# Unix Auto Kft.
# Hungary, Auto Retail

SCOPE BB- NEGATIVE

## Corporate profile

Unix Auto Kft. is a privately-owned Hungarian auto parts retailer founded in 1990. It holds around 35% of its domestic market and also operates in Romania and Slovakia. It has more than 160 branches and employs approximately 4,000 people. The company's founder, Antal Zombori, owns 100% of its shares.

## Key metrics

| | | | Scope estimates | |
|---|---|---|---|---|
| Scope credit ratios | 2018 | 2019 | 2020F | 2021F |
| EBITDA/interest cover (x) | 43.3x | 26.0x | 7.7x | 7.9x |
| Scope-adjusted debt (SaD)/EBITDA | 2.4x | 4.2x | 4.6x | 4.3x |
| Scope-adjusted FFO/SaD | 39% | 23% | 19% | 20% |
| Free operating cash flow (FOCF)/SaD | -14.7 % | -44.4 % | -8.6 % | -2.6% |

## Rating rationale

**Scope's corporate issuer rating on Hungarian-based Unix Auto Kft. is BB-/Negative. Scope has a BB- rating on the company's senior unsecured debt.**

Unix Auto's business risk profile is positively influenced by its dominant market share in the Hungarian auto parts market and its well-known brand (in Hungary). The Covid-19 pandemic has increased uncertainty around the economic conditions in its two main countries of operation, Hungary and Romania, impacting the business environment to some degree. Diversification is good in terms of suppliers and customers, with no single party representing a meaningful share of the total. Moreover, Unix Auto has a massive spare parts product range, as well as some business in services and special tool rental, which helps to diversify its product offering to some degree. However, its relatively heavy geographical dependence on Hungary (around 70% of sales) limits diversification. Based on our assumptions, measures taken by the company, and the competitive environment, we anticipate that Unix Auto should be able to keep its current EBITDA margins at around 6%. This should be possible despite the risk of lower sales because the company reacted swiftly to adjust some of its fixed costs.

Unix Auto's financial risk profile is mixed. Interest cover is strong, but free cash flow generation is negative and leverage has risen due to the company's strong growth and heavy investments.

Scope-adjusted leverage ratios weakened during 2019, following the new MNB bond issuance, which was used for refinancing, investments and supplier financing. Based on our updated forecast, we expect Scope-adjusted debt (SaD)/EBITDA and funds from operations (FFO)/SaD to deteriorate further in the short to medium term.

Unix Auto's more aggressive financial risk profile is mainly due to its ambitions to grow more rapidly abroad, including opening more branch networks. Moreover, the company plans to establish more logistics distribution centres and grow its A.Z. Meisterteile brand. We expect the plan to be positive for diversification and profitability in the longer term because the A.Z. Meisterteile brand generates higher margins than the company's other brands. At the same time, the investment period will take around two years, during which time both cash flow and the capital structure will suffer. In 2020, the company will direct

### Ratings & Outlook

Corporate issuer rating BB-
Outlook Negative
Senior unsecured rating BB-


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### Related Methodology

Corporate Rating Methodology


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Bloomberg: SCOP

more capex towards the completion of its main logistics centre in Budapest, which includes increased floor and storage capacity, as well as a new self-developed automatisation system. With negative free operating cash flow (FOCF), this credit metric is the key negative driver for Unix Auto's financial risk profile assessment.

The company's FFO is still solid in relation to SaD, with acceptable levels expected going forward as well. However, with the risk of slower growth, this metric could also come under pressure. Working capital needs remain a key issue for cash flow and funding. At present the company pre-finance suppliers to get the best possible discounts. Operating cash flow is positive, but not enough to cover recent capex or the capex programme planned for the next one to two years.

Unix Auto is heavily dependent on short-term borrowing, which makes it somewhat reliant on the bank's willingness to extend credit and roll over debt each year. This has been straightforward so far and should continue to be so going forward.

## Outlook and rating-change drivers

The Negative Outlook reflects Scope's expectations that Unix Auto will be hurt by the lower activity and GDP in its key markets of Hungary and Romania, as a consequence of the Covid-19 restrictions. Although our base case assumes that business activity in these countries will recover slowly in Q3 and Q4, FY 2020 results are expected to further constrain Unix Auto's financial risk profile. Should however, the company show evidence of more resilience than we anticipate, a stable outlook could resume.

A positive rating action (i.e. the return to a Stable Outlook) is possible if the company improves sales and profit margins and returns to leverage below 4x on a sustained basis. The possibility of a rating upgrade is remote at the moment, but could occur in the longer run if Unix Auto also achieves FOCF/SaD of above 5%, as a result of lower expansionary investments and improved market conditions.

A negative rating action is possible if Unix Auto's financial risk profile deteriorates, exemplified by SaD/EBITDA moving above 4x on a sustained basis and FFO/SaD moving below 15%.

## Rating drivers

| Positive rating drivers | Negative rating drivers |
|---|---|
| • Dominant market share (35%) in Hungarian auto parts<br>• Solid growth and well-known brand domestically, and limited dependence on individual customers or suppliers<br>• Modest interest cover for the rating category at the moment | • Somewhat weak geographical diversification, with the Hungarian market driving sales and profits<br>• Declining profit margins due to increasing labour costs<br>• Negative FOCF due to high investment and working capital needs |

## Rating-change drivers

| Positive rating-change drivers | Negative rating-change drivers |
|---|---|
| • Improvement in business risk profile through increased diversification and stabilisation of profit margins<br>• Positive FOCF, resulting in a FOCF/SaD of above 5% on a sustained basis | • Deterioration of financial risk profile, exemplified by SaD/EBITDA of above 4x on a sustained basis<br>• Continued declined in EBITDA margins and FFO/SaD of below 15% on a sustained basis |

## Financial overview

| | | | Scope estimates | |
|---|---|---|---|---|
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| EBITDA/interest cover (x) | 43.3x | 26.0x | 7.7x | 7.9x |
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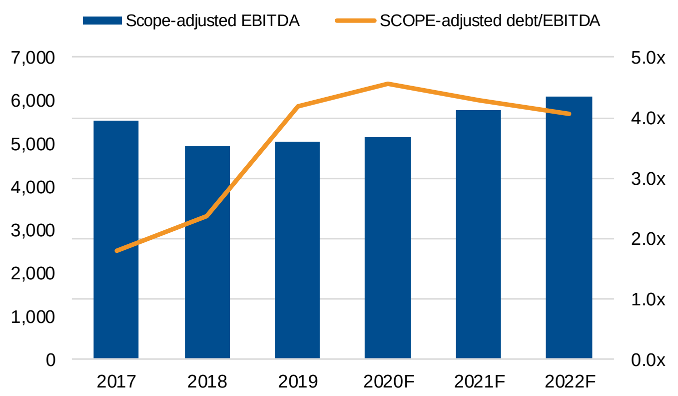
| FOCF/SaD | -14.7 % | -44.4 % | -8.6 % | -2.6% |
| **EBITDA in HUF m** | | | | |
| Income from operations (EBIT) | 3,233 | 3,139 | 3,063 | 3,560 |
| Add: depreciation | 1,715 | 1,901 | 2,100 | 2,200 |
| **EBITDA** | 4,949 | 5,040 | 5,163 | 5,760 |
| **Scope-adjusted funds from operations in HUF m** | | | | |
| EBITDA | 4,949 | 5,040 | 5,163 | 5,760 |
| Less: (net) cash interest per cash flow statement | -114 | -233 | -668 | -725 |
| Less: cash tax paid per cash flow statement | -243 | -67 | -171 | -202 |
| Add: other items | 0 | 0 | 50 | 50 |
| **Scope-adjusted funds from operations** | 4,592 | 4,740 | 4,374 | 4,883 |
| **Scope-adjusted debt in HUF m** | | | | |
| Reported gross financial debt | 11,889 | 20,319 | 25,009 | 25,344 |
| Less: cash, cash equivalents | -228 | -303 | -1,428 | -629 |
| Add: cash not accessible | - | - | - | - |
| Add other, pensions, operating leases or shareholder loans | 18 | 1,040 | - | - |
| **Scope-adjusted debt** | 11,679 | 21,056 | 23,581 | 24,715 |

## Summary of business and financial risk profiles

We have assigned a BB rating to Unix Auto's business risk profile, which is supported by the company's leading position in Hungary in terms of market shares and product range, among others. Pressure on profitability margins is one of the factors currently constraining Unix Auto's business risk profile.

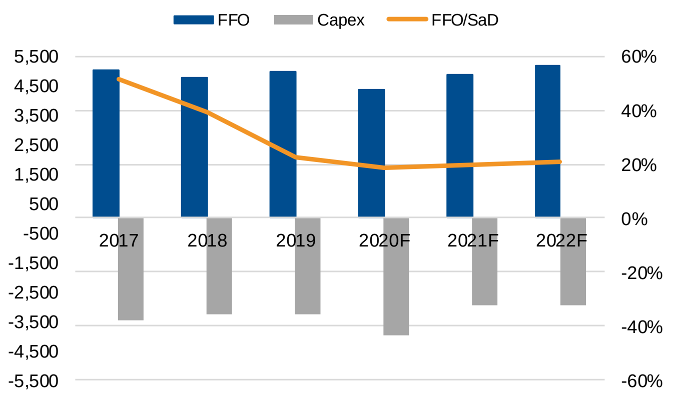
Unix Auto's financial risk profile is B+. At the end of 2019, SaD/EBITDA was 4.2x (including a smaller shareholder loan) and just below 4x if excluded. Based on our updated forecast, we do not see this ratio returning to below 4x in the medium term, which has put some pressure on the company's financial risk profile. Still, mitigating this pressure to some degree in the future, is that the company seems dedicated to keep the ratio below 4x, through reducing supplier pre-payments or growth ambitions if necessarily. With regards to our other negative rating trigger threshold, FFO/SaD came in at 23% last year, still above our 15% target. However, with tougher market conditions expected throughout the year, it will be more difficult for Unix Auto to maintain this ratio as well, if it cannot return to higher demand and profitability.

**Figure 1: EBITDA (in HUF m) and leverage ratio (x) RHS**




Source: Scope estimates

**Figure 2: Op. cash flow, investments (HUF m) and ratios**




Source: Scope, Company

## Supplementary rating drivers

We have not made any explicit rating adjustment for supplementary rating drivers. Although Unix Auto does not have a publicly stated financial policy, it has expressed an ambition to keep the leverage ratio below 4x.

## Senior unsecured rating

We expect an average recovery for senior unsecured debt. These recovery expectations translate into a BB- rating for the senior unsecured debt category. Our recovery expectations are based on an expected liquidation value in a hypothetical default scenario at the end of 2021, when most of the new expansionary investments will be completed.

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