Unix Autó Kft.
Hungary, Auto Retail

SCOPE BB- NEGATIVE

Corporate profile

Unix Autó 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	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover (x)	26.0x	10.7x	7.8x	7.6x
Scope-adjusted debt (SaD)/EBITDA	4.2x	3.1x	4.5x	4.2x
Scope-adjusted funds from operations (FFO)/SaD	23%	28%	20%	21%
Free operating cash flow (FOCF)/SaD	-44.4 %	-11.7 %	1.5%	3.5%

Rating rationale

Scope Ratings has a BB-/Negative corporate issuer rating on Unix Autó Kft. and a BB- rating on its senior unsecured debt.

Unix Autó's business risk profile is supported by its market share and well-known brand in auto parts in Hungary. However, the Covid-19 pandemic has increased economic uncertainty in its two main countries of operation, Hungary and Romania. The countries' auto parts markets have contracted by around 10% because performance correlates with kilometres driven. In Hungary, Unix Autó's revenues in 2020 were the same as the previous year's due to price increases, but in Romania they decreased by 20% due to stricter lockdowns and Unix Autó's inability to set prices as it is not market leader. Diversification is good in terms of suppliers and customers. Moreover, Unix Autó has a massive spare-parts product range, with diversification added by services offered such as special tool rental. However, the relatively heavy dependence on Hungary (around 70% of sales) limits overall diversification. We anticipate EBITDA margins will stay at around 6-7%. This is based on our assumptions and the competitive environment, with the adverse effects from lower expected sales to be offset by measures taken by the company, including automation and cost reduction (mainly through headcount) initiated a year before the pandemic broke out.

We hold a mixed view of Unix Autó's financial risk profile. Interest cover is strong, but free operating cash flow (FOCF) generation is negative, with the latter a key negative driver.

Scope-adjusted leverage ratios weakened in 2019 following the bond issue under the Hungarian National Bank's programme. Bond proceeds were used during 2019-20 for refinancing, investments (logistics centre) and supplier financing (accounts payable decreased by HUF 3.6bn in 2020, reducing days payable outstanding from 43 days to 25 days). We now forecast Scope-adjusted debt (SaD)/EBITDA and funds from operations (FFO)/SaD to deteriorate further in the short to medium term. In 2020, leverage decreased slightly to around 3x from above 4x in 2019. However, with the capex programme continuing into 2021 and plans for a significant dividend pay-out (HUF 2.5bn), we expect leverage to increase to around 4.5x by the end of 2021.

Ratings & Outlook

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

Lead Analyst

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

Related Methodology

Corporate Rating Methodology, February 2020

Retail and Wholesale Corporates Methodology, March 2021

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

The financial risk profile reflects a more aggressive approach, mainly due to 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. In the longer term, we expect the plan to be positive for diversification and profitability because the A.Z. Meisterteile brand generates significantly higher margins than the commercial products. At the same time, the investment period that is negatively affecting cash flow and the capital structure will end in 2021. In 2021, the company will direct more capex towards completing its main logistics centre in Budapest, which includes increased floor and storage capacity and a new self-developed automation system.

The company's FFO is still solid in relation to SaD. We expect the same going forward, but the ratio could come under pressure if growth slows further. Working capital needs remain a key issue for cash flow and funding. At present, the company pre-finances suppliers to maximise discounts. Operating cash flow is positive, but not enough to cover recent capex or that planned for the next year or two.

Unix Autó's heavy reliance on short-term borrowing exposes it to the bank's willingness to extend credit and roll over debt. That said, there have been no issues so far and we expect none going forward.

Outlook and rating-change drivers

The Negative Outlook reflects our expectation that Unix Autó will be adversely affected by the lower activity and GDP in its two key markets due to Covid-19 restrictions, specifically through the reduction in kilometres driven. Although our base case assumes a slow recovery in these markets, the company's financial results and the one-off shareholder remuneration in FY 2021 will still have a negative effect on the financial risk profile.

A positive rating action (i.e. a return to a Stable Outlook) is possible if the company is more resilient than we anticipate and leverage stays below 4x. A rating upgrade is unlikely at the moment but could occur in the longer run if Unix Autó improves sales, profit margins, liquidity, and leverage with a SaD/EBITDA sustained well below 3.5x.

A negative rating action is possible if the financial risk profile deteriorates, exemplified by SaD/EBITDA wateraand FFO/SaD moving below 15%.

Rating drivers

Positive rating drivers	Negative rating drivers
• Dominant market share (35%) in Hungarian auto parts • Solid growth and well-known brand domestically, and limited dependence on individual customers or suppliers • Modest interest cover for the rating category at the moment • Cost optimisation with good results	• Ransomware attack resulting in operational closure for three business days and associated revenue loss, around HUF 500m in one-off expenses, data loss and further uncertainties • Lower sales volumes due to decreasing demand both during and after the pandemic • Somewhat weak geographical diversification, with Hungarian market driving sales and profits • Increased shareholder remuneration of HUF 2.5bn in 2021 • 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 profitability margins, while SaD/EBITDA stays below 3.5x	• Deterioration in financial risk profile exemplified by SaD/EBITDA sustained above 4x • Continued decline in EBITDA margins and a FFO/SaD sustained below 15%

Financial overview

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover (x)	26.0x	10.7x	7.8x	7.6x
SaD/EBITDA	4.2x	3.1x	4.5x	4.2x
Scope-adjusted FFO/SaD	23%	28%	20%	21%
FOCF/SaD	-44.4 %	-11.7 %	1.5%	3.5%
EBITDA in HUF m				
Income from operations (EBIT)	3,139	5,466	3,502	3,682
Add: depreciation	1,901	1,915	2,100	2,200
EBITDA	5,040	7,381	5,602	5,882
Scope-adjusted funds from operations in HUF m				
EBITDA	5,040	7,381	5,602	5,882
Less: (net) cash interest per cash flow statement	-233	-689	-718	-772
Less: cash tax paid per cash flow statement	-67	-171	-205	-216
Add: other items	0	0	0	0
Scope-adjusted funds from operations	4,740	6,522	4,679	4,894
Scope-adjusted debt in HUF m				
Reported gross financial debt	20,319	23,160	25,095	24,695
Less: cash, cash equivalents	-303	-215	-170	-298
Add: cash not accessible			125	125
Add other, pensions, operating leases or shareholder loans	1,040	-	-	-
Scope-adjusted debt	21,056	22,945	25,050	24,522

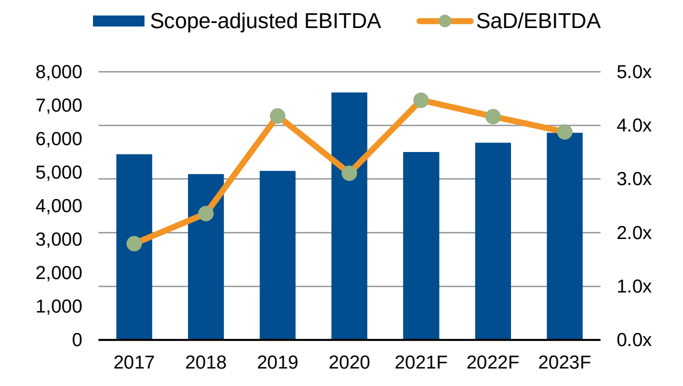
Summary of business and financial risk profiles

We have assigned a BB rating to Unix Autó's business risk profile, mainly supported by its leading position in Hungary in terms of market share and product range. One constraint on the business risk profile is the pressure on profitability margins.

In Q2 2021, a ransomware attack forced Unix Autó to close all physical points of sale for three business days. This resulted in urgent IT expenditure and data loss. However, this period of closure exemplified Unix Autó's dominance: competitors were unable to meet demand and car garage services were actually closed in Hungary for those days.

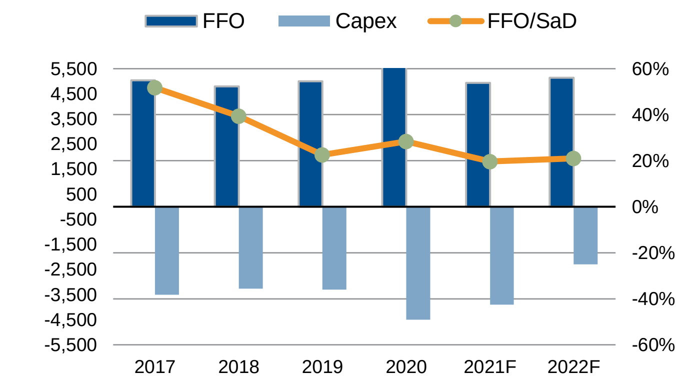
Unix Autó's financial risk profile is rated B+. At the end of 2020, SaD/EBITDA was 3.1x, well below the previous year's level of slightly above 4x. Based on our updated forecast, this ratio is unlikely to return below 4x in the medium term due to ongoing capex and increased shareholder remuneration. This puts pressure on the financial risk profile, mitigated to some degree in the future as the company seems dedicated to keeping the ratio below 4x as it is open to reducing supplier pre-payments and cancelling growth ambitions if necessary. With regards to our other negative rating trigger: FFO/SaD came in at 23% last year, still above our 15% threshold. However, with the pandemic-related decline in demand still visible in 2021, Unix Autó will find it difficult to maintain this ratio unless demand and profitability increase.

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 made no explicit rating adjustment for supplementary rating drivers. Although Unix Autó 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, which translates into a BB- rating. Our recovery expectation is based on an expected liquidation value in a hypothetical default scenario at the end of 2021, when expansionary investment will be mostly complete.

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

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

111 Buckingham Palace Road
London SW1W 0SR

Phone +44020-7340-6347

info@scoperatings.com
www.scoperatings.com

Disclaimer