AutoWallis Nyrt.
Hungary, Retail

B+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios[1]	2020	2021	2022E	2023E
Scope-adjusted EBITDA/interest cover	5.7x	13.8x	9.1x	5.5x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA	11.2x	3.7x	3.2x	4.5x
Funds from operations/SaD	-1%	22%	23%	15%
Free operating cash flow/SaD	40%	31%	-29%	-24%

Rating rationale

Our affirmation of the ratings reflects improved credit metrics in 2021 due to solid operating performance. It also reflects our expectations of higher revenues in 2022 and improved EBITDA margin in 2022, resulting in improved leverage as measured by the Scope-adjusted-debt (SaD)/Scope-adjusted EBITDA ratio at year-end 2022. It furthermore reflects the continued execution of AutoWallis' growth plans, which we expect to lead to increased net leverage at year-end 2023.

Outlook and rating-change drivers

The Stable Outlook reflects our expectations of higher revenues in 2022 and an improved EBITDA margin in 2022 compared to 2021, resulting in an improved SaD/Scope-adjusted EBITDA ratio at year-end 2022. It also reflects an expected deterioration in the SaD/ Scope-adjusted EBITDA ratio to around 4.5x at year-end 2023 due to an anticipated increase in SaD driven by the planned real estate development of AW Property. The Stable Outlook assumes no dividend payouts during the ongoing growth phase, a renegotiation of the Stellantis dealership contract and a reorganisation of SsangYong Motor Company.

A negative rating action could occur if the SaD/Scope-adjusted EBITDA ratio increased to above 5.0x on a sustained basis. This could be due to lower-than-expected profitability and/or higher-than-expected debt after the transactions are finalised. A negative rating action could be also triggered by the loss of important dealership or importer contracts.

We could upgrade the rating if profitability increased due, for instance, to a higher revenue share from services, or if the SaD/ Scope-adjusted EBITDA ratio fell to around 3.5x on a sustained basis.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
16 Jul 2021	Outlook change	B+/Stable
25 Nov 2020	Outlook change	B+/Positive
18 Sep 2019	New	B+/Stable

[1] Scope-adjusted EBITDA and SaD have been retrospectively amended to include costs from a share-based compensation plan, to reflect the restatements of the 2019 and 2020 financial statements and to align with Scope's methodology (no netting of cash for ratings below BB)

Ratings & Outlook

Issuer	B+/Stable
Senior unsecured debt	B+

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Related Methodologies

Corporate Rating Methodology, July 2021

Retail and Wholesale Rating Methodology; April 2022

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Positive rating drivers	Negative rating drivers
• Solid market position: Hungary's largest BMW dealer (approx. 50% market share) and Mini dealer (approx. 80%); exclusive distributor for several brands in several central and southeastern European countries • Solid regional presence in 14 countries	• Relatively weak credit metrics, expected to remain weak due to expansion plans • Low profitability: expected EBITDA margin of 4%-5% for 2022 and 2023 (around 4.0% in 2021) • Relatively small size in European context • Relatively small market share in the retail business • Weak product diversification, with more than 90% of revenues from car sales

Positive rating-change drivers	Negative rating-change drivers
• SaD/EBITDA of around 3.5x on a sustained basis • Higher profitability, e.g., through a higher percentage of services revenues	• SaD/EBITDA above 5.0x on a sustained basis • Loss of important dealership or importer contracts

Corporate profile

AutoWallis Nyrt. is a Hungarian holding company operating in retail and wholesale sales of vehicles, parts and accessories; repair and maintenance services; and short- and long-term vehicle rentals. The group in its present form originated in 2018 through a reverse acquisition in which Wallis Asset Management purchased Altera and Altera acquired 100% of the Wallis group's four automotive trading and service provider companies via in-kind contributions. AutoWallis Nyrt. is 57.6% owned by Mr Tibor Veres through private equity firm Wallis Asset Management Zrt. In 2021, AutoWallis generated revenues of HUF 195bn and EBITDA of HUF 7.9bn.

AutoWallis' distribution business (57% of total revenues in 2021) is engaged in the distribution of new motor vehicles and parts from various brands (Opel, Jaguar, Land Rover, SsangYong, Isuzu and Saab) in 14 central and eastern European countries (Albania, Bosnia and Herzegovina, Croatia, Czech Republic, Hungary, Kosovo, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia).

The company's retail and services business (43% of total revenues in 2021) is engaged in the sale of new and used passenger cars and parts and BMW motorcycles, mainly in Hungary and Slovenia. In addition to vehicle sales, this business unit is also engaged in short- and long-term rental services, servicing activities, fleet management and premium limousine services. Represented brands include BMW passenger cars and motorcycles, MINI, Isuzu, Jaguar, Land Rover, Maserati, Ssangyong, Saab parts and the Sixt rent-a-car service. BMW occupies a dominant position in the premium car market, while Sixt leads the vehicle rental market.

Financial overview[2]

				Scope estimates		
Scope credit ratios	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	10.7x	5.7x	13.8x	9.1x	5.5x	5.5x
SaD/Scope-adjusted EBITDA	5.7x	11.2x	3.7x	3.2x	4.5x	3.8x
Funds from operations/SaD	14%	-1%	22%	23%	15%	19%
Free operating cash flow/SaD	-4%	40%	31%	-29%	-24%	1%
Liquidity (internal and external)	114%	152%	203%	255%	132%	191%
Scope-adjusted EBITDA in HUF m						
EBITDA	3,125	2,197	7,851	10,094	9,810	10,710
Adjustments[3]	-	178	173	-7	-627	173
Scope-adjusted EBITDA	**3,125**	**2,376**	**8,024**	**10,087**	**9,184**	**10,884**
Free operating cash flow in HUF m						
Operating cash flow	1,700	12,977	13,551	-5,017	4,558	5,615
less: capital expenditure (net)	292	766	-1,841	-2,685	-13,330	-3,900
less: amortisation component of operating lease payments	-2,718	-3,075	-2,265	-1,500	-1,300	-1,300
Free operating cash flow	**-725**	**10,668**	**9,444**	**-9,202**	**-10,072**	**415**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	291	417	580	1,105	1,685	1,990
Net cash interest paid	**291**	**417**	**580**	**1,105**	**1,685**	**1,990**
SaD in HUF m						
Reported gross financial debt	17,813	26,717	26,787	30,065	41,728	41,728
add: factoring with recourse	-	-	3,300	2,000	-	-
SaD	**17,813**	**26,717**	**30,087**	**32,065**	**41,728**	**41,728**

[2] Scope-adjusted EBITDA and SaD have been retrospectively amended to include costs from a share-based compensation plan, to reflect the restatements of the 2019 and 2020 financial statements and to align with Scope's methodology (no netting of cash for ratings below BB)
[3] Adjustments for share-based payments, non-cash items

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Environmental, social and governance (ESG) profile[4]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend

Green leaf (ESG factor: credit-positive)

Red leaf (ESG factor: credit-negative)

Grey leaf (ESG factor: credit-neutral)

Car traders are indirectly exposed to the same risks as producers

The automotive industry has relatively high exposure to environmental risks due to regulatory pressure for carbon-neutral vehicles. Car dealers are indirectly exposed to the same risks as producers, and their mitigation strategy approach follows and mirrors the automakers' choices.

AutoWallis' credit-neutral sustainability strategy is focused on environmental objectives

AutoWallis' sustainability strategy is focused on environmental objectives of climate change mitigation and pollution prevention and control. To achieve these objectives, AutoWallis plans to: i) offer environmentally friendly mobility solutions like car sharing and short- and long-term car rentals; ii) increase the fleet electrification rate (with more fully electric or hybrid models); and iii) use investments to improve the energy efficiency of its real estate portfolio (dealership buildings and showrooms) and reduce the company's direct and indirect carbon footprint and environmental impact.

As part of its sustainability strategy, AutoWallis intends to fund a portion of its investment plan through a combination of green bonds and green loans. It has established its own green finance framework to offer green finance (bonds and loans) and attract dedicated funding for the business. The framework was developed in line with ICMA's new Green Bond Principles and LMA's Green Loan Principles. To enhance the transparency of the framework, AutoWallis has appointed SustainAdvisory as the external reviewer. It will provide a second-party/assurance opinion on AutoWallis' green finance framework.

[4] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: B+

Industry risk profile: BB

As a retailer and wholesaler of cars, AutoWallis is exposed to the discretionary retail industry, which we believe has medium cyclicality, low barriers to entry and low substitution risk. We assess its industry risk at BB.

Low profitability remains the key constraint for the business risk profile

Despite an improved EBITDA margin in 2021, relatively low profitability remains the key constraint for the unchanged business risk profile, assessed at B+. The retail and wholesale segments both operate mostly at low margins and are considered volume-based businesses. The company has contracts with major carmakers to procure a large volume of vehicles and parts, which it then resells to retail customers or its partners (usually independent dealers).

Higher EBITDA in 2021 due to higher revenues and margin

In 2021, Scope-adjusted EBITDA jumped to HUF 8.0bn from HUF 2.4bn in 2020. The increase was due to higher revenues (up 121% YoY to HUF 195bn) and a higher EBITDA margin of 4.1% (vs 2.7% in 2020), reflecting a successful pass-through of price increases.

Higher revenues in 2021 driven by higher volumes due to transactions

Higher revenue in 2021 was driven by higher sales volumes (up 226% YoY) due to transactions conducted during 2020. Of this growth rate, acquisitions and organic growth had an effect of 197.9% and 28.4% respectively. We revenues by segment below:

- Revenues in the distribution business increased by 188% YoY to HUF 111bn driven by a sharp rise in new car sales (up 314.6% YoY to 16,501 vehicles). The most significant drivers of growth were the launch of Opel sales in four countries and a massive increase in Ssangyong sales. The average selling price (ASP) decreased by around 30%, reflecting a shift in the product mix towards smaller vehicles and a large number of fleet sales in the Balkan markets with significantly lower margins.
- Revenues in the retail and services business were 69% higher YoY at HUF 84bn. This growth reflects 117% YoY growth in sales volume driven by acquisitions (up 91% YoY primarily from Iniciál Group, Wallis Kerepesi Kft., the launch of Jaguar and Land Rover sales in Hungary and the opening of a BMW dealership in Ljubljana).

AutoWallis has continued its strong expansion phase with four transactions in 2022 so far

AutoWallis is continuing its strong expansion with a goal of increasing its revenues to more than HUF 400m in 2025. It has carried out the following transactions to date in 2022:

- In January 2022, it opened a new Jaguar and Land Rover car dealership and service centre in Budapest.
- In March 2022, it added the SsangYong brand to its retail portfolio in Hungary.
- In April 2022, AutoWallis successfully closed its takeover of the vehicle sales and service activities and its purchase of the real estate properties of Avto Aktiv. Established in 2004, Avto Aktiv is a Slovenian automotive retailer that sells and services BMW, MINI, Toyota and Suzuki vehicles (and is the exclusive authorised representative of the MINI brand) in five Slovenian cities (Koper, Kranj, Ljubljana, Nova Gorica and Trzin). In 2021, the company reported turnover of EUR 46m or around HUF 18bn.
- In April 2022, AutoWallis announced the purchase of Renault Hungária Kft. along with Portugal-based Salvador Caetano Group. This acquisition gives AutoWallis exclusivity for sales of Renault, Dacia and Alpine vehicles in Hungary. Under the deal, AutoWallis and Caetano will create a new company (AutoWallis Caetano), with each holding a 50% stake. Renault Hungária Kft. had revenues of HUF 70.3bn in 2021. After the approval of the competition authority, Renault Hungária Kft. will operate through a joint venture and will be not consolidated and therefore will not contribute to AutoWallis'

total revenues. AutoWallis expects to receive a dividend from the joint venture from 2024.

No direct operations in Ukraine or Russia

AutoWallis has no direct operations in Ukraine or Russia and therefore is not affected by the associated restrictions or expected losses. However, it could be negatively affected by potential delays in planned deliveries of cars as manufacturers may experience issues with the supply of raw materials and/or parts.

Demonstrated pricing power amid inflationary developments in Hungary since 2021

Inflation in Hungary has accelerated to exceed 10% in 2022. AutoWallis has demonstrated its pricing power in passing on rising procurement costs to customers, as evidenced by solid gross margins in 2021 (14.1% vs. 12.6% in 2020) and Q1 2022 (15%).

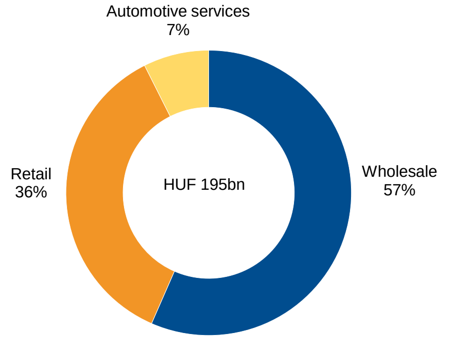
We expect higher revenues in 2022-23

In Q1 2022, the number of vehicles sold by AutoWallis increased by 11.1% to 7,410. Of the company's two units, sales volumes in the distribution business unit increased by 15.6% to 5,266 units, primarily thanks to the substantial improvement in SsangYong and Isuzu sales. The retail and services business unit saw the sale of 1,659 new and 485 used vehicles, equal to a drop of 1.1% and growth of 11.8% respectively. Revenues in the distribution business unit improved by 31.9% YoY, while revenues in the retail and services business unit remained unchanged at around HUF 21bn. Total revenues of HUF 57.7bn were 18.5% higher YoY. For the full year 2022, we expect revenues to increase to around HUF 217bn. Revenues in 2023 will depend on the market situation, including car production, delivery numbers and the revenue contribution from newly acquired entities. We currently expect 2023 revenues to increase by 12% to HUF 242bn.

We expect an EBITDA margin in the range of 4%-5% in 2022-23

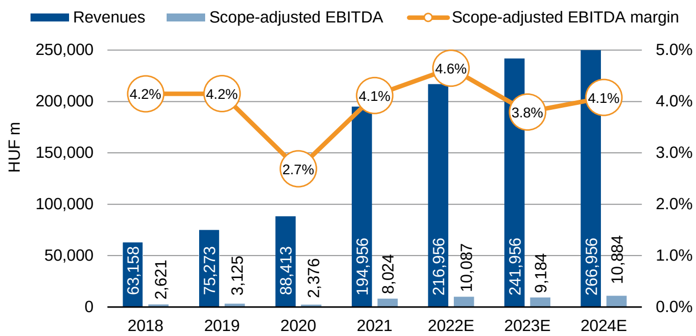
Reported EBITDA increased to HUF 3.1bn (Q1 2021: HUF 1.4bn). This was thanks to higher revenues and a higher margin of 5.4% (vs 3.0% in Q1 2021) from pricing changes. For the full year 2022, we expect a Scope-adjusted EBITDA margin of around 4.5% as we anticipate a weaker second half in terms of passing on price increases. In 2023, we expect a Scope-adjusted EBITDA margin of around 4%.

Figure 1: Breakdown of revenues by segment, 2021



Sources: AutoWallis, Scope estimates

Figure 2: Seven-year trend in revenues and EBITDA



Sources: AutoWallis, Scope estimates

Overall market positioning in the Hungarian car retail market remains weak

The recent transactions have not changed our view on the company's relatively weak market positioning. Through its recent transactions, AutoWallis has significantly increased its volumes both inside Hungary and outside Hungary. In 2021, it sold 16,501 vehicles through its distribution business (vs 3,980 and 2,964 vehicles in 2020 and 2019 respectively) and 8,533 vehicles through its retail business (vs 4,396 and 3,044 vehicles in 2020 and 2019 respectively). These volumes translate into revenues of around HUF 195bn (vs HUF 88bn in 2020 and HUF 75bn in 2019). Having said that, based on a current market share of around 5% of all newly registered cars in Hungary, AutoWallis is still a relatively small car retailer in the Hungarian car market. Outside Hungary, its market share is even smaller at well below 1%.

Shift in focus to the medium- and low-price segment

With the recent addition of brands like Opel, Renault, Dacia and SsangYong, AutoWallis has shifted its focus to the medium- and low-price segments. In 2021, premium brands Jaguar, Land Rover, BMW and Maserati only generated 3,295 of its total of 23,421 new vehicle sales compared to 3,227 of 7,176 total new vehicles in 2020. In contrast to the premium car segment, which is serviced by only a handful of manufacturers (BMW, Jaguar, Mercedes, Lexus and Audi), there is a much wider range of cars on offer in the medium- and low-price segments. Nevertheless, we believe the AutoWallis brand portfolio of Dacia, Nissan, Opel, Peugeot, Renault, Suzuki, Toyota, Citroen, SsangYong and ISUZU offers relatively wide coverage of the medium- and low-price segments.

Still a dominant BMW retailer in Hungary, giving it a 13% market share in the premium segment

Nevertheless, we note positively that AutoWallis remains a dominant BMW retailer in Hungary with around a 50% market share. According to AutoWallis, there are only three BMW dealers in Hungary, and all of them are in Budapest. In our view, a new BMW dealer is not very likely to enter the market in Hungary because BMW determines the number of dealers in a specific area, and it is not in BMW's interest to have a highly competitive market. We believe that AutoWallis' position as the dominant BMW retailer in Hungary is also supported by its long partnership with BMW and its well-established brand, which could protect it from being replaced by a new retailer. Strong market shares for BMW brands give AutoWallis a solid market position in the premium segment in Hungary with a market share of around 13% in 2021.

Around 57% of revenues were generated through the wholesale sales channel in 2021. Here, the company's market position benefits from being the exclusive distributor for Jaguar, Land Rover, OPEL, ISUZU and SsangYong in central and eastern Europe.

Product diversification and distribution channels are still constraining factors

We continue to see diversification as weak. In particular, diversification with regard to products and distribution channels remains a constraint for the company's business risk profile. In 2021, around 93% of the company's revenue was generated from selling cars. The very profitable service business (mainly after-sales service and car rental) only generated about 7% of total revenue and so is only of minor importance for revenue. AutoWallis operates as a single channel distributor, selling its vehicles through retail (43% of revenues) and wholesale (57%). It has no online distribution platform.

Brand diversification remains limited

AutoWallis has a relatively broad brand portfolio covering all price segments. Represented brands include BMW passenger cars and motorcycles, Citroën, Dacia, Isuzu, Jaguar, Land Rover, Maserati, MINI, Nissan, Opel, Peugeot, Renault, Ssangyong, Suzuki and Toyota. Nevertheless, marque diversification remained limited in 2021 as two marques, Opel and Ssangyong, accounted for around 64% of new vehicle sales.

Geographical positioning is still a supportive factor

The business risk profile continues to benefit from the company's moderate geographical positioning. In addition to Hungary, AutoWallis is present in 13 countries in the central and eastern European region (Albania, Bosnia and Herzegovina, the Czech Republic, Bulgaria, Croatia, Kosovo, Poland, Romania, Serbia, Slovakia, Slovenia, Macedonia, and Montenegro). Recent transactions do not change our view on geographical positioning. Granted, the acquisitions of the largest BMW dealership in Slovenia and importer rights for the Opel brand in Croatia, Slovenia and Bosnia and Herzegovina have improved AutoWallis' positions outside Hungary. But with around 52% of total revenues coming from Hungary, the importance of that country in the geographical revenue mix remains high.

No major impact from termination of retail contracts with Stellantis

AutoWallis' Opel dealerships will be affected by its partner Stellantis' decision to terminate all current dealership contracts in the EU (for retail), primarily due to regulatory changes. AutoWallis' five-year import contracts (for distribution) ended in 2020 and so are not affected. The company considers this termination to only be a technicality and expects to renegotiate a new contract with Stellantis. According to AutoWallis, the worst case would entail higher opex/capex following the renegotiation. It expects the effects to not be evident until 2023. AutoWallis also expects to renegotiate new dealership contracts with other carmakers.

Troubled automaker SsangYong is likely to be rescued in some form

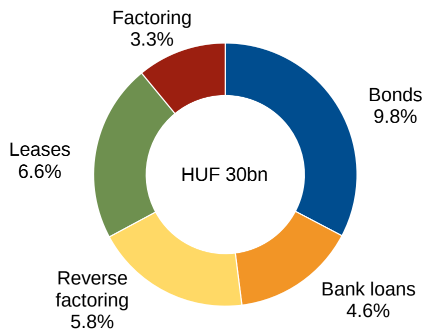
Moreover, troubled automaker SsangYong Motor Company is reorganising and has yet to reach an agreement with its new investors. However, AutoWallis is still distributing this brand as it believes SsangYong's manufacturing operations are likely to be rescued in some form. In 2021, SsangYong cars accounted for around 16% of AutoWallis' revenues.

Financial risk profile: B+

Scope-adjusted-debt (SaD) of HUF 30.1bn at year-end 2021

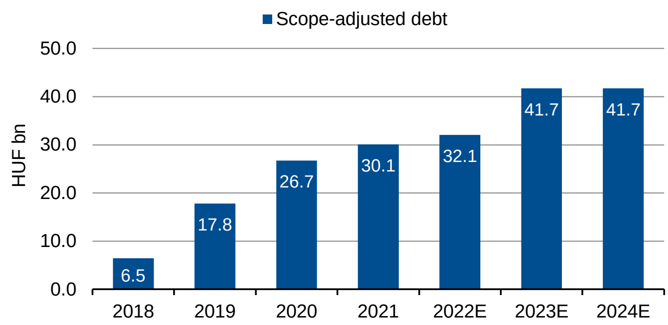
We calculate HUF 30.1bn of Scope-adjusted-debt (SaD) at year-end 2021 (HUF 26.7bn at year-end 2020). This comprises two bonds issued under Hungary's Funding for Growth Scheme, with a total amount of HUF 9.7bn (a HUF 6.7bn green bond issued in 2021 and a HUF 3.0bn bond issued in 2020); operating leases of HUF 6.6bn, mainly for renting car showrooms, service and logistics centres and a car park; an investment loan of HUF 2.6bn; an inventory loan of HUF 2.0bn; and inventory loans for the financing of vehicle stock (around HUF 9.2bn (HUF 7bn at year-end 2019). In our calculation of SaD we only consider the longer-term interest-bearing reverse factoring of HUF 5.8bn as we deem non-interest-bearing reverse factoring as a pure substitute for payables. SaD also includes factoring with recourse in the amount of HUF 3.3bn at year-end 2021. According to AutoWallis, it is in negotiations with financing banks to eliminate this recourse and expects to decrease this item in two steps, first by the end of 2022 and then totally by the end of 2023.

Figure 3: Funding structure at YE 2021



Sources: AutoWallis, Scope estimates

Figure 4: Expected development of SaD



Sources: AutoWallis, Scope estimates

According to our methodology, netting of cash in the calculation of credit metrics is generally only applicable for ratings in the BB category or higher, and only if the cash is permanent and accessible.

Intends to invest HUF 16bn-38bn by 2025

To achieve its revenue target, AutoWallis intends to carry out business developments and acquisitions worth HUF 16bn-38bn by 2025. Of this amount, only HUF 5bn has been realised so far. An additional HUF 3bn is contracted and will be spent during Q2-Q3.

We expect AutoWallis to use debt to finance transactions

In contrast to previous years, we expect AutoWallis to rely more on debt to finance transactions as recent transactions have diluted the stake of its largest shareholder to 57.55% at year-end 2021 from 83% at year-end 2018. From our discussions with management, we understand that the majority shareholder wants to retain a majority stake, limiting the company's ability to use equity.

SaD to increase to HUF 32bn at year-end 2022 and HUF 42bn at year-end 2023

We expect SaD to increase to around HUF 32bn at year-end 2022, largely reflecting the addition of loans from C182 (owner of the real estate used by Wallis Motor Ljubljana), which will come to AutoWallis through an acquisition in 2022. We expect SaD of around

HUF 42bn at year-end 2023. The increase in 2023 is due to the planned real estate development of AW Property. The exact financing method is still under discussion at this time.

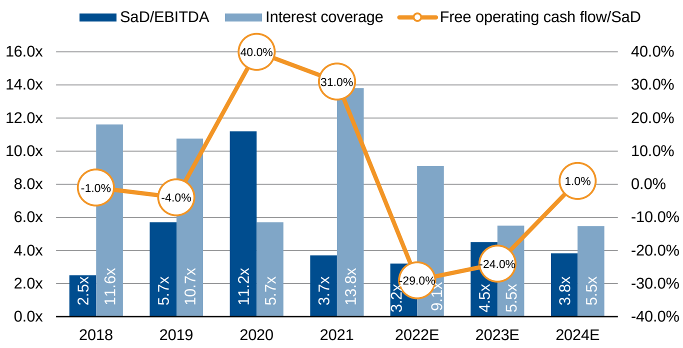
We expect SaD/EBITDA of around 4.5x in 2023

Net leverage as measured by the SaD/Scope-adjusted EBITDA ratio improved to 3.7x at year-end 2021 (2020: 11.2x) driven by higher EBITDA. We previously expected a significant increase in EBITDA to lead to another improvement in the SaD/Scope-adjusted EBITDA ratio in 2022. But we now expect the anticipated increase in SaD in 2023 due to the planned real estate development of AW Property to worsen the SaD/Scope-adjusted EBITDA ratio to around 4.5x.

Higher debt and higher interest costs to bring interest cover down to 5.5x

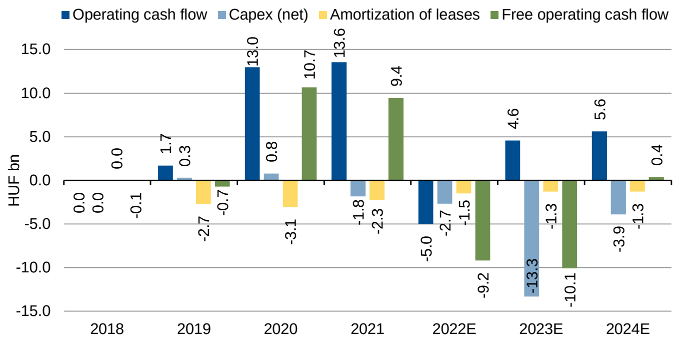
Interest cover improved to 13.8x in 2021 (2020: 5.7x). Due to expected higher debt in combination with higher interest costs, we anticipate interest cover will fall to around 5.5x by 2023.

Figure 5: Key credit metrics, 2018 to 2024E



Sources: AutoWallis, Scope estimates

Figure 6: Trend in cash flow, 2018 to 2024E



Sources: AutoWallis, Scope estimates

Slightly better OCF in 2021

Operating cash flow (OCF) improved slightly to HUF 13.6bn (HUF 13.0bn in 2020 and negative HUF 35m in 2018) driven by higher EBITDA. Gross capex increased to HUF 3.5bn in 2021 (HUF 1.6bn in 2020, HUF 2.3bn in 2019). This largely reflects the purchase of an 18,000 sq m plot of land near Kopaszi-gát (where the company plans to build a multi-brand vehicle sales and service centre encompassing several different brands) and an investment related to a newly built Jaguar Land Rover showroom in Budapest.

FOCF was HUF 9.4bn in 2021 (2020: HUF 10.7bn)

AutoWallis purchases and sells assets continuously as part of its normal operations. These are vehicles classified as fixed assets, such as demo vehicles or sales of used rent-a-car vehicles. Deducting proceeds from asset sales in the amount of HUF 1.6bn in 2021, free operating cash flow (FOCF) was HUF 9.4bn (2020: HUF 10.7bn).

Negative FOCF expected in 2022-23

We expect OCF to turn negative in 2022 due to the anticipated higher net working capital and negative developments in other liabilities, which are mainly attributable to the payment of the contingent purchase price of HUF 2bn for Opel distribution. In 2022, we expect net capex of HUF 2.7bn and FOCF of around negative HUF 9.2bn. While we expect OCF to turn positive in 2023, we also expect net capex to increase to around HUF 13bn primarily due to the real estate investment (multi-brand retail locations and offices) planned for the new construction plot, resulting in negative FOCF of around HUF 10.1bn.

Adequate liquidity

We view AutoWallis’ liquidity and financial flexibility as adequate. This view is supported by around HUF 17bn of cash raised during 2021 through an equity increase and the issuance of bonds, which resulted in a cash balance of HUF 24.7bn at the end of December 2021.

Our assessment on AutoWallis' liquidity is also supported by the substantial amount of inventories (around HUF 24bn at year-end 2021). We note that AutoWallis' short-term debt consists largely of inventory loans and reverse factoring. AutoWallis' strategy is to reduce automobile stock risks by directly financing each vehicle separately, documented individually at the financing agent (bank or leasing partner). Direct financing for each vehicle ensures that an outstanding loan is fully covered by the value of a particular vehicle. Both inventory loans and reverse factoring are repaid when the inventory is sold. Based on a discount of 20% for inventories, we calculate short-term debt coverage at more than 100%.

Balance in HUF m	2021	2022E	2023E
Unrestricted cash (t-1)	5,076	24,699	5,171
Inventories (80%)	17,853	19,392	20,400
Free operating cash flow	9,444	-9,202	-10,072
Short-term debt (t-1)	15,955	13,702	11,782
Coverage	**>200%**	**>200%**	**>100%**

HUF 2.6bn invested in transactions during 2021

AutoWallis invested HUF 2.6bn to acquire DALP Kft. in 2021. That company holds the real estate that Wallis Motor Pest Kft. uses as a BMW and MINI showroom and service area. In the previous year, AutoWallis invested HUF 7.5bn for OPEL rights and a new ROU asset related to Wallis Motor Ljubljana.

Transaction-related payout of HUF 8.4bn expected in 2022

This year we expect a transaction-related payout of around HUF 8.4bn to acquire Renault Hungaria Kft., Avto Aktiv and an online portal for used cars.

No further capital increases expected during 2022-23

AutoWallis raised around HUF 10.0bn in additional equity capital during 2021. We note that shareholders recently authorised the board to increase the share capital by up to another HUF 10bn at the company's general meeting. This could be used to finance growth or raise the capital needed for larger acquisitions. Although another such increase is possible, we have not included any additional capital increases in our model.

Long-term debt rating

Senior unsecured debt rating: B+

We affirm the B+ rating of senior unsecured debt to reflect an average recovery rate. Since issuing a second bond under Hungary's Funding for Growth scheme in 2021, AutoWallis now has two bonds issued under the scheme. Their total amount is HUF 9.7bn (a HUF 6.7bn green bond issued in 2021 and a HUF 3.0bn bond issued in 2020).

The recovery analysis used a liquidation value of HUF 62bn in a hypothetical default scenario in 2023. This value is based on a haircut of around 25% on the assets and reflects asset liquidation costs of 10%.

The recovery analysis assumes an increase in the value of property, plant and equipment due to the purchase of real estate and equipment of AvtoAktiv, property of C182 and the planned development of AW Property (complex development of multi-brand dealership, service facility and office block). The recovery analysis assumes that, in a hypothetical default, all financial debt except bonds would be secured with stocks (stock financing loans, reversed factoring) or real estate. In addition, we have assumed higher seniority for the balance of trade payables covered by banks. This is because we believe payables would have a first-ranking pledge (assignment) by automakers in a hypothetical default.

Appendix: Peer comparison

	AutoWallis Nyrt.	Abroncs Kereskedőház Kft.	Marso Kft.	Tegeta Motors LLC	UNIX Autó Kft.
	B+/Stable	BB/Stable	BB-/Stable	BB-/Stable	BB-/Stable
Last reporting date	14 July 2022	25 November 2021	21 October 2021	4 November 2021	9 May 2022
Business risk profile	B+	B+	B+	BB-	BB
Size (revenue in EUR bn)	~EUR 0.5bn	~EUR 0.1bn	~EUR 0.1bn	~EUR 0.2bn	~EUR 0.3bn
Market positioning	Retailer of various car brands with around 5% market share in Hungary, dominant BMW retailer in Hungary	The second largest tyre wholesaler in Hungary	Leading tyre wholesaler in Hungary	Leader in car and car parts sales in Georgia	Leading car parts company in Hungary (35% market share) and No. 5 in Romania
Diversification	Around 93% of revenues from sale of cars, around 52% of revenues from Hungary	Focus on tyres (77% of revenues) and lubricants (12% of revenues), 80% of revenues from Hungary	Present only in the tyre industry, 79% of revenues from Hungary	Relatively large mix of products, focus on Caucasus region (85% of revenues)	Broad range of car parts, focus on Hungary (68%)
Operating profitability (EBITDA margin)	~4%	4%-6%	4%-6%	6%-8%	8%-10%
Financial risk profile	B+	BBB-	BB+	BB-	BB-
Scope-adjusted EBITDA/interest cover	4x-7x	7x-10x	7x-10x	2x-4x	7x-10x
SaD/Scope-adjusted EBITDA	~4x	1x-2x	3x-4x	3x-4x	~2.5x
Funds from operations/SaD	15%-30%	30%-45%	15%-30%	15%-30%	~30%
Free operating cash flow/SaD	<5%	<5%	<5%	<5%	<5%

Sources: Public information, Scope

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