Unix Autó Kft.
Hungary, Auto Retail

BB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	10.7x	11.4x	7.7x	7.1x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA	3.1x	2.5x	2.6x	2.4x
Funds from operations/SaD	28%	36%	32%	36%
Free operating cash flow/SaD	-11.7 %	13.3%	-2.4%	9.8%

Rating rationale

The 9 May 2022 rating action follows the publication of Scope's new rating methodology for retail and wholesale corporates on 27 April 2022. The new methodology assesses certain elements of the business risk profile differently without having an impact on the overall assessment. The review resulted in an affirmation of Unix Autó's ratings.

The Outlook change to Stable from Negative reflects the improved profitability despite weaker demand after the pandemic. It also reflects the expectation of demand growth for auto spare parts in 2022-23 after supply chain issues at original equipment manufacturers (OEMs) led to lower supply and even shortages of new cars and thereby increased prices. Leverage measured by Scope-adjusted debt (SaD)/EBITDA improved above our base case to 2.5x (2.9x without netting of cash), albeit ongoing and newly announced investment plans and soaring interest rates in Hungary may put pressure on credit metrics.

The rating remains constrained by the execution risk of ongoing investments and increased capex plan.

Outlook and rating-change drivers

The Stable Outlook now reflects our expectation that Unix Autó will keep SaD/EBITDA at a more conservative level than previously expected. We have also updated our base case to indicate that the company's archived price increases and assumed growth in key markets should generate healthy profitability in the short to medium term.

A positive rating action is possible if SaD/EBITDA is sustained well below 3.5x while the automated warehouse becomes operational and the Romanian subsidiary is consolidated into the group, hence reducing some uncertainty and execution risk.

A negative rating action is possible if the financial risk profile deteriorated, exemplified by a SaD/EBITDA sustained above 4x or a funds from operations/SaD of below 15%.

Rating history

Date	Rating action/monitoring	Issuer rating & Outlook
9 May 2022	Outlook change	BB-/Stable
15 Jun 2021	Affirmation	BB-/Negative
18 Jun 2020	Outlook change	BB-/Negative
15 Aug 2019	Initial rating	BB-/Stable

Ratings & Outlook

Issuer	BB-/Stable
Senior unsecured debt	BB-

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Related Methodologies

Corporate Rating Methodology; July 2021

Retail and Wholesale Rating Methodology; April 2022

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Positive rating drivers	Negative rating drivers
• Dominant market share (around 35%) in Hungarian auto parts market • Solid growth and well-known brand domestically; limited single customer or supplier dependence • Very good interest cover for rating category • Cost optimisation and price increases accepted by the market, increasing margins • 50,000 products under own brand; own production to soon boost margins	• Lower sales volumes due to decreasing demand during and after the Covid-19 pandemic • Somewhat weak geographical diversification, with Hungary as the main sales and profit generator • Increased shareholder remuneration of HUF 2.5bn in 2021 • New capex plan started before completion of automated warehouse resulting in low free operating cash flow • Negative working capital in most years

Positive rating-change drivers	Negative rating-change drivers
• SaD/EBITDA sustained below 3.5x and completion of automated warehouse (reduced execution risk) and consolidation of Romanian subsidiary (improved transparency)	• Deterioration of financial risk profile, exemplified by SaD/EBITDA sustained above 4x • Funds from operations/SaD sustained below 15%

Corporate profile

Unix Autó was founded in 1990 and mainly operates within one business activity – spare parts retailing. Unix Autó generates a turnover of above EUR 200m, making it the market leader (around 35% market share) in automotive spare parts distribution in Hungary.

Since the Global Financial Crisis, new vehicle purchases have been put on hold, which has translated into more repair and service on existing vehicles. The latter has resulted in Unix Autó's market share doubling over the last 10 years as it progressively took market share from authorised service centres, which have more expensive services and do not offer cheaper generic spare parts. This trend has been consolidated in the wake of the Covid-19 financial crisis with supply chain issues decreasing new-vehicle output among OEMs.

Unix Autó operates more than 100 retail facilities in Hungary and over 60 shops in Romania, with no significant expansion plans for now. The majority of sales is 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 above 2,000 vehicles. Many products are compatible for several vehicle models with 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 Autó has 50,000 own branded products, which have superior profitability (including oils, wipers, break discs, light bulbs and service equipment).

Financial overview

				Scope estimates		
Scope credit ratios	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	26.0x	10.7x	11.4x	7.7x	7.1x	8.1x
SaD/Scope-adjusted EBITDA	4.2x	3.1x	2.5x	2.6x	2.4x	2.1x
Funds from operations/SaD	23%	28%	36%	32%	36%	40%
Free operating cash flow/SaD	-44.4 %	-11.7 %	13.3%	-2.4%	9.8%	5.8%
Scope-adjusted EBITDA in HUF m						
EBITDA	5,040	7,381	8,247	7,820	8,167	8,799
Other	0	0	0	0	0	0
Scope-adjusted EBITDA	**5,040**	**7,381**	**8,247**	**7,820**	**8,167**	**8,799**
Funds from operations in HUF m						
Scope-adjusted EBITDA	5,040	7,381	8,247	7,820	8,167	8,799
less: (net) cash interest paid	-233	-689	-722	-1,013	-1,158	-1,087
less: cash tax paid as per cash flow statement	-67	-171	-53	-357	-344	-479
add: associate dividends received and other items[1]	260	-83	-43	250	250	250
Funds from operations	**5,000**	**6,439**	**7,429**	**6,700**	**6,915**	**7,483**
Free operating cash flow in HUF m						
Funds from operations	5,000	6,439	7,429	6,700	6,915	7,484
Working capital change	-11,059	-4,631	-767	-3,289	-2,406	-2,681
Non-operating cash flow	0	0	-27	0	0	0
less: capital expenditure (net)	-3,418	-4,660	-3,923	-4,000	-2,700	-3,800
Free operating cash flow	**-9,477**	**-2,851**	**2,712**	**-589**	**1,808**	**1,002**
Net cash interest paid in HUF m						
Net cash interest as per cash flow statement	-233	-689	-722	-1,013	-1,158	-1,087
Change in other interest items	0	0	0	0	0	0
Net cash interest paid	**-233**	**-689**	**-722**	**-1,013**	**-1,158**	**-1,087**
Scope-adjusted debt in HUF m						
Reported gross financial debt	21,359	23,160	23,839	23,239	22,106	20,973
less: cash and cash equivalents	-303	-215	-3,347	-2,658	-2,833	-2,202
add: cash not accessible			125	125	125	125
Scope-adjusted debt	**21,056**	**22,945**	**20,617**	**20,706**	**19,398**	**18,896**

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

Environmental, social and governance profile[2]

Environment	Social	Governance
Resource management (e.g. reduced water, energy, raw materials consumption, emission reduction, fuel efficiencies)	Labour management	**Company control**, supervisory boards, key person risk
Efficiencies (e.g. production process)	Safety	**Clarity/transparency** of financial disclosures, transparency of communication/ability to communicate
Product innovation (e.g. costs to transition, substitution of products & services, green buildings, clean tech, renewables)	Clients and supply chain (geographical/product diversification)	**Corporate structure** complexity
Physical risks (e.g. business/assets vulnerability, diversification)	Regulatory and reputational risks	**Stakeholder management** shareholder's payout and respect of creditors

Family business with good automation in a transforming industry

The company is very good at automation and minimising its environmental footprint. While the automotive sector remains among the highest polluters, it is getting greener with the electric-cars ramp up. On a social level, we have not identified any large issues in the company's labour management: tasks are automated and the workforce is treated well.

Governance is lax as the owner (Mr Antal Zombori) is deeply involved in strategy, planning and operations. The strongly 'hands on' management style is mitigated by an internal operational shared service centre covering finance, marketing, human resources, and information technology (the latter expanded after last year's ransomware attack). The owner makes decisions unilaterally. There is no supervisory board. The large dividend in 2021 of HUF 2.5bn will not be repeated as it was for the owner's private purposes and the owner declared he does not need large dividends into the medium term. Dividends from 2023 onwards are projected to be significantly lower at up to HUF 500m yearly, with no dividend payments in 2022.

The Romanian subsidiary is not yet consolidated, which hinders reporting transparency, but the issuer plans to consolidate the entity in the medium term.

We view family businesses such as Unix Autó positively, but the lack of multi-level decision making and loose financial planning constitute a negative ESG factor.

[2] The ESG profile only evaluates the extent to which ESG factors are credit-relevant. Our evaluations are not mutually exclusive or collectively exhaustive as these factors overlap and evolve. We only consider an ESG factor relevant to our credit rating process if it has a ubiquitously discernible and material impact on the rated entity's cash flow profile and, by extension, its overall credit quality.

Business risk profile: BB

Industry risk profile: BB

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

Market leader in Hungary and developing Romanian operations

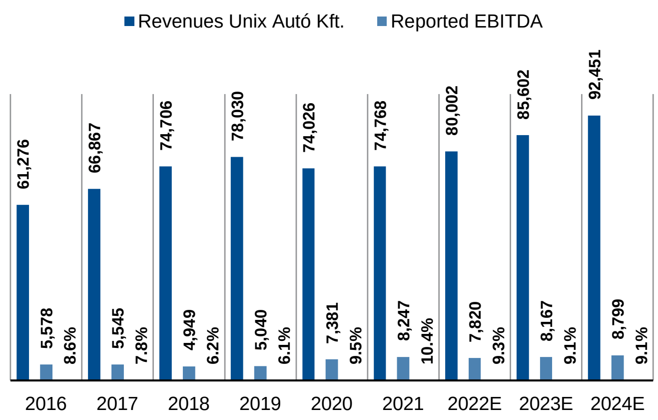
Unix Autó is the leading auto spare parts company in Hungary in terms of market share and product range. In addition to the clear dominance in Hungary (35% market share), Unix Autó is fifth in Romania and present in Slovakia. Revenues are stable at around EUR 200m, mainly due to the company's somewhat smaller overall market size (-10%) being compensated for by the 10% price increase in 2021. As new cars are being delivered slowly by OEMs due to the computer chips shortage, increasing input prices and supply chain issues, the price of second-hand cars increased in the first quarter of 2022. The increase in car services provided is also visible in the increasing volumes and margins in 2022. 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 delivery service is the largest sales contributor, followed by retail shops and B2C e-commerce.

Extensive product portfolio in a single product category

Unix Autó's delivery to service garages within the day or even the hour of a very wide range of auto parts (up to 10m) provides competitive advantage. The dominance of Unix Autó was well exemplified recently in Hungary when other market players were unable to fill the gap left by Unix Autó when a ransomware attack prevented it from providing car garage services for a few days.

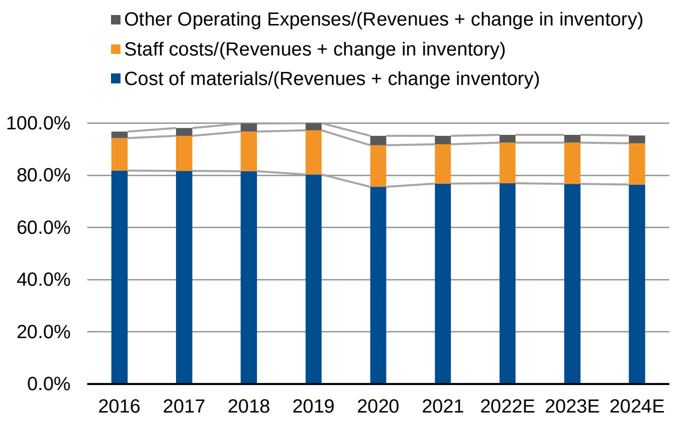
Diversification is constrained by the core focus on Hungary and Romania and by products sold belonging to a single product category.

Figure 1: Revenues and profitability of Unix Autó Kft.



Sources: Unjx Autó Kft, Scope (estimates)

Figure 2: Cost breakdown of Unix Autó Kft.



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 reported EBITDA margin of 10.4% in 2021, up from 9.5% in 2020 and 6.1% in 2019, mainly due to own branded products (A.Z. Meisterteile, 50,000 different products), operational efficiencies and price increases above inflation. The currently unconsolidated Romanian subsidiary started also performing well after price increases, albeit losing some volume.

Financial risk profile: BB-

Better-than-anticipated leverage due to improving margins and large cash balance

Leverage measured by SaD/EBITDA improved in 2021 to 2.5x (without netting of cash to 2.9x) from 3.1x in 2020 due to improved EBITDA of HUF 8.25bn, with a YoY increase of HUF 0.9bn, stable debt of HUF 23bn-24bn and higher-than-anticipated cash of HUF 3.3bn.

Decreasing interest cover as interest rates rise

EBITDA interest coverage is expected to stay very strong at above 7x for the forecasted period, despite a higher cost of debt and a historical ratio of above 10x. The strong interest cover is forecasted to continue for the coming 2-3 years, with no major debt repayment. Unix Autó has a HUF 12bn fixed coupon bond maturing in 2026, issued under the Hungarian National Bank's programme. The short-term debt facilities drawn at HUF 11bn have a variable interest rate and are hence vulnerable to the soaring interest rates in Hungary, with financing costs to increase by 5%-6% in line with the increase in reference rate (BUBOR).

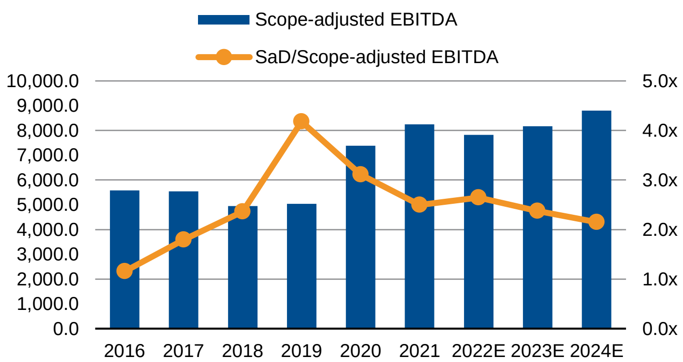
Strong funds from operations fuelled by own product line

The company generates positive operating cash flow with a healthy funds from operations/SaD of above 30%. However, cash flow is not enough to cover recent capex and the new capex program, as proven by the fact that once supplier balances and short-term debt were reduced from the bond's proceeds, current investments have been again financed using short-term debt and increased accounts payables.

Large investment plans putting pressure on cash flow

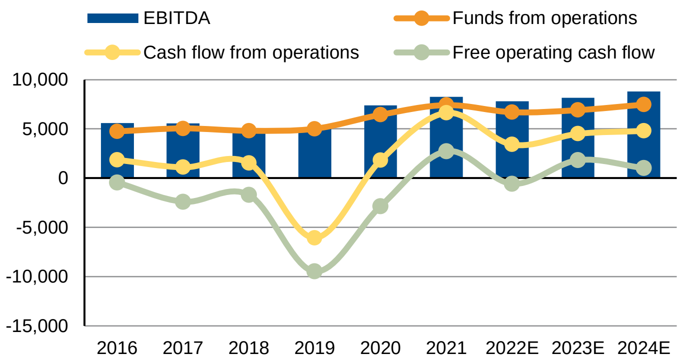
The new logistics centre is expected to be completed in Q3 2022 with proprietary warehouse automation technology. Efficiencies should be visible from 2023 onwards. Unix Autó also started developing a production site in Budapest for own branded products under the A.Z. Meisterteile line as a response to possible supply chain disruptions. The production could be scaled up locally if needed. After over five years of negative free operating cash flow/SaD due to heavy investment, the ratio again turned positive in 2021, which is credit-supportive, although the new investment plan is pushing this ratio again very low, even slightly negative, which constrains the rating.

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



Sources: Unjx Autó Kft, Scope (estimates)

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



Sources: Unjx Autó Kft, Scope (estimates)

Adequate liquidity

In terms of liquidity, Unix Autó benefits from the bond issued under the Hungarian National Bank's programme. Short-term credit lines are also used to pay suppliers in advance to get discounts. Short-term facilities were rolled over successfully, out of which HUF 6bn was prolonged for three years until 2025, a more favourable term than the previous 'until further notice' (90 days). We estimate that the available credit line will be largely drawn on in the next one to two years as working capital needs increase with inflation. Still, the company does not meet our criteria for sufficient liquidity on a sustainable basis historically. Liquidity coverage is below 1x, which is mitigated by the high cash balance and successful rollover of short-term debt every year.

Position in HUF m	2022E	2023E	2024E
Unrestricted cash (t-1)	3,347	2,658	2,833
Open committed credit lines (t-1)	1,668	1,768	2,268
Free operating cash flow	-589	1,808	1,002
Short-term debt (t-1)	11,015	10,815	9,815
Coverage	**0.40**	**0.58**	**0.62**

Supplementary rating drivers: +/- 0 notches

No notching was applied despite some concerns including key person risk, the rather loose financial planning and the unconsolidated accounts.

Long-term debt ratings

Senior unsecured debt rating: BB-

We simulated a hypothetical default scenario in YE 2023, in which the asset base was moderately discounted for the assets under construction. The resulting recovery expectation is 'average', which translates into the same rating for senior unsecured debt as the issuer rating, at BB-.

Appendix: Peer comparison (as at last reporting date)

	Unix Autó Kft.	Daniella Kft.	AXIÁL Kft.	Vöröskő Kft (Euronics)	Casino Guichard Perrachon S.A.
Issuer rating with supplementary rating drivers	BB-/Stable	B/Stable	BB/Stable	BB/Stable	BB-/Stable
Last reporting date	31 December 2021	31 December 2020	31 December 2020	31 December 2020	31 December 2020
Business risk profile	BB	BB-	BB-	BB-	BBB
Financial risk profile	BB-	B+	BB+	BB+	B+
Scope-adjusted EBITDA/interest cover	11.4x	9.0x	32x	9.9x	3.4x
SaD/Scope-adjusted EBITDA	2.5x	4.2	1.0x	0.8x	4.6x
Funds from operations/SaD	36%	21%	82%	49%	13%
Free operating cash flow/SaD	13.3%	25%	135%	-22%	4%
Supplementary rating drivers	-	-1 notch	-	-	-1 notch

Sources: Public information, Scope

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