0	-0.3	-0.7

Source: Company data, Santander Brokerage Poland estimates

Fig. 11. Auto Partner: Cash flow statement forecasts

PLNmn	2018	2019	2020	2021E	2022E	2023E
Cash flow from operations	**22**	**15**	**128**	**106**	**135**	**176**
Net profit	59	59	111	153	164	184
Depreciation and amortisation	9	20	24	18	20	22
Changes in WC, o/w	**-54**	**-72**	**-18**	**-54**	**-56**	**-39**
inventories	-73	-26	-21	-44	-49	-31
receivables	-19	-26	-11	-35	-26	-28
payables	38	-20	15	24	18	20
Other, net	9	8	11	-17	1	1
Cash flow from investment	**-5**	**-13**	**-10**	**-11**	**-27**	**-31**
Additions to PPE and intangibles	-5	-13	-10	-11	-27	-31
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**	**-122**	**-27**	**-45**	**-27**
Change in long-term borrowing	2	15	-71	-7	-20	0
Change in short-term borrowing	0	0	0	0	0	0
Change in equity and profit distribution	1	1	0	0	0	0
Dividends paid	0	-3	0	-13	-18	-20
Other, net	-16	-12	-51	-7	-7	-7
Net change in cash and equivalents	**5**	**4**	**-5**	**69**	**62**	**117**

Source: Company data, Santander Brokerage Poland estimates

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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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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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