24 September 2024 Corporates

Unix Autó Kft.
Hungary, Retail

SCOPE **BB** STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	10.0x	11.1x	15.1x	12.8x
Scope-adjusted debt/EBITDA	1.7x	1.1x	0.8x	0.5x
Scope-adjusted funds from operations/debt	54%	79%	113%	173%
Scope-adjusted free operating cash flow/debt	-3%	53%	63%	56%

Rating rationale

The rating is driven by an unchanged business and an improving financial risk profile. Unix Autó has achieved sustained deleveraging by significantly improving its EBITDA, leading to Scope-adjusted debt/EBITDA at around 1x at YE 2023. With HUF 9.7bn cash at H1 2024, we see Unix Autó being able to repay its maturing bond of HUF 12.0bn in November 2026 mostly from cash. Therefore, refinancing risk is low.

The moderate business risk profile is primarily driven by the good profitability in Unix Autó's key markets of Hungary and Romania. 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 persistent high 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 good financial risk profile is primarily driven by Unix Autó's strong leverage and strong interest cover. The rating is constrained by volatile and low free operating cash flow, which is driven by capex launched in large chunks.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Unix Autó can continue to tackle inflation-linked cost pressure, maintain double-digit margins and execute capex plans while keeping debt/EBITDA well below 3.0x.

The upside scenarios for the ratings and Outlook are (collectively): (1) Improved business risk profile due to growing revenues and better geographical diversification (remote); and (2) Maintenance of credit metrics at solid levels.

The downside scenario for the ratings and Outlook is: (1) Deterioration in financial risk profile exemplified by Scope-adjusted debt/EBITDA increasing above 3.5x.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
24 Sep 2024	Affirmation	BB/Stable
4 Oct 2023	Upgrade	BB/Stable
19 Oct 2022	Outlook change	BB-/Positive

Ratings & Outlook

Issuer	BB/Stable
Senior unsecured debt	BB

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Related Methodologies

General Corporate Rating Methodology; October 2023

Retail and Wholesale Rating Methodology; April 2024

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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 • Strong profitability due to 50,000 own private label products with possible own production capacity, cost optimization and price setting capability	• Somewhat weak geographical diversification, with Hungary as the main sales and profit generator • Increasing finance cost hinders the growth prospects of retail network • Negative working capital in most years requiring financing • Higher cost base than main Hungarian competitor

Positive rating-change drivers	Negative rating-change drivers
• Improved business risk profile due to growing revenues and better geographical diversification (remote) • Maintenance of credit metrics at solid levels	• Scope-adjusted debt/EBITDA increasing above 3.5x (remote)

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 Autó 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 Autó's market share has doubled 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 Autó 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. It 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 Autó 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 Autó the possibility of expanding in the future.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	10.0x	11.1x	15.1x	12.8x	22.6x
Scope-adjusted debt/EBITDA	1.7x	1.1x	0.8x	0.5x	0.0x
Scope-adjusted funds from operations/debt	54%	79%	113%	173%	>200%
Scope-adjusted free operating cash flow/debt	-3%	53%	63%	56%	>200%
Scope-adjusted EBITDA in HUF m					
EBITDA	12,640	12,973	11,447	12,093	13,314
Scope-adjusted EBITDA	**12,640**	**12,973**	**11,447**	**12,093**	**13,314**
Funds from operations in HUF m					
Scope-adjusted EBITDA	12,640	12,973	11,447	12,093	13,314
less: (net) cash interest paid	(1,270)	(1,172)	(757)	(945)	(588)
less: cash tax paid per cash flow statement	(428)	(884)	(738)	(758)	(891)
Change in provisions	375	-	-	-	-
Funds from operations (FFO)	**11,317**	**10,917**	**9,951**	**10,390**	**11,835**
Free operating cash flow in HUF m					
Funds from operations	11,317	10,917	9,951	10,390	11,835
Change in working capital	(8,574)	(1,154)	(89)	(4,354)	(3,627)
Non-operating cash flow	-	-	-	-	-
less: capital expenditure (net)	(3,325)	(2,443)	(4,301)	(2,690)	(2,290)
Free operating cash flow (FOCF)	**(582)**	**7,320**	**5,561**	**3,345**	**5,918**
Net cash interest paid in HUF m					
Net cash interest per cash flow statement	1,270	1,172	757	945	588
Net cash interest paid	**1,270**	**1,172**	**757**	**945**	**588**
Scope-adjusted debt in HUF m					
Reported gross financial debt	21,153	16,163	15,752	15,752	3,852
less: cash and cash equivalents	(316)	(2,392)	(7,042)	(9,888)	(3,406)
add: non-accessible cash[1]	125	125	125	125	125
Scope-adjusted debt (SaD)	**20,962**	**13,896**	**8,835**	**5,989**	**571**

[1] Retail network cashier

Unix Autó Kft.

Hungary, Retail

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Environmental, social and governance (ESG) profile[2]

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 dividend payout ratio is reasonably low.

Unix Auto SRL (Romania) was first consolidated in 2022, with a full audit report available since YE 2023 accounts, which has increased transparency.

[2] 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

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 Autó is the leading auto spare parts company in Hungary in terms of market share and product range with a revenue of EUR 273m in 2023 (up 16.3% YoY).

Top-line growth was driven by the preference among customers to repair existing cars over buying new ones as well as by general inflation in Hungary and the forex effect. Customers often opt for smaller repair shops as they provide a less expensive service than original equipment manufacturers.

In addition to the clear dominance in Hungary (35% market share), Unix Autó is fifth in Romania and present in Slovakia.

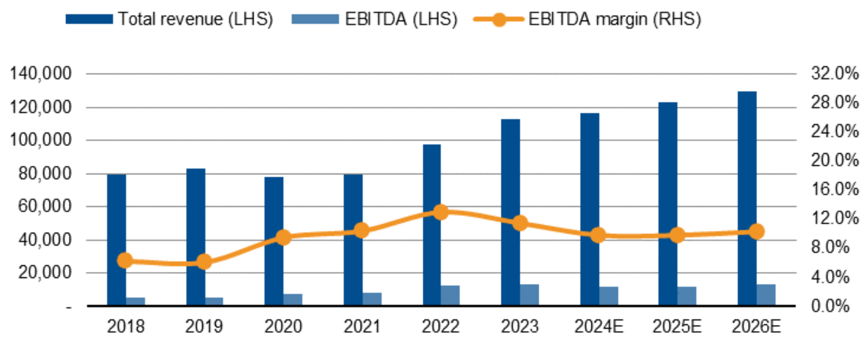
Retail volumes started decreasing in 2023, including the non-food category, which encompasses the car spare parts business. However, volumes are still larger than before Unix Autó's bond issuance in 2019. Demand in 2024 is still sluggish, but most recent data from the Hungarian Statistics Office shows recovering demand.

In 2023, Unix Autó had revenues of HUF 106.5bn and HUF 13.0bn in EBITDA (up 2.6% YoY). Its main local competitor, Bárdi Autó, had HUF 80.6bn in revenues and HUF 7.6bn in EBITDA in 2023 (down 36.6% YoY). The competition could not manoeuvre so well during the inflationary environment as shown by the huge drop in nominal EBITDA. This may further accelerate the market dominance of Unix Autó. Both have a sales portfolio of international brands and their own private label brand.

Limited geographical concentration, good customer and supplier diversification

Unix Autó's retail network is expected to remain at its current size due to the saturated market in Hungary. Significant investment would be needed to expand its market presence in Romania and is thus not targeted by the issuer. Geographical diversification is limited with a focus on Hungary and Romania (below 10% of 2023's revenues). On a positive note, the company is well diversified in terms of suppliers and sales channels. For each product category, there are several suppliers for different price points, and Unix Autó operates through three different sales channels (brick and mortar retail shops, electronic catalogue software for B2B customers such as repair garages, and a web shop), with the physical shops accounting for around 60% of sales. This diversification ensures the resilience of Unix Autó's ability to serve customers in the event of supply chain disruptions or the loss of a distribution channel.

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



Sources: Unjx Autó Kft, Scope estimates

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

Operating profitability is generally good and is supported by a very strong Scope-adjusted EBITDA margin of 12.2% in 2023 (down from 13.8% in 2022), which we expect to remain well above 10%; and a moderate EBITDA return on assets of 20.4% in 2023 (down from 23.3% in 2022), which should remain well above 15% going forward.

The profitability trend is supported by the relatively high share of high-margin private label products and good working capital management. Slight pressure on profitability levels is related to pricing pressure and rising inventory value to ensure product availability to grow market share in Hungary in 2024-26.

Financial risk profile: BBB+

Better-than-anticipated leverage thanks to improving margins

The improvement of the financial risk profile is driven by a successful deleveraging after a period of heavy investment. The company aims to be debt-free by 2026 and to keep only buffer working capital lines.

Reported gross debt was stable in the range of HUF 21-24bn during 2019-2023. The deleveraging to Scope-adjusted debt/EBITDA of 1.1x in 2023 from 2.5x in 2021 is due to the doubling of EBITDA between 2019 and 2023 and the accumulation of significant cash. Reported gross debt will decrease by HUF 3.5bn in 2025 and by HUF 12.0bn in 2026 as the company plans to repay most if its debt (a bond and a Baross Gábor loan), should interest rates stay at this level. Funds from operations/debt gradually improved on the back of the deleveraging to 79% in 2023 from 28% in 2019.

We expect leverage to improve further with Scope-adjusted debt/EBITDA of below 1.0x and Scope-adjusted FFO/debt of around 100% by end 2025, thanks to the reduction in gross debt and a growing cash balance given the strong cash generation of Unix Autó’s business. We apply cash netting in our leverage calculation, as cash is considered to be permanent and accessible, with the recent cash build up earmarked for debt repayment.

Leverage could still deteriorate in the event of a new major investment programme, such as the broadening of private label products.

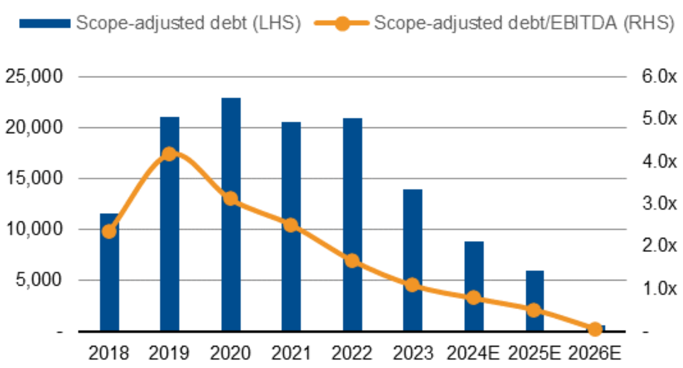
Decreasing interest cover as interest rates rise

Scope-adjusted EBITDA interest coverage has remained strong (above 10x since 2019) due management’s prudent approach in fixing all long-term interest rates and due to the positive evolution of EBITDA. We therefore believe this strong metric will be sustained, supported by a drop in payable interest linked to the anticipated reduction in gross debt.

Unix Autó has a HUF 12.0bn fixed-coupon (4% yearly) bond. The long- and short-term working capital debt facilities add up to HUF 14.5bn, out of which over HUF 10bn is undrawn.

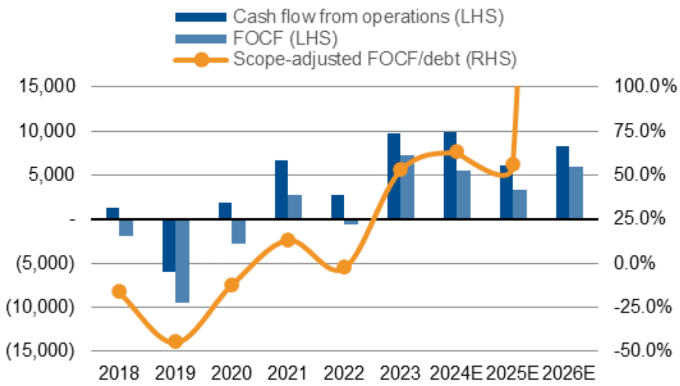
Variable interest rates remain a risk for Unix Autó. This is because fixed-rate facilities are subsidised by the state and no significant new subsidised financing facilities are available in Hungary for large corporates. In response to the increasing finance costs, Unix Autó has used less bank financing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

Figure 2: Indebtedness of Unix Autó (in HUF m)



Sources: Unjx Autó Kft, Scope estimates

Figure 3: Cash flows of Unix Autó (in HUF m)



Sources: Unjx Autó Kft, Scope estimates

Investment plans result in volatile free operating cash flow

Historical negative FOCF numbers relate to the large new logistics centre.

Following completion of the logistics centre, Scope-adjusted FOCF/debt turned positive in 2021. It was slightly negative in 2022 due to IT investments. With no committed capex plan since 2023, Scope-adjusted FOCF/debt is positive. We expect it to remain positive until at least 2026 due to improving FOCF and decreasing gross debt.

The company is considering capex for 2025 for warehousing systems and/or a spare parts manufacturing site for which the building has already been acquired. The capex is not committed and may be split over several years. Therefore, this metric could remain volatile in the future as well.

Adequate liquidity

We expect the liquidity ratio to exceed 200% in 2024-25. Unix Autó has high cash reserves of HUF 9.7bn as at 30.06.2024, earmarked for debt repayment, and HUF 10.4bn in undrawn short-term working capital facilities (excluded from our assessment due to their short maturity). This provides a significant buffer along with the possibility of drawing supplier financing. We believe the company will be able to repay the HUF 12.0bn bond maturing in November 2026 from existing cash sources.

All loan facilities mature in 2025 (investment loans, working capital loans and overdrafts). There is no refinancing risk as the only significant drawn credit facility of HUF 3.5bn is invested in a time deposit. The remaining small repayments of HUF 100-200m do not pose a liquidity risk.

Balance in HUF m	2024E	2025E	2026E
Unrestricted cash (t-1)	2,267	6,917	9,763
Open committed credit lines (t-1)	-	-	-
Free operating cash flow	5,561	3,345	5,918
Short-term debt (t-1)	571	3,500	12,000
Coverage	**>200%**	**>200%**	**131%**

Financial covenants in debt agreements

Unix Autó's senior unsecured bond issued under the Hungarian National Bank's Bond Funding for Growth Scheme has a covenant requiring the accelerated repayment of the outstanding nominal bond amount (HUF 12.0bn) if the debt rating of the bond stays below B+ for more than two years (grace period) or drops below B- (immediate accelerated repayment). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period is two notches.

In addition to the rating deterioration covenant, bond covenants have a list of soft covenants including for a change of control.

Baking covenants were met with a high buffer as banks are ready to finance Unix Autó up to a net financial leverage/EBITDA ratio of 4.0x.

Supplementary rating drivers: +/- 0 notches

No notching was applied.

Financial policy is risk averse exemplified by low leverage, mainly fixed rate drawn debt and low dividends.

On the governance side we note that major decisions are taken unilaterally by the owner-CEO, but key person risk is reduced by a significant back-office staff.

Parent support is neutral. There has been no significant equity contribution in the past because the company did not need it (partly because of the owner's low dividend expectations).

Long-term debt ratings

Senior unsecured debt rating: BB

We affirm the BB rating on senior unsecured debt issued by Unix Autó Kft, which includes the HUF 12.0bn bond issued in 2019.

The debt category rating reflects the ranking of the debt at below a significant amount of HUF 14.1bn of senior secured bank debt (25% drawn, 75% undrawn). We expect an 'average' recovery (30%-50%) for outstanding senior unsecured debt in a hypothetical default scenario at YE 2025 based on a going concern, noting the possible introduction of further senior secured debt ranking ahead of the bond.

In November 2019, Unix Autó Kft. issued a HUF 12.0bn 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.

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