3 July 2024

Corporates

AutoWallis Nyrt.
Hungary, Retail

B+ STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	22.5x	7.5x	3.4x	2.9x
Scope-adjusted debt/EBITDA	3.5x	2.7x	4.5x	4.2x
Scope-adjusted funds from operations/debt	26%	28%	15%	15%
Scope-adjusted free operating cash flow/debt	-18%	-8%	-5%	-6%

Rating rationale

The rating reflects AutoWallis' solid position in its home market and continued growth in Central Europe. It also captures improved profitability, driven by the ability to pass on costs, and the successful integration of new business. The company's small size and the cyclical nature of its product are negative rating drivers. AutoWallis plans to accelerate expansion in the region, leading to a notable increase in external funding over the next three years. We anticipate that this will increase leverage and weaken interest cover, which constrains the rating.

Outlook and rating-change drivers

We have revised the Outlook to Stable from Positive. This reflects our expectation that the plan to accelerate growth will increase Scope-adjusted debt/EBITDA to above 4x in the medium term, as opposed to our previous expectation of below 3x.

A positive rating action would require Scope-adjusted debt/EBITDA to remain below 4.0x on a sustained basis, which could be driven by higher-than-expected EBITDA. Similarly, a positive action could be considered if the company successfully implements its ambitious expansion plan without a major negative impact on profitability and credit metrics.

A negative rating action could be triggered if Scope-adjusted debt/EBITDA were to rise above 5x in the medium term. This could be driven by lower-than-expected revenues due to general weakness in the transaction market or debt-financed investments significantly above our base case.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
3 Jul 2024	Outlook change	B+/Stable
7 Jul 2023	Outlook change	B+/Positive
14 Jul 2022	Affirmation	B+/Stable

Ratings & Outlook

Issuer	B+/Stable
Senior unsecured debt	B+

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Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

Retail and Wholesale Rating Methodology; April 2024

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Solid market position in the premium category in Hungary (50% market share for BMW and 80% market share for Mini) • Good geographical and brand diversification • Growing EBITDA thanks to acquisition strategy	• Increasing leverage driven by debt-financed acquisitions • Negative free operating cash flow driven by high capex and leasing payments • Relatively small size in European context • Relatively small market share in the retail business

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA of below 4.0x on sustained basis • Successful implementation of the company's ambitious expansion plan without major negative impact on profitability and credit metrics	• Increase in Scope-adjusted debt/EBITDA to above 5.0x on a sustained basis

Corporate profile

AutoWallis Nyrt is a Hungarian holding company operating as wholesaler and retailer of vehicles, automotive parts and accessories. It also provides repairs, maintenance and long- and short-term rentals.

In addition to its presence in its home market of Hungary, the company is also present in the wholesale business (59% of revenue in 2023) in 15 Central and Eastern European countries (Albania, Bosnia and Herzegovina, Croatia, the Czech Republic, Hungary, Kosovo, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia) as the official distributor for Opel, Jaguar, Land Rover, SsangYong, Isuzu and Saab and Renault.

In the retail business, AutoWallis is present in Hungary and Slovenia, operating Sixt's rent-a-car service and franchises for BMW passenger cars and motorcycles, MINI, Isuzu, Jaguar, Land Rover, Maserati, SsangYong, and retailing Saab parts.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	13.5x	22.5x	7.5x	3.4x	2.9x	2.9x
Scope-adjusted debt/EBITDA	3.5x	3.5x	2.7x	4.5x	4.2x	4.2x
Scope-adjusted funds from operations/debt	25%	26%	28%	15%	15%	16%
Scope-adjusted free operating cash flow/debt	34%	-18%	-8%	-5%	-6%	-4%
Scope-adjusted EBITDA in HUF m						
EBITDA	7,850	14,755	19,701	22,968	30,861	36,539
Recurring dividends	-	-	-	694	693	694
Scope-adjusted EBITDA	**7,850**	**14,755**	**19,701**	**23,662**	**31,554**	**37,233**
Funds from operations in HUF m						
Scope-adjusted EBITDA	7,850	14,755	19,701	23,662	31,554	37,233
less: (net) cash interest paid	(580)	(656)	(2,625)	(6,942)	(10,707)	(13,019)
less: cash tax paid per cash flow statement	(314)	(1,363)	(2,154)	(1,379)	(1,252)	1,074
Other non-operating cash	(265)	727	-1	-	1	-
Funds from operations (FFO)	**6,691**	**13,463**	**14,921**	**15,341**	**19,596**	**25,288**
Free operating cash flow in HUF m						
Funds from operations	6,691	13,463	14,921	15,341	19,596	25,288
Change in working capital	7,347	(15,458)	(13,804)	(247)	(5,645)	5,726
Non-operating cash flow	70	388	-	-	-	-
less: capital expenditure (net)	(1,841)	(5,996)	(1,963)	(16,257)	(13,770)	(14,691)
less: lease amortisation	(2,265)	(1,509)	(4,563)	(4,540)	(7,705)	(23,272)
Change in other assets and liabilities	(604)	22	1,210	-	-	-
Free operating cash flow (FOCF)	**9,398**	**(9,090)**	**(4,199)**	**(5,703)**	**(7,524)**	**(6,949)**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	580	656	2,625	6,942	10,707	13,019
Net cash interest paid	**580**	**656**	**2,625**	**6,942**	**10,707**	**13,019**
Scope-adjusted debt in HUF m						
Reported gross financial debt	27,243	51,608	52,400	105,485	133,993	156,960
Scope-adjusted debt (SaD)	**27,243**	**51,608**	**52,400**	**105,485**	**133,993**	**156,960**

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Environmental, social and governance (ESG) profile[1]

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

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

ESG neutral

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

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

Established green finance framework

As part of its sustainability strategy, AutoWallis intends to fund a portion of its investment plan through a combination of green bonds and green loans. It has established its own green finance framework, which was developed in line with the International Capital Market Association's new Green Bond Principles and the Loan Market Association's Green Loan Principles. In order to enhance the transparency of its framework, AutoWallis has appointed Sustain Advisory as the external reviewer to provide a second-party/assurance opinion on AutoWallis' green finance framework.

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

Business risk profile: BB-

Industry risk profile: BB

AutoWallis operates as a retailer and wholesaler in the automotive industry, which we classify as discretionary retail with low barriers to entry, low substitution risk and medium cyclicality. We rate the industry risk at BB.

Small company with good wholesale presence in Hungary

With a total revenue of HUF 366bn in 2023 (EUR 0.9bn) compared to HUF 270bn in 2022 (EUR 0.7bn), AutoWallis is continuing to expand in Hungary and Central Europe. However, it remains a small player in the very fragmented automotive market.

In the wholesale segment, AutoWallis benefits from being the exclusive distributor of several brands in Central and Eastern Europe (Jaguar, Land Rover, Opel, Isuzu, SsangYong and Renault). Its market share in Hungary increased to 13.5% in 2023 (compared to 7.5% in 2022) following the acquisition of Renault. In Slovenia, the company had a market share of 3.7% in 2023 (4.4% in 2022), while in other countries its market share remained insignificant at around 1%. We believe the exclusive distribution of various brands gives AutoWallis a comfortable position in the market and enhances its pricing power.

Weak market share in retail

AutoWallis is a small player in the retail segment. In 2023, the company had a total share of 4.7% in Hungary (from 4.6% in 2022) and 2.5% in Slovenia (up from 1.8% in 2022).

More positively, AutoWallis holds a strong market BMW retail share in both Hungary and Slovenia. It contributes about 50% of total BMW sales in these countries, thus positioning itself as a dominant player in the premium segment. The market entry of a new BMW dealer in Hungary is unlikely, because the manufacturer determines the number of dealers in a specific area, and it is not in BMW's interest to have too competitive a market. We believe that AutoWallis' position as a BMW retailer in Hungary is also supported by its long-term partnership with BMW, which could protect AutoWallis from being replaced by a new retailer.

With the recent additions of brands such as Opel, Renault, Dacia and SsangYong, AutoWallis has shifted its focus to the medium and lower price segments. In contrast to the premium car segment, which is serviced by only a handful of manufacturers (BMW, Jaguar, Mercedes, Lexus and Audi), the range of cars on offer in the medium and lower price segments is much wider, thus limiting AutoWallis' ability to gain a strong market share.

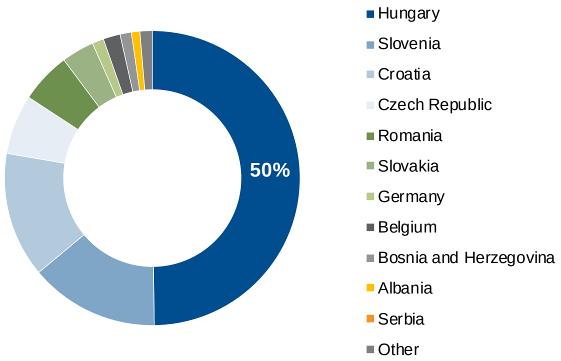
Weak product diversification

AutoWallis' business risk profile is constrained by a lack of product diversification. Its operations in the automotive industry make the issuer subject to the volatility of a cyclical industry. Car sales tends to fall when there is a macroeconomic downturn, while services such as repair and maintenance as well as parts sales (these two segments account for only 7.5% of total group revenue) are less influenced by recessions.

Improved geographical coverage

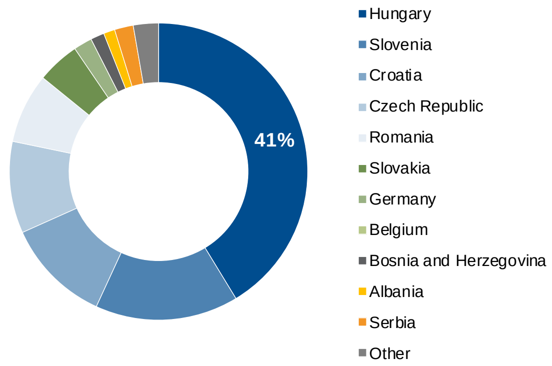
After consolidating its presence in the domestic market, AutoWallis has shifted its focus to surrounding countries and reduced its dependency on Hungary over the years. In 2023, Hungary accounted for 41% of sales (50% in 2022). We believe the company will further expand its presence in Central Europe driven by strong consolidation opportunities in the highly fragmented market. This view is supported by the significant investments (HUF 95bn) planned in the next three years, which will be partially financed by new debt issue.

Figure 1: Revenue by country in 2022



Sources: AutoWallis, Scope

Figure 2: Revenue by country in 2023



Sources: AutoWallis, Scope

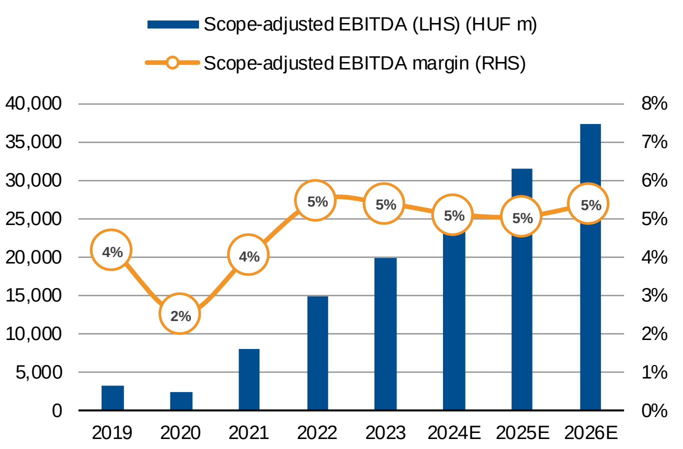
Slowly moving towards omnichannel retailing

AutoWallis operates as a single channel distributor, selling its vehicles through retail (41% of revenue) and wholesale (59%). It has no online distribution platform. The establishment of an online platform is part of its future strategy, reflected in the recent acquisition (at the beginning of 2023) of the Hungarian used vehicle sales platform Net Mobilitás Zrt. This will be used as a vehicle to acquire the necessary technology and know-how and extend it to the whole group. However, we do not expect the transition to an omnichannel provider to have any visible effect in the short term.

Profitability to remain stable

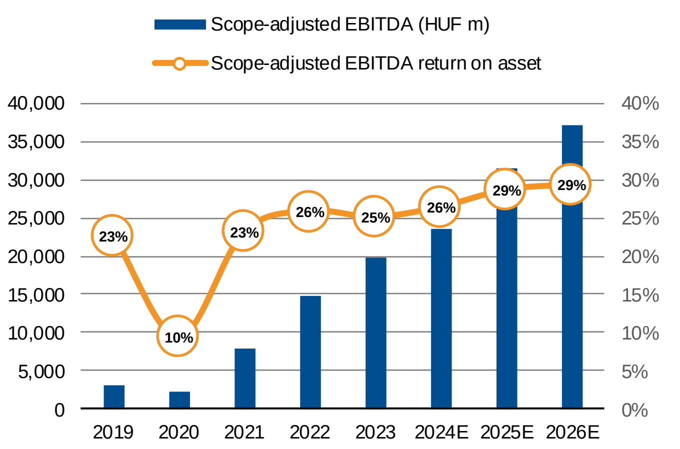
Profitability, as measured by the Scope-adjusted EBITDA margin, has historically been low, as is typical for car dealerships given their weak pricing power. In 2022 the ratio increased significantly to 5.5%, driven by the higher average car price that year. Even in 2023, the issuer was able to keep margins relatively stable by successfully passing inflation on to customers. We expect AutoWallis to continue to benefit from revenue and EBITDA growth, driven by the planned acquisitions. We also expect the Scope-adjusted EBITDA margin to remain broadly stable at around 5%, supported by easing inflation and AutoWallis' proven track record of integrating new business. Similarly, we expect the Scope-adjusted EBITDA return on assets to remain at a high level of between 25% and 30%, driven by efficient growth.

Figure 3: Scope-adjusted EBITDA margin



Sources: AutoWallis, Scope estimates

Figure 4: Scope adjusted EBITDA return on assets



Sources: AutoWallis, Scope estimates

Financial risk profile: B+

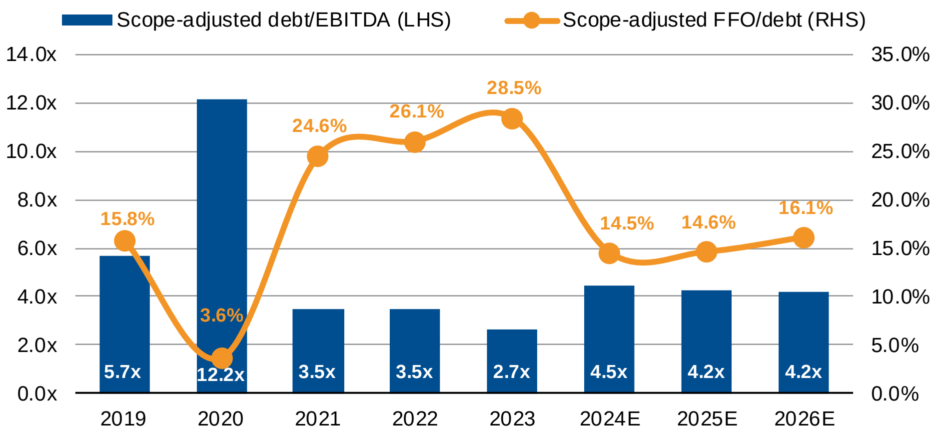
Continued EBITDA growth supported strong financial metrics…

AutoWallis' financial risk profile has been supported by a positive EBITDA trend, which allowed for deleveraging and strong interest cover in 2022/23. However, we expect financial metrics to weaken as a result of the planned debt-financed growth.

…but they are weakening as growth strategy accelerates

Leverage, as measured by Scope-adjusted debt/EBITDA, is anticipated to rise and remain above 4x in our forecast scenario. This is due to the significant new debt expected to partially finance the planned investments (around HUF 95bn) and the additional increase in working capital loans commensurate with the business growth. Nevertheless, the accelerated expansion will support an EBITDA increase, partially offsetting the rise in debt and allowing leverage to stay in line with our rating.

Figure 5: Leverage



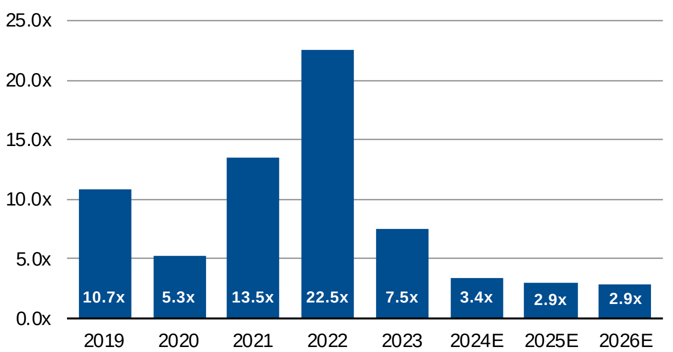
Sources: AutoWallis, Scope estimates

Similarly, we anticipate that Scope-adjusted EBITDA interest cover will fall to between 2x and 3x (compared to 7.5x in 2023) due to the sharp debt increase and a gradual reduction in the interest rate on bank deposits.

Free operating cash flow will remain negative

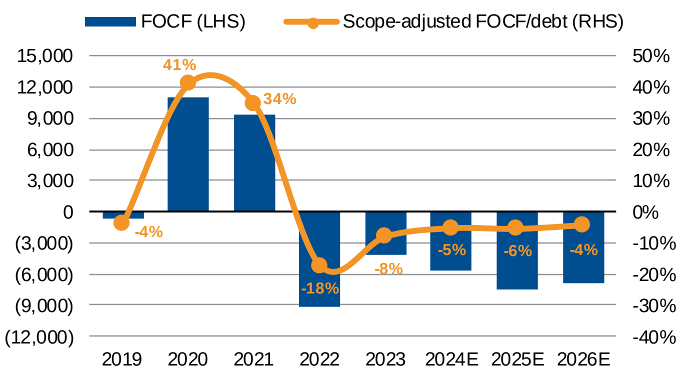
The financial risk profile is also constrained by negative Scope-adjusted free operating cash flow, resulting from stock growth and high lease expenses. We forecast that free-operating cash flow/debt will remain negative, as is structural for a company undergoing strong expansion.

Figure 6: Scope-adjusted EBITDA interest cover



Sources: AutoWallis, Scope estimates

Figure 7: Scope adjusted free operating cash flow/debt



Sources: AutoWallis, Scope estimates

Adequate liquidity

Liquidity is adequate, supported by significant cash at bank in 2023 (HUF 13bn) and the fact that a large part of short-term debt is inventory financing and reverse factoring. Direct financing for each vehicle ensures that an outstanding loan is fully covered by the value of a particular vehicle. Both inventory loans and reverse factoring are repaid when the inventory is sold. Based on a discount of 20% for inventories, we estimate short-term debt coverage at more than 100%.

AutoWallis' senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme have a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 9.7bn) if the debt rating of the bonds stays below B+ for more than two years (grace period) or drops below B- (accelerated repayment within 10 days). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is one notch.

Balance in HUF m	2023	2024E	2025E
Unrestricted cash (t-1)	16,887	13,097	48,939
Liquid inventory (t-1)	44,132	46,819	51,492
Free operating cash flow (t)	(4,199)	(5,703)	(7,524)
Short-term debt (t-1)	33,066	23,642	23,621
Coverage	**>100%**	**>200%**	**>200%**

Debt rating

Senior unsecured debt rating: B+

We affirm the B+ rating of the senior unsecured debt issued by AutoWallis. Our recovery assessment is based on a liquidation value in a hypothetical default scenario in 2025 and indicates an 'above average' recovery for bondholders. Nonetheless, we have refrained from notching up the senior unsecured debt rating due to the high sensitivity of the recovery ratio when applying higher haircuts to asset values.

AutoWallis has two bonds issued under the Hungarian Central Bank's Bond Funding for Growth Scheme. In April 2020, the company issued a HUF 3bn senior unsecured bond (ISIN: HU0000359476). The bond proceeds were used for fleet financing (HUF 2.3bn), while HUF 0.7bn remains available. The bond has a tenor of 10 years and a fixed coupon of 3.0%. Bond repayment is in one tranche at the maturity date of April 2030. In July 2021, AutoWallis issued a HUF 6.7bn senior unsecured green bond (ISIN: HU0000360664). The bond proceeds were used to purchase property (HUF 0.9bn) and for capex (HUF 1.7bn), while HUF 4bn remains available. The bond has a tenor of 10 years and a fixed coupon of 3.0%. Bond repayment is in five tranches starting in 2026 (10% of face value payable each year from 2026 to 2030 and a 50% balloon payable in 2031).

Appendix: Peer comparison (as at last reporting date)

	AutoWallis Nyrt	Unix Auto Kft	Tegeta Motors LLC	Marso Kft	Abroncs Kereskedőház Korlátolt Felelősségű Társaság
	B+/Stable	BB/Stable	BB-/Stable	BB-/Negative	BB-/Stable
Last reporting date	31 December 2023	31 December 2022	31 December 2022	31 December 2022	31 December 2022
Business risk profile					
Country retail strength	Medium-high	Medium-high	Medium-low	Medium-high	Medium-high
Market position	Medium	Strong	Strong	Strong	Strong
Revenue (in EUR m)	900	240	300	100	100
Consumer good category	Discretionary	Discretionary	Discretionary	Discretionary	Discretionary
Geographical exposure	No country with more than 70% revenue	Immediate neighbours	One country	One country	Immediate neighbours
Product diversification	1 cyclical	1 cyclical	1 cyclical	1 cyclical	1 cyclical
Profitability assessment	Moderate	Strong	Strong	Moderate	Weak
Financial risk profile					
Scope-adjusted EBITDA/interest cover	7.5x	10.0x	2.3x	14.1x	10.2x
SaD/Scope-adjusted EBITDA	2.7x	1.7x	3.9x	3.1x	2.1x
Funds from operations/SaD	28%	54%	13%	30%	42%
Free operating cash flow/SaD	-8%	-2.6%	-10%	9%	6%

Sources: Public information, Scope

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