ipopema

WSE Research Coverage Support Program
5 August 2019 09:07 CET

AC

Autogas-fired dividend vehicle

We initiate coverage of AC with a BUY recommendation and a fair value of PLN 53.00 per share, which implies 14% upside potential. The reasons for our positive view are: 1) the supportive relationship between Autogas (the common name for automotive liquified petroleum gas (LPG)) and petrol prices; 2) the promotion of LPG as an ecological fuel, which creates a solid foundation for LPG system demand worldwide; 3) the international expansion of AC's partner, Rameder; 4) competitive cost position, especially after launching 25% additional capacity and finishing its automatization process in 4Q19; and 5) the company's long-term dividend policy, which offers a c.6% dividend yield (DY) per annum.

Stable growth in global demand

AC has an opportunity to increase its turnover from foreign markets due to 1) the attractive autogas/petrol price ratio; 2) the stable growth of autogas consumption and autogas-fueled vehicles worldwide, especially in emerging markets; and 3) the rising perception of LPG as an ecological fuel, which is leading government policies to promote it in particular markets. We believe that after a temporary slump in revenues in 3Q/4Q19E, the regulatory environment in Russia will stabilize after the law on autogas-fueled vehicle registration and certification comes into force in July 2020. We also expect Rameder to make a solid contribution to results from 2020E.

Limiting wages pressure

AC is due to finish its two-year investment program by the end of 2019 and as a result should increase its production capacity by approx. 25% in the autogas system and towbar kit segments. We assume that automatization will slow down wage inflation by limiting overtime and, potentially, employment, and by optimizing raw material costs by partially rearming production lines.

Dividend profile to be maintained

AC regularly pays dividends with a dividend payout ratio (DPR) of no less than 80%, which translates into a DY of c.6%. We assume that strong EBITDA to cash conversion will allow AC to maintain its dividend character in the long term with a quite conservative long-term 80% DPR, which translates into DPS of PLN 2.9 in 2020E (6.1% DY) and PLN 3.4 (7.2 % DY) in 2021E.

Overall, we forecast AC's EBITDA to be PLN 55m in 2019E and PLN 63m in 2020E, up 13% y/y. On our forecasts, AC trades at an EV/EBITDA of 8.7x for 2019E and 7.6x for 2020E, with a justified premium to peers given its ability to pay sustainable dividends three times higher than the average offered by its listed competitors.

Chart 1: Summary of Financial Data

	2016	2017	2018	2019E	2020E	2021E
Revenues (PLN m)	185	194	237	244	274	279
EBITDA (PLN m)	45	47	59	56	63	64
EBIT (PLN m)	37	39	50	45	52	53
Net profit (PLN m)	30	31	39	36	42	43
EPS (PLN)	3.06	3.11	3.95	3.60	4.22	4.31
DPS (PLN)	5.00	2.70	2.50	3.94	2.88	3.38
EV/EBITDA (x)	5.2	7.4	6.0	8.7	7.6	7.3
P/E (x)	7.5	11.1	9.1	12.9	11.0	10.8

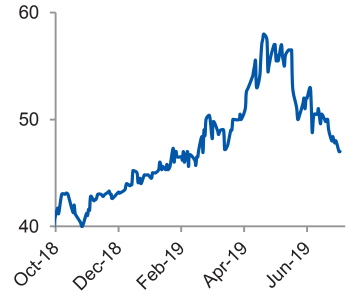
Source: Company, IPOPEMA Research

AC
BUY

Coverage initiation

FV PLN 53.0, 14% upside

Price as of 2 Aug 2019 PLN 46.60



Key ratios	2019E	2020E
EBITDA Margin	23%	23%
EBIT Margin	18%	19%
ROE	33%	34%
ND/EBITDA	0.5	0.2

Share data	
Number of shares (m)	9.9
Market Cap (€ m)	107
12M Avg daily volume (k)	0.4
12M Avg daily turnover (€ m)	0.01
52W High / Low	54.5/36.2
WIG Weight (%)	0.1
Reuters	ACGP.WA
Bloomberg	ACG PW

Performance	
1M	-12.4%
3M	-5.6%
12M	19.0%

Shareholders	
OFE PKO Bankow y	9.1%
WIM Sp. z o.o	7.7%
WASKULIT FIZ	7.2%
Dariusz Kow alczyk	5.6%
Others	70.3%

Analyst

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Valuation summary

We value AC via two methods, giving a 50% weight to our DCF-based valuation and a 50% weight to our DDM-based valuation.

According to our calculations, AC will be able to pay sustainable dividends, with a dividend yield of c.7% in the coming years. We therefore apply a 50% weight to the DDM valuation method. In addition, we add a comparison to peers' P/E and EV/EBITDA multiples as a cross-check to cash flow-based methodologies.

Based on our forecasts, we arrive at a fair value of PLN 53.0 per share, which is above the current market price and implies a BUY recommendation.

Chart 20: AC's valuation summary

AC, valuation summary	
I Method: DCF	
Fair Value (PLN per share)	52.0
Weight	50%
II Method: DDM	
Fair Value (PLN per share)	54.1
Weight	50%
Fair Value (PLN per share)	**53.0**

Source: AC, IPOPEMA Research

Discounted cash flow model

Our assumptions for cost of equity were established using a variable risk-free rate (equal to the 12-month forward interest rate) and adding a 5.0% equity risk premium in each year (we take flat rates). We consistently use an unleveraged beta of 1 so as not to distort the WACC and comparability of our valuations. We use a tax rate of 20% based on tax payments of recent years. We assume flat FX rates in our model, with USD/PLN at 3.80 and EUR/PLN at 4.30.

Chart 21: AC DCF 2019E-2024E valuation

DCF (PLN m)	2019E	2020E	2021E	2022E	2023E	2024E	Terminal Year
Revenue Growth Rate	2.6%	12.4%	1.7%	1.5%	1.6%	1.5%	1.0%
Revenues	**244**	**274**	**279**	**283**	**287**	**291**	**296**
Gross margin	36%	35%	35%	36%	36%	36%	
SG&A costs	42	43	45	47	50	52	
EBIT	**45**	**52**	**53**	**53**	**54**	**54**	**50**
EBIT margin	18%	19%	19%	19%	19%	19%	17%
Effective Tax Rate	20%	20%	20%	20%	20%	20%	20%
NOPAT	**36**	**42**	**42**	**43**	**43**	**43**	**40**
+ Depreciation	11	11	11	12	13	14	13
EBITDA	**56**	**63**	**64**	**65**	**67**	**67**	**63**
- Capex	-23	-13	-13	-13	-13	-13	-13
- Change in WC	-11	-2	-1	-1	-1	-1	-1
FCF	**12**	**37**	**39**	**41**	**42**	**43**	**39**
Terminal Value							576
WACC	**7.7%**	**7.8%**	**7.8%**	**7.8%**	**7.8%**	**7.8%**	**7.8%**
Present Value of FCF	**12**	**34**	**33**	**31**	**30**	**28**	**384**

NPV FCF	168
+ Present Value of Terminal Value	384
Operating Assets of the Firm =	**553**
+ Value of Cash	5
Value of Firm =	**557**
- Value of Outstanding Debt =	-4
- Dividend =	-39
Value of Equity =	**514**
Number of shares (m)	10
Fair Value of Equity per share (PLN)	**52.0**

Key Assumptions	
Revenue CAGR 2019E-2024E	3.6%
Average EBIT margin in 2019E-2024E	18.8%
Market Risk Premium	5.0%
Beta	1.00
Growth in residual period	1.0%
Average WACC in 2019E-2024E	7.9%

Source: IPOPEMA Research

Changing the WACC or terminal growth rate by +/- 0.5pp moves our DCF valuation by c.+/- 4% in both cases.

Chart 22: Sensitivity – AC DCF valuation on WACC in perpetuity and terminal growth rate

		WACC in perpetuity						
		9.3%	**8.8%**	**8.3%**	**7.8%**	**7.3%**	**6.8%**	**6.3%**
	0.5%	**43.1**	**44.9**	**47.0**	**49.3**	**52.0**	**55.0**	**58.7**
Terminal Growth	**1%**	**44.9**	**47.0**	**49.3**	**52.0**	**55.0**	**58.7**	**62.9**
	1.5%	**47.0**	**49.3**	**51.9**	**55.0**	**58.6**	**62.9**	**68.1**

Source: IPOPEMA Research

Changing the EBIT margin by +/- 1%, moves our DCF valuation by c.+/- 3%.

Chart 23: Sensitivity – AC DCF valuation on EBIT margin in perpetuity and terminal growth rate

		EBIT margin in perpetuity						
		14.0%	**15.0%**	**16.0%**	**17.0%**	**18.0%**	**19.0%**	**20.0%**
	0.5%	**42.7**	**44.9**	**47.1**	**49.3**	**51.5**	**53.7**	**55.9**
Terminal growth	**1%**	**44.9**	**47.3**	**49.6**	**52.0**	**54.3**	**56.6**	**59.0**
	1.5%	**47.4**	**50.0**	**52.5**	**55.0**	**57.6**	**60.1**	**62.6**

Source: IPOPEMA Research

DDM valuation

AC's policy is to pay out 80% of its earnings every year, and since 2012 its DPR ratio has not fallen below this level. We assume that the company will maintain its trait as a high dividend payer, especially as during the last two years, while executing its large capex program, it still distributed 80% and 100% of its profits respectively.

This translates into DPS of PLN 2.9 in 2020E and PLN 3.4 in 2020E. In the long term, we estimate AC's total potential DPS in the terminal year at c. PLN 4.2. In the DDM model, we applied the same assumptions for cost of capital and unlevered beta as in the DCF model.

Chart 24: AC DDM 2019E-2024E valuation

AC: DDM		2020E	2021E	2022E	2023E	2024E	Terminal Year
DPS (PLN)		**2.9**	**3.4**	**3.5**	**3.5**	**3.5**	**4.2**
Risk free rate		2.8%	2.8%	2.8%	2.8%	2.8%	
Equity premium risk		5.0%	5.0%	5.0%	5.0%	5.0%	
Unlevered beta		1.00	1.00	1.00	1.00	1.00	
Levered beta		1.04	1.01	1.01	1.01	1.01	
Cost of Equity		8.0%	7.9%	7.9%	7.9%	7.9%	
Discount multiple		0.90	0.83	0.77	0.72	0.67	
Discounted DPS (PLN)		2.6	2.8	2.7	2.5	2.3	
Sum of discounted DPS in forecast period (PLN)	**12.9**						
Terminal grow th							1.0%
Terminal Cost of Equity							7.9%
Present value of terminal value (PLN)							**41.1**
Fair Value (PLN ps)							**54.1**

Source: IPOPEMA Research

Relative valuation

For the relative valuation, we chose a wide group of global producers of automotive components, mostly mechanical components.

our forecasts, AC trades at 2019E and 2020E EV/EBITDA of 8.7x and 7.6x, respectively, representing a 44% and 45% premium to peers, respectively.

However, we perceive such a premium as justified given the company's ability to pay a sustainable dividend that is three times higher than the average offered by its peers.

Chart 25: AC relative valuation 2018E-2024E

COMPANY	Last price	Market Cap	P/E			EV/EBITDA			DY	ND/EBITDA	NI CAGR	EBITDA CAGR	EBITDA margin
		EUR m	2019E	2020E	2021E	2019E	2020E	2021E	2020E	2019E	2019-21E	2019-21E	2019E
LANDI RENZO SPA	EUR 1.0	112	12.5	8.6	8.0	6.1	5.2	4.4	0.0%	1.8	*24.7%*	*7.4%*	14.0%
SOGEFI	EUR 1.2	142	11.3	7.7	5.9	2.6	2.4	2.2	1.7%	1.8	*38.5%*	*5.9%*	11.5%
AISAN INDUSTRY CO LTD	JPY 704.0	373	8.2	7.6	7.0	2.6	2.6	1.9	3.9%	0.4	*8.7%*	*4.3%*	9.6%
XIN POINT HOLDINGS LTD	HKD 1.5	173	3.2	2.8	2.6	na	na	na	9.3%	na	*11.3%*	*12.1%*	27.3%
PWR HOLDINGS LTD	AUD 4.2	258	29.9	25.1	20.5	19.6	16.2	13.0	2.4%	-0.4	*20.6%*	*21.2%*	33.4%
ALUMETAL	PLN 37.2	134	10.1	9.8	8.9	7.5	7.1	6.5	7.1%	1.5	*6.2%*	*7.1%*	5.9%
BORYSZEW	PLN 4.5	249	na	na	na	na	na	na	2.2%	2.7	*5.0%*	*-1.5%*	7.0%
MEDIAN			**10.7**	**8.2**	**7.5**	**6.1**	**5.2**	**4.4**	**2.4%**	**1.6**	**11.3%**	**7.1%**	**11.5%**
AC	46.6	107	12.9	11.0	10.8	8.7	7.6	7.3	6.2%	0.5	*9.4%*	*7.5%*	22.8%
premium/discount to all peers (median)			*21%*	*35%*	*44%*	*43%*	*45%*	*64%*					
Implied Price (PLN)			**38.4**	**34.6**	**32.3**	**31.9**	**31.7**	**28.1**					

Source: IPOPEMA Research

Financials

Chart 26: AC P&L account 2016-2024E

Income statement (PLN m)	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	**185**	**194**	**237**	**244**	**274**	**279**	**283**	**287**	**291**
y/y change (%)		*5%*	*22%*	*3%*	*12%*	*2%*	*2%*	*2%*	*1%*
Costs of goods sold	119	125	149	157	178	180	182	184	186
Gross profit	**66**	**70**	**88**	**87**	**95**	**98**	**101**	**103**	**106**
Selling and marketing costs	17	19	23	25	25	27	28	29	31
Administrative costs	13	13	16	17	18	19	19	20	21
Other operating income/costs	2	2	0	0	0	0	0	0	0
EBIT	**37**	**39**	**50**	**45**	**52**	**53**	**53**	**54**	**54**
y/y change (%)		*5%*	*26%*	*-10%*	*16%*	*2%*	*1%*	*1%*	*0%*
EBITDA	**45**	**47**	**59**	**56**	**63**	**64**	**65**	**67**	**67**
y/y change (%)		*6%*	*24%*	*-6%*	*13%*	*2%*	*2%*	*2%*	*1%*
Financial income / cost	0	-1	-1	0	0	0	0	0	0
Pretax profit	**38**	**38**	**48**	**45**	**52**	**53**	**54**	**54**	**54**
Income tax	8	7	9	9	10	11	11	11	11
Net income	**30**	**31**	**39**	**36**	**42**	**43**	**43**	**43**	**43**
EPS (PLN)	**3.06**	**3.11**	**3.95**	**3.60**	**4.22**	**4.31**	**4.34**	**4.39**	**4.40**

Profitability ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E
Gross margin	35.6%	35.9%	37.0%	35.5%	34.8%	35.3%	35.6%	36.0%	36.3%
EBITDA margin	24.1%	24.3%	24.8%	22.8%	23.0%	23.1%	23.1%	23.2%	23.2%
EBIT margin	20.2%	20.3%	20.9%	18.4%	19.0%	19.0%	18.9%	18.7%	18.5%
Net margin	16.3%	15.8%	16.4%	14.6%	15.2%	15.3%	15.2%	15.1%	14.9%
ROE	33.6%	31.8%	34.9%	32.8%	34.3%	32.5%	30.7%	29.1%	27.6%

Source: AC, IPOPEMA Research

Chart 27: AC balance sheet 2016-2024E

Balance sheet (PLN m)	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E
Total current assets	**59**	**76**	**77**	**99**	**92**	**88**	**97**	**107**	**117**
Inventory	37	35	51	57	60	61	62	63	64
Receivables	14	19	18	22	23	23	23	24	24
Cash and equivalents	3	18	5	16	6	0	8	17	26
Other current assets	5	4	3	4	3	3	3	3	3
Total non-current assets	**72**	**74**	**90**	**100**	**102**	**104**	**105**	**105**	**105**
Property, plant and equipment	63	65	80	90	93	95	97	97	97
Intangible assets	3	4	5	5	5	4	3	3	3
Other non-current assets	6	5	5	5	5	5	5	5	5
Total assets	**131**	**150**	**166**	**199**	**194**	**191**	**201**	**212**	**222**
Stockholders` equity	**90**	**96**	**112**	**108**	**122**	**131**	**140**	**149**	**158**
Total non-current liabilities	**16**	**33**	**13**	**50**	**30**	**17**	**17**	**17**	**17**
Other non-current liabilities	16	33	13	50	30	17	17	17	17
Total current liabilities	**21**	**14**	**27**	**27**	**27**	**28**	**29**	**30**	**31**
Trade and other payables	11	6	14	13	15	15	15	16	16
Loans and borrowings	7	24	4	41	21	8	8	8	8
Other current liabilities	4	-17	8	-28	-9	4	5	6	7
Total equity & liabilities	**131**	**150**	**166**	**199**	**194**	**191**	**201**	**212**	**222**
BVPS (PLN)	9	10	11	11	12	13	14	15	16
Net debt	3	7	0	25	15	8	0	-9	-18
Net debt / EBITDA	0.1x	0.1x	0.0x	0.5x	0.2x	0.1x	0.0x	-0.1x	-0.3x

Balance sheet ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E
Current ratio	2.8	5.4	2.8	3.7	3.4	3.1	3.3	3.5	3.8
Quick ratio	1.1	3.0	1.0	1.6	1.2	1.0	1.2	1.5	1.7
Debt / assets	5%	16%	3%	21%	11%	4%	4%	4%	4%
Debt / equity	8%	25%	4%	38%	17%	6%	6%	6%	5%

Source: AC, IPOPEMA Research

Chart 28: AC cash flow 2016-2024E

Cash flow (PLN m)	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Net income	30	31	39	36	42	43	43	43	43
Depreciation and amortisation	7	8	9	11	11	11	12	13	14
Other (incl. WC change)	0	-7	2	-8	-1	0	0	0	0
Operating cash flows	**37**	**32**	**51**	**38**	**52**	**54**	**55**	**56**	**57**
Capital expenditures	-8	-10	-22	-23	-13	-13	-13	-13	-13
Other	-3	1	0	1	0	0	0	0	0
Investing cash flows	**-11**	**-9**	**-22**	**-22**	**-13**	**-13**	**-13**	**-13**	**-13**
Change in debt	7	17	-20	37	-20	-13	0	0	0
Dividends paid	-48	-26	-24	-39	-28	-33	-34	-34	-35
Other	1	0	0	0	0	0	0	0	0
Financing cash flows	**-41**	**-9**	**-44**	**-2**	**-48**	**-46**	**-34**	**-34**	**-35**
Beginning cash	18	3	17	2	16	6	0	8	17
Increase / decrease in cash	-15	14	-15	14	-10	-6	8	9	9
Ending cash	**3**	**17**	**2**	**16**	**6**	**0**	**8**	**17**	**26**
DPS (PLN)	5.0	2.7	2.5	3.9	2.9	3.4	3.5	3.5	3.5

Source: AC, IPOPEMA Research

Risks to fair value

Unfavorable petrol-LPG spread and CNG price relationship

High prices for conventional fuels are the main driver of interest in converting cars to Autogas. Problems on the supply side in the Autogas/crude oil market stemming from, for example, armed conflicts or cartel agreements would result in significant narrowing of the Autogas/petrol spread and thus less interest in converting cars to Autogas.

Risk of tax policy changes for Autogas

Tightening tax policies or reducing subsidies for Autogas as an alternative, ecological fuel would result in a drop in the number of conversions to LPG. We see little long-term predictability regarding such policies and potential increases in "hidden" taxes for Autogas in relation to other conservative fuels among the potential risks.

Risk related to the macroeconomic situation in key markets

Deterioration of the macroeconomic situation in major markets (especially in Russia, Ukraine and Kazakhstan) may lead the population to look for savings, and thus a reduction in spending on car travel and a reluctance to invest in LPG systems as well as lower profitability of such an investment. Russia, Ukraine and Kazakhstan in total account for over 30% of AC's revenues.

Risk of political change and armed conflict

As a large part of the company's sales is directed to Russia and Ukraine (over 20% of AC's total revenues), the risk of changes to political regulations is high. Additionally, exports to Russia and Ukraine, as in the case of other export markets (the Balkans and the Middle East countries), may be affected by political tensions, trade embargoes or armed conflict. According to our calculations, over 50% of AC's revenues are at such risk.

Risk of labor/raw materials price increases

Under our assumptions, over 65% of the company's costs are related to raw material prices (electronic components, electric wires, plastics – PCV, polypropylene, PA, ABS, POM, and metals – steel, aluminum, copper, tin), hence increases in these costs would cause margins to shrink. In the same way, labor costs (which we estimate account for 20% of production costs).

Risk of FX changes

The bulk of the company's revenues are in EUR and USD. Despite the large share of imported raw materials and a significant share of export sales (about 60%), the strengthening of the PLN against the EUR and the USD is a risk for AC.

Risk of competitive vehicle technology (incl. electric vehicles)

We perceive increased penetration of electric cars as a risk for the company, although it might also present an opportunity. We believe that electric cars may become significantly more competitive for the following reasons: the price of electric cars will match the price of combustion cars; a dense network of charging infrastructure will be built and charging time will be reduced, so the distance traveled on one charge will be similar to the distance traveled on one tank of fuel. Such changes over several years would completely change the profile of AC's activity in the field of gas installations (currently about 80% of business).

Potential consolidation of customers/distributors

AC primarily sells its products through several dozen customers, including authorized distributors of car parts. Significant risk to company's results comes from the potential consolidation of gas distributors in their respective domestic markets, excessively high revenue exposure to one export destination, and significant foreign distributors ending their relationship with AC.

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NII – Net interest income – interest income minus interest expense.
Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.
LLP – loan loss provisions – an expense set aside as an allowance for bad loans.
NPL – non-performing loan – loans that are in default or close to be in default.
Cost/Income – operating expenses divided by total banking revenue.
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.
ROA – return on assets – net income (or adjusted net income) divided by the average assets.
EBIT – earnings before interests and tax.
EBITDA – earnings before interests, tax, depreciation and amortization.
EPS – earnings per share – the net income (or adjusted net income divided by the number of shares outstanding.
P/E – price to earnings ratio – price divided by earnings per share.
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.
CAGR – compound annual growth rate.
BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.
P/BV – price to book value - price divided by the BVPS.
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.
DY – dividend yield – dividend of a given year divided by the current price.
DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.
FV – Fair Value, calculated based on valuation methods outlined in the document.

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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below 0%

IPOPEMA Research - Distribution by rating category (Apr 1 – Jun 30, 2019)		
	Number	%
Buy	6	40%

Hold	6	40%
Sell	3	20%
Total	15	100%

Rating History – AC				
5.08.2019	Buy	PLN 53.00	PLN 46.60	Piotr Jusiński