13. September 2021

AutoWallis Nyrt.

Initiation of coverage: Buy
12-month target price: HUF 164
Upside potential: 48%

Analyst

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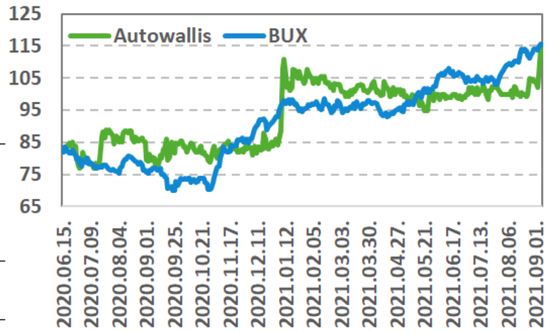
m HUF	2019	2020	2021e	2022e
Revenue	75 273	88 413	199 651	242 769
EBITDA	2 982	2 139	6 037	7 719
EBIT	1 804	655	3 464	5 270
Net profit	917	-679	2 101	3 089
EBITDA margin	4,0%	2,4%	3,0%	3,2%
EBIT margin	2,4%	0,7%	1,7%	2,2%
EPS	3,4	-2,4	6,3	8,7
DPS	0	0	0	0
EV/EBITDA		22,3	9,4	7,4
P/E		-	17,6	12,5



Share price (2021.09.07):	111,0	Free float:	29,4%
Number of shares (m):	339,7	Daily turn. (m HUF):	11,17
Market cap. (m HUF):	37 708	Bloomberg:	AUTOWALL HB

Performance	3 months	6 months	YTD	1 year
Autowallis	12,2%	11,3%	5,7%	45,1%
BUX	9,2%	21,5%	18,9%	49,7%

- **With a 12-month target price of HUF 164 and a buy recommendation, we initiate coverage of AutoWallis.**
- **The company, which is a dominant player in automobile trade and mobility services in the Central-Eastern European region, completed several acquisitions last year, which have helped it achieve growth by an order of magnitude, strengthen its position in Hungary and regionally, and expand its car brand offering. Largely due to the above reasons, its revenues may rise by 126% this year, to HUF 200 billion, with EBITDA generation growing almost threefold – we predict HUF 6 billion.**
- **The countries in the CEE and Balkan region are expected to enjoy an economic upswing in the years ahead, which will be a strong demand-side driver for car sales and a very good basis for organic profit growth for the company. The supply-side problem caused by the chip shortage - which is expected to be temporary - will also negatively impact sales volumes in 2021 and 2022, but even so, we expect an average annual revenue growth of 13% and EBITDA growth of 15% between 2022 and 2026. The new acquisitions expected under AutoWallis' long-term strategy could further boost these growth figures, which are not yet included in our expectations and fair value estimate.**
- **The company is also faced with changes in the automotive industry and has formulated answers to some of those challenges in its long-term strategy, the implementation of which management is moving ahead at a rapid pace.**

Investment case

- **AutoWallis is an automobile trade and mobility services company in the CEE and Balkan region.** The company provides vehicle and spare part retail and wholesale trade services as well as short and long-term car rental services in 14 countries. In its wholesale business line, AutoWallis represents automobile brands such as ISUZU, Jaguar and Land Rover, Ssangyong, OPEL and Saab, and **holds exclusive distributor rights in several countries in the region.**
- The company owns **Hungary's largest BMW car, motorcycle and MINI dealerships with the longest history in the country** (Wallis Motor Pest and Duna), and last year it added to its portfolio (i) the only BMW dealership and service in Ljubljana, (ii) Wallis Kerepesi, one of the most successful Opel and KIA dealerships in Hungary, and (iii) Iniciál Autóház, which has a dominant position in West Hungary. In the past year, the company has also increasingly taken ownership of the properties where it trades.
- **The company intends to become a dominant mobility player in the Central Eastern European region**; to achieve that objective, it has announced major acquisition plans in its five-year strategy. AutoWallis aspires to be a regional consolidator so that it can exploit the resulting synergies and respond appropriately to the challenges posed by the ongoing transformation of the automotive industry. The company's past achievements and the industry experience of its operations management suggest that these strategic objectives are feasible.
- Although the growth plans announced in 2019 had seemed ambitious, the company **managed to surpass its growth targets thanks to its acquisitions and the business development measures it took last year**. Receiving Opel wholesaler rights, gaining control over Iniciál Autóház, acquiring Wallis Kerepesi and the BMW dealership in Ljubljana, and launching the Jaguar Land Rover dealership will enable the company to grow its profits by an order of magnitude from this year onwards. And the growth doesn't stop there, as the company has recently (10. September 2021) announced another major acquisition in Slovenia, the purchase of Avto Aktiv, a retailer with a presence in five cities, representing 6 brands.
- **Revenues may rise by 126% and reach HUF 200 billion, and we expect EBITDA to grow close to threefold, to HUF 6 billion**, with the combined result of HUF 2.1 billion net profit. Based on the first-quarter results and the outlook for this year, we consider feasible the targets set by the management (EBITDA at around HUF 6 billion).
- This year's annual car sales figures will be significantly depressed by supply issues arising from the global chip shortage, and this effect is expected to carry over into 2022. However, as production chain problems are resolved, 2022 could bring more favourable growth than this year, which could be sustained in the years thereafter. As the cyclical recovery is expected to further strengthen demand for cars in the CEE region, the (temporary) supply constraint on the sales/volume side could lead to a widening of dealer margins. On this basis, we expect annual average revenue growth of 13% and EBITDA growth of 15% between 2022 and 2026, with EBITDA margins rising from 2.4% last year to 3% this year, and then to 3.2-3.3% in the following years.

However, based on the 3.2% EBITDA margin in the first half of this year, our expectations seem conservative, against which the upside potential seems stronger.

- **In addition to improved profit generation, the company may produce more free cash flow in the future,** generating HUF 1.68 billion this year and as much as HUF 7.3 billion after 2026. At the same time, the company's indebtedness will decrease substantively: from 71% last year, the indebtedness ratio may decrease to the comfortable level of around 30% by 2026. It is important to note that we have not assumed any dividend payments (given that this is a growth phase) nor any further acquisitions, as per the company's strategy (our expectations do not yet include the recently announced Avto Aktiv transaction and the land purchase near the Kopaszi dam).
- **The momentous changes taking place in the automotive industry** (electric cars, carsharing, self-driving cars, changes in consumer habits, the expansion of online sales) **represent a long-term challenge for AutoWallis too.** Although the company's strategy confronts these challenges (i.e. the management is aware of these), we believe that, overall, the company will not be able to shield itself fully from these changes, which will put its margins under pressure. Therefore, even though we expect improving EBITDA margins, we also believe that the rate of improvement will not return to the pre-pandemic heights of around 4%, we expect 3.2% EBITDA margin in 2026.
- **But the growth strategy also holds opportunities.** The capital injection the company plans to raise this year should create opportunities for further growth, to which the company is responding by reorganising its organisational structure (creating independent business unit director positions, filled by the same managers currently on the board). Compared to our expectations, the Avto Aktiv transaction and the large-scale investment plans to start on the land purchased next to the Kopaszi dam are identified as upside potential.
- We used the **DCF model to determine our 12-month target price of HUF 164** for the shares, with the caveat that the fair value will respond rather sensitively to changes in the long-term EBITDA margin. *Ceteris paribus,* a HUF 77 target price would result from using the 2.4% depressed EBITDA margin of last year (a "crisis year") as our long-term assumption, whereas assuming the pre-crisis EBITDA margin of 4% would result in HUF 241. The calculation is also highly dependent on the WACC figure applied on the long term; nevertheless, if the company is able to deliver a 3.2% EBITDA margin in the long term, the resulting target price will be HUF 115 even at 12.3% WACC (as opposed to the 10.3% assumed in the base scenario).
- **At the current price levels, the Company is priced fairly compared to its sectoral peers**; in fact, while its P/E and EV/EBITDA based forward-looking indicators are close to the sectoral median, AutoWallis has more favourable profit growth outlook for the future.

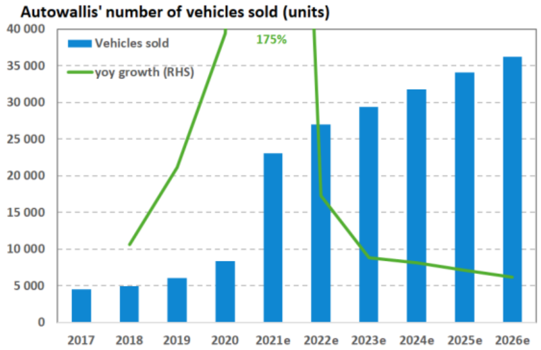
Earnings outlook

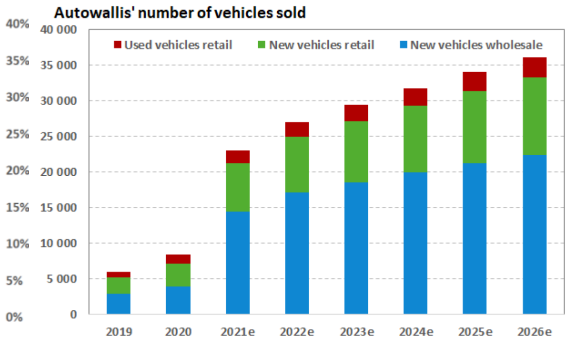
Tighter environmental legislation, changing consumer needs and habits, and technological progress are driving a momentous transformation of the automotive industry. The success of individual companies may depend to a great extent on their ability to respond to the changes in the industry, even as they try to withstand strong competition not only from each other, but also from new challengers entering the sector. This may put pressure on their sales figures and operating margins on the long term.

These changes will not cause upheavals for automotive merchants in the short term; their operations will be shaped mainly by the changes of the economic cycle. With the recovery from the coronavirus epidemic, growth prospects in the CEE and Balkan economies are good, which could provide a tailwind for sales in the coming years, although supply chain problems could temporarily restrain growth in the short term (2021 and even 2022). However, this could be largely offset by margin expansion for car dealers' profit generation.

For all of the above reasons, we have made the following assumptions regarding AutoWallis's profit figures:

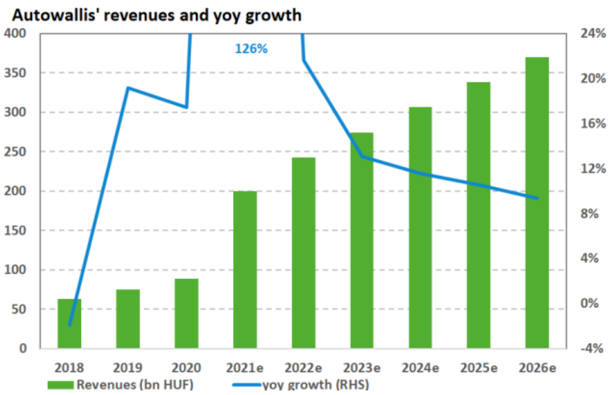
- With the pandemic abating, economic reopening has already taken place in many regions, and there are limited risks of complete closures due to the fourth wave. **The countries in the region in which AutoWallis operates are predicted to achieve GDP growth above 4% in both 2021 and 2022.**
- The industry expects **European passenger car sales market** to return to a path of growth (following average annual contraction by 2.7% in the last five years) thanks to the economic recovery, but the timing of this is delayed by problems caused by the chip shortage.
- Car sales growth tends to be more dynamic in the East-Central European and Balkan countries covered by AutoWallis than in Europe overall. In the five years before last year's crash, the annual average growth of passenger car sales on AutoWallis's market outpaced the European figure by 6 percentage points; this may remain the case in the years ahead, as a result of lower automobile penetration, a better economic growth outlook and improving incomes. **Demand for cars is strong and sales growth could have reached double-digit percentages this year and next, but the chip shortage means that growth this year is likely to be much weaker than that, and the effects could carry over to 2022, when growth dynamics could improve.**
- **These favourable organic growth opportunities may be further advanced by the acquisitions made by AutoWallis last year.** They will boost the company's new and used car sales substantively in 2021 and will also have favourable impacts in the longer term, through a more diversified brand offering and regional coverage (presence outside the capital and abroad), which may underpin more balanced performance.
- **The number of vehicles it sells may rise close to 3-fold in 2021**, which will be attributable mainly to obtaining OPEL wholesale rights, the full-year impacts of sales by Iniciál, Wallis Kerepesi and the Slovenian BMW dealership, and organic expansion. We predict average annual growth of 9.5% in later years.

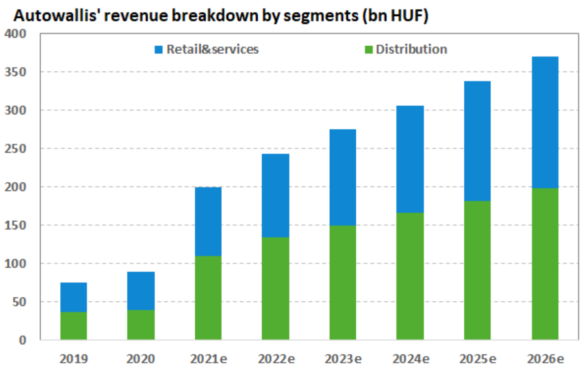




Source: AutoWallis, OTP Multi-Asset Strategies

- **We assume no further acquisitions beyond those announced last year,** and we have not yet included the recently announced acquisition of the Slovenian Avto Aktiv and the development plans for the land near the Kopaszi dam, which was purchased in August, in our expectations.
- **Dynamic growth may start in automotive services as well, from a low base in 2020** (we predict an annual average revenue increase by 25% for the period between 2021 and 2026). Revenues may surpass earlier records this year, in which the acquisitions and the resulting expansion in repair services will be the main factor. We expect improvement from last year's low base figures in rentals too, but the recovery will be slower and will depend on a rebound in tourist numbers at the airport.
- **Overall, the company's revenues may grow at an exceptional rate in 2021 (126% year-on-year) and at an annual average rate of 13% afterwards.** By 2021, we expect revenues of HUF 200 billion, as the company's management does not feel, that an even higher revenues can be guaranteed due to the delays in delivery caused by the chip shortage. Following the acquisitions of recent years, there is a substantive rise in the weight of volume manufacturers within the company's car sales; also, its wholesale division will contribute more to revenues than retail from 2021 onwards (without the retail dealer Avto Aktiv's acquisition). We expect HUF 370 billion revenues in 2026, and in the long term we assume an annual growth rate of 3%.

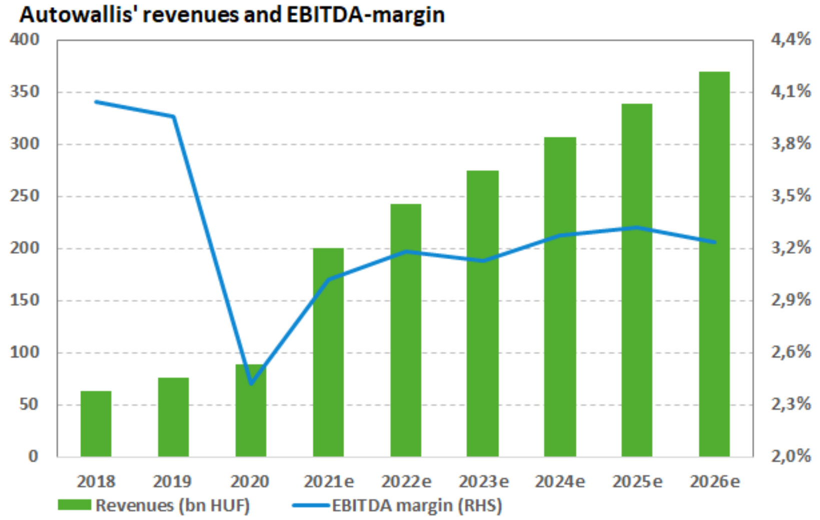




Source: AutoWallis, OTP Multi-Asset Strategies

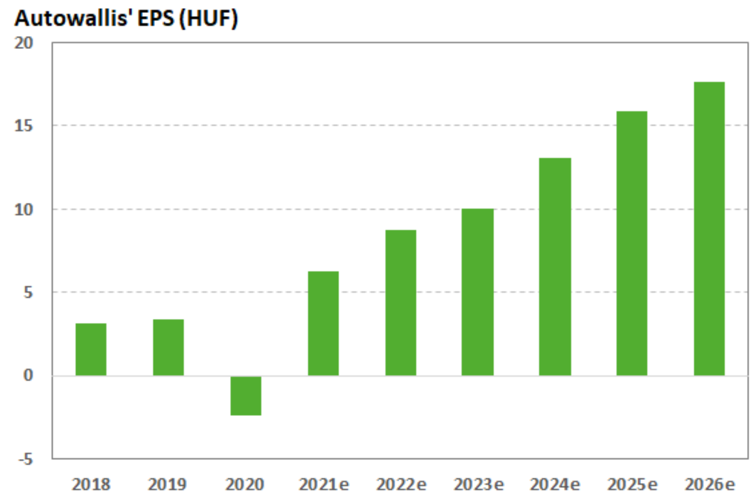
- In 2020, the company's EBITDA margin decreased to 2.4% from 4% in previous years; we expect a recovery to start this year. In 2021, the margin may widen as economies reopen and the external environment improves; and the chip shortage effect kicks in.

The company's strong market position, which it will further reinforce through acquisitions, and its strategic direction aligned with the expected future changes may all help AutoWallis prevent the erosion of its margins even in a competitive environment that is expected to intensify in the future. **In any case, the transformation in the industry suggests to us that the company will not be able to return to pre-pandemic levels (of 4%) in EBITDA margins (we predict 3.2% for 2026).**



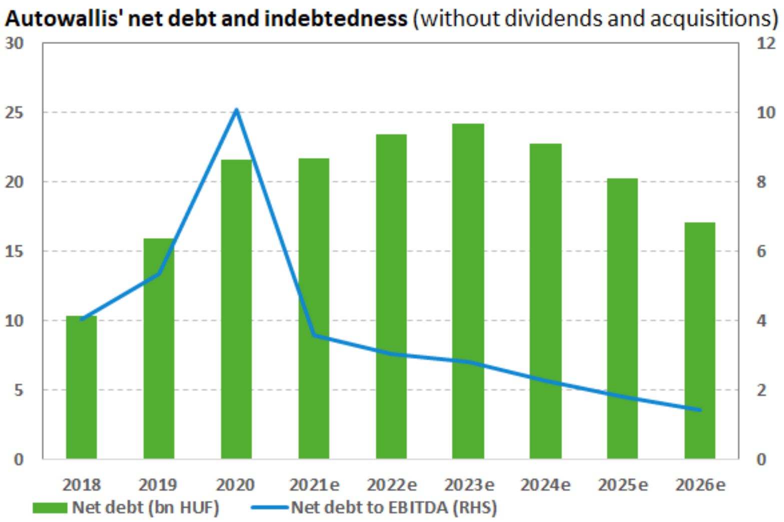
Source: AutoWallis, OTP Multi-Asset Strategies

- However, rising revenues and improving margins will mean that the company's **EBITDA generation may nearly triple in 2021 and grow by an average of 15% a year in the period between 2022 and 2026.** Our prediction of HUF 6 billion EBITDA for 2021 is in line with the management's forecast, which could approach HUF 12 billion by 2026 (excluding further acquisitions and Avto Aktiv).
- **After a loss-making 2020, we expect HUF 6.3 EPS, substantively higher than in prior years**; this may grow annually by 24% on average in the years ahead, reaching around HUF 17.6 in 2026.



Source: AutoWallis, OTP Multi-Asset Strategies

- The company's capital expenditure demand may fluctuate, in depending on acquisitions/renovation/conversion of real estate and the machinery and equipment used in those properties; we show the figures in a breakdown by year, with conversion and construction work at the new Jaguar Land Rover dealership at the address Váci út 76-80 increasing the total in 2021. The 18,000 square metre plot of land purchased near the Kopaszi dam, and the development costs of the HUF 10 billion multi-brand retail and service centre planned to be built on it by 2025, are not yet included in our forecasts, but will be incorporated into our model as further details become available.
- The expansion in wholesale and retail sales will generate a rising demand for working capital in the years ahead, but the company's **free cash flow generation will rebound from last year's negative figure potentially to HUF 1.7 billion in 2022, and may rise as high as HUF 7.3 billion after 2026.** For the subsequent period we assume a 3% long-term growth rate in view of the changes in the industry.
- **Thanks to the company's solid cash flow generation ability, indebtedness may follow a downward path,** with the net debt/EBITDA ratio falling to approximately 3.6 in 2021, continuing to fall and reaching 1.4 in 2026 (the indebtedness ratio may decrease from 71% in 2020 to 32% in 2026). It is important to note here that we assume no further acquisitions and do not expect the company to pay dividends as it is in the growth phase.



Source: AutoWallis, OTP Multi-Asset Strategies

DCF valuation

We used the DCF model to determine the fair value of the company and identified a 12-month target price of HUF 164 for its shares. This represents a 48% appreciation potential compared to the current share price.

Assumptions used in the model:

- For our FCFF forecast, we used the expectations detailed in the section above.
- We assumed a long-term growth rate of 3% to calculate residual value, taking into consideration the long-term challenges facing the industry.

- We used the 339.7 million figure following the acquisition of DALP as the number of the company's shares.
- In calculating the cost of equity, we used as the risk-free rate of return of the ten-year Hungarian bond market yield (3%), which may rise to around 3.5% in the residual period. We calculated the beta value from the unlevered betas observed in the industry (using Damodaran's collection as our starting point); the value decreases over the forecast horizon, in line with the decrease in the company's indebtedness. We assumed an equity risk premium of 6.5%. Our calculation assumes 3.5-3.9% borrowing costs, even though the company has been able to access funding at much better rates of interest recently.

Autowallis WACC calculation	2022	2023	2024	2025	2026	TV
Risk free rate	3,0%	3,0%	3,0%	3,0%	3,0%	3,5%
Levered beta	1,8	1,8	1,8	1,9	1,9	1,9
Equity risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Cost of equity	**14,5%**	**14,7%**	**14,9%**	**15,1%**	**15,3%**	**16,0%**
Cost of debt	3,5%	3,5%	3,5%	3,5%	3,5%	3,9%
Effective tax rate	10%	10%	10%	10%	10%	10%
After tax cost of debt	**3,1%**	**3,1%**	**3,1%**	**3,1%**	**3,1%**	**3,5%**
D/E	70%	73%	76%	79%	82%	85%
Debt (%)	41%	42%	43%	44%	45%	46%
Equity (%)	59%	58%	57%	56%	55%	54%
WACC	**9,8%**	**9,8%**	**9,8%**	**9,8%**	**9,8%**	**10,3%**

Source: OTP Multi-Asset Strategies

Autowallis DCF-model m HUF	2021e	2022e	2023e	2024e	2025e	2026e	TV
EBIT	3 464	5 270	5 899	7 173	8 361	9 153	9 427
Tax	-346	-527	-590	-717	-836	-915	-943
NOPLAT	**3 117**	**4 743**	**5 309**	**6 455**	**7 525**	**8 238**	**8 485**
D&A	2 573	2 448	2 688	2 863	2 882	2 820	2 750
Change in WC	3 590	2 716	2 637	2 645	2 691	2 660	914
CAPEX	2 377	2 794	2 673	2 820	2 742	2 650	2 979
FCFF	**-277**	**1 682**	**2 687**	**3 854**	**4 973**	**5 748**	**7 342**
TV growth							3,0%
TV							101 118
PV FCFF		1 532	2 228	2 910	3 420	3 599	63 318
EV (2021.12.31)	**77 006**						
Net debt	21 681						
Minorities	1 181						
Opel purchase price	3 223						
Equity value (2021.12.31)	**50 921**						
Share count (million)	339,7						
Cost of equity	14,5%						
12-month target price (HUF)	**164**						

Source: OTP Multi-Asset Strategies

The company's possible fair value is greatly influenced by the EBITDA margin it can operate at on the long term, because a significant part of the company's value is attributable to terminal value. 2020 was a year of serious challenges for the automotive industry as well, therefore the 2.4% EBITDA margin reported for that year could be considered as a lower threshold. In the good years before the crisis (2018-2019), AutoWallis achieved around 4% EBITDA margin. **A sensitivity analysis of our DCF model with these values results in a 12-month target price between HUF 77 and HUF 241 for the shares.**

DCF valuation sensitivity analysis (12-month target price HUF)

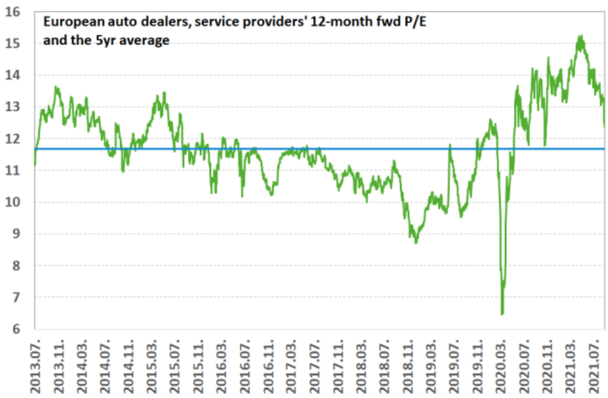
		EBITDA-margin (TV)								
		2,4%	2,6%	2,8%	3,0%	3,2%	3,4%	3,6%	3,8%	4,0%
WACC (TV)	*9,3%*	96	119	143	166	189	213	236	259	283
	10,3%	77	98	118	139	**164**	179	200	220	241
	11,3%	62	80	98	116	134	152	170	188	206
	12,3%	50	67	83	99	115	132	148	164	180

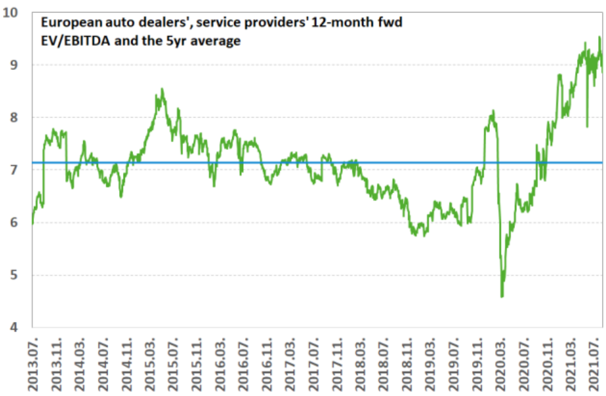
Source: OTP Multi-Asset Strategies

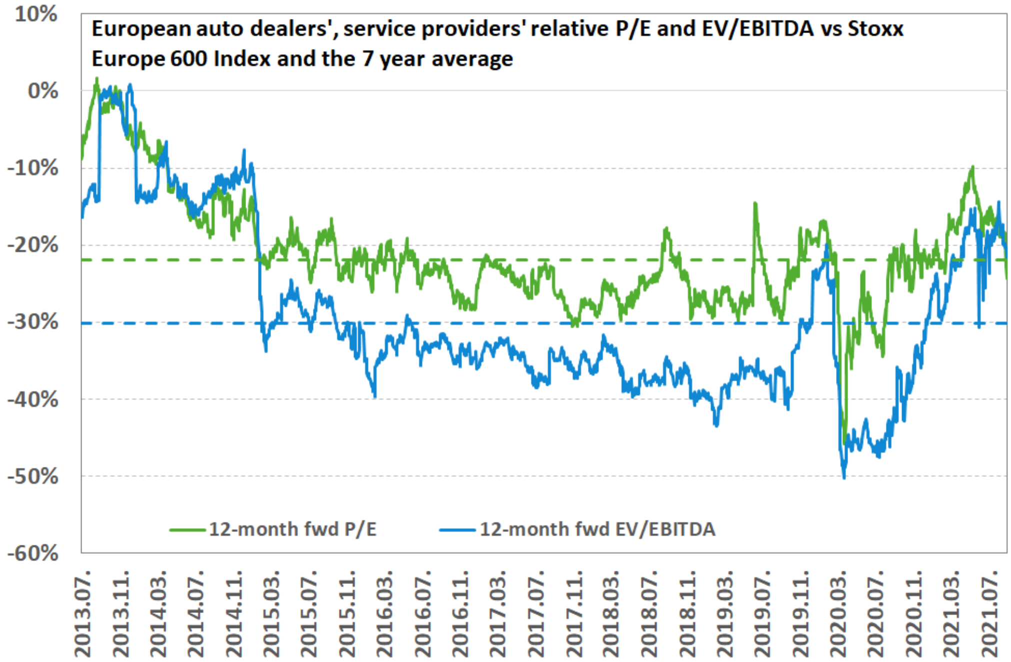
Peer group analysis

We used the EV/EBITDA and P/E ratios to carry out the peer group analysis of the company. We looked for companies that operate in European markets, are active in the retail and/or wholesale trade of passenger vehicles and/or parts and provide automotive services (long- or short-term car rental).

The 12-month forward-looking valuation of companies in the sector (P/E: 12.4 and EV/EBITDA: 8.8) has risen considerably since the start of 2019, thus **both indicators are now above the averages of prior years (11.6 and 7, respectively)**. **The sector as a whole has lost much of its appeal even compared to the European Stoxx 600 index;** after all, since typical pricing discounts are 21% on a P/E basis and 29% on an EV/EBITDA basis, the discount rate has now shrunk to 23% and 21%, respectively. In the meantime, the profit growth outlook of the industry is changing in rather close alignment with the wider European markets; so far, there appears to be no widening in the growth advantage that could explain the reduction in the discount rate.







Source: Bloomberg, OTP Multi-Asset Strategies

Within the peer group, companies fall into one of three major categories:

1. companies offering mobility services, such as Sixt, Redde and Autohellas. Their EBITDA margins are typically high, between 20 to 30%, but their EBITDA growth (2020-22) is the same as across the sector as a whole, even as their EV/EBITDA pricing is, on average, 5.5 in 2022, which is lower than the overall sector.

2. companies mainly selling parts such as Mekonomen, Auto Partner and Inter Cars. At 10% on average, their EBITDA margin is higher than the sectoral average, as is their EBITDA growth, coupled with an 8 EV/EBITDA multiplier, which is also above the average.

3. companies in the retail and wholesale trade of vehicles dominate the list and have the most depressed EBITDA margins (below 5%), their EBITDA grows a low single-digit percentage between 2020-2022, whereas the 2022 median figure for EV/EBITDA based valuation is 9.3 (although this is distorted upwards by two companies, without them the value is 6.5).

AutoWallis currently trades at valuation indicators representing the median in the peer group; it should be noted, however, that it has more significant growth potential than the companies examined, but also substantially smaller than them. For the above reasons, at the current prices AutoWallis appears to be a choice that is overall neutral or slightly preferable to the peer group.

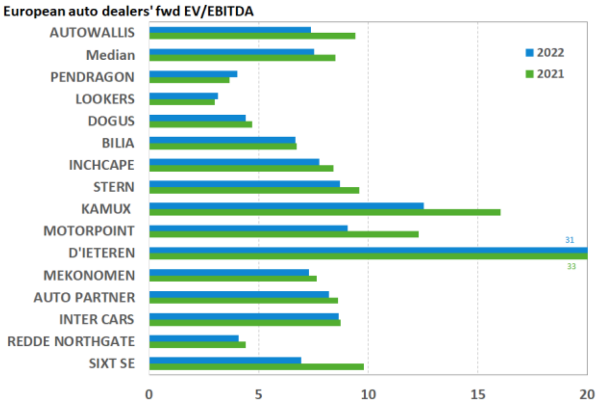
Name	Country	Price (Local Currency)	Market Cap (m EUR)	Net Debt/EBITDA (2022)	Sales growth (CAGR 2020-22)	EBITDA margin 2020	EBITDA margin 2021
SIXT SE	GERMANY	113,5	4658	1,65	10,0%	28,6%	31,4%
REDDE NORTHGATE PLC	BRITAIN	428,5	1066	1,36	21,5%	27,3%	22,9%
Autohellas Tourist and Trading	GREECE	7,35	371	-	-	24,6%	-
MEKONOMEN AB	SWEDEN	162,9	9354	2,31	2,3%	13,8%	14,3%
AUTO PARTNER SA	POLAND	13,5	1796	0,70	19,7%	9,9%	8,6%
INTER CARS SA	POLAND	414	5710	1,62	10,4%	6,9%	7,1%
INCHCAPE PLC	BRITAIN	870	3491	0,16	-4,2%	3,8%	4,8%
PENDRAGON PLC	BRITAIN	18,25	260	2,31	-5,1%	4,3%	4,9%
MOTORPOINT GROUP PLC	BRITAIN	334	301	1,14	21,0%	2,6%	2,1%
KAMUX CORP	FINLAND	14,1	567	1,05	17,9%	5,7%	4,5%
DOGUS OTOMOTIV SERVIS VE TIC	TURKEY	28,68	5685	0,95	43,9%	8,5%	7,9%
BILIA AB-A SHS	SWEDEN	168,7	18288	0,87	9,6%	9,2%	8,6%
D'IETEREN SA/NV	BELGIUM	132,5	7267	-5,38	-0,2%	6,5%	5,0%
Stern Groep	NETHERLAN	14,25	87	6,42	-1,1%	3,9%	3,3%
Lookers	UK	68,7	261	1,19	-0,3%	2,3%	3,4%
Sector median			**1796**	**1,17**	**9,8%**	**6,9%**	**6,1%**
Autowallis	**HUNGARY**	**111**	**109**	**2,70**	**55,0%**	**2,4%**	**3,0%**

Source: Bloomberg, OTP Multi-Asset Strategies

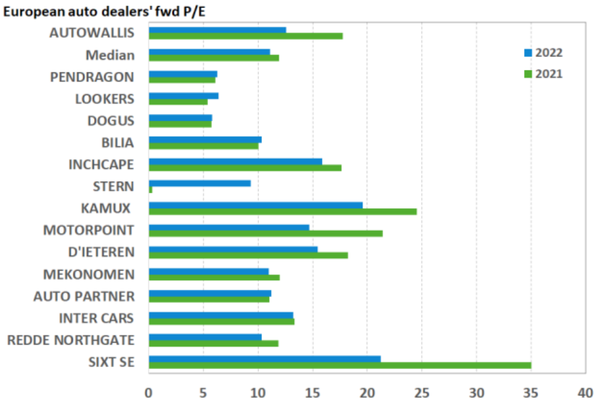
Name	EBITDA growth (CAGR 2020-22)	Net profit growth (CAGR 2020-22)	EV/EBITDA 2021	EV/EBITDA 2022	P/E 2021	P/E 2022
SIXT SE	13,9%	-105,7%	9,8	6,9	35,0	21,2
REDDE NORTHGATE PLC	7,9%	36,6%	4,4	4,1	11,9	10,3
Autohellas Tourist and Trading	-	-	-	-	-	-
MEKONOMEN AB	6,0%	23,5%	7,7	7,3	12,0	11,0
AUTO PARTNER SA	26,1%	43,2%	8,6	8,2	11,1	11,3
INTER CARS SA	20,3%	29,8%	8,7	8,6	13,4	13,2
INCHCAPE PLC	4,1%	26,7%	8,4	7,8	17,6	15,9
PENDRAGON PLC	10,0%	681,9%	3,7	4,0	6,1	6,3
MOTORPOINT GROUP PLC	14,7%	27,5%	12,3	9,1	21,4	14,7
KAMUX CORP	15,3%	15,6%	16,1	12,5	24,6	19,6
DOGUS OTOMOTIV SERVIS VE TIC	62,3%	793,6%	4,7	4,4	5,7	5,8
BILIA AB-A SHS	9,2%	22,2%	6,7	6,7	10,0	10,3
D'IETEREN SA/NV	5,7%	19,6%	33,1	30,8	18,2	15,5
Stern Groep	-13,6%	-9,9%	9,6	8,7	0,3	9,3
Lookers	23,6%	-451,2%	3,0	3,1	5,4	6,4
Sector median	**11,9%**	**25,1%**	**8,5**	**7,5**	**11,9**	**11,1**
Autowallis	**60,6%**	**48,9%**	**9,4**	**7,4**	**17,6**	**12,5**

Source: Bloomberg, OTP Multi-Asset Strategies

European auto dealers' fwd EV/EBITDA



European auto dealers' fwd P/E



Risks

Economic cyclicality: The performance of automotive industry companies is closely correlated to their economic cycles, with their profit generation ability highly exposed to stalling economic growth and potential downturns. Although there is a consensus among analysts to predict strong GDP growth for the years ahead, the emergence of new coronavirus variants may represent a risk to economic recovery. If a variant more resistant to vaccines were to emerge, new strict measures to limit mobility would need to be introduced. Given the high levels of indebtedness, economic growth may also be hampered in the future by the phasing out of the fiscal-side measures underpinning economic growth.

Central bank tightening: For the time being, the central banks of the major advanced economies believe that the pick-up in inflation is temporary and are maintaining their policy of support via asset purchase programmes and low rates of interest. However, if inflation were to stabilise at a high level in the longer term, central banks would be forced to tighten their monetary policies. This would (i) raise funding costs for companies and dampen the appetite for purchases as access to outside funding (loans, leases) becomes more expensive; (ii) result in a decrease in pricing levels on the equity markets and exert a negative impact via a deterioration in overall investor sentiment.

Greater risk aversion: If global risk appetites were to weaken substantively, AutoWallis would also be impacted negatively, given its high demand for working capital financing.

Rise in commodity prices: Significant increases in commodity prices may also present risks via (i) lower demand for vehicles driving down sales volumes (if manufacturers pass rising costs on to the consumer) and (ii) narrower margins for manufacturers and traders (if they cannot pass on the entire increase in costs).

Chip shortage impacts: There is now a considerable shortage of semi-conductors on the global markets, which has also had a negative impact on car manufacturing volumes in 2021 and 2022, since automotive manufacturing has a high demand for integrated circuits. Although the chip shortage may abate after 2022, automotive industry companies may be faced with further shortfalls in the future (in the supply of raw materials for manufacturing electric cars).

Rising wages: The labour market may return to scarcity again following the economic recovery, which may lead to a rise in the costs of qualified labour in the CCE and Balkan regions covered by AutoWallis, weakening the company's profit generation capacity.

Elections in Hungary: Elections will take place in Hungary in the spring of 2022, which may increase risk aversion and cause significant volatility on the Hungarian asset markets.

Intensifying competition: More players could enter the market from 2022. The gradual rise in the number of dealership is likely, but based on the experience of the post-2008 period, we expect only a very gradual rise in the number of market players.

The transformation of the industry: The automotive industry is undergoing significant transformation, with a number of megatrends clearly visible, supported by changes in consumer demand, tighter environmental legislation and technological progress. Most industry outlook surveys predict a radical transformation to take place by 2030, driven by the spread of electric and alternative fuel vehicles, the emergence of self-driving cars and the shift of consumer habits towards online platforms. All these factors may result in more intense competition and lower sales volumes and margins for car merchants. The further tightening of environmental legislation and the response measures adopted by governments and local governments may accelerate these trends, necessitating even more proactive adjustment by the industry players (potentially demanding more capital investment and expenditure).

Ssangyong in bankruptcy protection: Ssangyong Motor Company, whose cars AutoWallis also sells, was unable to repay its debts to creditors on time and is, therefore, still under bankruptcy protection. AutoWallis is also exposed to the risk that the manufacturer's reorganisation plans do not yield the expected results; however, the management of the company believes that, even if that were the case, the car manufacturing operations could be salvaged in some form. AutoWallis has no claims on the company.

Stellantis: the company has recently announced that it will soon cancel all its brand dealership (retail) contracts within the EU, mainly because of the overhauling of industry regulations. This decision applies to AutoWallis's own (Opel) dealerships as well, but the Group considers this cancellation to be technical in nature. The cancellation does not apply to the OPEL wholesale contract concluded for a 5-year period.

Acquisition risks: AutoWallis has built its strategy partly on growth through acquisitions; the company is financing several of these acquisitions via the issuing of new shares. However, this carries the risk of adopting decisions that might damage shareholder value. In parallel with its fast growth via acquisitions, this relatively small company should prioritise organisational development as well, in order to prevent problems due to growing too fast over too short a timeline.

Changes in exchange rates: AutoWallis may incur realised and unrealised losses due to a sudden and significant depreciation of the HUF, even though the company actively hedges its currency exposures.

Accounting changes: The company has selected a new auditor (PWC) this year, which has resulted in several accounting restatements, reclassifications and re-presentations in the first half-year report.

Liquidity: The liquidity of AutoWallis's shares is relatively low at the moment; its shares trade with a volume of, on average, only approximately HUF 12 million a day, however the share is still one of the 15 most liquid shares on BSE. As a result, large-volume deals may cause substantive fluctuations in the share price. Although the company is working actively on increasing its free float, the majority shareholder still has significant holdings, which may lead to a disregard for the interests of small investors.

Capital increase: The company plans to raise capital between HUF 4-6.5 billion (which is 11.8-19.2% of the current market cap), with the participation of institutional and retail clients. Since the current share price is well below our fair value estimate, it could be a downside risk to our current target price.

Ownership structure

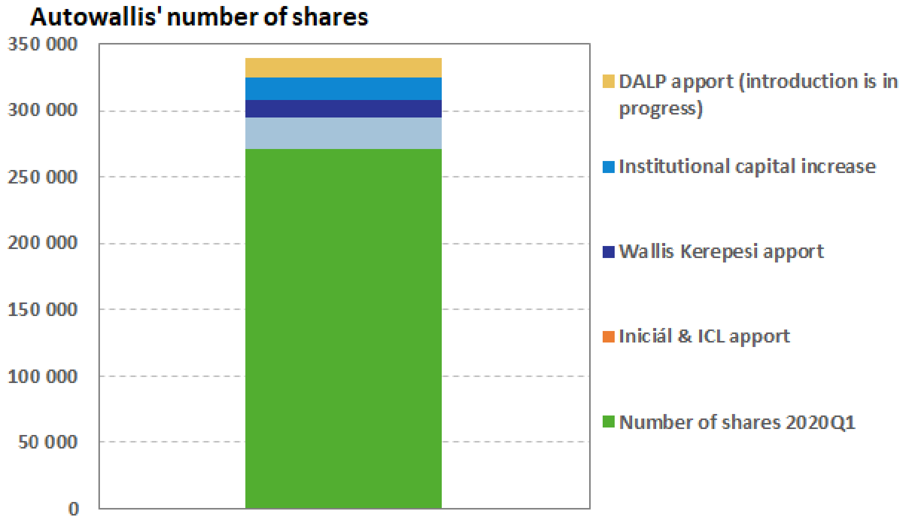
AutoWallis's biggest shareholder is Wallis Asset Management Zrt (WAM), which held 66% of the Company as at the end of 2020. Wallis Asset Management is an investment of one of the wealthiest Hungarian businessmen, Tibor Veres, whose portfolio includes, besides AutoWallis, important Hungarian companies such as:

- one of the largest privately owned Hungarian property developer firms, Wing,
- the electricity trader and complex energy services provider ALTEO, which is listed on the stock exchange and specialises in the exploitation of renewable energy sources,
- Graboplast, which is the largest manufacturer of interior flooring in Central Europe, and has a history of over 100 years,
- and Praktiker, one of the main DIY store chains in Hungary.

AutoWallis arrived on the stock market through a reverse takeover in 2018. In that transaction, a company formerly listed on the stock exchange under the name Altera Nyrt. was bought by Wallis Asset Management Zrt., which then contributed its four vehicle trading and services activities into the company.

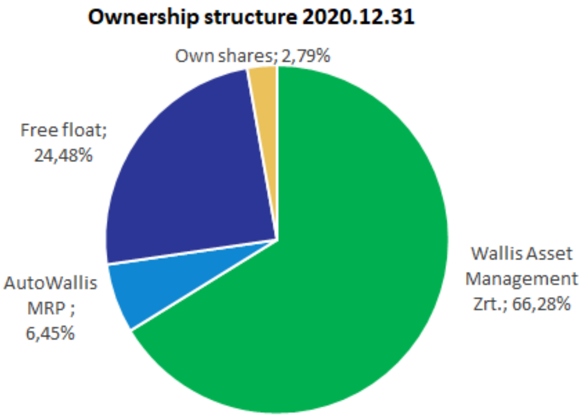
The company later raised its capital several times through private placement:

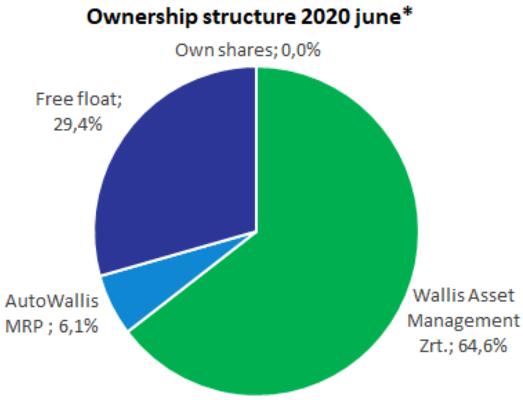
- At the time of its acquisition of (60% of) Iniciál Group, the company issued 23.6 million new shares in the summer of 2020, in two instalments, in return for the contributions in kind. The former owners of Iniciál obtained 13.59 million shares at a HUF 85.36 price and a further 10.05 million shares at HUF 86.4.
- AutoWallis paid for its takeover of Wallis Kerepesi in July 2020 by issuing 13.5 million shares of HUF 80 value each to the company controlled by the owner WAM and the management of the company.
- In December 2020, the company successfully completed an institutional private placement (Széchenyi Alapok, Generali Alapkezelő Zrt., Dialóg Befektetési Alapkezelő Zrt.), issuing 16.5 million shares at a price of HUF 83.
- In March 2021, WAM contributed in kind DALP Szolgáltató Kft (the company that owned the real estate of Wallis Motor Pest at the address Hungária krt. 95), which it owned in full; in return, it was given 15.4 million ordinary shares of AutoWallis with HUF 100 issue value.



Source: AutoWallis, OTP Multi-Asset Strategies

As a result of the capital increase in December 2020, the number of the company's shares listed on the stock exchange rose to 324.3 million, and to 339.7 million after the contribution in kind of DALP. Even after the capital increases, WAM's stake continues to be significant at 65%; however, free float is also increasing gradually, with the entry of (so far mostly) institutional investors and the former owners of Iniciál. Following the purchase of the company's own shares (7.9 million shares) by Generali Fund Management on 30 June 2021 at a price of HUF 93 per share, the public float after this year's transactions is close to the 30% level that the management has set as a target to be exceeded according to the strategy.





*OTP Multi-Asset Strategies' own calculation, based on the effects of the institutional capital increase at the end of 2020, DALP capital increase, own shares' transfer to the MRP, and the sale of own shares to Generali

Source: AutoWallis, OTP Multi-Asset Strategies

ESOP

The ownership structure also includes the ESOP (Employee Share Ownership Plan) organisation with over 6% of shares; AutoWallis launched the Plan in 2019 as an incentive for the 25 directors of the company. Directors can receive shares in the 2 or 3-year Plan if they have delivered on profitability objectives derived from the long-term strategy; they can sell these afterwards on a predefined schedule. The company's majority owner WAM provided the ESOP organisation with 19.87 million shares.

In the spring of 2021, the company introduced another remuneration policy within the ESOP framework; the necessary 700 thousand shares (representing 0.2%) were provided by the company from its own 8.6 million shares. The Plan has a 24-month term, and the remuneration policy participants (key directors of the Company) will receive the shares only if the set objectives have been met.

The management

Zsolt Müllner, Chairman of the Board of Directors: Between 1994-2004, Managing Director of Wallis Motor, BMW's primary distributor in Hungary, later Chairman & CEO of Wallis Auto Holding, from 2000 Member of the Board of Directors of Wallis Zrt. From 2007, CEO of Wallis Asset Management Zrt., concurrently appointed as Member of the Board of Directors of Graboplast Zrt. and WING Zrt. and later Chairman of Venturio Kockázati Tőke-alapkezelő Zrt. Decisive role in the creation of Alteo Nyrt., which is listed on the Budapest Stock Exchange, and Member of its Board of Directors ever since the company was first established.

Gábor Ormosy, CEO, Member of the Board of Directors: From 2004, CFO at Wallis Autó Holding, then as CEO worked on the reorganisation of the auto business line; later CFO of Wallis Group. In 2006, established MAG Zrt. (responsible for the administration of EU grants to SMEs) as a subsidiary of the Hungarian Development Bank and served as its CEO; later held various management positions at, among others, MKB Bank and Veolia Group

Gábor Székely, Chief Investment Officer, Member of the Board of Directors: Took part in establishing one of Hungary's most dynamically growing property investment firms, Appeninn Nyrt, in 2009, later heading the company. As CIO of AutoWallis, he is responsible for the capital market presence of the company, and capital market financing activity, identifying new investments for the Holding and for overseeing the transactions.

Andrew John Prest, Managing Director of Wallis Automotive Europe, Member of the Board of Directors: Worked at the regional headquarters of Xerox in Budapest, first as sales representative and later as marketing and regional sales manager. Later Managing Director and Head of Retail of Magyar Telekom's internet division (Axelero), then Regional Sales Director of Cisco Systems. Joined the Wallis automotive group in 2005, and has held his current position since.

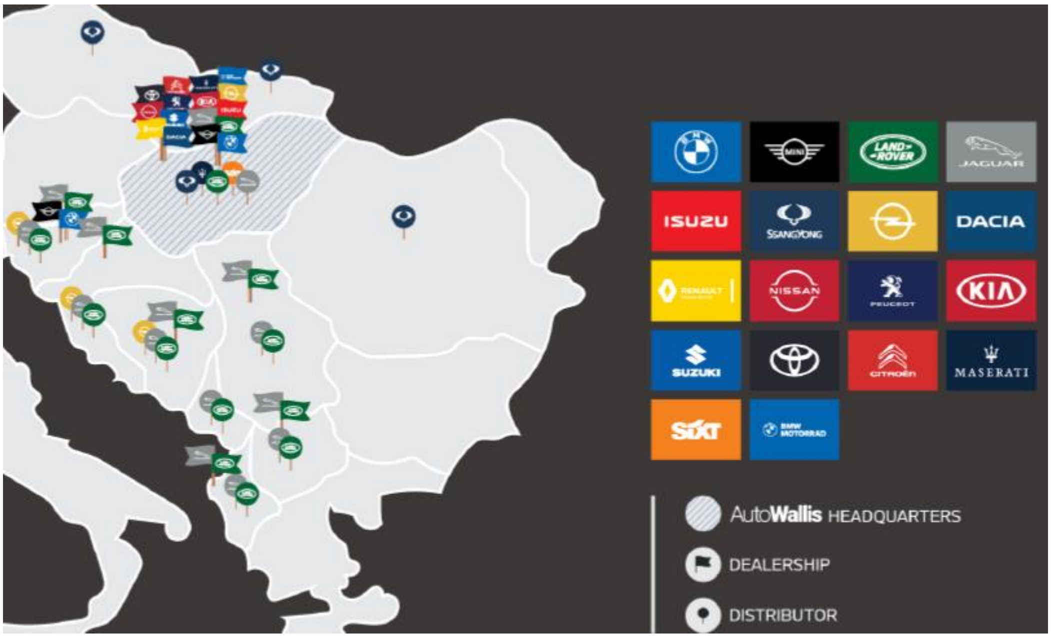
Péter Antal, Managing Director of Wallis Motor Pest and Duna, Member of the Board of Directors: Worked for the Wallis automotive group since 2003, initially as Managing Director of Globe Motor, leading the specialist BMW dealership. Had previously worked as Head of Marketing at Ricoh Hungary. Has represented Hungary in the European BMW Dealers

Association (EBDA) since 2012, and served as Chairman of the Hungarian Association of BMW Dealers since 2008.

Gábor Dévai, Managing Director of Wallis Autókölcsönző, Member of the Board of Directors: Started his career in the tourism sector in Switzerland and Luxembourg, and later gained substantial experience on the automotive services market. Between 2007 and 2013, worked as Managing Director of Wallis Autóparkkezelő Kft., which was responsible for the fleet management of nearly 2,000 cars under a Sixt Leasing franchise. Since 2019, Chairman of the Supervisory Board of the Hungarian Rent-a-Car Association.

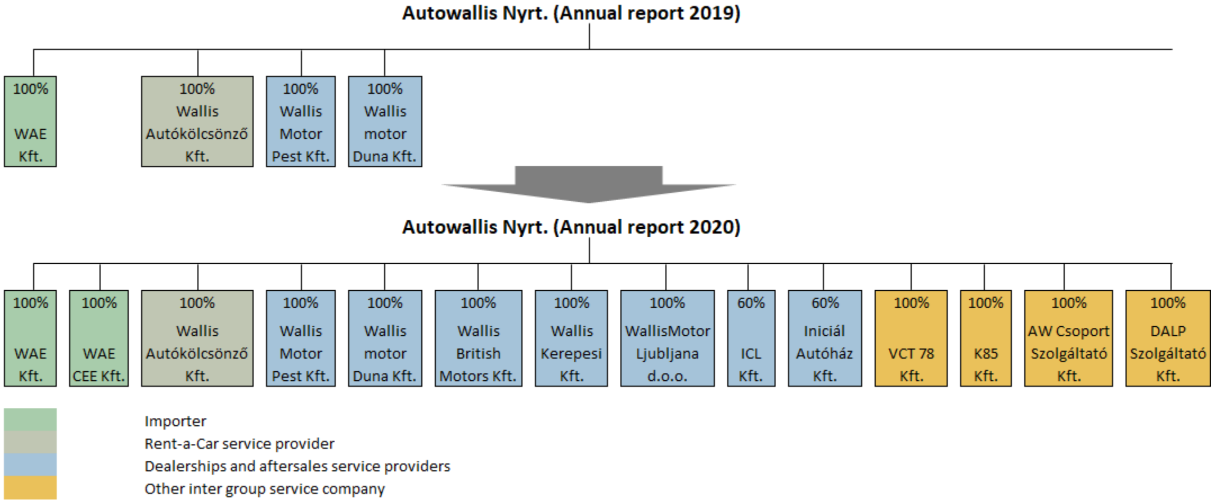
Business activities

AutoWallis is a dominant player in automobile trade and mobility services in the East-Central European region. The company provides vehicle and spare part retail and wholesale trade services as well as short and long-term car rental services in 14 countries. AutoWallis is present in Albania, Bosnia and Herzegovina, Bulgaria, Czech Republic, Kosovo, Montenegro, North Macedonia, Poland, Romania, Serbia and Slovakia, and considers Hungary, Slovenia and Croatia as its most significant markets. The company represents globally renowned brands such as BMW, Dacia, Isuzu, Jaguar, Land Rover, Maserati, MINI, Nissan, Opel, Peugeot, Renault, Ssangyong, Suzuki, Toyota and, in auto parts, Saab.



AutoWallis Nyrt., as the legal parent, acts as holding company (i.e. it has no (real) economic activities beyond holding shares and performing holding, organizing property development and financing activities); it owns the subsidiaries performing the real economic operations directly, in most cases via a 100% share. One exception is Iniciál Autóház and the associated ICL Kft; AutoWallis holds 60% in both. Since the company has a control right in all its subsidiaries, it consolidates their operations in full in its reports.

The company's strategic objective is to become the number one car dealership and mobility service provider in the East-Central European region; it intends to achieve this via organic growth coupled with substantive acquisitions. It took major business development steps in 2020, which resulted in a significant change in the Group's structure and an increase in the number of subsidiaries.



Source: AutoWallis, OTP Multi-Asset Strategies

The profiles of the subsidiaries in the AutoWallis portfolio:

Wallis Motor Pest and Wallis Motor Duna: Hungary's largest and longest-standing BMW car and motorcycle and MINI dealerships, which have added Maserati to their portfolio in recent years.

Wallis Autókölcsönző: offers short and long-term rent-a-car services as a Hungarian franchise partner for the international car rental company Sixt.

WAE and WAE CEE: Wallis Automotive Europe is responsible for the wholesale operations of the group; it sells the brands Isuzu, Jaguar, Land Rover, Opel and SsangYong in Hungary, and Ssangyong in Romania since 2012 and in the Czech Republic and Slovakia since 2018. In addition, WAE is the exclusive distributor of Jaguar and Land Rover vehicles and parts in 9 countries (Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Hungary, Montenegro, Serbia, Slovenia).

Wallis British Motors: sells the Jaguar and Land Rover brands in Hungary, opened its first dealership in Budapest in April 2020.

Wallis Kerepesi: Budapest dealership selling Opel cars since 1990, adding KIA sales in 2015, with a significant market share in both car makes.

Wallis Motor Ljubljana: the largest BMW dealership in Slovenia, located in central Ljubljana, selling and servicing BMW's and servicing MINIs.

Iniciál Autóház and ICL: West Hungary's dominant car dealerships, selling and servicing 8 car brands at four locations (Győr, Mosonmagyaróvár, Sopron and Szombathely).

VCT 78, K85 and DALP: companies owning and letting the real estate of the individual dealerships and salons. New Jaguar and Land Rover salon, which is under construction at Váci út 76-80 (VCT 78), Wallis Kerepes real estate (K85), Wallis Motor Pest real estate at Hungária krt. 95 (DALP).

AW Csoportszolgáltató: a company created to provide financial and other services to group members.

The number of AutoWallis's subsidiaries more than doubled in 2020, and this expansion is not over yet, as the company's strategic objectives include growth via further acquisitions. We have reached another stage in that process in the last couple of days, as the company agreed the takeover of **another Slovenian firm, Avto Aktiv** (the term sheet was signed late last year). The target is a major player on the Slovenian market, selling and servicing BMW, MINI, Jaguar, Land Rover, Toyota and Suzuki cars in five cities; it fit well into the AutoWallis profile.

Due to the completed acquisitions, the company introduced a new structure for reporting the performance of the segments from 2021 onwards. It used to report the key profit and loss statement rows and operating environment figures for its international and domestic operations as well as its automotive services, but now it subdivides its key data reporting into wholesale versus retail activities (the latter of which also includes the automotive services). Figures are available in the new structure for 2020 and 2019 but not for earlier years, and we are therefore unable to analyse the performance of those years in such a breakdown.

The AutoWallis business lines

I. Wholesale

This business line is responsible for the wholesale trade of vehicles and parts; AutoWallis represents automobile brands such as ISUZU, Jaguar and Land Rover, Ssangyong, OPEL and Saab. The company holds exclusive distributor rights in several countries in the region, including Albania, Bosnia and Herzegovina, Croatia, Czech Republic, Hungary, Kosovo, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia. With over 20 years of history as an independent vehicle wholesaler, Wallis Automotive Europe is the group member generating the highest sales revenue.

The wholesale business operates mostly at narrow margins and is considered a volumes-based business line. The company contracts with the major car manufacturers for the procurement of large quantities of vehicles/parts, which it then resells to its partners, typically independent dealerships.

Practices vary from manufacturer to manufacturer in terms of whether distribution is held in-house or contracted out to partners. These trends are changing all the time; however, given the multiple other future challenges facing car manufacturers, there is a possibility that they will be increasingly inclined to outsource their wholesale operations in the future (as has recently been the case with OPEL). This would enable them to focus on their car manufacturing, where the emergence of new technologies and the change in consumer expectations is likely to intensify competition. Also, the East-Central European and Balkan markets covered by AutoWallis are too small in size for the major manufacturers, which may therefore benefit from working with a partner familiar with the local circumstances.

The wholesale rights are put out to tender, and contracts are usually signed for periods of 3 to 5 years. The wholesale market tends to have fewer but larger players; in Hungary, competition comes from e.g. Emil Frey, as well as major German and Israeli operators. AutoWallis's strong position is demonstrated by its ability to take over last year the distribution of Jaguar Land Rover in Hungary and to win OPEL importer rights in 2020 for the territories of Bosnia and Herzegovina, Croatia, Slovenia and Hungary, which is a significant milestone and boost for growth for the company.

The role of wholesaler involves local brand marketing, inventory management and logistics, and the provision of the necessary interim financing support, as well as the coordination and optimalisation of these processes, which the company does at its head office in Budaörs and Zagreb. AutoWallis transports the vehicles to a centralised warehouse (in Győr), contracted by a third-party logistics company; and the vehicles are delivered to the dealerships from there.

The company may submit orders to manufacturers based on an advance survey of dealership demand, but it may also order based on its own estimates, without consulting with the dealerships in advance. The latter may be necessary in cases where the partner is located at a significant distance (e.g. Ssangyong), because long transportation journey times do not allow satisfying sudden increases in consumer demand.

The brands sold in the wholesale business line

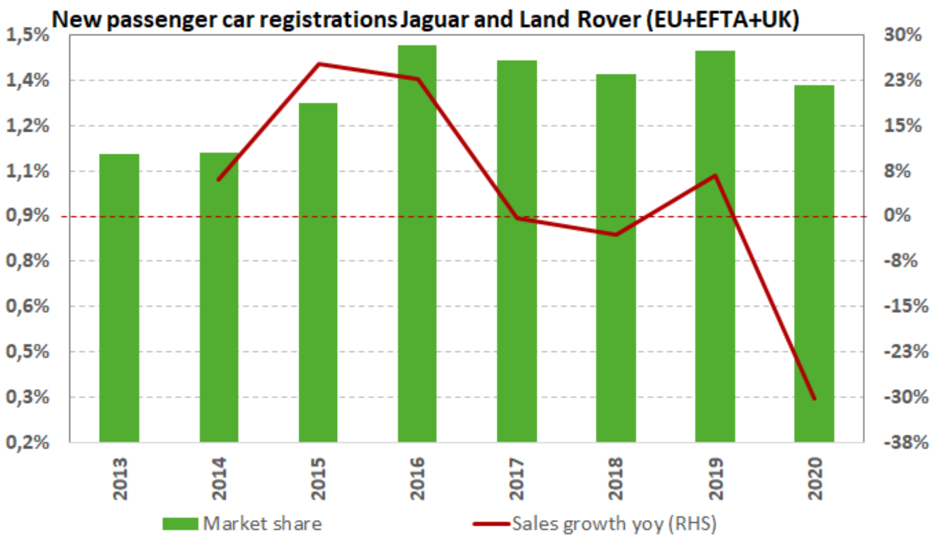
ISUZU: AutoWallis is the exclusive importer of ISUZU D-max pickups, which first entered the Hungarian market in 2010; the cars of this manufacturer are considered by the industry to be the most durable and reliable pickup trucks. It is perhaps not surprising, therefore, that it was the sixth most popular pickup truck in Europe in 2019, with a market share of approx. 8%. The new d-MAX model was launched in late 2019 and was well received; in Australia, the home of pickup trucks, it became one of the TOP10 pickups sold in November 2020, which is unprecedented. At the moment, ISUZU is available in 22 dealerships in Hungary.

Ssangyong: AutoWallis has been the Hungarian and Romanian wholesaler for the South Korean carmaker Ssangyong; in the autumn of 2018, the company entered the Slovakian and Czech markets too, where it grew quickly and was already dominating sales on the local markets by the end of 2019. The company introduced several new SUV models in Europe in recent years; for instance, it sold 70% more of the Korando model last year than in the year before, even as the sales figures of the previously very popular Tivoli model decreased significantly. Growth last year was similarly steep in Hungary as well; sales of this brand, which is known for its fundamentally favourable price-to-value ratio, increased by 56% in spite of the difficult market conditions.

Even though Ssangyong has been mostly successful in implementing its model updates, it failed to repay a debt in time on 21 December 2020 and filed for bankruptcy protection. This is not the first such event for the company: in 2010, it was saved by Indian carmaker Mahindra and Mahindra, which still owns 75% of the company. According to reports, Mahindra was not able to achieve the returns it wanted, and has actively searched for a buyer for its participation, so far unsuccessfully. In the meantime, it has been unwilling to provide additional financing to the company, and the 20% fall in the company's sales last year further aggravated the situation of the already highly indebted carmaker. The reorganisation processes are still underway, and their outcome will be decisive in the months ahead for the 5th largest car manufacturer in South Korea (based on market share in 2020). In the worst-case scenario, the company may be dissolved if the reorganisation process fails, but the management of AutoWallis is optimistic and believes that, even if that were the case, the car manufacturer (which is partly owned by the South Korean state, and financed by the public bank) would be salvaged in some form. AutoWallis has no claims on the company.

Saab: The manufacturing of Saab passenger cars ended with the company's bankruptcy in 2011; today, AutoWallis functions as wholesaler for Saab vehicle parts in the countries of the region.

Jaguar Land Rover (JLR): Jaguar Land Rover is the largest carmaker in the United Kingdom, with solid growth in sales in recent years, achieving an annual average growth rate of 9.5% on the European passenger car market between 2014 and 2019, substantively more than the 4.3% market average and even the 6% average growth achieved by the premium manufacturers (Audi, BMW, Mercedes, Porsche). Although last year's downturn affected the company more than the market as a whole (30% versus 24% on the entire market and 18% for premium manufacturers), these recent years may nevertheless be considered successful.

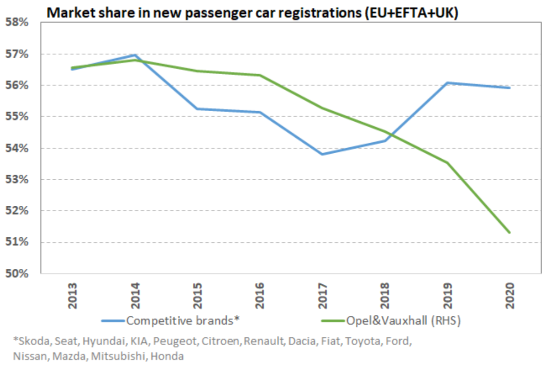


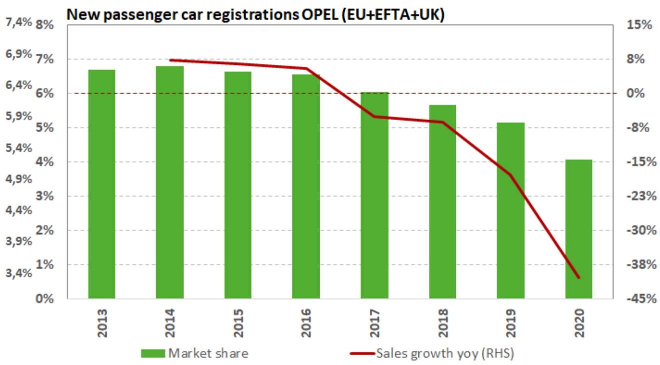
Source: ACEA, OTP Multi-Asset Strategies

In February 2021, the company formulated its new, long-term strategy under the headline Reimagine, aiming for zero carbon emissions by 2039 in response to the major transformations taking place in the automotive industry. The company plans to make all its Jaguar models available as electric drives by 2025, with Land Rover also planning to introduce several fully electric models over the next five years, while also investing in hydrogen cell powered motoring. The plans are ambitious but the company, which is owned by Tata Motors of India, also faces challenges. These include the fact that Jaguar achieves rather modest sales quantities compared to its peers and that its indebtedness is high and rose even further last year (Fitch downgraded the company twice last year). In view of the high future demand for investment, this must be seen as a clear risk.

AutoWallis has been the exclusive importer of JLR vehicles in Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia since 2016, with Kosovo also added to this list in the spring of 2019. Over the course of three years, the company doubled its market share in the Adria region and acquired exclusive wholesale rights for Hungary in April 2020. The management sees major potential in the Hungarian market, on par with all the other eight countries, with sales of 500+ vehicles a year. In 2020, there were 291 JLR vehicles put into operation in Hungary, which represented a decrease by 8.2%, similar to the premium segment as a whole.

Opel: Opel has implemented a number of reorganisation programmes in recent years, and its former owner General Motors sold the carmaker to PSA Group in 2017. PSA set itself ambitious targets, and the company has managed to achieve substantive profitability improvements in the years since then. It intends to continue that journey, aiming for further improvements by 2026. However, the significant cost cutting was coupled with a 1.7% average annual decrease in Opel passenger car sales in Europe between 2014 and 2019, and another below-market result in 2020, when it fell by 40%. The objectives include developing a more focused and streamlined model range and the introduction of alternative drives to reduce emissions. The company will be able to do so within the framework of an even larger group, because PSA has merged with Fiat this year to create the fourth largest carmaker in the world and exploit economies of scale under the name Stellantis.





Source: ACEA, OTP Multi-Asset Strategies

In 2020, AutoWallis was granted Opel importer rights in three regional countries (Croatia, Bosnia and Herzegovina, Slovenia) and Hungary. This contract is an important milestone for the company; after all, the carmaker sold 11,700 vehicles in the three regional countries and a further 12,500 in Hungary in 2019. This represents a growth by an order of magnitude over the total number of vehicles (3,980) sold by the company across its wholesale business line in 2020. Just as Opel underperformed in terms of sales figures across Europe, its passenger car sales also shrank considerably (~45%) in Hungary in 2020, coming in as the 9th most popular (having been fourth just a year before). Every seventh car in Hungary is an Opel, generating huge potential for the company in the wholesale trade of parts.

In addition to Opel importer rights, AutoWallis also took over the staff, paying a total of HUF 706 million for the associated companies. The company will have to pay a further approx. EUR 8.3 million over the next three years; the final sum will be determined based on the milestones achieved in the meantime. After being granted the rights as Opel importer, the company took over in that role only at the end of the year, so that the associated revenues (which the management estimates at around HUF 110+ billion in 2021) will be reported mostly from this year onwards. By contrast, a HUF 87.1 million was reported in expenditures in December last year, covering the costs of taking over the portfolio and preparing for the launch.

The performance of the wholesale business line

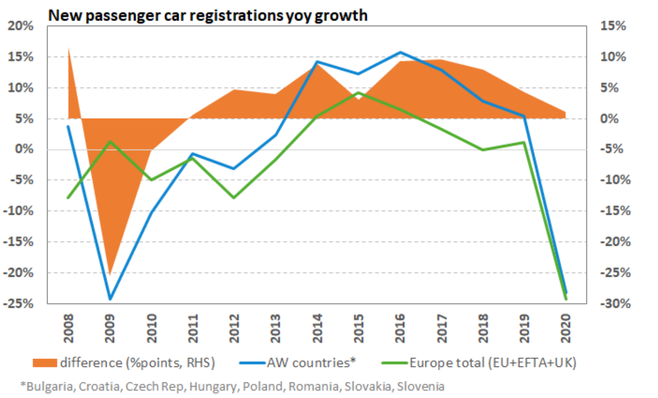
The wholesale business line is highly dependent on regional car sales trends and cycles; as a result, performance in this business line is more volatile overall. This is, of course, mitigated somewhat by the parts wholesale trade, which is a less volatile, more stable source of income, with margins that are orders of magnitude higher than is achieved on car sales by the company. However, their weight within revenues is a fraction of vehicle sales.

The wholesale business line sold a total of 3,980 vehicles in 2020, which represents considerable growth (34%). This very high rate of growth contrasts with the 23% contraction in regional car sales. The increase is attributable to the acquisitions as well as certain successful business development measures. Major factors contributing to this growth included earning the JLR exclusive Hungarian importer role in April 2020 and solid performance by Ssangyong on the Czech and Slovak markets, which was also coupled with a boom in sales on the Hungarian market.

New car registrations in Autowallis' countries (units)

	2018	2019	2020	Change 2019	Change 2020
Albania	3348	3 426	2 722	2,3%	-20,5%
Bosnia-Herzegovina	9690	8 758	6 581	-9,6%	-24,9%
Bulgaria	34 332	35 371	22 368	3,0%	-36,8%
Czech Republic	261437	249 915	202 971	-4,4%	-18,8%
North-Macedonia	4998	5 655	4 840	13,1%	-14,4%
Croatia	59856	62 975	36 005	5,2%	-42,8%
Kosovo		n/a	n/a	-	-
Poland	531889	555 598	428 347	4,5%	-22,9%
Hungary	136594	157 900	128 021	15,6%	-18,9%
Montenegro		n/a	n/a	-	-
Romania	130919	161 562	126 351	23,4%	-21,8%
Serbia	22677	27 515	20 841	21,3%	-24,3%
Slovakia	98080	101 568	76 305	3,6%	-24,9%
Slovenia	72835	73 193	53 694	0,5%	-26,6%
Total	**1 332 323**	**1 443 436**	**1 109 046**	8,3%	-23,2%

Source: ACEA, Datahouse, Carinfo, Autowallis



Source: ACEA, OTP Multi-Asset Strategies

Although the quantities sold rose steeply, revenues in the segment grew by the more modest rate of 7.4%. This also reflects the negative effects of the coronavirus pandemic, even if performance is still substantially higher than the market average. Revenues have grown more slowly than quantities due to a shift in the product mix towards smaller vehicles (which have a lower average sales price) as well as the smaller margin achievable on fleet sales. Faced with a fall in demand due to the pandemic, the company was forced to cut prices to prevent inventories from building up; this had the one-off result of in deteriorating margins, while sales quantities remained high. All these factors led to the decrease of the break-even point from 10.2% in 2019 to 8.3% in 2020. The weakening of the company's ability to generate liquidity may be considered a one-off phenomenon, which we expect to be reversed with a rebound in the economy and the expected resulting uptake in car sales.

Wholesale Business Line (HUF thousand)	2019	2019 NORM	2020	2020 NORM	CHANGE	Var NORM
Sales revenue	35,865,556	35,865,556	38,527,340	38,527,340	7.4%	7.4%
COGS	–32,209,244	–32,209,244	-35,322,873	-35,322,873	9.7%	9.7%
Opel importer launch costs				-87,130	-	-
EBITDA	**1,147,219**	**1,147,219**	**627,493**	**714,623**	**-45.3%**	**-37.7%**
Unrealised revaluation loss adjustment	3,942	3,942	0	-261,746	-	-
Opel importer business depreciation, interest	0	0	0	-3,170	-	-
Pre-tax profit/loss	**816,165**	**812,223**	**-207,730**	**144,315**	**-**	**-82.2%**
Break-even %	*10.2%*	*10.2%*	*8.3%*	*8.3%*		
Pre-tax profit/loss / Revenues %	*2.3%*	*2.3%*	*–0.5%*	*0.4%*		
EBITDA margin	*3.2%*	*3.2%*	*1.6%*	*1.9%*		

Source: AutoWallis, OTP Multi-Asset Strategies

Some factors may, however, exert a negative influence on the longer term too, such as, for instance, the predicted decrease in subsidies for the major capex needs of the car manufacturers (which will increase their costs); AutoWallis wishes to offset this with volume growth.

EBITDA generation fell by 45.3%, to HUF 627.5 million in 2020 as a result of the deterioration in liquidity generation capacity; one-off items also contributed to this, however. One such item was the initial spending associated with being granted the OPEL wholesale contract, the pro-rata personnel expenditures associated with the staff taken over, some of which were reported already in 2020 (HUF 87.1 million), whereas revenues are expected to rise only from 2021 onwards. The impact of the new staff required to launch Jaguar Land Rover wholesale operations in Hungary is also reflected in the figures, while the full revenue potential will be realised only at a later date. As a cumulative result of all of the above, the EBITDA margin shrank from 3.2% in 2019 to 1.6% in 2020.

In its wholesale business line, the company's purchases from car manufacturers are denominated in foreign currency (mainly EUR), and it resells the items to retailers on its regional markets, where its contracts are also denominated typically in EUR. On the Hungarian and Czech markets, however, it contracts with retailers are in the local currencies. The company hedges the resulting currency exposures actively. Nevertheless, the substantial weakening and volatility of the HUF exchange rate last year caused it significant financial losses; of this, substantial unrealised losses, for a total of HUF 261.7 million, were attributable to the weaker year-end HUF exchange rate combined with the revaluation of outstanding inventory financing debts and future liabilities related to the assumption of Opel importer rights. Without these items, the 2020 normalised pre-tax profit shrank to HUF 144.3 million (-82.2% yoy), but after unrealised financial losses a loss of HUF 207.7 million is reported in this row.

II. Retail

The Retail Business Line comprises two major lines of operations. Firstly, the company sells new and used vehicles and parts and, secondly, it offers automotive services, comprising repair services as well as short-term and longer-term car rental.

New and used vehicle sales

The AutoWallis Group sells factory new Isuzu and Ssangyong vehicles, BMW passenger cars and motorcycles, MINI, Maserati, Jaguar and Land Rover, Opel, KIA, as well as Renault, Dacia, Nissan, Peugeot, Toyota, and Suzuki passenger cars and parts, and is also a distributor of used passenger cars, motorcycles and parts in Hungary and Slovenia. The company used to focus on selling premium brands, but added a number of volume manufacturer brands through its acquisitions last year. The Hungarian dealership market is rather fragmented, but AutoWallis has a dominant position on the markets of some of the makes (e.g. BMW, JLR).

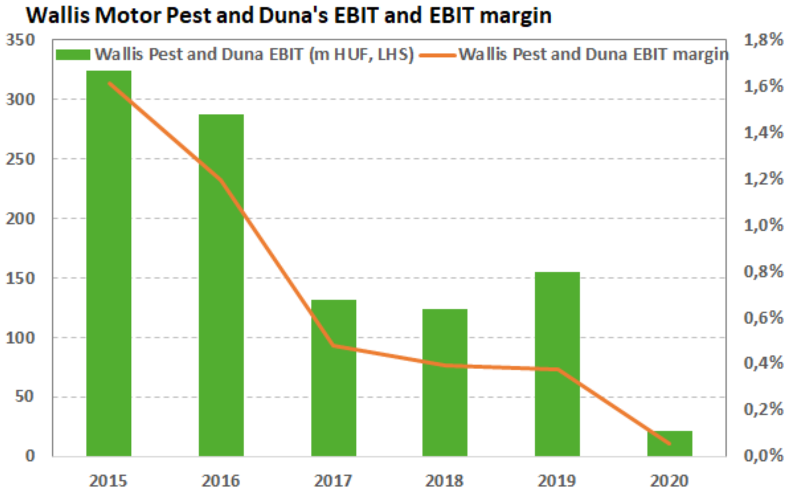
Premium manufacturers

Wallis Motor Pest and Duna are the largest and longest-standing BMW car, motorcycle and Mini dealerships in Budapest, becoming independent firms in 2001 after operating as the leading Wallis Motor dealerships. In addition to the BMW brands, the luxury brand Maserati was also added to the portfolio last year, with a new, exclusive showroom. Wallis Group started selling the BMW brand in Hungary more than 20 years ago and, with a 40% share of the market, it still has the highest sales volumes in this country.

It opened a new unit in 2019 at an address in Könyves Kálmán körút; this serves as the used car sales entity for the Wallis Motor Pest and Duna dealerships. Here, 60 used premium category vehicles are on offer at all times, from own inventories, there are no on-commission sales. In 2018, the two showrooms sold 550 used cars, so that used car sales represented as much as 18% of revenues.

Located at Hungária krt. 95 on a useful floor area of 5,000 square metres, the Wallis Motor Pest centre is one of the most modern and largest BMW dealerships in East-Central Europe, built with the manufacturer’s latest architectural and technical standards as well as environmental protection criteria (an in-house solar plant supplies 30% of the energy needs of the dealership). In the first quarter of 2021, AutoWallis acquired DALP Szolgáltató Kft, whose only operation is the renting out of the dealership it owns. Independent valuation as at 19 February put the fair market value of DALP’s 100% share at HUF 1.54 billion, for which the former owner Wallis Asset Management Zrt. was given 15.4 million of AutoWallis Nyrt’s ordinary shares, with HUF 100 nominal value each.

The two companies (Wallis Motor Pest and Duna) were able to increase their revenues between 2016 and 2020 by an average of 15% a year, but the reports drawn up under the Hungarian Accounting Standards show a decreasing trend in operating profits. As a result, the operating profit ratio fell from above 1% in 2016 to levels below 0.5% in recent years. Although revenues contracted by only 2.9% in 2020, i.e. less than was the overall trend on the market, the significant cost items characteristic of retailers have generated a certain degree of pre-tax loss for the companies.

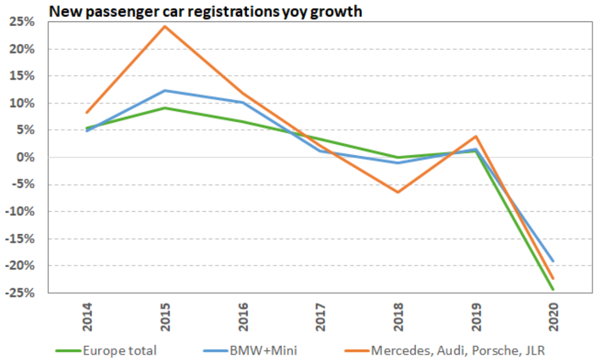


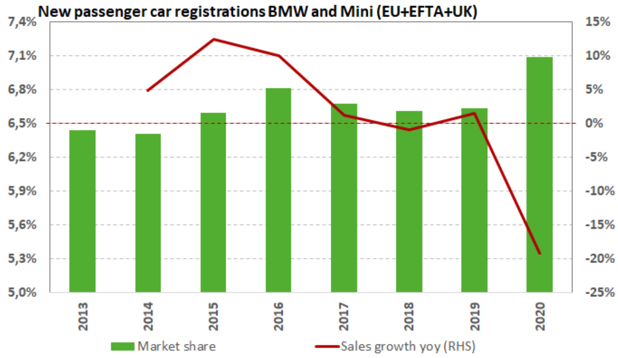
Source: e-beszamolo.hu, OTP Multi-Asset Strategies

In July 2020, AutoWallis bought Ljubljana's only, centrally located BMW dealership and service centre for a price of HUF 2.67 billion. The property associated with the dealership has not been acquired by the company, but is leased on a long-term basis from the owner, WAM. The BMW dealership in Ljubljana is the largest in the country and has been in operation since 2006; it sells and repairs BMWs and repairs MINIs. In 2019, there were 742 BMW cars put into operation in and around the Slovenian capital, with 1,560 cars sold in the entire country. This shows that, by acquiring the Ljubljana unit, the local AutoWallis subsidiary **WallisMotor Ljubljana** has gained a significant share of the BMW retail market since taking over these operations in October 2020; it plans to boost the sales figures even further in the future. The transaction had limited impact on revenues in 2020, but will contribute in full to the Group's performance in 2021; the management puts the revenue potential to above HUF 12 billion.

And this is not yet the end of expansion in Slovenia, the company recently announced the acquisition of **Avto Aktiv**, which sells and services BMW, MINI, Jaguar, Jaguar, Land Rover, Toyota and Suzuki vehicles in five Slovenian cities (Koper, Kranj, Ljubljana, Nova Gorica and Trzin). AutoWallis will again add a major BMW and exclusive Jaguar, Land Rover and MINI dealership, selling 960 new and 351 used cars in 2020, with sales of EUR 51 million. The purchase price to be paid for the company is not disclosed, AutoWallis will cover the transaction from its own resources.

BMW: In terms of the number of cars sold, this is the largest premium car manufacturer in Europe. According to ACEA's figures, the manufacturer sold 674,600 BMW and 172,800 Mini cars, i.e. a total of 847,500 passenger vehicles in 2020, while among its competitors Daimler sold 765,400, and Audi and Porsche a combined total of 674,000. Between 2014 and 2019, the company increased its European sales by 4.8% a year on average, which is higher than the total-market expansion of 4.3% but falls short of the 7.3% growth in the premium manufacturing segment (Mercedes, Smart, Audi, Porsche, Jaguar, Land Rover). As markets contracted in 2020, the manufacturer reported a decrease of 18.8%, which is more favourable than the 24% across the market and 22% in the premium segment. As the combined result of the above, the company has been able to consistently increase its market share, which reached as much as 7.1% in 2020.





Source: ACEA, OTP Multi-Asset Strategies

The company has been active in introducing new models and model updates in recent years, and these changes had a more significant impact on its revenues in the 2018-2020 period than was the case with Audi or Mercedes. However, its competitors are entering a more intensive model updating cycle in the years ahead, and BMW may be able to catch up with its competitors again by about 2024. BMW is in a stronger position than its peers on the SUV market, which offers greater growth potential; this segment generates more than 40% of its revenues, whereas the relevant figure ranges between 30-40% for its competitors.

Increasing the weight of alternative fuel vehicles is a priority within the future strategy of the company, as it intends to have electric vehicles represent more than a quarter of its sales by 2025. Among German carmakers, BMW has been a pioneer in this respect, introducing its i3 and then its i8 models in 2013; however, the companies are faced with increasing competition from new market entrants as well. BMW continues to invest regularly in development but its German competitors have caught up with it in that respect; in fact, their future plans indicate that they may even overtake BMW in terms of the speed of their investments. Still, its electric range continues to expand with the launch of the ix, ix3 and i4 models in 2021, to be followed by other models in 2022 and in subsequent years (e.g. x1, and the 7 series with electric drive). According to IHS forecasts, BMW may have a 3% share of electric car sales in 2022 and may maintain that ratio until 2025. By contrast, Daimler may have a market share of around 5%, while Volkswagen's highly decisive plans and actions may help it achieve an increasingly high share of around 18% by 2025.

BMW is also responding to the other great challenges of the automotive industry, such as the increased expansion of mobility service providers (Uber, Lyft) and the digitalisation of vehicles (where the major technology companies such as Apple may enjoy a significant advantage in terms of software development). The company has a large number of cooperation agreements both within and beyond the industry, and its cars are already equipped with many innovative technologies.

BMW is in a financially solid position even if operating profit ratios fell to unprecedented depths in the automotive industry last year due to the pandemic. Its large investments into research and development in recent years might yield their results in the period ahead, which is why the management has set the target of 6-8% for the operating profit ratio for 2021 and, on the medium term, the company hopes to return to its long-term average levels of 8-10%.

In spite of a difficult year in 2020, the company's free cash flow generation matched its long-term average at around EUR 3.4 billion, and plans to be able to achieve over EUR 3 billion on the long term as well.

BMW is the second most popular premium brand after Mercedes in Hungary. In 2020, sales fell by 5.4%, i.e. much less than the 19% contraction on the market overall (3514 vehicles), and sales growth since 2018 has been the strongest among the major premium manufacturers (BMW: 11.9%, Mercedes: 7.4%, Audi: -14%). The most popular models are the 3 Series, followed by the x5, the x3 and the 5 Series. Even though there was a significant fall in Mini sales in 2020 (by 13.7%, with 366 vehicles sold), sales quantities have increased by 37% since 2018.

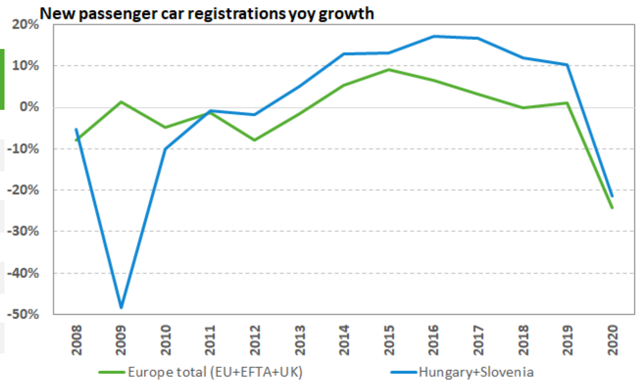
New vehicle registrations in the premium segment, Hungary (units)					
	2018	2019	2020	Change 2019	Change 2020
Mercedes	4 419	4 883	4 747	10,5%	-2,8%
BMW	**3 140**	**3 714**	**3 514**	**18,3%**	**-5,4%**
Audi	2 229	2 538	1 916	13,9%	-24,5%
Volvo	1 814	2 201	2 209	21,3%	0,4%
Lexus	751	771	700	2,7%	-9,2%
Mini	**267**	**424**	**366**	**58,8%**	**-13,7%**
Land Rover	**151**	**195**	**198**	**29,1%**	**1,5%**
Porsche	160	178	249	11,3%	39,9%
Jaguar	**183**	**122**	**93**	**-33,3%**	**-23,8%**
Összesen	**13 114**	**15 026**	**13 992**	**14,6%**	**-6,9%**

Source: Autowalli, OTP Multi-Asset Strategies

While premium cars represented 10.6% of total sales in Hungary in 2020, the ratio is lower in Slovenia (7.3%), comparable to the 2018 figure (7.8%). Slovenia's new car market is half the size of the Hungarian market, and even the premium manufacturers were unable to keep their sales up: there has been a 31% decrease since 2018, which is slightly higher than the decline on the market as a whole. Sales of the BMW brand fell by a similar rate (31.7%).

Share of premium segment in new vehicle registrations by country	2018	2019	2020
Czech Republic	7,6%	7,8%	8,8%
Croatia	8,6%	8,6%	10,5%
Hungary	9,6%	9,7%	10,6%
Romania	6,8%	7,2%	7,3%
Serbia	12,9%	12,6%	12,9%
Slovakia	9,4%	8,6%	9,2%
Slovenia	7,8%	6,9%	7,3%
Total	-	**4,8%**	**5,2%**

Source: ACEA, S.C.A.P.I.A. Consult, ZAP, Autowallis



Source: ACEA, OTP Multi-Asset Strategies

Jaguar Land Rover: AutoWallis Group member Wallis British Motors opened its new Jaguar Land Rover dealership in Budapest in April 2020 and has further expansion plans for the years ahead, including opening dealerships in cities across the country. As part of this expansion drive, in July 2020 the company purchased Appeninn Nyrt's 100 percent share in VCT78 Kft., which owns the real estate already operating as a car showroom and car point at Váci út 76-

80; it paid for it with HUF 100 million in cash and by taking over the seller's bank debt. The net asset value of the property was appraised at HUF 203.6 million, so HUF 103.6 million negative goodwill was charged against profits. Located on a 6,500-square-metre plot, the 2,700-square-metre structure will be converted by AutoWallis, which intends to open the new Jaguar and Land Rover showroom in 2021.

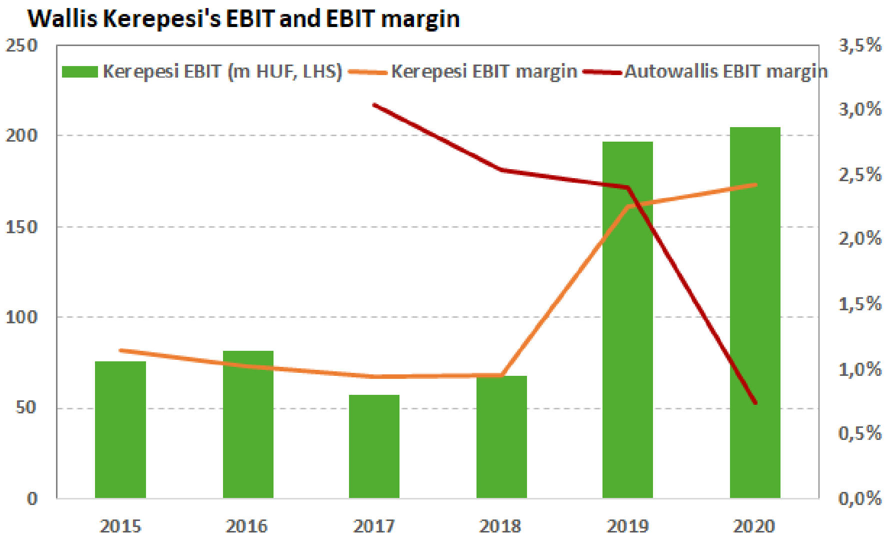
Volume manufacturers

In 2020, AutoWallis added to its portfolio dealerships that hold substantial positions on the Hungarian market and are focused on selling and servicing new and used vehicles of volume manufacturer brands.

Wallis Kerepesi

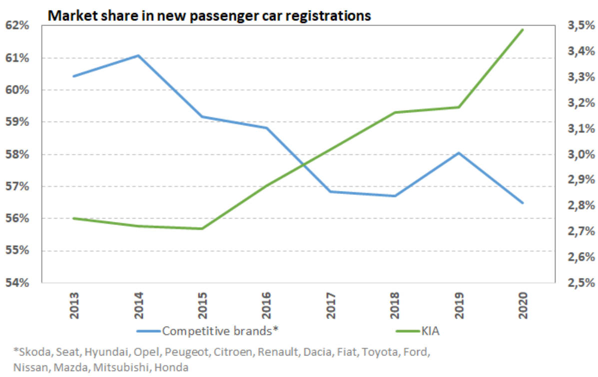
In July 2020, the company acquired Wallis Kerepesi, which was sold to it by Wallis Asset Management (60%) and TT Automobil Kft (40%), which is owned by the management of the company. The company also purchased the real estate housing the dealership (7,000 sq. m. plot, 3000 sq. m. building and a repair shop with 13 bays); facility management services are provided by K85 Ingatlanhasznosító Kft. AutoWallis paid the HUF 1.08 billion total purchase price by issuing 13.5 million shares of HUF 80 each.

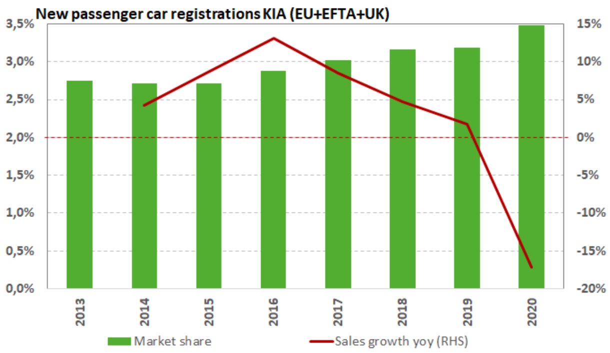
Wallis Kerepesi has been selling and servicing OPEL models since 1990 and KIA since 2015, and is one of the most successful Hungarian car dealerships of recent years. In 2019, it sold 903 OPEL vehicles and was the largest operator on the market with a 6-7% share; it is similarly dominant in KIA sales, where it is ranked as the third largest, with 762 cars sold and a 10-12% market share. In addition to its new car sales, the dealership also sold 541 used cars; with services also included, it earned HUF 8.7 billion in revenues in 2019 and employed 65 persons. Revenues have grown dynamically in recent years: figures available on the e-beszamolo.hu website indicate average annual growth of 9% in revenues and 47% in operating profits between 2016 and 2019, and performance well above the market average even in 2020, when its revenues decreased by only 3.5% and operating profits rose by the same rate. The company used to report much lower operating profits than AutoWallis, but achieved an almost identical margin in 2019 and a much higher margin in 2020.



Source: e-beszamolo.hu, OTP Multi-Asset Strategies

KIA: We discuss OPEL, the other brand sold by the dealership, in our segment on the wholesale operations. KIA is the oldest and currently second largest carmaker in South Korea; with its global presence, it is one of the major car manufacturers of the world. The company collaborates closely with Hyundai, the other major South Korean manufacturer; the latter is also KIA's largest shareholder, with a third of its shares. KIA started to expand in Europe in 2003, resulting in substantive sales growth from 2008 onwards. Today, the two South Korean manufacturers combined sell as many cars in Europe as BMW. KIA sales rose by 6.8% on average every year in the period from 2014 to 2019, faster than the 4.3% market average, and its 17.1% contraction in 2020 was also somewhat lower than the total-market average. As a combined result of the above, KIA's share of the European market climbed from 2.8% in 2013 to 3.5% in 2020, unprecedented in the history of the company.





Source: ACEA, OTP Multi-Asset Strategies

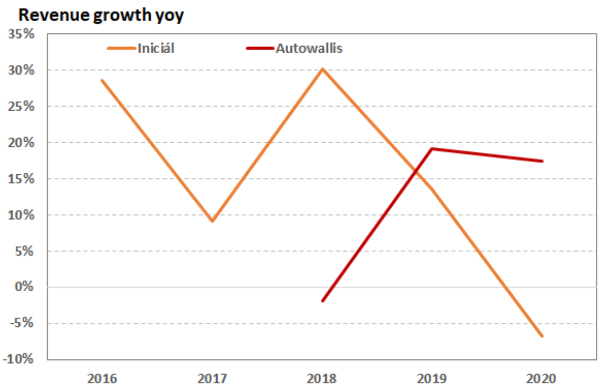
In recent years, KIA has been offering a constantly expanding range of models in Europe, and the company's strategic plans adopted in early 2020 indicate that it intends to continue doing so. It wants to have 11 electric models in its offering by 2025, with alternative drive cars representing a fifth of its sales in Europe. It also plans huge investments in mobility services and autonomous driving. Even with its major capex plans, it is targeting a 6% operating profit ratio by 2025, i.e. it wants to balance growth with profitability.

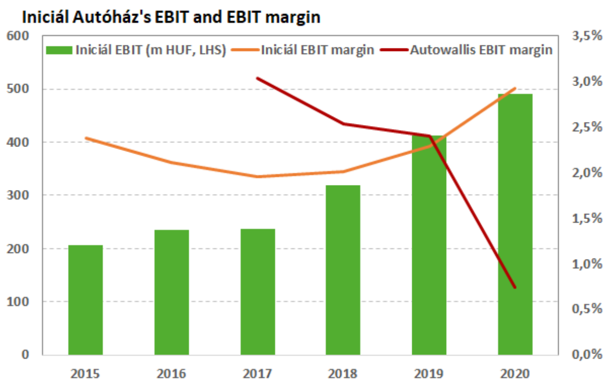
In recent years, KIA has become very popular in the Hungarian market as well, ranking as the 10th most popular manufacturer with 6,293 cars sold in 2020. KIA thus had a ~4.9% market share last year, larger than in Europe as a whole. KIA's electric SUV e-Niro was the fully electric vehicle sold in the highest quantities in 2020.

Iniciál Autóház and ICL Autó

Iniciál Autóház has a history of 25 years, employs 115 people and sells and services seven car makes (Dacia, Nissan, Opel, Peugeot, Renault, Suzuki and Toyota) at four sites (Győr, Mosonmagyaróvár, Sopron and Szombathely) today. The company sold more than 3,500 new and used vehicles in 2019 and provided repair services for the brands it sells. Group member ICL Autó Kft. started operating in February 2020 in Szombathely, initially selling and servicing KIA vehicles, to which it might add other brands in the future.

The company's founder Zsolt Taródy is the managing director and strategic decision-maker of Iniciál Group. Under his leadership, Iniciál has achieved average annual growth of 15% in revenues and 20% in operating profits between 2015 and 2020. As a result, the company's HAS statements for 2020 indicate HUF 16.8 billion net revenues, HUF 490 million operating profits and HUF 462 million pre-tax profits. The company's operating profit ratio was 2.3% in 2019, comparable to AutoWallis's 2.4% figure, while its more stable profit generation in 2020 earned it an operating profit ratio that was higher than across the group as a whole. Following the transactions, Iniciál's figures have also been included in AutoWallis's financial reports since December 2020.





Source: e-beszamolo.hu, AutoWallis, OTP Multi-Asset Strategies

This acquisition has added brands with dominant positions in the fleet markets to the mostly premium brand offering of AutoWallis. The makes sold by Iniciál include the two most popular ones in Hungary, namely Toyota and Suzuki. According to figures from Datahouse, **Suzuki** sold 14,783 vehicles in Hungary last year; although this represents a 42.6% fall year-on-year, which is well above the average on the Hungarian market, but still translating to a market share of 11.5%. **Toyota** ranked second in terms of market share (nearly 10%); moreover, reexported cars are not included in the statistics in their case, which produces a much clearer picture of its position compared to the other brands. Thanks to its successful new model range, Toyota has been able to increase its sales by 15.5% in one year in spite of a difficult market.

Other volume manufacturers had no reason to complain in 2020, either: **Dacia** was the fourth most popular brand in Hungary, with a share in excess of 8% and a year-on-year contraction in sales by only 1%, thanks to the solid performance of its Lodgy and Duster models. **Renault** just about made it into the top ten in the sales rankings last year, but **Peugeot** and **Nissan**, two other brands sold by Iniciál, were unable to do so.

AutoWallis signed a cooperation agreement with the founder of Iniciál Group in late 2019; then, in the summer of 2020, it acquired a participation in the company (Iniciál Autóház Kft. and ICL Autó Kft.) in two steps, up to a total of 60% stake (this is inclusive of the real estate housing the dealerships). As the first step, the company bought a 40% share worth HUF 1.16 billion from Iniciál's financial investor (DC-INI Vagyonkezelő Kft) in July, raising capital through contribution in kind. To this end, it issued 13.59 million AutoWallis shares at a HUF 85.36 price, with AutoWallis guaranteeing to purchase 8,589,503 shares at a HUF 93 price and the former financial investor in Iniciál making the following commitments regarding the remaining 5 million shares:

- ordinary shares may be sold only after 31 May 2021;
- the annual quantity sold must not exceed one third of the ordinary shares (this is 4.53 million shares, which is equal to 15.8% of the number of AutoWallis shares traded in 2020);
- there is a cap on the quantity permitted to be sold on any given day, equal to 20% of the 180-day average daily liquidity;
- the minimum selling price must be 85% of the 30-day average price, with the proviso that no offers to sell may be made at 10% below the opening price on the market day;

Then, in August 2020, AutoWallis acquired from Taródy Operatív Kft. a further 20% stake in Iniciál Autóház Kft (and paid the purchase price arrears for ICL Autó's 60% share), at a value of HUF 868 million, via a capital increase by contribution in kind. The contribution-in-kind price of the 10,049,568 new privately issued AutoWallis shares is HUF 86.4. In respect of the share package it received as contribution in kind, Taródy Operatív made the following commitments valid until 31 May 2025:

- it shall not be entitled to sell the shares until 31 May 2022,
- after 31 May 2022, the conditions described in the four points above and accepted by DC-INI, will also apply to Taródy Operatív:
- the Issuer will have a right of pre-emption, which it may exercise in an OTC deal; further, Taródy Operatív Kft. has a selling option and the Issuer a buying option for 50% of the shares in the period after 31 May 2022 and before 31 May 2026.

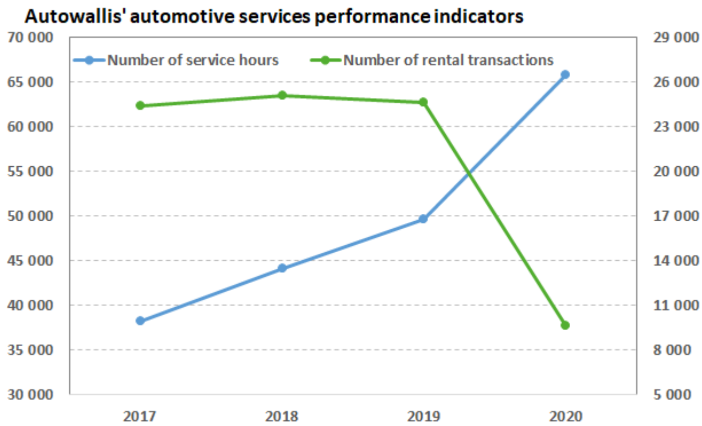
Automotive services

AutoWallis reports its automotive services in its retail business line; these services include repair as well as short and long-term car rental services.

Repair and servicing

AutoWallis Group offers a comprehensive repair and supplementary service package for all the brands it sells in its retail operations in Hungary. Its automotive services include the comprehensive repair and servicing of BMW, MINI passenger cars and motorcycles, Maserati passenger cars, ISUZU vehicles, and Jaguar and Land Rover vehicles, to which the brands sold by Wallis Kerepesi and Iniciál Group were added last year, following the acquisition of those entities. Today, the company provides repair and servicing at 5 locations in Budapest and 4 locations outside of Budapest, and, following last year's acquisition, in Ljubljana as well, which will be extended from this year to include Slovenian cities covered by Avto Aktiv.

The group's service facilities operate at high utilisation rates, servicing hours rose by 20% on average per year over the past three years. The acquisitions have, of course, been an important contributing factor and without them, last year would have been much weaker due to the lockdown measures introduced during the pandemic, which also substantively reduced the demand for servicing. However, the company achieved considerable growth of 15.4% and 12.6% in 2018 and 2019, respectively, neither of which years were impacted by either a pandemic or acquisitions; this is very important because repair services generate margins much higher than the average of its operations overall, i.e. this is where it is able to produce genuine added value.



Automotive services	2017	2018	2019	2020
Number of service hours	38 220	44 099	49 640	65 823
growth, yoy		*15,4%*	*12,6%*	*32,6%*
Fleet size for car rental (units)	499	535	592	425
growth, yoy		*7,2%*	*10,7%*	*-28,2%*
Number of rental transactions	24 372	25 059	24 619	9 616
growth, yoy		*2,8%*	*-1,8%*	*-60,9%*
Number of rental days			139 437	101 405
growth, yoy				*-27,3%*

Source: Autowallis, OTP Multi-Asset Strategies

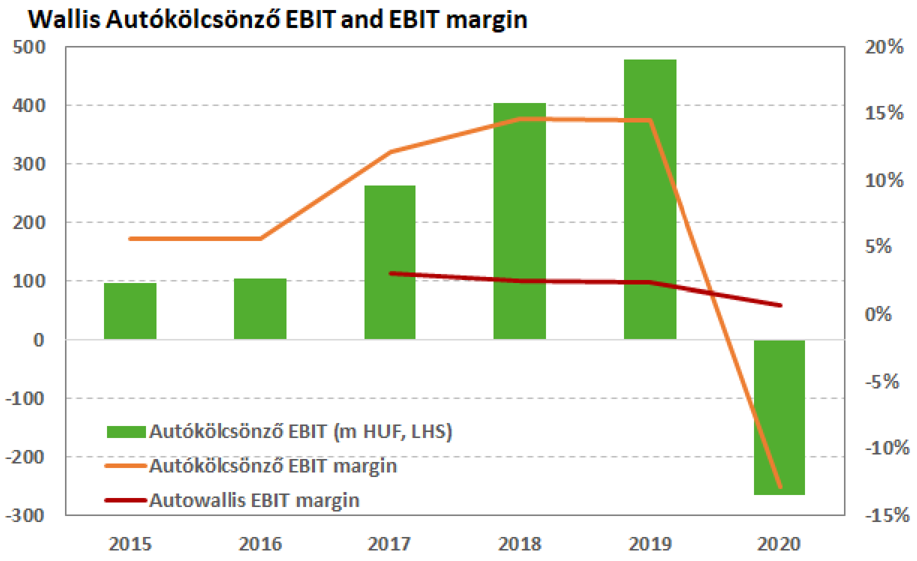
Short and long-term car rental

AutoWallis Group is a Hungarian franchise partner in the international Sixt Rent-a-car global network, offering mobility services via its subsidiary Wallis Autókölcsönző Kft. After Sixt entered the Hungarian market in 1999, the company initially had a fleet of 30 cars, which has grown over the years and, during certain periods, even exceeded 1,000 vehicles. Over time, the service offering has been continually expanded: customers can now access a mobility platform and application that is available in nearly 120 countries; the FlizzR car rental brand, which offers an attractive price/value ratio, has been added to the range and there is now a separate business line to operate Sixt Limousine Service, which is a premium passenger transportation partner of Emirates, with exclusive rights on the Hungarian market. Its cars are in good condition and less than one year old, and it is the rent-a-car provider with the largest premium fleet in Hungary thanks to its top-of-the-range vehicles. In 2019, Sixt signed a cooperation agreement with Wizz Air for the countries within its scope of operations; under this agreement, the car rental company offers preferential car rental and other comprehensive services to Wizz Air passengers. In return, Sixt rental customers receive discounts under the Wizz Air Flight Credit scheme. The agreement applies to the entire Sixt network, including Wallis Autókölcsönző.

While AutoWallis's car rental services initially served the needs of businesspeople arriving in Hungary, today nearly half of the revenues come from tourism. The company offers corporate customers unique mobility solutions in both the short and the long term, with preferential rates and special conditions provided to its Hungarian business partners. Besides satisfying the demand for passenger cars, it also offers small commercial vehicles. At the moment, it serves customers at 2 locations in Budapest: at the Váci út address in Budapest and at its airport desk at Terminal 2B of Liszt Ferenc International Airport.

In addition, the company will also develop a new technical base next to the airport to provide car rental services to car sharing or fleet management companies. To this end, the company has purchased a 6,000 square metre property where Sixt's new technical base will be built following renovation and refurbishment works till the end of 2021. For the HUF 565 million investment, the company also received a HUF 282 million non-refundable competitiveness-increasing grant.

Wallis Autókölcsönző Kft. achieved stable revenue growth in the years before the pandemic hit in 2020. Between 2016 and 2019, the company's revenues rose by an annual average of 18.2%; its 2019 (HAS) revenues of HUF 3.3 billion were coupled with HUF 477.6 million operating profits, representing a profit ratio of 11.7%, i.e. higher than the 2.5% across the group as a whole. However, the year 2020 brought major disruption, as traffic at Liszt Ferenc Airport collapsed (-76%). Largely as a result of this, the number of rental events fell by 60%, which was somewhat mitigated by the fact that the number of rental days shrank less, by only 27%. However, revenues decreased by 37%, resulting in a HUF 365 million operating loss for the company.



Source: e-beszamolo.hu, OTP Multi-Asset Strategies

Retail financial results

Although the retail segment is exposed to economic and automotive industry cycles, its performance is fundamentally more predictable and stable than that of the wholesale business line. And the company has reinforced this with last year's acquisitions, with a number of new brands joining the portfolio (in addition to the existing premium exposure, a number of volume brands have been added), which has led to an increasingly diversified model range. New car sales have the lowest margins in the segment, with used car sales generating somewhat better margins in general. However, this is only the first step in accessing the customer, who can then be channelled into operations with larger margins (e.g. repair services). Automotive services have the capacity to generate the highest margins in the retail segment.

In 2020, revenues across the retail segment rose by 7.4%, but this was attributable solely to the impacts of the expansion last year. Although repair services generate more stable revenues and are less exposed to cycles, the same is not true for the sale of new and used cars; even though the company represents brands that sold better than the market average, it would have not been able to achieve growth. The collapse in airport traffic resulted in a considerable decline in car rentals, therefore the company's sources of growth were, at this point in time, limited to those discussed above (the opening of the new JLR showroom, the acquisition of Wallis Kerepesi and Iniciál Group as well as the BMW dealership of Ljubljana).

Overall, the segment has a higher profit generation ability than the wholesale division, thanks to its aforementioned higher-margin services. EBITDA margin decreased to 3% from 4.7% in 2019, although the company's normalised EBITDA figures adjusted for one-off items were 2.9% and 4.9%, respectively. In 2020, one-off items included the HUF 126.5 million impact on profits of the aforementioned negative goodwill on the real estate acquired for the new JLR showroom, the HUF 79.5 million saved on rents thanks to the payment holiday and a writeoff of unlawfully misappropriated assets, which reduced results by HUF 91.8 million in 2019 and a further HUF 158.3 million in 2020 (assets with approximately HUF 250 million book value were unlawfully removed from the sites of Wallis Motor Duna Kft. and Wallis Motor Pest Kft.; the company filed a criminal complaint).

Retail Business Line (HUF 000)	2019	2019 NORM	2020	2020 NORM	CHANGE	Var NORM
Sales revenue	39,407,352	39,407,352	49,885,386	49,885,386	26.6%	26.6%
COGS	-32,229,880	-32,229,880	–41,913,405	–41,913,405	30.0%	30.0%
Unlawfully misappropriated assets		-91,677		-158,323	-	72.7%
Rents saved owing to payment holiday		0		79,506	.	.
Negative Goodwill booked		0		126,460	-	-
EBITDA	**1,834,322**	**1,925,999**	**1,511,989**	**1,464,345**	**-17.6%**	**-24.0%**
Unrealised revaluation loss adjustment	-6,787		35,963		-	-
Pre-tax profit/loss	**443,782**	**542,246**	**-202,768**	**-286,374**	**-**	**-**
Break-even %	*18.2%*	*18.2%*	*16.0%*	*16.0%*		
Pre-tax profit/loss / Revenues %	*1.1%*	*1.4%*	*–0.4%*	*–0.6%*		
EBITDA margin	*4.7%*	*4.9%*	*3.0%*	*2.9%*		

Source: AutoWallis, OTP Multi-Asset Strategies

Strategic plans

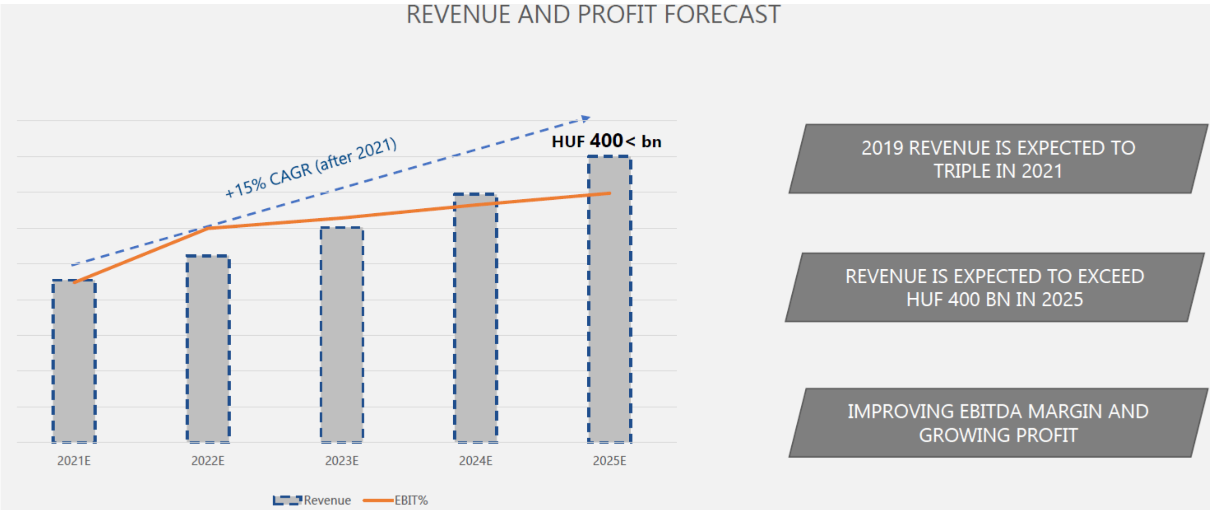
In May 2019, AutoWallis announced its strategic objectives for the period up to 2024 and its vision for 2029, setting itself the long-term target of becoming the dominant car dealership and mobility player in the East-Central European region. The company believes that individual car ownership will remain a factor even as car sharing spreads and the automotive industry undergoes substantial transformation in the years ahead, and that demand for repair services and dealerships would still be high, even if there was a significant expansion in community transportation.

The deceleration in new car sales in advanced economies has prompted the company to shift its focus to the East-Central European region, which has a better growth outlook. In order to exploit economies of scale on a fragmented distribution market, it is working towards the role of regional consolidator via its acquisitions, so that it can take advantage of the resulting synergies. In response to the challenges posed by digitalisation and carsharing, the company has focused all its automotive service operations in a dedicated unit and is planning to further diversify its revenues in this respect, adding alternative mobility providers to its portfolio if appropriate targets are identified.

THE CHALLENGES OF THE FUTURE	OUR ANSWERS
DECELERATING NEW CAR SALES ON THE ADVANCED MARKETS	**EAST-CENTRAL EUROPEAN** EXPANSION
ECONOMIES OF SCALE **FRAGMENTED** DISTRIBUTION MARKET	**REGIONAL CONSOLIDATION**
INTENSIFYING FOCUS ON AUTOMOTIVE SERVICES	**DIVERSIFIED REVENUE STRUCTURE** ACROSS OUR BUSINESS LINES, **AUTOWALLIS BRAND**
FUTURE INDUSTRY TRENDS: **DIGITALISATION, CAR SHARING**	**NEW MARKET OPPORTUNITIES** (MOBILITY SHARING, SELF-DRIVING, ELECTRIC VEHICLES, DATA-BASED SERVICES)

Source: AutoWallis

The strategy foresees one new acquisition per year, the target group is constituted by companies with annual revenues of HUF 5-15 billion: Hungarian multi-brand dealerships, premium brand dealership networks in the Balkans, regional parts retailer networks, premium distributor rights in a new country, distribution of a new brand in multiple countries, and regional fleet managers. The company is planning significant organic growth as well, targeting HUF 142 billion in revenues and HUF 7.9 billion EBITDA for 2024. Since the long-term objectives also include expansion via acquisitions in the region, the company has formulated the profit generation targets of HUF 187 billion in revenues and HUF 9.5 billion in EBITDA. Compared to the plans outlined in the strategy, the company has grown much faster due to the 6 completed acquisitions in 2020 than would have been expected for that period; for these reasons, the company updated its long-term forecast in December 2020. As a result of the transactions closed last year, revenues may be in excess of HUF 400 billion in 2025, with an improving (but not quantified) EBITDA margin.

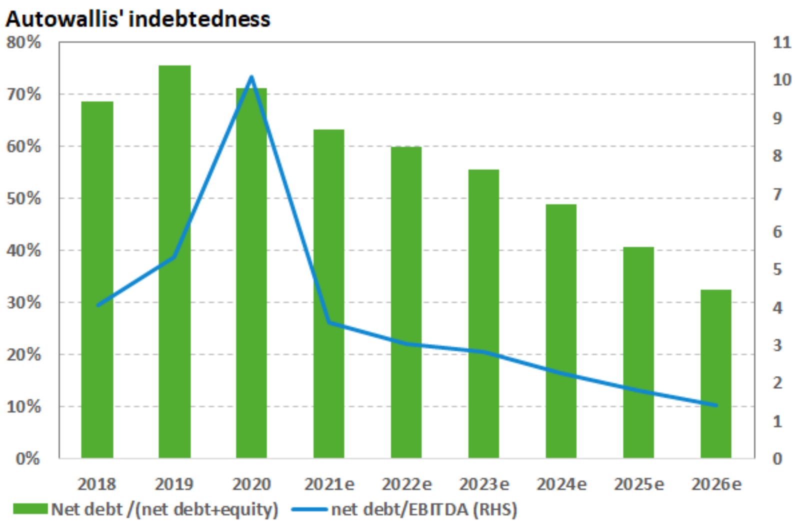


Source: AutoWallis

The expectations for 2021 have been revised in several cases:

- December 2020: revenue is expected to reach levels above HUF 230 billion, compared to the preliminary guidance of HUF 90-100 billion, while management has raised its EBITDA forecast to HUF 6 billion from the previous forecast of HUF 4.3-4.6 billion;
- Q1 2021 report: revenue forecast between HUF 230-253 billion with EBITDA of HUF 5.7-6.3 billion;
- First half 2021 report: sales above HUF 200 billion cannot be secured (chip shortage effect), EBITDA is expected to be around HUF 6 billion.

The company uses different sources of financing for its considerable growth plans. In addition to the cash flow generated by its operations, it relies on bond issuance and capital increases. In its strategic plans, it foresees doing the above while keeping its debt-to-equity ratio below 50%. Scope Ratings, the company's credit rating agency, considers the company's liquidity and financial position to be stable, and in July affirmed its B+ credit rating with a stable outlook.



Source: AutoWallis, OTP Multi-Asset Strategies

Sources of funding used in the transactions last year:

- AutoWallis's primary shareholder Tibor Veres reinvested HUF 560 million, a large part of his dividends for the year 2018, in the company in May 2019 by taking over the liability of a former shareholder of AutoWallis to the company.
- HUF 3.04 billion bonds issued under the Bond Funding for Growth Scheme of the Magyar Nemzeti Bank in April 2020. The bonds have a 10-year term, and a fixed interest rate of 3% p.a.
- Private capital increase via contribution in kind (Iniciál, Wallis Kerepesi and DALP, see details above)
- HUF 1.386 billion institutional private placement in December 2020. Széchenyi Alapok, Generali Alapkezelő and Dialóg Befektetési Alapkezelő injected capital at a HUF 83 price level.
- On 30.06.2021, the company sold 7.9 million of its own shares to Generali Fund Management at a price of HUF 93 per share, raising an additional HUF 734 million.
- HUF 6.65 billion bonds issued under the Bond Funding for Growth Scheme of the Magyar Nemzeti Bank in July 2021. The company developed a Green Finance Framework, under which the company has made environmental commitments to promote e-mobility by installing charging networks and increasing the share of electric cars in its fleet. The green bonds have a 10-year term, and a fixed interest rate of 3% p.a.
- In order to achieve its growth targets, the company is planning further capital increase among institutional as well as retail investors. It hopes to attract HUF 4-6.5 billion new capital, which would also boost its capacity for further borrowing.
- The company will receive a non-refundable grant of HUF 282 million for the creation of Sixt's new technical base, near the airport.

Financing structure

Under the IFRS 16 Leases standard, which entered into force in early 2019, a contract classifies as a lease agreement or contains a lease if it transfers for a specified period the right of the use of the underlying asset, subject to the payment of a fee, in such a way that the lessee has the right to collect the profits from the use of the asset and make the decisions on its use. With the exceptions specified in the new standard, all leases must now be stated as assets in the balance sheet by the lessees (right-of-use asset, ROU) together with the related liabilities.

In compliance with the new rules, the company states under right-of-use (ROU) assets retrospectively any real estate it holds in a rental form; these are typically dealership showrooms and other properties, such as the Wallis Motor Duna car showroom and parking lot, WAE Kft's and WAE CEE Kft's offices and parking lot, the Wallis British Motors showroom, and the Ljubljana BMW dealership showroom and service station. Also stated as right-of-use assets are cars that Wallis Autókölcsönző has obtained for leasing purposes and which it leases itself. At the same time, the liabilities associated with the right-of-use assets are also stated in the balance sheet, under long- and short-term leasing liabilities.

In addition to the above, the company also started to grow its real estate holdings last year. In the past, the company tended to lease the real estate serving as the premises for its showrooms, but availability of the favourable returns has prompted it to acquire several of the locations, such as the aforementioned Wallis Motor Pest site at Hungária krt. 95 (DALP Kft), the real estate serving as the site for Wallis Kerepesi (K85 Kft), the items on the books of VCT 78 Kft, and the plots, office buildings, showrooms and service stations on the books of Wallis British Motors Kft. and Iniciál Kft.

In recent months, further real estate transactions have also taken place. In August, the company purchased an 18,000 square metre plot of land in a rapidly developing part of Budapest (next to the Kopaszi Dam), where it will start developing a 9,000 square metre retail and service centre for up to 5 brands by 2025. The pricing of the land transaction was not disclosed by the parties. The company plans to finance the nearly HUF 10 billion investment partly from the issued green bonds and partly from project loans.

Although AutoWallis has investment loans and overdraft facilities too, its inventory financing demand is also high, and is needed to finance the vehicles on inventory; these are stated under reversed factoring in the balance sheet after the accounting changes. Proper inventory management requires an intensive optimisation effort, for which the company needs a deep understanding of market trends and the availability of data at the right time and in sufficient detail. The aim is to ensure that its inventory turnover ratio is sufficiently high at all times; the company can achieve this primarily through adjusting its pricing strategy. It therefore needs proper insight into the competition on the market, the amount of supply available and the changes in consumer demand.

The company can perform this with the requisite efficiency only if, on the one hand, it works closely with the carmakers in shaping the marketing strategy, which is especially important when introducing new models and phasing out old ones. On the other hand, it has to have precise information on the size of the inventories that its car trader competitors have of each particular model, and must have the ability to assess consumer needs as well, so that it can adjust its pricing policy appropriately to keep its inventory turnover ratio high.

Solid results in the first half of 2021

The first half flash report published by the company paints an overall positive picture, with substantial growth in the main headings.

- In the first half, new car sales rose by 25% in the EU, and by 23% in the countries covered by AutoWallis.
- The group’s revenues reached HUF 97.7 billion, representing a 156% increase year-on-year. This steep increase is attributable to the acquisitions completed by the company.
- Revenues rose by 181% in the wholesale business line, mainly through gaining the OPEL importer rights, which accounts for most of the 309% rise in the number of cars sold. The brands it had been selling for longer also achieved an increase, by 32.2%. The growing chip shortage in the automotive industry has not yet had an impact in the first half of the year, but it could have a negative impact on sales volumes for the rest of the year.

- Performance was solid in the retail business line too, with sales volumes rising by 220% thanks to Iniciál, Wallis Kerepesi, the Hungarian Jaguar and Land Rover entity and the Ljubljana BMW dealership; however, the growth adjusted for the new transactions has been substantive and much higher than the market average. In automotive services, total service hours rose by 164%, mostly owing to the new acquisitions, while the car rental business line continued to be negatively impacted by the low levels of traffic at the airport, but the improvement has started. The total revenues of the retail business line rose by 130%.

Segment results (m HUF)	2020 H1	2021 H1	Change
Distribution			
Sales revenue	19575	54919	181%
COGS	18513	49624	168%
EBITDA	-98	1344	-
Pre-tax profit	-888	1148	-
Gross margin	*5,4%*	*9,6%*	
EBITDAmargin	*-0,5%*	*2,4%*	
Pre-tax margin	*-4,5%*	*2,1%*	
Retail			
Sales revenue	18577	42732	130%
COGS	15253	36007	136%
EBITDA	855	1837	115%
Pre-tax profit	98	402	310%
Gross margin	*17,9%*	*15,7%*	
EBITDAmargin	*4,6%*	*4,3%*	
Pre-tax margin	*0,5%*	*0,9%*	

Source: AutoWallis, OTP Multi-Asset Strategies

- Alongside revenues, expenditures were also driven up by the acquisitions, but the company achieved substantive margin increases through disciplined cost management (the EBITDA margin rose from the base figure of 2% to 3.26%). It was thus able to achieve HUF 3.2 billion EBITDA, four times as much as in the base period.
- The losses caused by the significant weakening of the exchange rate were not repeated, so the company achieved HUF 1.2 billion in net profits after last year's HUF 863 million loss.

Autowallis' results (m HUF)	2020 H1	2021 H1	Change
Sales revenue	38 152	97 651	156%
COGS	33 767	85 631	154%
EBITDA	757	3 181	320%
EBIT	-1	1 662	-
Financial result	-789	-111	-86%
Pre-tax profit	-790	1551	-
Net profit	-863	1199	-

Source: AutoWallis, OTP Multi-Asset Strategies

- In the meantime, net borrowing has increased, from HUF 21.6 billion at the end of last year to HUF 23.7 billion, but that the indebtedness ratio, thanks to the increase of equity (net debt / (net debt+equity) decreased from 71% to 66%.

Performance in the first half, on which pandemic lockdowns still had a strong negative impact, paints a promising picture, but the rest of the year will be overshadowed in volume terms by delivery constraints due to a lack of chips. However, in a strong demand environment, manufacturers and retailers alike should be able to offset this by raising prices and widening margins. **As a result, although management's earlier revenue target of between HUF 230-253bn this year is unlikely to be met (management no longer sees the HUF 200bn-plus figure as assured), we expect the company to achieve the EBITDA level of around HUF 6bn previously expected.**

Short and long-term trends in the automotive industry

Car sales are rather cyclical, i.e. they are shaped by changes in economic trends. Besides, a number of megatrends have emerged in recent years that will have substantial impact on sales figures on the longer term as well (such as tightening environmental legislation, the spread of electric cars, carsharing and connectivity, and the emergence of self-driving technologies). Whereas changing consumer demand will influence sales structures and volumes in the longer term via the megatrends, forcing carmakers and distributors to adapt their long-term strategies accordingly, sales figures in the years ahead are likely to be shaped primarily by cyclical impacts and temporarily by the supply side bottlenecks. All these factors will determine the fundamentals for the market environment that car traders will face in the shorter and longer terms.

Industry outlook in the shorter term

In the short term, the economic picture is positive, as the recovery from the coronavirus epidemic has happened, and although the fourth wave will bring some deterioration in economic data, the period could be manageable with less severe restrictions than before (thanks to the increase in vaccination coverage), which could lead to above-average GDP growth dynamics even in 2022. Mutations in the virus could create new challenges, but so far these risks have not materialised.

Along with reopenings, inflation expectations have also strengthened in the developed world, which may be partly due to base effects. For the time being, we expect the rise in inflation to be largely transitory, but upside risks appear to be stronger for some countries. Meanwhile, the recovery in the labour market is also ongoing and promises to be swift.

The cyclical recovery has also led to a strong rebound in car sales in the first half of 2021. According to ACEA data, the number of new cars registered in the EU has risen by 25% and the demand side looks strong going forward. This was already indicated by industry forecasts earlier this year, but the global car market was still forecast to reach pre-pandemic sales volume peaks in 2025.

In the meantime, however, carmakers have faced supply problems due to chip shortages, which are expected to be protracted and could negatively affect production volumes even in 2022. According to BMW's CEO, the semiconductor market could remain tight for the next 6-

12 months, which could also negatively affect carmakers. In any case, the biggest negative impact in terms of chip shortages is expected in 2021, with some improvement possible as early as 2022, with semiconductor and automotive players able to adjust to some extent, but 2023 could be the first year when capacity expansion projects could ease the supply shortage.

Overall, therefore, while demand for cars is strong, volume growth may remain below its potential in the year ahead due to supply constraints. However, this will be offset by manufacturers and dealers raising margins.

The shorter-term macro outlook is promising both across Europe and in the regional countries covered by AutoWallis (by OTP Research Center):

Hungary: We think economic policies will remain supportive, so we expect more than 12% GDP growth in 2021 and 2022 combined. We expect households' consumption expenditure to increase around 4-5% in 2021 because the lockdown measures during the spring months temporarily halted the recovery. Thanks to the announced income tax refund for families, consumption increase is expected to be around 6% in 2022.

Slovenia: We expect around 10% combined economic growth in 2021 and 2022. Households' consumption declined by 8% in 2020, but the Covid crisis did not cause a significant damage on the labour market (the unemployment rate grew from 4.5% to 5%). We expect households' consumption expenditures to grow rapidly, which can be strongly supported by the high saving rate and the accomodative fiscal policy.

Croatia: From the point of view of economic outlook, the key question is the extent of the recovery in tourism this year. As historically 70%, last year 84% of tourist nights are realized in July-September, there is a clear chance that roughly half of last year's gap will be recovered this year. Until mid-August, this year has been better than expected for the tourism sector, as reflected in the Q2 GDP data: 16.1% yoy growth, which is better than expected. We estimate a 7.5% growth this year. The medium-term outlook is favourable as eurozone membership brings structural reforms (e.g. business environment, government transparency), while the process will put a downwards process on yields. Additionally, Croatia is a significant recipient of EU funds.

Albania: We expect close to 7% GDP growth for 2021 and 4% for 2022, supported by investments (reconstruction), consumption, and exports, and the better than expected tourism revenues this summer. The main risk is the low vaccination, caused by the weak access to vaccines.

Bulgaria: A partial recovery is forecasted for 2021, led by private consumption and helped by an accommodative fiscal stance. A 10-15% public sector wage increase as well as a boost to pensions, will support household demand. This year's growth is projected at around 4.6%, however there are downside risks as vaccination rollout in Bulgaria has been particularly slow, which means a new round of lockdowns are possible. In the following years growth prospects will remain elevated (~3-4%), driven by a rebound in investments and exports, offsetting the gradual withdrawal of fiscal stimulus.

Czech Republic: The Czech economy will not see a robust recovery until the anti-epidemic measures are relaxed during the second half of the year. Once this happens, economic growth will be driven by private consumption, boosted by a relatively stable situation on the labour market so far, deferred purchases, and also be stimulated by a reduction in personal income tax rates introduced at the start of 2021. Overall, Czechia's economic growth will be at around 4% in 2021 and 5% in 2022.

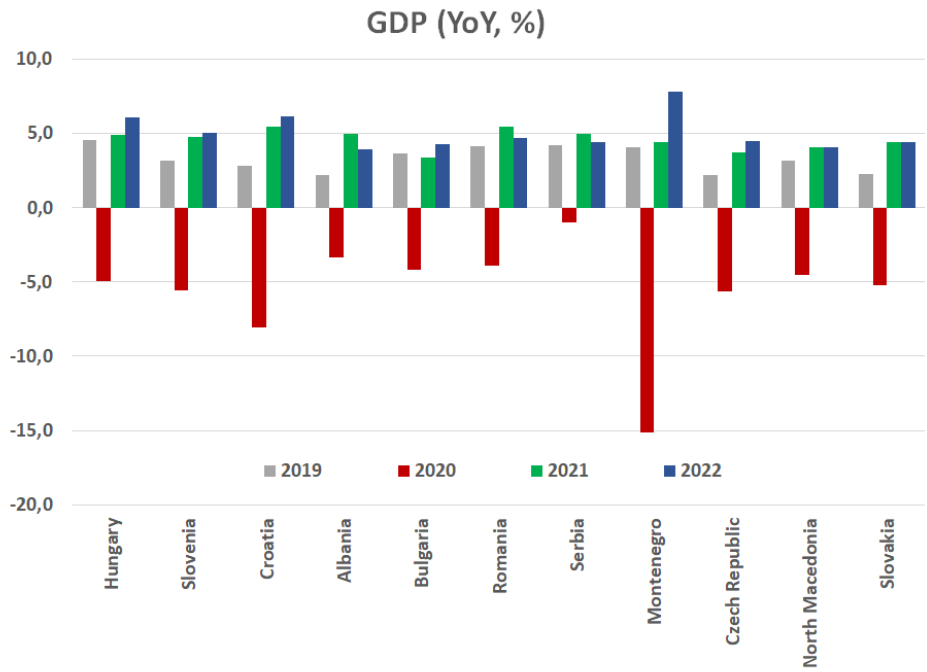
Montenegro: This year's growth is projected at around 7%, but there are downside risks if the international travel will be constrained by the epidemic. Next year's GDP growth is expected to jump to close to 7-8% as the tourism sector recovers, but medium-run growth prospects will remain subdued as fiscal consolidation is necessary to keep debt on a sustainable path.

North Macedonia: faced 4.5% recession in 2020, which is seen as an average performance for countries in the Balkans that are not really exposed to tourism. Economic activity is likely to rebound in 2021 and the expected pace of the recovery also fits well into regional patterns, with expected GDP growth of around 4% in the 2021/22 period.

Romania: A swift recovery is forecast for 2021, led by private consumption and exports, while fiscal stance will gradually become less accommodative. Around 7% growth is projected for this year, and 4% for 2022. In the years after 2022, growth prospects will remain good (~3.5-4%), driven by dynamic investment and exports, offsetting gradual fiscal tightening. Public investment will be supported by EU funds, of which Romania is set to be a major beneficiary (roughly 4% of GDP per year).

Serbia: Growth outlook is bright: we expect GDP growth rate to exceed 6.0% this year. The engines of growth will be household consumption and fiscally supported FDI activity. The second and third waves of the coronavirus have hit the economy less than the first, but the rapid spread of the delta variant raises concerns about the optimistic growth outlook for the second half of the year

Slovakia: This year, the economy is expected to grow as foreign demand recovers, boosting the all-important automotive industry. Moreover, new inflows of EU funding, coupled with the ECB's accommodative monetary policy, will bolster domestic activity. Focus Economics' consensus on growth is +4.2%, while the IMF expects +4.6% expansion for 2021.



Source: Focus Economics, OTP Research Center

Car dealership market outlook in the CEE region (by OTP Research Center)

Summary: Demand for cars is highly cyclical, so between 2015 and 2019 vehicle trade was characterised by rising sales revenues and high profitability both in Hungary and in the region. In Hungary this was also supported by the dramatic consolidation in the 2009-2015 period, when the number of traders selling new cars fell by almost 40% by 2015, followed by a barely 2.5% expansion until 2017, so that new car sales per traders rose fast. Due to the drastic cost reductions in the crisis years and rising sales, the sector already reached the pre-2008 level by 2014 in terms of key financial indicators, including profitability. Data on the sector's financial performance in 2020 are not available as yet, but the fall in car sales and the adverse environment suggest deterioration in profitability. However, as the financial position of the sector was sound in 2019 and new car registration fell back only to the level of the 2017/2018 period, when profitability was strong, we would not expect serious deterioration, particularly without one-offs (the depreciation of the HUF as well as the very unique and adverse environment could result in one-off losses in 2020). This is confirmed by the positive data for 2020 from the few companies that have already released their income statements before the analysis was finalised.

The outlook is promising: As a high share of the population already had coronavirus, and vaccine rollouts are gathering speed in most of the CEE region's countries, particularly in EU member states, a high share of the population could be already immune. New covid cases are low and falling, and social distancing measures are already being lifted. The damage on the labour market has been much more modest than one would expect based on size of the recession in 2020. GDP growth could be extraordinarily strong in 2021 and 2022. While interest rates could be hiked in many countries, their level could remain low in historic comparison and compared to inflation. While demand for cars is expected to strengthen, sales will be constrained by supply-side constraints, as producers seem unable to produce enough cars due

to semiconductor shortages, which in turn could increase dealer margins. As a result, new car sales in the region are likely to grow only slightly in 2021 compared to 2020, with 2022 expected to bring strong growth as production chain issues are resolved.

Actually, in most of countries of the region, car sales already rebounded from the lows of the lockdown period, and the economic recovery is expected to further boost demand for cars. Based on the data we check across the CEE and SEE regions, we think that car sales' trajectory and the main trends in financials could be similar in other regional countries to those we could experience and expect for Hungary. Therefore the vehicle trade industry likely weathered the storm of the Covid crisis well in 2020, without major damage and the outlook for 2021 and 2022 looks to be bright.

Main demand side characteristics

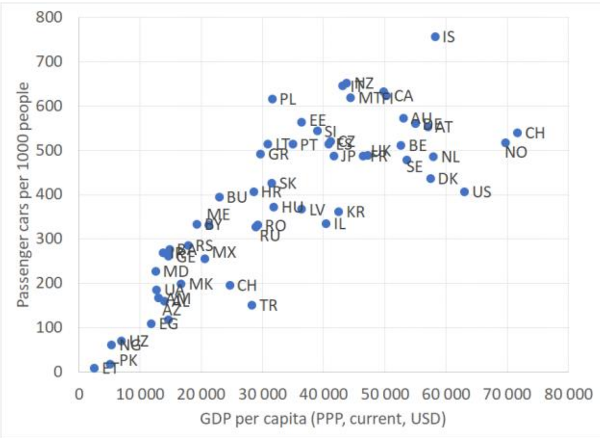
- Motor vehicles are durable goods with a long, usually 10-year+ period in use. Vehicles represent a relatively high value for an average household, being the second largest expenditure item, after the purchase of a home. Vehicle purchases are often financed by borrowing (car loans or lease).
- Due to these factors, demand for cars and motorcycles has the following characteristics:
    - Demand is highly income-sensitive, which means that:
        - First, vehicle stock and new car sales/capita is increasing with higher income both over time and in cross-section comparison between countries. (Cars/thousand people follows a logistic function, with very low numbers in poor countries, rising fast getting close to middle-income levels, and then slowing down when reaching the high-income status).
        - Second, car sales are highly cycle-sensitive, particularly in transition and developing economies where income elasticity is between 3 and 5.
    - Demand is also sensitive to lending conditions.
- All in all, in cyclical downturns demand for new cars falls fast as households and companies could easily run their cars longer before replacing them, and they are also reluctant to borrow, while in prolonged periods of high growth demand could rise fast and may become overheated.

Outlook for car sales in Hungary: fast rebound in 2021-22

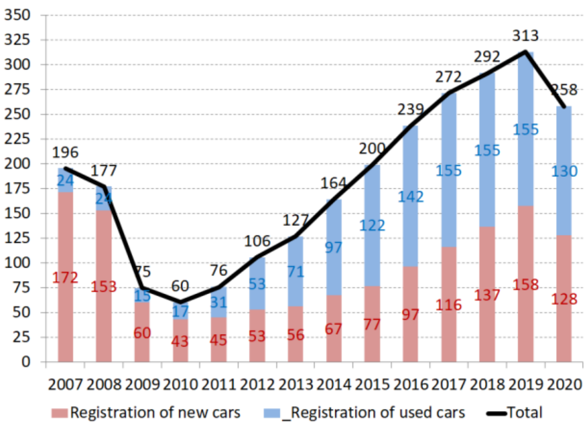
- In our view, the through-the-cycle equilibrium of car registrations in Hungary could be around 300-350,000 per annum. As the import of used cars could make up 40-50% of this, the equilibrium of new car sales could be near 150-180,000, which is expected to rise over time. Of course, this level is on the rise with economic growth.
- **Pandemic outlook is good**, a serious new wave is less likely in the near future, taking into account that only a small part of the population could be exposed to the current variants of the virus. A research suggests that immunity could last at least 12 months, a serious new wave and a new round of lockdown measures is less likely as long as immunity lasts.

- **GDP growth outlook is bright, above 5-6% growth rates are expected in 2021 and 2022.** As lockdown measures are being lifted from Q2 2020, growth will gain new momentum in the rest of 2021, and the covid-hit industries will also revive and contribute to growth. We expect GDP to get very close to the pre-covid trajectory by the end 2020, which means that the combined 2021 and 2020 GDP growth rate could exceed 10%. The expansion will be also boosted by supportive fiscal policy in Hungary and in the Eurozone, as well and by high savings rate.
- **The rapid growth in new car sales in 2021 will be limited by supply constraints due to chip shortages, so only modest sales growth is expected this year. The situation could be similar in 2022, but supply chain problems may have eased by then, in which case new car sales could reach 150,000 cars a year.** The strongly cyclical car demand will be supported by high GDP and wage growth rates, increasing demand for domestic tourism and the pent-up demand for cars. Due to the high GDP and consumption growth rates, we expect new car sales to reach at least 150,000 by the end of 2022.

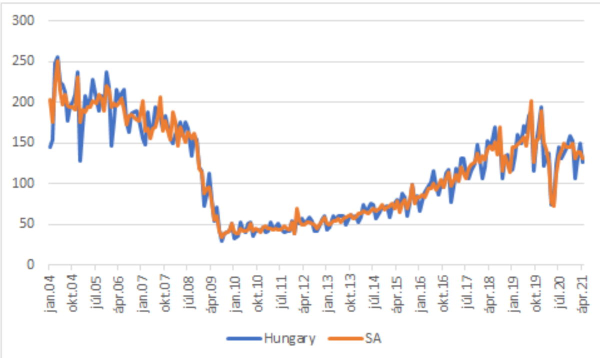
Passenger car stock / 1,000 people



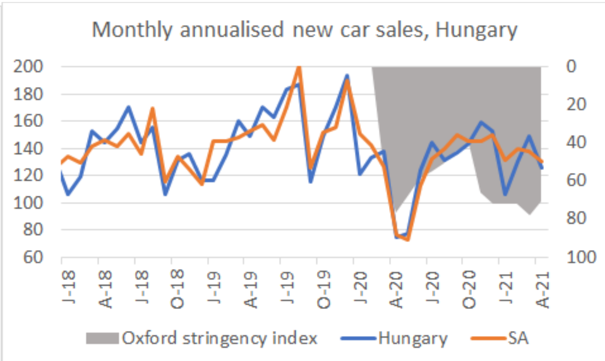
Annual car sales in Hungary



Monthly annualised car sales in Hungary (NSA and SA; ths units), 2004-2021 April



Monthly annualised car sales, Hungary (NSA and SA; ths units) & Oxford stringency index (reversed)

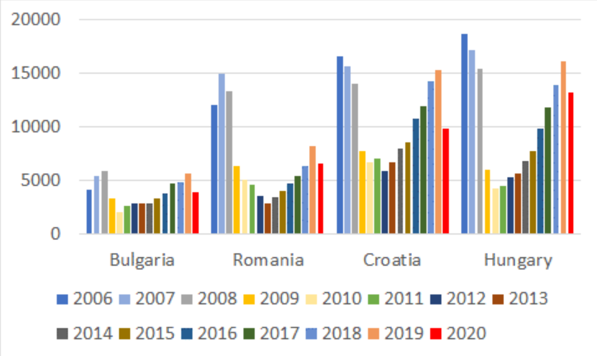


Sources: Eurostat, OECD, ACEA, *OxCGRT, OTP*

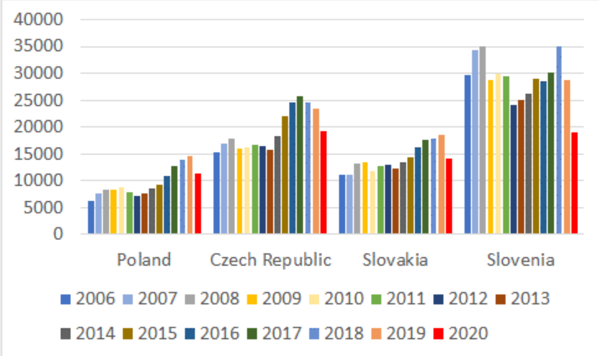
Patterns of regional car sales

New car sales (compared to the population) are highly heterogeneous across the region due to the high income sensitivity and the differences in development between regional countries.

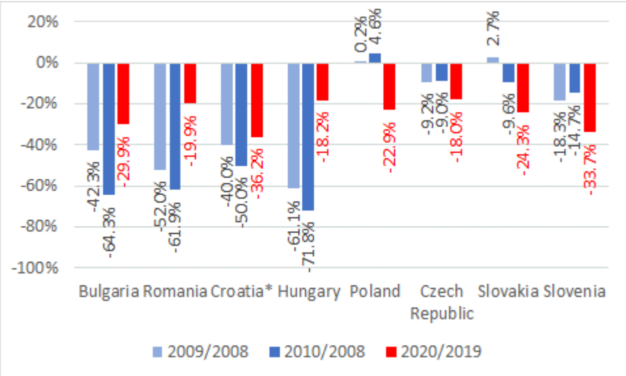
New car sales in regional countries / million people stringency index (reversed)



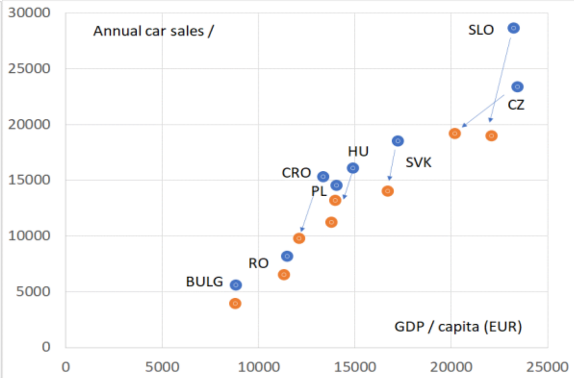
New car sales in regional countries / million people



New car sales in regional countries / million people



New car sales in regional countries / million people vs. GDP / capita in 2019 and 2020



** For Croatia we estimated dynamics based on total – not only new – car sales for 2006-2012*

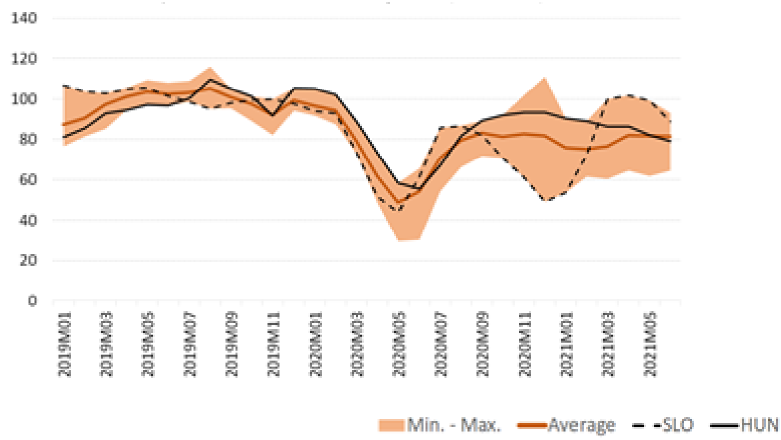
Sources: Eurostat, ACEA, *OTP*

2020 resulted in sizeable, -20/-30% fall in new car sales in CEE from relatively high levels in 2019.

- The recent decline has generally been smaller in less developed economies and sharper in more developed countries than after 2008.
- Following the 2008 shock, several countries in the region (Bulgaria, Romania, Hungary and, to a lesser extent, Croatia) realised that the previous growth model, based on huge capital inflows and external imbalances and partly on foreign currency lending, had caused overheating and were forced to make large adjustments. This has led to prolonged fiscal and monetary tightening, higher unemployment, falling real wages and consumption, which has weakened demand for cars, especially new cars.
- At the same time, there was still room for fiscal and monetary easing in countries that had pursued prudent macroeconomic policies and avoided overheating (e.g. Poland, Slovakia, the Czech Republic and Slovenia). In these countries, domestic demand pressures have been much weaker, so new car sales have fallen less. In the countries implementing second-hand car programmes, new car registrations were even stagnant in 2009-2010.

The fall in 2020 was surprisingly heterogeneous across the region, particularly compared to what we experienced during the post-Lehman period. In our view, the **main reason behind this phenomenon is that last year car sales slumped mainly due to the lockdown,** which made potential buyers stay at home, **while the role of the macroeconomic shock could be less important.**

New car sales (SA) in regional countries 2019 = 100



Sources: ACEA, *OTP*

In most regional economies recent car sales in the January-June period reflect an increase of around 25% growth compared to 2020 levels, even though it is still 17% smaller than the same period in 2019.

As the lockdown measures are being lifted across the region and GDP growth is expected to rebound particularly fast in most economies (despite the delta variant) in 2021 and 2022. We expect car sales to lag behind in countries (Croatia, Bulgaria) that are strongly exposed to cross-border tourism as that industry could be the last to recover. **This could lead to double-digit growth in car sales across the region this year and next, and in a positive scenario, sales could approach 2019 levels by 2022. However, it is highly questionable how long the supply-side bottlenecks, which are becoming increasingly fleshy, will be sustained due to the lack of semiconductors.**

Supply side

Wholesale and retail trade, as well as the repair of motor vehicles and motorcycles are intermediators between car producers and customers. These companies typically import cars and have usually weak pricing power toward their suppliers, nevertheless they should pass through changes in input prices and in the EUR/HUF exchange rate.

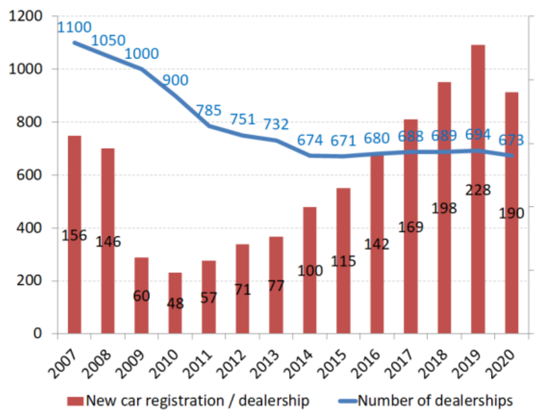
This research focuses on large dealerships, which are the main competitors for AutoWallis, and sell new cars, while we do not really cover the small dealerships specialised on selling used cars. Unfortunately, we do not have detailed financial data for the industry for 2020, which is problematic as 2020 was a crisis year and could have serious effect on financial performance. Therefore, we have to rely on some main drivers – mainly the new car registration data of ACEA and the turnover data published by the Central Statistical Office of Hungary, for mapping the evolution of revenues in 2020. This, and historic data could give us a glimpse into the sector's financial performance in 2020. Some companies also made their income statement available for 2020; we also use these data.

Hungary: the huge consolidation in the sector after the mortgage crisis provided a solid base for improving profitability and financial performance in the pre-covid period. We expect the sector to have been resilient in 2020 as the fall in revenues in 2020 was moderate, suggesting that core profitability in 2020 could be similar to the 2017/2018 period, when income generation was already good, but 2020 might cause temporary financial (weaker HUF) losses and other one-off expenditures (on pandemic defence, IT, etc.). This view is also supported by the income statement of the companies that published their income statement for 2020.

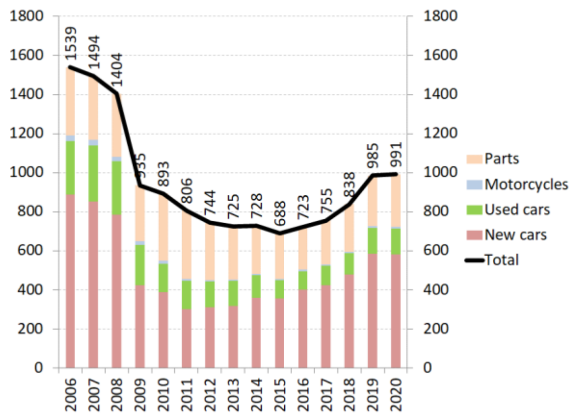
Looking ahead, we expect the economic shock to be temporary as we expect strong GDP growth for 2021 and 2022, which is likely to result in higher new car sales, suggesting that the profitability of the sector would also recover in the 2021/22 period.

Revenues of the industry mainly come from selling new vehicles (roughly 60% based on the most recent KSH data), selling used vehicles (15%) and parts (25%). Dealerships are often combined with garages; in their case, revenues are also boosted by repair fees.

Number of dealerships in Hungary



Revenues of retail trade of motor vehicles

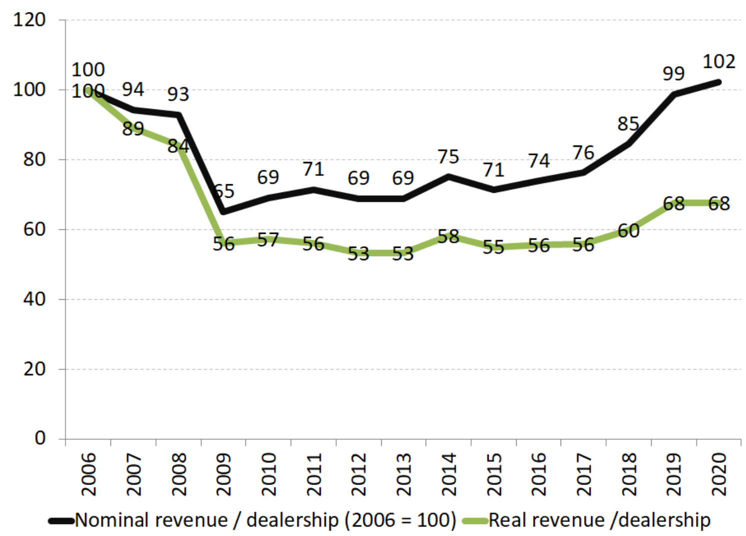


Sources: Carinfo, KSH, OTP

The sector went through a dramatic consolidation between 2007 and 2015 when new car sales fell by 80% and the sector's revenues fell dramatically, by 50% nominally due to the deep and long-lasting crisis' effects. As a result, **40% of sales points were closed between 2007 and 2015,** when the number of dealerships selling new cars slumped from 1,100 to 670.

This consolidation was not reversed even after demand returned in 2015, which provides solid fundamentals to the industry. While new car registration in Hungary grew by 100% between 2015 and 2019, the number of car dealerships rose only by 5%. So the new cars sold / dealership ratio rose to new highs by 2019, while revenues / dealership reached the original level (nevertheless, in real terms, it is still lower by one-third then before 2008).

Nominal and real retail revenue / dealership in Hungary, 2006=100



Sources: Carinfo, KSH, OTP

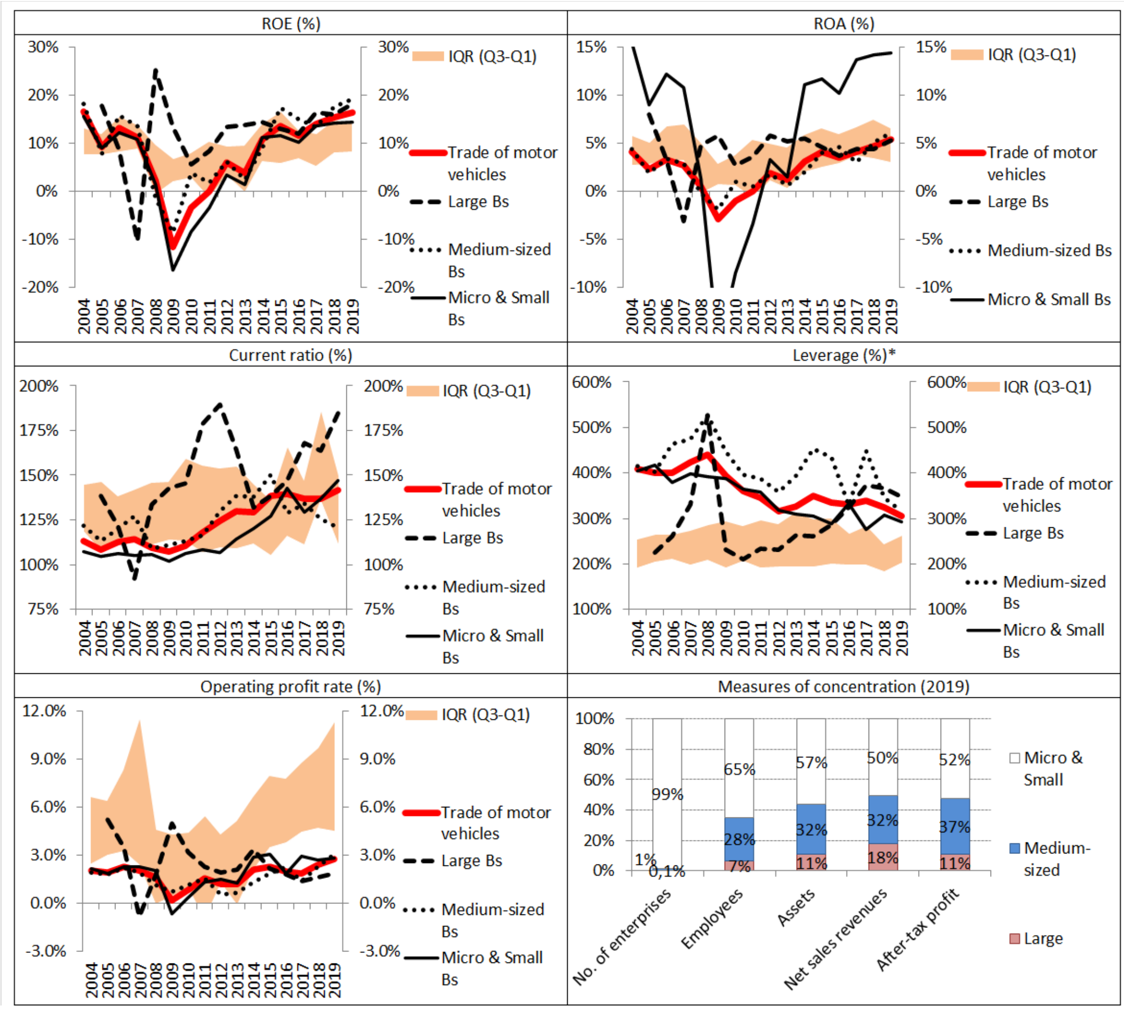
Financial performance in Hungary until 2019 (last available data): solid performance before Covid

This improvement is well reflected in the financial performance of the industry. While financial data were very weak in the pre-2015 period, it became healthy afterwards. Based on the financial data calculated from the figures of the corporate tax database of the National Tax and Customs Administration of Hungary (NTCA) –which could not be directly compared to KSH data as it also contains wholesale trade–, we could come to the following conclusions:

- Overall, car dealerships were in good shape before the pandemic: by 2015, the sector's financial indicators had reached pre-2008 levels, and the following years brought further, almost unbroken improvements.
- Simultaneously with the increase in new car sales, sales continued to grow; it has increased by 1.5 times in the past five years (preceding the end of 2019).
- Profitability as a proportion of revenues increased between 2016 and 2019, and improved from 2.0% to 2.7%. While the indicator has been below the national average since 2014, it is not particularly low compared to other industries in trade.

- Return on equity and assets gradually increased after the crisis, exceeded the pre-crisis peak by 2015, and the indicators have continued to improve year by year since then. ROE in vehicle trade has been exceeding the average of the national economy as a whole since 2017, while ROA is equals to the national average, but follows an upward trend and reached a peak of a decade and a half.
- The liquidity situation of the sector is balanced, showing a gradual increase since the crisis; it came to a halt between 2016 and 2018, but there was a slight improvement in 2019. Liquidity is at the average of the national economy, but, despite a gradual decline in recent years, leverage is high compared to other sectors of the national economy (above 300% in 2019). This, in turn, is a significant improvement from around 400% at the time of the 2008 crisis.
- Regarding size, large companies (four in the NTCA/GKI database) accounted for almost half of the sector's sales revenue and almost 60% of the after-tax profit in 2019. Their sales have been rising sharply since 2014, more than tripling between 2014 and 2019 (CAGR: 27%). At the same time, their profitability in terms of sales revenue is the lowest compared to the other size categories (1.7% on average over five years and did not even reach 2% in 2019), and their leverage is the highest. Similarly, they outperform in terms of return on equity and liquidity.
- The weak point of medium-sized companies is their low liquidity, while MKV underperforms in terms of ROE and revenue growth.

Main indicators of Hungary's vehicle retail and wholesale trade (corporate tax database)



Main trends in Hungary in 2020 and their potential consequences on financial performance

In the absence of reliable data for the financial performance of the whole industry, we used two approaches to estimate how the crisis may have affected vehicle trade. First, we checked the data of large Hungarian companies, who had already published their income statement for 2020. Second, we check the other available data on the main drivers of the industry (car sales, revenue data from the Hungarian Statistical Office, number of dealerships), and we tried to measure how this could affect the financials of the sector, based on past performance.

Income statements available suggest that the sector weathered the storm well in Hungary

The majority of car-trader companies have already published their income statements for 2020. These data (based on the emis.com database) also support the view that the 2020 shock had little impact on the sector's finances. Data from the TOP200 car sales companies show that:

- Net sales fell by 6% in 2020, following an increase of 11% in 2019 and 9% in 2018;
- ROE improved from 21% in 2019 to 22% in 2020;
- ROA improved from 4.8% to 5.8%;

- EBIT margin upped from 2.0% to 2.4%;
- Liquidity deteriorated slightly, while leverage was significantly reduced;
- Of the TOP200, only 7 companies turned a loss last year in terms of operating profit, while 3 turned a loss in 2019 into a profit last year.

Other data also suggest that the damage could be moderate in 2020

- In 2020 new car registration fell by 19%.
- The number of dealerships fell by 3% in 2020.
- The sector's retail revenues stagnated in nominal terms on all revenue lines based on the KSH's data), partly as car prices surged by 8.8%, while car parts prices rose by 6.6% on average, suggesting that the weaker HUF could be passed through more or less onto the customers. (The average EUR/HUF exchange rate depreciated by 8% in 2020).
- The KSH suggested that used car prices have fallen. This is interesting, taking into account the price trend of new cars and the data from Hungary's largest used car portal, on about 33% increase in the (raw, unweighted, and unadjusted) average price of used cars in 2020.

Considered these data regarding core results of the sector could fell back to 2017/2018 levels, when the financial performance of the sector, and particularly of large players was adequate. Nevertheless, the sharp weakening of the HUF may have caused financial losses, as some players may have used FX loans to finance their inventories, and the very volatile environment may have led to higher one-off losses at some major players. **All in all, we think that one-offs might have turned negative, but the core result of the sector might be close to where it had been back in 2017/2018, when the financials reflected already a solid position.**

OTP Research Center forecasts GDP to grow by around 5-6% in 2021 and 2022 in the CEE region. In our view, this, and the phasing out of social distancing measures would lead to stronger car sales. As the industry was in a good shape until 2019 and all available information supports the view that this has not changed in 2020, the expected pick-up in sales would result in ongoing good and likely increasing profitability in the vehicle trade industry.

The data we calculated from the EMIS database suggest that car dealerships in most countries across the region enjoyed double-digit and healthy ROE, adequate liquidity, and usually decreasing leverage similar to Hungary. Maybe the only exception is Serbia, where profitability and liquidity look to be lower than in other regional countries.

Based on these data, we do think that the underlying story could be roughly the same as we had in Hungary. Based on the sales data and the nature of the Covid crisis, we assume that the main consequences could be also close to what we think about the Hungarian vehicle trade industry.

ROE	2016	2017	2018	2019
BG	12.3%	11.5%	14.8%	14.2%
CZ	19.8%	17.3%	15.6%	15.9%
HR	1.7%	1.9%	11.9%	12.0%
HU	11.6%	13.9%	15.3%	16.3%
MNG	n.a.	13.9%	12.3%	11.0%
RO	18.4%	17.4%	21.2%	22.6%
SK	15.0%	16.4%	16.6%	16.1%
SL	19.8%	20.1%	22.4%	21.1%
SRB	10.1%	9.5%	7.5%	6.7%

ROA	2016	2017	2018	2019
BG	5.3%	4.6%	5.9%	6.0%
CZ	5.5%	4.9%	4.5%	4.6%
HR	0.5%	0.6%	5.3%	5.5%
HU	3.5%	4.1%	4.7%	5.3%
MNG	n.a.	8.9%	7.7%	6.7%
RO	5.4%	5.0%	6.2%	6.8%
SK	3.9%	4.2%	4.6%	4.6%
SL	6.0%	6.7%	7.0%	6.4%
SRB	3.3%	3.8%	3.3%	3.2%

Liquidity	2016	2017	2018	2019
BG	138.6%	133.4%	149.9%	161.0%
CZ	114.2%	114.0%	117.0%	118.2%
HR	121.7%	118.6%	122.3%	124.0%
HU	139.3%	136.9%	136.6%	141.4%
MNG	n.a.	199.4%	179.4%	170.7%
RO	111.9%	112.8%	121.2%	125.9%
SK	114.9%	116.0%	117.4%	116.8%
SL	143.1%	156.5%	152.1%	143.8%
SRB	59.3%	62.2%	68.4%	82.7%

Leverage	2016	2017	2018	2019
BG	230.5%	248.9%	251.7%	235.8%
CZ	361.3%	355.4%	347.1%	345.4%
HR	344.6%	296.4%	225.9%	217.4%
HU	330.8%	340.0%	324.5%	304.3%
MNG	n.a.	156.7%	159.6%	164.4%
RO	341.0%	350.8%	340.3%	333.6%
SK	384.2%	390.9%	359.2%	349.2%
SL	327.0%	299.6%	317.6%	332.7%
SRB	305.8%	251.9%	227.0%	210.4%

Op. profit margin	2016	2017	2018	2019
BG	3.1%	2.9%	2.8%	3.0%
CZ	2.0%	1.9%	2.0%	2.1%
HR	1.9%	1.6%	3.9%	4.2%
HU	2.0%	1.9%	2.4%	2.7%
MNG	n.a.	5.0%	5.1%	4.7%
RO	3.1%	2.9%	3.1%	3.2%
SK	2.1%	2.1%	2.3%	2.2%
SL	1.1%	2.0%	2.7%	2.4%
SRB	2.5%	1.7%	1.7%	2.5%

The EURHUF exchange rate: with monetary tightening, the depreciation of HUF could come to an end (by OTP Research Center)

As cars are tradable goods and the overwhelming majority of cars sold in CEE is imported, the exchange rate is an important factor, influencing not only demand, but –through potential financial losses– also the profitability of car dealerships. When the HUF depreciates sharply, unhedged open FX positions could result in financial losses. In 2008, the fall of Lehman Brothers resulted in HUF depreciation from 240 levels to 270/280 levels versus the euro, and then to 320 in early 2009. At those times traders could not fully pass through the depreciation into prices, furthermore they lost on their FX loans as well. Even though car sales was strong in Q1-Q3 2008, 80% of EBIT evaporated as financial losses.

Since 2008 the HUF has followed a gradually depreciating trajectory. This drove the EUR/HUF from 250 level, which was considered as an anchor between 2002 and 2008, to around 330 by early 2020. For many years, the MNB played an active role in weakening the HUF, as in the pre-covid period the unfavourable heritage of pre-2008 period and the financial crisis – negative output gap, low employment, imported disinflation from the eurozone, and high FX debt in most sectors– called for very supportive monetary policy, de-euroization, weak forint, and low interest rates. By the end of the pre-covid period, the approach resulted in pick-up in both headline and core inflation, wage growth reached double-digit rates, so even then a policy shift was expected. However, the monetary support and the weakening of the HUF gained new momentum when the Covid crisis hit the world.

By now, getting close to the end of the Covid crisis, the whole environment of monetary policy has been changing drastically. GDP growth will be extraordinary strong in Hungary, the labour market is expected to become very tight soon, wage growth could reaccelerate. The external environment is expected to turn from disinflationary to inflationary as well, due to skyrocketing commodity prices, the rebound in demand in developed economies, the increasingly visible supply-side bottlenecks globally, and very supportive policies in developed economies. Inflation in Hungary rose well above the MNB's target band and inflation expectations are on the rise, just when the whole service sector is preparing to adjust their prices and wages to the new reality.

All in all, the central bank had to start tightening, in order to avoid missing the inflation target for an elevated period. A new era has started in June with a rate hike, that was followed further monetary policy tightening. The forint started to appreciate immediately after the announcement, the EUR/HUF dropped to 345 by now, from around-360 levels. We expect the HUF's weakening period to come to an end and the EUR/HUF to fluctuate around 340-350 levels; risks are tilted to further modest appreciation, maybe even to 330.

EURHUF price

Sources: Tradingview

Longer-term challenges, transformation in the automotive industry

The automotive industry is undergoing significant transformation, with a number of megatrends clearly visible, supported by changes in consumer demand, tighter environmental legislation and technological progress. Most industry outlook surveys predict considerable transformation by 2030, and the major carmakers have already started to adjust their long-term strategies accordingly. The trends in the automotive industry are fraught with new challenges for manufacturers and trade operators alike, and it is therefore worth taking stock of the outcomes and trends that appear likely at the moment.

There are three major changing trends that will have a substantive impact on automotive industry players over the next ten years:

1. The spread of electric motoring

Increasing environmental awareness among consumers, regulatory objectives and government incentive schemes are the major factors underpinning the spread of electric cars and contribute to the rising sales in this segment.

Under its European Green Deal, the European Union has set a target of 55% reduction in pollutant emissions in the automotive industry by 2030 (compared to the 1990 base figure), and net zero pollutant emission by 2050 in the automotive industry. Globally, 15 countries have announced their intention to terminate the selling of cars with an internal combustion engine by 2035. Effective from 2021, the EU caps the carbon-dioxide that carmakers' vehicles may emit per kilometre at 95 grams; by contrast, data from Scope Ratings for the first half of 2020 indicates that manufacturers had achieved 111 g/km (which is a significant improvement from the 122 g/km measured in 2019). Manufacturers must increase their sale of alternative-drive models in order to meet the regulatory requirements, but are increasing their focus on such models anyway, with more and more carmakers announcing that they will shift their model range entirely to alternative drives in the next 5-10 years.

In addition to the regulatory obligations, a number of incentives for buying electric cars were introduced by governments in Europe in an effort to mitigate the impacts of the coronavirus pandemic. As a result, plug-in hybrids (PHEVs) and battery electric vehicles (BEVs) represented 9.3% of new car sales in Europe in 2020, which is substantively higher than the 2.2% ratio globally.

Even with government regulation and incentives, one current obstacle to the wider spread of electric cars is their higher unit cost. Nevertheless, there has been significant progress thanks to innovations in this field as well, and more is expected in the years ahead. According to research by BCG, there has been a significant decrease in the price of batteries, which are the costliest components of an electric car (20-30% of the total cost), as they currently cost USD 150/kWh, USD 20 less than the company’s own forecast formulated in 2019; Deloitte calculates that these prices are now allowing electric cars to compete against conventional vehicles.

According to BCG, ambitious climate goals will accelerate the spread of electric cars in the next few years compared to earlier predictions, so that electric and hybrid passenger cars will represent 47% of total sales by 2025. Nevertheless, there are bottlenecks in the electrification process too, such as the sufficiently fast growth of charging networks, which would be essential if electric cars are to become dominant in the future, or the need to increase the production of lithium and nickel, key input materials in battery manufacturing, of which the automotive industry will need ten times more in the future.

The shift towards electric cars may have an overall neutral impact on AutoWallis in the future. The company sells several brands whose manufacturers already offer electric vehicles; also, the range of alternative drive cars will widen in the next few years and some manufacturers have even announced a complete switch to alternative drive vehicles.

On the other hand, the spread of electric cars will result in changes in the services business line, as new machinery and equipment will have to be purchased and the staff will need to be trained in servicing the new types of engines. AutoWallis is certainly going to meet these challenges, and it already has staff with experience in servicing electric cars. Reports suggest that electric cars have a lower servicing demand (and lower after sales revenue potential) than conventional drive cars; however, electric engines may need additional work that could offset this in part or even in full (while the drive-train is getting simpler, the electronics is increasingly complicated).

2. Self-driving motoring and carsharing

Although less than 1% of all journeys in Europe are taken via carsharing services today, there may be substantial changes in this respect over the course of the next ten years. The younger generation of today, which, in ten years’ time, will reach the 45+ age currently considered by carmakers as the most important age group, no longer looks to the car as a status symbol and is, therefore, much likelier to opt for the much more cost-effective carsharing services. PWC predicts that Europeans may take more than 10% of all journeys using carsharing by the second half of the 2020s. Since the younger generations are getting their driving licences at an ever later age and are postponing the purchase of their first car to as late a date as they can, the spread of carsharing could be further accelerated by the emergence of self-driving cars.

While progress in artificial intelligence, machine learning and neural networks has brought self-driving motoring within reach, there are still many obstacles hindering their spread, not least the regulatory, legal and ethical questions they raise. Self-driving motoring is likely to develop first at the local levels, and must first gain the trust of initially skeptical users to be able to build on this success and start to expand. PWC reckons that this will be achieved, and that self-driving vehicles will represent 40% of the total mileage driven in 2030.

Many industry forecasts expect carsharing and self-driving to spread, which may have a substantive impact on automotive industry companies. According to PWC's forecasts, Europe's car inventory, estimated to be 280 million today, may decrease to 200 million by 2030, even as the number of new cars sold in the period of transformation continues to rise.

The spread of self-driving cars and carsharing services may present a major challenge for automotive industry companies in the future. Self-driving technologies are spearheaded by various major technology companies and innovative new automotive industry operators (such as Tesla), which will exert very intense competition pressure on the traditional carmakers. A large number of small, innovative technology startups will emerge in carsharing as well.

These are all significant future challenges for car traders, especially as car manufacturers may start to serve carsharing service companies directly. McKinsey expects this to exert pressure on merchants' new car sales figures in the future, with carsharing service companies also having a better bargaining position in after sales business, putting pressure on the margins the car dealers can achieve. Dealers can mitigate this by working with manufacturers in providing mobility services.

This is only the very remote future for AutoWallis, whose local regional sales are unlikely to be cannibalised by self-driving motoring and carsharing services at the rate they might in the advanced economies. It should also be remembered that while new solutions may spread fast over the next ten years, new car sales may still rise, as the 45+ age group, which is the main target group, will be slower to adapt to the new solutions.

Furthermore, the company already has automotive industry services and assigns it a key role in its long-term strategy too. After all, even if carsharing services were to spread, there will still be need for servicing points, since shared cars will have higher utilisation rates and greater mileage totals. In any case, AutoWallis is already active on the car rental market via its collaboration with Sixt; in fact, it is the most important such operator in Hungary, which may also serve as a good basis for further development of this type in the future.

3. Changes in consumer habits, omnichannel

Consumers are increasingly switching to online platforms as they shop for cars, just as they do in other industries. More than 80% of people now use some form of online resource when they are shopping for cars, and whereas a customer would typically visit a dealership 3 times in the past during the car buying process, this has now been reduced to just 1 or 2 visits.

Consumer habits are changing: according to research by McKinsey, a third of respondents do not see where dealers add value in the purchase process and 40% of them would be willing to switch to a new dealer for a better price or more convenient services. It is interesting to note, however, that 40% of respondents agreed that their discussions with the dealership have had a substantive impact on their decisions and would like to stay in touch with the dealership in the long term. This suggests that, in the light of changing habits, dealers should rely on their role as “trusted advisors” in the future.

McKinsey expects 10-25% of new car sales to be transacted online by 2025; several carmakers have formulated targets for boosting their online sales (Peugeot, Mercedes), and many are now running online pilots (BMW, Mitsubishi, Jaguar Land Rover, Hyundai, Volvo).

Online solutions are increasingly in demand in used car sales as well (17% of respondents in Europe would be happy to transact their entire car buying process online), although there are no strong brands on the horizon yet that could cover the entire purchasing process with online solutions. Data from Roland Berger shows that online used car sales represented 4.2% in Europe in 2020, potentially rising to nearly 10% by 2025.

Physical points of sale will not lose their legitimacy even as online presence is becoming increasingly important for major carmakers and traders alike. This may lead to the development of omnichannel sales solutions. **Dealers may experience a fall in new and used car sales volumes over the next ten years, which they can offset by reinforcing their online presence and perhaps through collaboration with the manufacturers. The strengthening of online commerce may put margins under pressure, to which the market players must respond by cutting their costs.**

These market trends are also a challenge for AutoWallis, but we believe that it will be impacted by these trends only in the longer term. This is due to the fact that its potential customer base will still be mostly from older age groups, for whom personal consultation and visits to a physical point of sale remain important. **In addition, the company’s growth strategy can generate economies of scale, allowing it to rationalise its cost management.**

Profit and loss m HUF	2018	2019	2020	2021e	2022e	2023e
Total revenue	**63 158**	**75 273**	**88 413**	**199 651**	**242 769**	**274 539**
COGS	-54 953	-64 439	-77 236	-174 450	-211 714	-239 032
Net revenue	**8 205**	**10 834**	**11 176**	**25 201**	**31 055**	**35 507**
Material used	-2 041	-2 520	-2 676	-4 590	-5 718	-6 774
Services	-2 624	-3 705	-4 231	-8 385	-10 196	-11 531
Personal expenses	-1 315	-1 759	-2 681	-6 379	-7 702	-8 896
Other income and expenses	329	131	551	190	280	280
EBITDA	**2 553**	**2 982**	**2 139**	**6 037**	**7 719**	**8 587**
Depreciation	-953	-1 177	-1 484	-2 573	-2 448	-2 688
EBIT	**1 601**	**1 804**	**655**	**3 464**	**5 270**	**5 899**
Financial results	-528	-544	-1 066	-555	-1 130	-1 149
Profit before taxes	**1 073**	**1 260**	**-410**	**2 909**	**4 140**	**4 750**
Taxation	-223	-343	-269	-807	-1 051	-1 203
Net profit	**850**	**917**	**-679**	**2 101**	**3 089**	**3 547**
Total comprehensive income	**832**	**951**	**-658**	**2 101**	**3 089**	**3 547**
attrib. to shareholders of the parent	**0**	**951**	**-676**	**1 986**	**2 957**	**3 400**
Dividend	575	0	0	0	0	0

Balance sheet m HUF	2018	2019	2020	2021e	2022e	2023e
Property, plant and equipment	1 711	1 940	7 601	10 989	11 177	11 397
Assets held for operating leases	1 785	2 072	1 833	1 622	2 140	2 114
Right-of-use assets	3 756	3 798	7 658	4 660	4 675	4 841
Goodwill and other immaterials	553	565	4 652	4 276	3 901	3 526
Non-current assets total	**7 825**	**8 382**	**21 759**	**21 563**	**21 909**	**21 894**
Inventories	9 758	14 137	22 245	24 423	29 640	33 464
Account receivables	3 445	3 813	4 478	7 986	9 711	10 982
Other receivables and accruals	2 280	3 760	4 061	3 549	4 282	4 823
Cash and cash equivalents	1 535	1 891	5 076	14 503	14 477	15 385
Current assets total	**17 559**	**23 605**	**36 004**	**50 605**	**58 254**	**64 798**
Assets total	**25 384**	**31 987**	**57 763**	**72 168**	**80 163**	**86 692**
Issued capital	3 383	3 383	4 054	4 246	4 246	4 246
Share premium	0	0	3 364	4 914	4 914	4 914
Retained earnings	1 361	1 629	754	2 740	5 697	9 097
Non-controlling interest	0	0	1 066	1 181	1 313	1 460
Shareholder's equity	**4 729**	**5 105**	**8 731**	**12 575**	**15 664**	**19 211**
Long term loans	243	310	1 360	3 001	2 838	2 670
Bond debentures	0	0	3 042	9 692	9 692	9 692
Lease liabilities	4 091	4 000	7 537	4 942	5 843	6 591
Other liabilities	36	59	3 426	2 351	1 277	203
Long term liabilities	**4 370**	**4 368**	**15 364**	**19 986**	**19 649**	**19 155**
Short term loans and reversed factoring	5 409	11 763	13 571	17 159	18 163	19 167
Lease liabilities	2 133	1 740	1 208	1 463	1 475	1 488
Advance payment received from customers	1 119	1 338	2 537	2 537	2 537	2 537
Account payables and reversed factoring	6 484	6 466	12 732	14 828	19 054	21 513
Other short term liabilities	1 139	1 206	3 620	3 620	3 620	3 620
Short term liabilities	**16 285**	**22 513**	**33 668**	**39 607**	**44 850**	**48 325**
Liabilities	**20 655**	**26 882**	**49 032**	**59 593**	**64 498**	**67 480**
Equity and liabilities	**25 384**	**31 987**	**57 763**	**72 168**	**80 163**	**86 692**

Cash Flow m HUF	2018	2019	2020	2021e	2022e	2023e
Cash flow from operations	1253	3157	7167	1597	2089	3058
Cash flow from investments	51	292	-6698	-2377	-2794	-2673
Cash flow from financing	-1501	-3094	2717	10207	679	523
Changes in cash	-198	355	3185	9427	-26	908

Source: Autowallis, OTP Multi-Asset Strategies

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