7 July 2023

Corporates

AutoWallis Nyrt
Hungary, Retail

SCOPE B+ POSITIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	13.8x	22.5x	3.9x	4.7x
Scope-adjusted debt/EBITDA	3.4x	3.5x	2.7x	2.3x
Scope-adjusted funds from operations/debt	26%	25%	23%	27%
Scope-adjusted free operating cash flow/debt	35%	-18%	21%	-13%

Rating rationale

Our rating reflects solid credit metrics in 2022 and the expectation of increasing revenue and EBITDA as well as increasing diversification. We expect that AutoWallis will successfully execute its growth plan while keeping leverage under control.

Outlook and rating-change drivers

The positive Outlook reflects the assumption that AutoWallis will continue its expansion policy while maintaining stable or lower leverage, as seen in the last two years. The expectation is based on the issuer's ability to finance future growth with current available funds and keep indebtedness stable. While the unfavourable interest rate scenario will put pressure on debt protection, we anticipate that in the medium-to-long term, the issuer will offset the burden by increasing EBITDA. The positive Outlook also recognises the issuer's effort to improve geographical and brand diversification, which could improve its business risk profile without affecting credit metrics.

A rating upgrade could be warranted if AutoWallis' Scope-adjusted debt/EBITDA settled at below 3.0x. This could be achieved if the issuer reached its expansion target without recurring to excessive external debt and Scope-adjusted EBITDA were in line with our forecast. A positive rating action could also occur if AutoWallis improved its profitability to above 5%, for instance through higher revenue from services.

A negative rating action, including a reversed Outlook to Stable, could occur if Scope-adjusted debt/EBITDA were sustained at above 3.0x, driven by lower-than-expected profitability and the need for new external financing. A negative rating action could also be triggered by the loss of an important dealership or importer contract.

Scope notes that AutoWallis's senior unsecured bonds issued under the Hungarian Central Bank's bond scheme have an accelerated repayment clause. The clause requires the issuer to repay the nominal amount (HUF 3bn and HUF 6.7bn) within 10 days after the bond rating falls below B- (2-year cure period for a B/B- rating), which could have default implications.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
7 Jul 2023	Outlook change	B+/Positive
14 Jul 2022	Affirmation	B+/Stable
16 Jul 2021	Outlook change	B+/Stable

Ratings & Outlook

Issuer	B+/Positive
Senior unsecured debt	B+

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Related Methodologies and Related Research

General Corporate Rating Methodology; July 2022

Retail and Wholesale Rating Methodology; April 2023

Retailing bankruptcy risk grows in Europe: business failures to rise after slowdown in 2021-2022

European retailers: persistent inflation, low consumer confidence threaten demand, squeeze margins

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Solid market position as Hungary's largest dealer for BMW (about 50% market share) and MINI (about 80%); exclusive distributor for several brands in several central and South-eastern European countries • Presence in 14 countries • Low leverage, expected to remain sustainable despite AutoWallis' expansion policy • Improving geographical and brand diversification	• Low profitability: expected EBITDA margin of 4-5% for 2023 and 2024 (around 5.5% in 2022) • Relatively small in European context • Relatively small market share in the retail business

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA sustained at below 3.0x • Higher profitability, e.g. through higher percentage of services revenue	• Scope-adjusted debt/EBITDA sustained at above 3.0x • Loss of important dealership or importer contracts

Corporate profile

AutoWallis Nyrt is a Hungarian Holding Company operating as wholesaler and retailer of vehicles, automotive parts and accessories, and a provider of repairs, maintenance and long- and short-term rentals. The group in its present form originated in 2018 through a reverse acquisition in which Wallis Asset Management purchased Altera and Altera acquired 100% of the Wallis group's four automotive trading and service provider companies via in-kind contributions. AutoWallis Nyrt. is 57.6% owned by Tibor Veres through private equity firm Wallis Asset Management Zrt. In 2022, AutoWallis generated HUF 270bn of revenue and HUF 14.7bn in EBITDA.

On top of its presence in its home market of Hungary, the group is present in the wholesale business (59% of revenue in 2022) in 13 Central and Eastern European countries (Albania, Bosnia and Herzegovina, Croatia, 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 and.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	5.7x	13.8x	22.5x	3.9x	4.7x	5.4x
Scope-adjusted debt/EBITDA	11.2x	3.4x	3.5x	2.7x	2.3x	1.6x
Scope-adjusted funds from operations/debt	3%	26%	25%	23%	27%	41%
Scope-adjusted free operating cash flow/debt	40%	35%	-18%	21%	-13%	-5%
Scope-adjusted EBITDA in HUF m						
EBITDA	2,197	7,850	14,755	15,461	17,719	27,700
Other items[1]	178	173	0	0	0	0
Scope-adjusted EBITDA	**2,375**	**8,023**	**14,755**	**15,461**	**17,719**	**27,700**
Funds from operations in HUF						
Scope-adjusted EBITDA	2,375	8,023	14,755	15,461	17,719	27,700
less: (net) cash interest paid	-417	-580	-656	-3,927	-3,752	-5,086
less: cash tax paid per cash flow statement	-305	-314	-1,363	-2,023	-2,632	-4,794
less: disposal gains fixed assets	-350	46	0	0	0	0
other[2]	-411	-196	0	0	0	0
Funds from operations	**892**	**6,980**	**12,736**	**9,511**	**11,335**	**17,820**
Free operating cash flow in HUF						
Operating cash flow	12,977	13,551	-1,663	19,621	6,843	10,175
less: capital expenditure (net)	766	-1,841	-5,996	-9,354	-9,354	-9,354
less: lease amortisation	-3,075	-2,265	-1,509	-1,262	-2,861	-3,183
Free operating cash flow	**10,668**	**9,444**	**-9,618**	**9,005**	**-5,372**	**-2,362**
Net cash interest paid in HUF						
Net cash interest per cash flow statement	-417	-580	-656	-3,927	-3,752	-5,086
Net cash interest paid	**-417**	**-580**	**-656**	**-3,927**	**-3,572**	**-5,086**
Scope-adjusted debt in HUF						
Reported gross financial debt	26,717	27,243	51,608	42,268	41,277	43,455
Scope-adjusted debt	**26,717**	**27,243**	**51,608**	**42,268**	**41,277**	**43,455**

[1] Negative goodwill
[2] Other non-operational cash items

Table of Content

Environmental, social and governance (ESG) profile[3]

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)

Focus on environmentally friendly mobility solutions

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 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 (increasing 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. 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.

[3] 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: B+

Industry risk profile: BB

AutoWallis operates as 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 as BB.

Small company with good wholesale presence in Hungary

With a total revenue of HUF 270bn in 2022 (EUR 0.7bn) compared to HUF 195bn in 2021 (EUR 0.5bn), AutoWallis continues its expansion 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 was 7.5% in 2022 (compared to 5% in 2021), with a significant increase in Q1 2023 to 15% following the acquisition of Renault. In Slovenia, the group has a market share of 4.4% in 2022 and 2.9% in Q1 2023, while in other countries market share remains insignificant at around 1%. The exclusive distribution of various brands gives AutoWallis a comfortable position in the market and enhances its pricing power.

Weak market share in retail

In the retail segment, actively operated in Hungary and Slovenia, the group is a small player, with a total share of 4.6% in Hungary (increased from 4.4% in 2021) and 1.8% in Slovenia (increased from 0.4% in 2021) in 2022. The group sold a total 9,129 vehicles in 2022 compared to 8,533 in 2021.

More positively, the group holds a strong market share with BMW retail both in Hungary and Slovenia, with about 45% in Hungary and 59% in Slovenia of the total BMW sales, thus positioning itself as a dominant player in the premium segment. The market entry of a new BMW dealer in Hungary is not very likely, because BMW determines the number of dealers in a specific area, and it is not in BMW's interest to have a too competitive market. We believe that AutoWallis' position as BMW retailer in Hungary is also supported by its long partnership with BMW that 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 that 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's ability to gain strong market share.

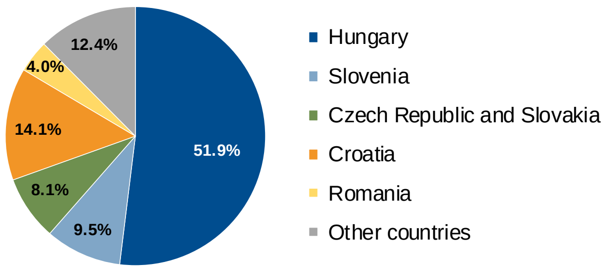
Weak product diversification

The business risk profile is constrained by the lack of product diversification. By operating in the automotive industry, the issuer is subject to the volatility of a cyclical industry. Car sales tends to reduce in times of macroeconomic downturn, while services 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

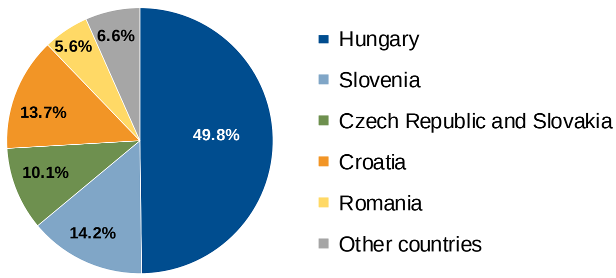
After consolidating its presence in the domestic market, AutoWallis is shifting its focus on surrounding countries to improve diversification. It has reduced its dependency on Hungary over the years. In 2022, Hungary accounted for 49% of sales (52% in 2021) and Slovenia accounted for 14.2%, up from 9.5% in 2021. The group expects to further increase its European coverage by entering new markets. In Q1 2023, the portion of domestic revenue further reduced to 45% of the total.

Figure 1: Revenue by country in 2021



Sources: AutoWallis, Scope

Figure 2: Revenue by country in 2022



Sources: AutoWallis, Scope

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 (beginning of 2023) of the Hungarian used vehicle sale platform Net Mobilitás Zrt, which will be used as a vehicle to acquire the technology and know-how to extend to the whole group. However, we do not expect the transition to an omnichannel provider to have any visible effect in the short term.

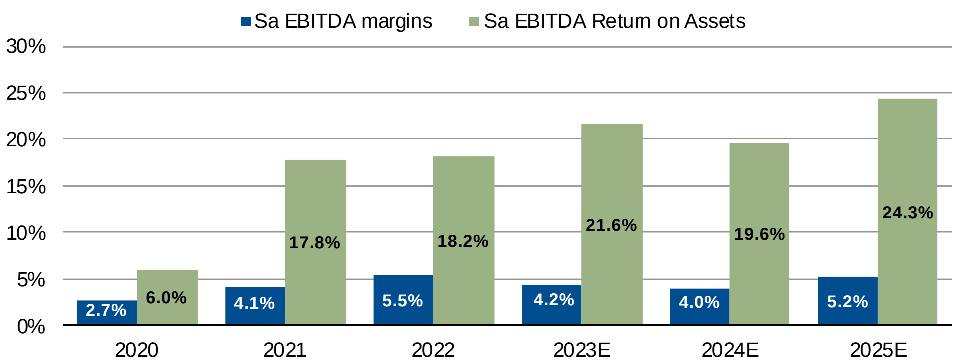
Dependency on few manufacturers increases cash flow volatility risk

Although the brand portfolio is relatively granular as it covers both the premium segment (with BMW, Maserati and JLR) and the low-to-medium price segment with all major brands, the group remains dependent on a handful of brands, as in 2022, 44% of new car sales were generated by Opel and 78% of sales were generated by three brands: Opel, SsangYong and BMW. While we do not see an imminent risk of the manufacturers cancelling the distribution and dealership agreements, especially BMW, with whom AutoWallis benefits from a long-term relationship, depending on just a few providers enhances the risk of cash flow volatility.

Low profitability

Profitability as measured by the Scope-adjusted EBITDA margin has been historically low, as is typical for car dealerships given their weak pricing power. The ratio was exceptionally high in 2022 at 5.5%, driven by the increased average car price in that year. We expect revenue and EBITDA to increase significantly, in line with AutoWallis' strategy of increasing its presence in Europe and several expected new transactions over the next two years. In 2023 and 2024, we expect margins to return to around 4%, as car prices stabilise and pressure on profit and loss could come from loss of consumer confidence and persisting inflation. In the long-term, the effort to diversify revenue streams, mitigate the effects of inflation (e.g. by focusing on the highly profitable aftersales business) and economies of scale from the planned acquisitions might lead to increasing profitability.

Figure 4: Profitability margins



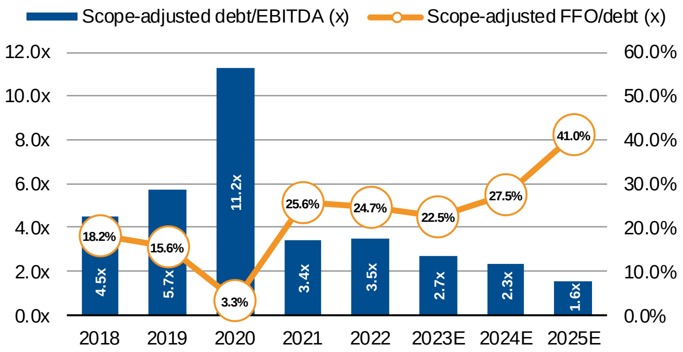
Sa: Scope-adjusted
Sources: AutoWallis, Scope estimates

Financial risk profile: BB-

Leverage to remain sustainable

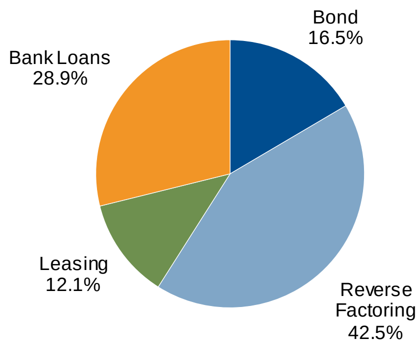
The financial risk profile upgrade to BB- from B+ is supported by the issuer's stable leverage, confirmed by the Scope-adjusted debt/EBITDA at 3.5x in 2022 (3.4x in 2021) despite the expansion policy. Over these two years, AutoWallis managed to achieve external growth without increasing its debt burden, supported by the available funds, the capital increase and the green bond raised in 2021. Going forward, we expect leverage to remain stable or decrease thanks to increasing EBITDA, combined with a decrease in inventory financing in 2023, following a peak in 2022, which was caused by abnormal stock at end-2022 (logistic issues in the automotive industry significantly slowed down the inventory disposal). This should largely counterbalance an increase of debt should the need arise to partially finance new transactions.

Figure 5: Expected leverage development



Sources: AutoWallis, Scope estimates

Figure 6: Funding structure (Q1 2023)

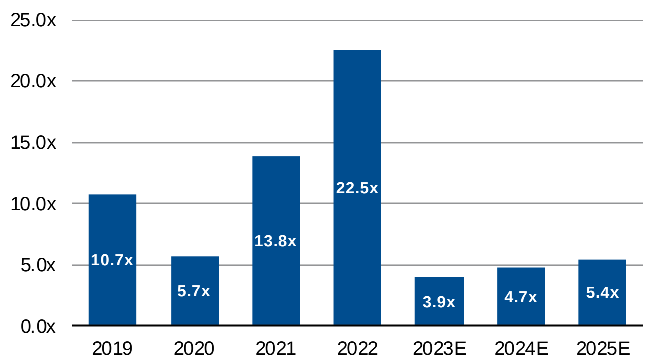


Sources: AutoWallis, Scope

Higher interest cost to bring debt protection down

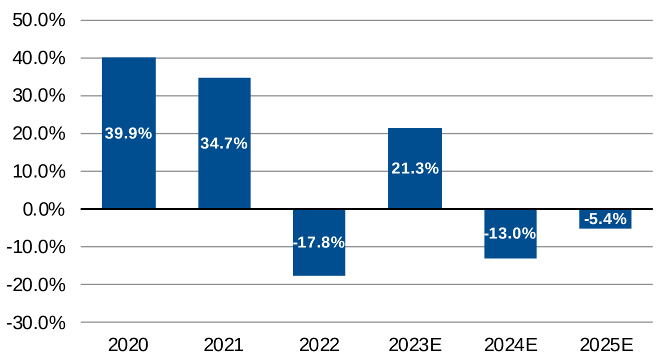
Interest cover improved to 13.8x in 2021 (2020: 5.7x) and further to 22.5x in 2022. Due to the rising interest rates and most of the debt being at floating rates, we expect coverage to reduce significantly in the coming years, especially in 2023 when peaking interest rates in Hungary will lead to debt protection of below 4x. We anticipate the ratio to return to around 5x in the following years thanks to increasing EBITDA and debt remaining at sustainable levels. Despite weakening debt protection, the issuer should still have sufficient headroom to cover its interest obligation going forward.

Figure 7: Development of Scope-adjusted interest cover



Sources: AutoWallis, Scope estimates

Figure 8: Scope-adjusted free operating cash flow/debt



Sources: AutoWallis, Scope estimates

Adequate liquidity

Liquidity is adequate. Our view is supported by significant cash at bank in 2022 (HUF 16.8bn) and the fact that a large part of the 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%.

Balance in HUF bn	2022	2023E	2024E
Unrestricted cash (t-1)	24,699	16,887	24,980
Inventory 80% (t-1)	19,392	44,132	27,744
Free operating cash flow (t)	-9,168	9,005	-5,372
Short-term debt (t-1)	13,702	37,473	29,138
Coverage	**>100%**	**>100%**	**>100%**

Long-term debt rating

Senior unsecured debt rating: B+

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 maturity date April 2030. In July 2021 AutoWallis issued a HUF 6.7bn senior unsecured green bond (ISIN: HU0000360664). The bond proceeds were used for property purchase (HUF 0.9bn) and for CAPEX (HUF 1.7bn), while HUF 4bn remain available. The bond has a tenor of 10 years and a fixed coupon of 3.0%. Bond repayment is in five tranches starting 2026 (10% of face value payable each year from 2026 to 2030 and 50% balloon payable in 2031).

We have affirmed AutoWallis' B+ rating on senior unsecured debt, consisting of two bonds issued under the Hungarian Funding for Growth scheme (a HUF 6.7bn green bond issued in 2021 and a HUF 3.0bn bond issued in 2020). The recovery analysis used a liquidation value of HUF 82bn in a hypothetical default scenario in 2024. The scenario assumed a 35% haircut on assets and reflects a 10% asset liquidation cost. Based on the assumption that, in a default situation, all debt except the bonds will be secured either by stock or real estate assets, we expect an average recovery rate.

Appendix: Peer comparison (as at last reporting date)

	AutoWallis Nyrt	Unix Auto Kft	Tegeta Motors LLC	Marso Kft	Abroncs Kereskedőház Korlátolt Felelősségű Társaság
	B+/Positive	BB-/Positive	BB-/Negative	BB-/Stable	BB/Stable
Last reporting date	31 December 2022	31 December 2021	31 December 2021	31 December 2021	31 December 2021
Business risk profile					
Country retail strength	Medium-high	Medium-High	Low	Medium-high	Medium-high
Market position	Medium	Strong	Strong	Strong	Strong
Revenue (in EUR m)	700	300	300	96	81
Consumer good category	Discretionary	Discretionary	Discretionary	Discretionary	Discretionary
Geographical exposure	No country with more than 70% revenue	Immediate neighbours	One country	Immediate neighbours	Immediate neighbours
Product diversification	1 cyclical	1 cyclical	1 cyclical	1 cyclical	1 cyclical
Profitability assessment	Weak	Strong	Strong	Moderate	Weak
Financial risk profile					
Scope-adjusted EBITDA/interest cover	22.5x	11.4x	3.9x	15.8x	10.3x
Scope-adjusted debt/ EBITDA	3.5x	2.5x	3.1x	3.7x	2.9x
Scope-adjusted funds from operations/debt	25%	36%	24%	24%	30%
Scope-adjusted free operating cash flow/debt	-18%	13.3%	4%	-41%	22%

Sources: Public information, Scope

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