



Dom Maklerski

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Thursday, June 11, 2015 | research report

UNIWEHEELS: buy (new)

UNW PW; UNW.WA | Automotive Industry, Germany

Wheeling Towards Success

UNIWEHEELS is a European manufacturer of aluminium wheels which ranks third in revenues from direct sales to car makers and first in aftermarket production volumes with a 13% market share. Going forward UNIWEHEELS is set for sustained growth driven by an increasing demand for, and complexity of, aluminium wheels observed across the world as auto manufacturers continue to look for ways to make their cars sleeker and lighter. At the rate seen to date, within three years global production of aluminium wheels is likely to increase by 25%. Accompanied by an uptrend observed in the average size of passenger car wheels, the growing demand will eventually put a strain on the global wheel capacity. After increasing its sales volumes at an average annual rate of 6% between 2012 and 2014, UNIWEHEELS decided to build a new production facility in Poland at a cost of EUR 87m. Scheduled to come on line in the second half of 2016, the factory is expected to boost the Company's capacity by 24% (from 8.0 to 9.9 million units a year). Trading at 10.6x 2015E P/E and 7.3x EV/EBITDA, UNIWEHEELS is valued at respective discounts of 25% and 5% relative to industry peers. We are initiating coverage of UNW with a buy rating and a price target set at PLN 136.6 per share.

Growing demand for aluminum-alloy wheels

In 2009-2014 the share of aluminium wheels used in passenger cars increased from 41.6% to 49.0%, and by 2018 it is expected to reach 51.5%. In addition, the value of a wheel has been rising as a result of an upsizing trend whereby from 13-17" ten years ago the average wheel size range for a passenger vehicle has been expanded to 15-19". One of the reasons behind this trend is the growing demand for bigger cars (SUVs) which by 2018 are expected to account for 22% of total European production. A further sales driver are tightening CO₂ regulations.

Low-cost manufacturing locations

UNIWEHEELS makes aluminium wheels in one location in Germany and in two plants in Poland which account for over 80% of the total sales volume while generating a fraction of the labor costs incurred in Germany (payroll represents 18% of production costs). As such they are a source of competitive advantage for UNIWEHEELS, reinforced by their close proximity to Western European customers, facilitating deliveries within 24-72 hours.

Long-standing business relationships, top-quality products

UNIWEHEELS has long-standing relationships with the world's premium auto makers as a Tier-1 OEM wheel supplier, spanning 43 years in case of Porsche, 37 years in case of Volvo, and 34 years in case of Mercedes. Luxury car brands, which use exclusively aluminium wheels, accounted for over 80% of the Company's revenues in the last three years.

2015 Q1 results

UNIWEHEELS reported 22.4% y/y revenue growth on 8.4% higher sales volumes in Q1 2015. Average sales prices in the period increased 13.6% y/y for an OEM wheel and 5.9% for an aftermarket wheel. EBITDA per wheel amounted to EUR 6.99 vs. EUR 3.71 in Q1 2014. Financing activity generated a EUR 4.8m gain on FX hedging transactions.

(EUR m)	2013	2014	2015E	2016E	2017E
Revenue	337.2	362.6	401.6	438.9	472.9
EBITDA	38.3	46.3	52.0	58.2	63.0
EBITDA margin	11.3%	12.8%	12.9%	13.3%	13.3%
EBIT	23.6	32.1	36.5	39.4	42.5
Net profit	13.2	22.2	33.3	35.2	38.3
DYield	2.5%	0.0%	2.8%	3.3%	5.0%
P/E	21.3	12.7	10.6	10.0	9.2
P/CE	10.1	7.8	7.2	6.5	6.0
P/BV	3.3	3.4	1.8	1.5	1.4
EV/EBITDA	9.4	8.0	7.3	6.7	6.2

Current Price	PLN 115.05
Target Price	PLN 136.60
MCap	PLN 1.4bn
Free Float	PLN 0.6bn
ADTV	PLN 9.20m

Ownership

Uniweheels Holding Ltd (Malta)	61.29%
Others	38.71%

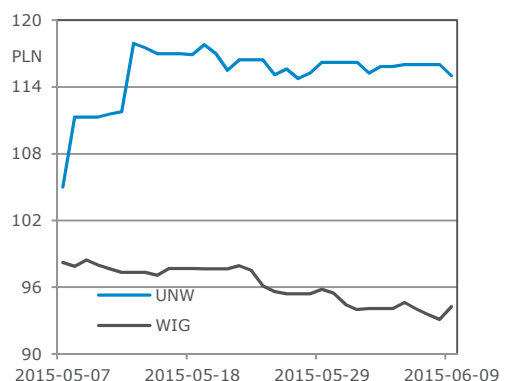
Sector Outlook

Sales of passenger cars in the EU have been on the rise since September 2013, driving demand for aluminum-alloy wheels alongside the increasing size of an average wheel ordered by auto manufacturers. In the next three years global production of aluminum wheels is expected to increase by 25%, and as wheel dimensions increase this may lead to a shortage of capacity for automotive wheels. In the long term OEM parts suppliers may have to move production to low-cost countries as a way of strengthening their competitive positions.

Business Profile

UNIWEHEELS is the leading European manufacturer of aluminum wheels for passenger cars based in Germany. In 2014 it ranked third in Europe in revenues from OEM sales and first in sales of aftermarket wheels with a 13% market share. UNIWEHEELS operates two factories in Stalowa Wola, Poland, accounting for 80% of the total output, and one production plant in Werdohl, Germany. UNIWEHEELS offers markets aftermarket wheels under four brands: ATS, Rial, Alutec, and Anzio. It generates about 80% of annual revenues from direct sales to major European car manufacturers (OEM).

UNW vs. WIG



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List of abbreviations and ratios contained in the report:**EV** – net debt + market value**EBIT** – Earnings Before Interest and Taxes**EBITDA** – EBIT + Depreciation and Amortisation**P/CE** – price to earnings with amortisation**MC/S** – market capitalisation to sales**EBIT/EV** – operating profit to economic value**P/E** – (Price/Earnings) – price divided by annual net profit per share**ROE** – (Return on Equity) – annual net profit divided by average equity**P/BV** – (Price/Book Value) – price divided by book value per share**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents**EBITDA margin** – EBITDA/Sales**Recommendations of Dom Maklerski mBanku:**

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BUY – we expect that the rate of return from an investment will be at least 15%**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%**SELL** – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Dom Maklerski mBanku S.A. did not issue any investment ratings for UNIWHEELS AG in the last nine months.

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