Unix Autó Kft.
Hungary, Auto Retail

BB STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	11.4x	10.0x	8.6x	8.1x
Scope-adjusted debt/EBITDA	2.5x	1.7x	1.8x	1.6x
Scope-adjusted funds from operations/debt	36%	54%	50%	53%
Scope-adjusted free operating cash flow/debt	13.3%	-2.8%	14.7%	13.9%

Rating rationale

The upgrade is driven by Unix Auto's sustained deleveraging after it invested in an automated warehouse, leading to Scope-adjusted debt/EBITDA at below 2x while keeping its market leader position in Hungary.

The moderate business risk profile is primarily driven by the good profitability in Unix Auto's key markets of Hungary and Romania in 2022 and into H1 2023 and the good outlook for those markets. As a company that operates in the spare parts retail market, it is in a good position as the delivery of new cars by original equipment manufacturers is still slow; purchasing power has decreased in Hungary; taxation on company cars is increasing, and the hike in interest rates has halted lease financing. The rating is constrained by the small size of the company in a European context and its geographical concentration.

The moderate financial risk profile is primarily driven by Unix Auto's good leverage and strong interest cover since long-term – mainly fixed-rate financing – used for investments stayed flat while inflation and margin improvement resulted in increasing EBITDA. The rating is constrained by the volatile and low free operating cash flow, which is driven by capex launched in large chunks.

We applied no supplementary rating drivers. We view the issuer's ESG strategy as credit neutral.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Unix Auto can continue to tackle inflation, maintain margins at double-digits and execute capex plans, resulting in a Scope-adjusted debt/EBITDA of below 3.0x.

A rating upgrade is possible if Unix Autó improved its business risk profile by growing revenues and improving geographical diversification while keeping credit metrics at solid levels.

A negative rating action is possible if the financial risk profile deteriorated, exemplified by a Scope-adjusted debt/EBITDA increasing above 3.5x.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
4 Oct 2023	Upgrade	BB/Stable
19 Oct 2022	Outlook change	BB-/Positive
9 May 2022	Outlook change	BB-/Stable

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BB

Lead Analyst

Barna Gáspár
+49 30 278913 25
b.gaspar@scoperatings.com

Related Methodologies

General Corporate Rating Methodology; July 2022

Retail and Wholesale Rating Methodology; April 2023

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Dominating market share (about 35%) in the Hungarian auto-parts market • Solid growth and well-known brand domestically, with limited single customer or supplier dependence • Interest cover at very good level for the rating category • Cost optimisation and price increases accepted by the market, leading to increased margins • 50,000 products under own brand and soon own production boost the margin	• Somewhat weak geographical diversification, with Hungary as the main sales and profit generator • Increasing finance cost hinders the growth prospects of its retail network • Negative working capital in most years • Higher cost base than its main Hungarian competitor, although higher service level

Positive rating-change drivers	Negative rating-change drivers
• Significant improvement of the business risk profile (especially growth in size and covered geographies) while keeping credit metrics at solid levels	• Scope-adjusted debt/EBITDA increasing above 3.5x

Corporate profile

Unix Autó Kft. (Hungary) is a family-owned business founded in 1990 that mainly operates within one business activity: automotive spare parts retail. Unix Auto generates a turnover of over EUR 240m, making it the market leader (around 35% of market share) in automotive spare parts distribution in Hungary.

Since the Covid-19 pandemic and the subsequent global supply chain disruptions and high interest rate environment, many prospective new vehicle customers have put their plans on hold, which has translated into more repairs and servicing on existing vehicles. Unix Auto's market share doubling over the last 10 years as it progressively took market shares from authorised service centres, which have more expensive services and do not offer cheaper generic spare parts.

Unix Auto operates more than 100 retail facilities in Hungary and over 60 shops in Romania, with no significant expansion plans for now. Most sales occur through trade lines sold directly to service garages, delivered within the day or even the hour. The company has an inventory of 10m spare parts and serves 16,000 customers daily with a fleet of over 2,000 vehicles. Many products are compatible with several vehicle models and exist in different price categories.

The company is investing heavily in an automated warehouse in Budapest with proprietary technology and recently started developing a production facility, also in Budapest, to locally produce its own branded products under the A.Z. Meisterteile range to cover 10%-20% of its needs. Unix Auto has 50,000 own branded products, which have superior profitability (including oils, wipers, brake discs, light bulbs and service equipment).

The company is part of the ATR membership organisation, a German cooperative with roots back to 1967. This is as a union of partners with equal rights that focus on improving their competitive position for all members through common purchasing and marketing activities. The aim is to gain market leadership in Europe and further enhance the competitiveness of brand-independent car repair businesses. The partnership also opens up other European markets, giving Unix Auto the possibility of expanding in the future.

Financial overview

			Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	11.4x	10.0x	8.6x	8.1x	6.7x
Scope-adjusted debt/EBITDA	2.5x	1.7x	1.8x	1.6x	1.8x
Scope-adjusted funds from operations/debt	36%	54%	50%	53%	47%
Scope-adjusted free operating cash flow/debt	13.3%	-2.8%	14.7%	13.9%	-13.1%
Scope-adjusted EBITDA in HUF m					
EBITDA	8,247	12,640	10,621	10,346	11,113
Scope-adjusted EBITDA	**8,247**	**12,640**	**10,621**	**10,346**	**11,113**
Funds from operations in Scope-adjusted EBITDA in					
Scope-adjusted EBITDA	8,247	12,640	10,621	10,346	11,113
less: (net) cash interest paid	-722	-1,270	-1,229	-1,274	-1,659
less: cash tax paid per cash flow statement	-53	-428	-531	-595	-622
add: dividends from associates and other items[1]	-43	375	500	500	500
Funds from operations	**7,429**	**11,317**	**9,360**	**8,977**	**9,332**
Free operating cash flow in Scope-adjusted EBITDA in					
Funds from operations	7,429	11,317	9,360	8,977	9,332
Change in working capital	-767	-8,574	-3,666	-2,684	-2,843
Non-operating cash flow	-27	0	0	0	0
less: capital expenditure (net)	-3,923	-3,325	-2,951	-3,948	-9,108
Free operating cash flow	**2,711**	**-582**	**2,743**	**2,345**	**-2,620**
Net cash interest paid in Scope-adjusted EBITDA in					
Net cash interest per cash flow statement	722	1,270	1,229	1,274	1,659
Net cash interest paid	**722**	**1,270**	**1,229**	**1,274**	**1,659**
Scope-adjusted debt in Scope-adjusted EBITDA in					
Reported gross financial debt	23,839	21,153	21,020	20,887	28,754
less: cash and cash equivalents	-3,347	-316	-2,425	-4,137	-8,886
add: non-accessible cash	125	125	125	125	125
Scope-adjusted debt	**20,617**	**20,962**	**18,719**	**16,874**	**19,993**

[1] Mainly related to dividends received from the company's unconsolidated subsidiary in Romania, Unix Auto S.R.L and insignificant other charges.

Table of Content

Environmental, social and governance (ESG) profile

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

Legend

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

Credit-neutral ESG profile

The company is very good at automating and therefore somewhat minimising its environmental footprint. While the automotive sector remains among the highest polluters, it is getting greener with the growth of electric cars and the recycling of used parts and oils, mainly through governmental concession operators.

Governance is lax as the owner (Mr Antal Zombori) is deeply involved in strategy, planning and operations. The hands-on management style is mitigated by an internal operational shared service centre covering finance, marketing, human resources, and information technology. The owner makes decisions unilaterally. Dividend payout ratio is reasonably low.

Unix Auto SRL (Romania) was first consolidated in 2022, with a full audit report to be available starting from 2023 accounts, which increases transparency.

Business risk profile: BB

Industry risk profile: BB

The company operates in the auto parts retail industry, which falls under the discretionary retail segment, with medium cyclicality, low entry barriers and low substitution risk.

Market leader in Hungary; developing Romanian operations

Unix Auto is the leading auto spare parts company in Hungary in terms of market share and product range with a revenue of EUR 240m. In addition to the clear dominance in Hungary (35% market share), Unix Auto is fifth in Romania and present in Slovakia.

The main local competitor of Unix Auto (HUF 91.6bn revenue, HUF 12.6bn EBITDA in 2022) is Bárdi Autó (HUF 75bn revenue, HUF 12.0bn EBITDA in 2022). Both have a sales portfolio of international brands and their own private label brand.

Revenue increased by 21% YoY in H1 2023, mainly due to the recovering market and inflation. Top-line growth was also above 20% in 2022, driven by the preference among customers to repair existing cars over buying new ones. Customers often opt for smaller repair shops as they provide a less expensive service than original equipment manufacturers.

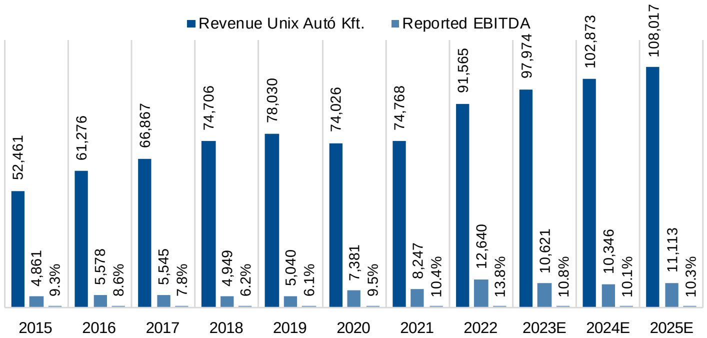
Retail volumes started decreasing in 2023, including non-food where the car parts business is categorised, although volumes are still larger than before Unix Autos' bond issuance in 2019.

The retail network is expected to be stable, no new shops are planned, and the network development is on hold. Direct sales to service garages with a delivery service is the largest sales contributor, followed by retail shops and B2C e-commerce.

Limited geographical concentration, good customer and supplier diversification

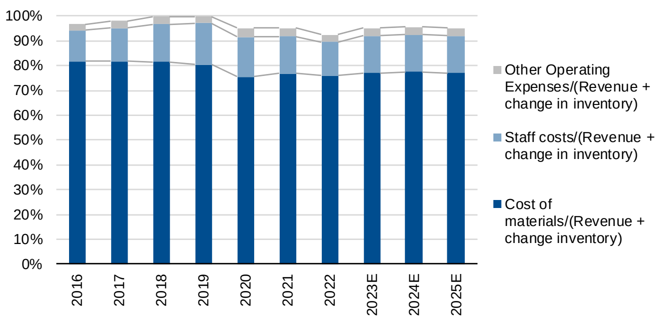
Diversification is limited geographically with a focus on Hungary and Romania. The company is well diversified in terms of suppliers, with no strong reliance on one in particular: it counts about 500 suppliers that are all leading spare parts manufacturers in the world. Distribution channels are mixed (retail network, B2B sales via software, B2C sales via webshop).

Figure 1: Revenue and profitability of Unix Auto (in HUF m)



Sources: Unjx Autó Kft, Scope (estimates)

Figure 2: Cost breakdown of Unix Auto



Sources: Unjx Autó Kft, Scope (estimates)

Good price-setting capability coupled with own branded products with superior margin

Profitability increased to above pre-Covid-19 levels with a Scope-adjusted EBITDA margin of 13.8% in 2022, up from 6.1% in 2019, mainly thanks to own branded products (A.Z. Meisterteile, 50,000 different products), operational efficiencies and price increases above inflation. This profitability compares well to both local and European peers. We expect some shocks on the cost side, with margins normalising at above 10%. Scope-adjusted returns on assets are rather weak, at between 10%-15%, which we expect the company to maintain.

Financial risk profile: BB+

Better-than-anticipated leverage thanks to improving margins

Leverage as measured by Scope-adjusted debt/EBITDA improved to 1.7x in 2022 from 2.5x in 2021. This was due to improved EBITDA of HUF 12.6bn (up 53% YoY) and a slight decrease in gross debt to HUF 21.2bn (down 11% YoY). Leverage remained below 2.0x in H1 2023. Scope-adjusted funds from operations/debt improved to above 50% in 2022 from 36% in 2021 and we expect strong cash flow generation to continue into the medium term due to supportive market conditions. Consolidation will further improve credit metrics as group EBITDA will be higher with ca.15% and the Romanian entity has no bank debt. We expect the company to keep its Scope-adjusted debt/EBITDA below 2x in the medium-term.

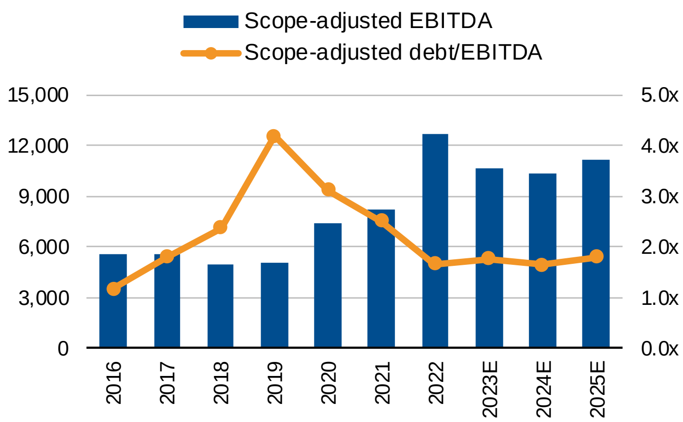
Decreasing interest cover as interest rates rise

EBITDA interest coverage is expected to stay strong at above 6x for the forecast period, despite the increasing cost of working capital financing. The strong interest cover is forecasted to continue for the coming two years.

Unix Auto has a HUF 12bn fixed-coupon (4% yearly) bond. The long- and short-term working capital debt facilities add up to HUF 14.5bn, of which one-third is drawn, mainly those with fixed interest rates (6% yearly).

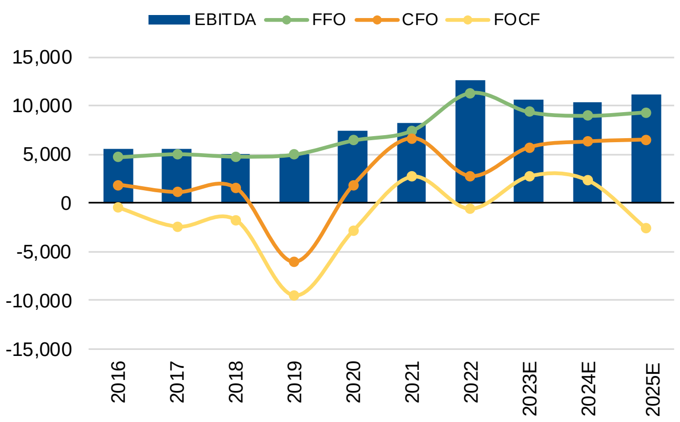
Variable interest rates remain a risk for Unix Auto as fixed-rate facilities are subsidised by the state and no significant new subsidised financing facilities are available in Hungary for large corporates. In response to the increasing finance costs, Unix Auto has used less bank financing, toned down its international growth aspirations and used more supplier financing.

Figure 3: Indebtedness of Unix Auto (in HUF m)



Sources : Unjx Autó Kft, Scope (estimates)

Figure 4: Cash flows of Unix Auto (in HUF m)



Sources : Unjx Autó Kft, Scope (estimates)
FFO : funds from operations
CFO : cash flow from operations
FOCF: free operating cash flow

Investment plans result in volatile free operating cash flow

Scope-adjusted free operating cash flow/debt remains low and volatile due to continuous investment, which constrains the rating. However, the upcoming capex plan can be phased and readily adjusted to cash flow as it consists of many small items.

The new logistics centre is operating in test phase with proprietary warehouse automation technology. Efficiencies should be visible from 2024 onwards.

Unix Auto also started developing a production site in Budapest for own-branded products under the A.Z. Meisterteile line as a response to possible supply chain disruptions. The production could be scaled up locally if needed.

Further investments in energy efficiency are planned, which can be phased and adjusted to cash flow. The strong negative trend of Scope-adjusted free operating cash flow/debt has been reversed. Our expectation of negative free operating cash flow in 2025 is due to

HUF 6bn of assumed uncommitted capex, the deployment of which depends on the refinancing stage of the bond.

Financial covenants in loan agreements

The bank financing agreements have several financial covenants. Most were met with ample headroom, the most important being net debt/EBITDA of up to 4.0x and supplier payments at up to 90 days. An exception was a breach on the covenant on the rotation speed of inventory. Banks have agreed to waive this covenant and Unix Auto plans to remove it from its financing agreements to avoid future breaches. Nevertheless, such a covenant is outside the market norm.

Adequate liquidity

Since the refinancings performed in the past two years where short-term loans were converted into 2-3 year credit facilities, and free operating cash flow turned positive, liquidity ratios improved significantly.

The unused long-term debt facilities of HUF 5.5bn could serve as a buffer for the refinancing of the bond, along with cash, supplier financing and new debt facilities available in two years.

Tackling debt markets should not be an issue for Unix Auto thanks to its low debt levels and diversified banking relationships; hence, we consider liquidity adequate and refinancing risk low.

Balance in Scope-adjusted EBITDA in	2023E	2024E	2025E
Unrestricted cash (t-1)	2,425	4,137	8,886
Open committed credit lines (t-1)	5,500	5,500	5,500
Free operating cash flow	2,742	2,345	-2,618
Short-term debt (t-1)	5,195	8,695	20,695[2]
Coverage	**2.1x**	**1.4x**	**0.6x**

Supplementary rating drivers: +/- 0 notches

No notching was applied.

Long-term debt ratings

Senior unsecured debt rating: BB

We simulated a hypothetical default scenario at YE 2025, in which the asset base was moderately discounted. The resulting recovery expectation is 'average', which translates into the same rating for senior unsecured debt as the issuer rating, BB.

We note that HUF 14.5bn senior secured working capital loans and HUF 8bn investment loans ranking ahead of the senior unsecured debt.

In November 2019, Unix Autó Kft. issued a HUF 12bn senior unsecured bond (ISIN: HU0000359286) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The bond proceeds were used for a new automated warehouse and the partial repayment of supplier balances. The bond has a tenor of seven years and a fixed coupon of 4.0%. Bonds have bullet repayment at maturity in November 2026. We note that Unix Auto's senior unsecured bond has accelerated repayment clauses. The clauses require Unix Auto to repay the nominal amount (HUF 12bn) in case of a rating deterioration (two-year cure period for a B/B- rating, immediate repayment after the bond rating falls below B-, which could have default implications). In addition to the rating deterioration covenant, bond covenants have a list of soft covenants including for a change of control.

[2] Includes the bond maturing in 2026.

Appendix: Peer comparison (as at last reporting date)

	Unix Autó Kft.	Abroncs Kereskedőház Kft.	Vöröskő Kft. (Euronics)	AXIÁL Kft.
	BB/Stable	BB/Stable	BB/Stable	BB/Stable
Last reporting date	31 December 2022	31 December 2021	31 December 2022	31 December 2022
Business risk profile	BB	B+	BB-	BB-
Revenue (EUR m)	240	81	200	381
Geographical exposure	Immediate neighbours	Immediate neighbours	One country	Immediate neighbours
Scope-adjusted EBITDA margin	13.8%	4.8%	5.3%	10.0%
Financial risk profile	BB+	BB	BB+	BBB-
Scope-adjusted EBITDA/interest cover	10.0x	10.0x	10.0x	33.0x
Scope-adjusted debt/EBITDA	1.7x	0.6x	2.6x	0.6x
Scope-adjusted funds from operations/debt	54%	30%	34%	221%
Scope-adjusted free operating cash flow/debt	-2.6%	116%	-54%	78%

Sources: Public information, Scope

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer