

Delticom (DEX GY) | Retail

March 29, 2021

The turnaround works - despite a weak yearend

We confirm our Buy recommendation with an unchanged price target of EUR 15. There are some changes in detail in our estimates for the period 2021e-2023e but the big picture of the leading eCommerce company for replacement tires that has just successfully made its first major steps of a deep restructuring is intact from our perspective. DEX could end the year 2020 with a positive operating and net profit, and more importantly, with a surprisingly high cash surplus of EUR 34 m. That brings a bit more comfort into the financial situation of Delticom. 2021e and the following years should be characterized by moderately rising revenues, driven by an increasing penetration of the tire market by online trading. The expected margin expansion should be mainly driven by the efficiency enhancing efforts of the company.

- 2020: Most key financial targets like net earnings, free cashflow and equity/total assets were beaten by Delticom. The final EBITDA before restructuring costs of EUR 22 m fell slightly short of expectations because of a poor yearend. The mild December weather should have cost some 2-3 m EBITDA, we assume.
- 2021e: Targeted top line growth of between 2 and 9% vs. 2020 and a moderate margin expansion fit to our view.
- Valuation: Some model changes in detail have in the end no substantial effect on our fair price calculation (EUR 15).

Fundamentals (in EUR m)	2018	2019	2020	2021e	2022e	2023e
Sales	646	626	541	580	615	651
EBITDA	14	-2	15	25	31	34
EBIT	1	-42	5	15	21	24
EPS adj. (EUR)	-0.16	-3.28	0.54	0.59	1.28	1.45
DPS (EUR)	0.10	0.00	0.00	0.00	0.00	0.00
BVPS (EUR)	3.94	0.67	1.10	0.90	2.26	3.81
Net Debt incl. Provisions	28	94	89	72	58	40
Ratios	2018	2019	2020	2021e	2022e	2023e
EV/EBITDA	8.3	-62.7	10.8	6.9	5.2	4.2
EV/EBIT	106.9	-3.6	30.2	11.8	7.5	6.0
P/E adj.	-44.9	-1.4	11.1	13.9	6.4	5.7
Dividend yield (%)	1.4	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	2.2	-0.4	2.8	4.4	5.0	5.2
EBIT margin (%)	0.2	-6.7	1.0	2.6	3.5	3.7
Net debt/EBITDA	2.0	-39.0	5.9	2.9	1.9	1.2
ROE (%)	-3.9	-142.4	60.4	59.2	81.0	47.7
PBV	1.8	6.8	5.4	9.1	3.7	2.2

Sources: Refinitiv, Metzler Research

Buy

 **unchanged**

Price*

EUR 8.24

Price target

EUR 15.00 (unchanged)

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)	103
Enterprise Value (EUR m)	176
Free Float (%)	0.0

Price (in EUR)



Performance (in %)	1m	3m	12m
Share	19.8	41.6	237.7
Rel. to Prime All Share	13.4	33.1	120.3

Sources: Refinitiv, Metzler Research

Changes in estimates (in %)	2021e	2022e	2023e
Sales	-1.6	-1.6	-1.6
EBIT	27.1	-8.1	-9.3
EPS	16.4	-5.5	-6.7

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Author: Jürgen Pieper

Financial Analyst Equities

+49 - 69 21 04 - 5 29

JPieper@metzler.com

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**Where is the turnaround already visible
- and where is still work to be done**

Delticom made the largest progress at the cash level. The free cashflow of 2020 of EUR 34.3 m is roughly 3 times as high as we had expected. The reduction of the working capital by EUR 24 m was the biggest driver for the high liquidity generation. In addition, the net income of EUR 6.9 was clearly better than expected; after-tax earnings benefited from a tax credit of more than EUR 4m. A working capital reduction of the magnitude of last year is probably not repeatable; the fact that DEX expects a free cashflow close to last year's level reflects the expectation of a further clear improvement at the earnings level - a view we share.

With a group EBIT of EUR 5.4 m, Delticom has achieved a better than expected operating result. The margin of 1% on a full-year basis and more than 2% in H2 under assumed "normal" weather conditions demonstrates that DEX has succeeded in turning around not just cash generation but also profitability. Thereby the company has cut deeply into the cost structure; the total headcount was reduced by more than 100 individuals over the course of the year which is a cut of more than a quarter. Depreciations could be reduced by more than 20% as well on a comparable basis due to a concentration on absolutely necessary investments.

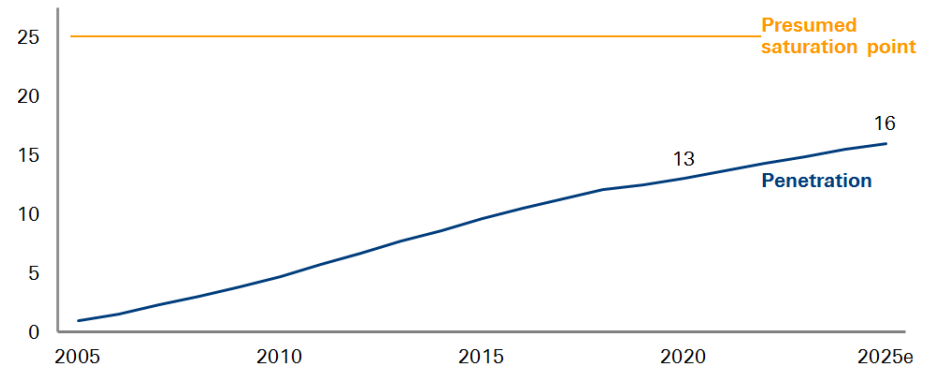
The balance sheet looks somewhat stronger than we had expected concerning the equity position. The EUR 14.8 m figure (7.4% of total assets) is far from being a comfortable buffer. But it is twice as high as we had expected. And the direction is right. Still there is a relatively high net financial debt burden of EUR 89 m (yearend 2020), but that has begun to shrink and should continue to do so with expected steady free cashflows in the EUR 20-30 m range over the next five years.

The macro picture continues to be intact, we think. The replacement tire market is a very stable one with hardly any price competition among the tire producers. On the supply side, the market is very fragmented. There should be a handful of traditional tire dealers of the size of Delticom. Most of them are just regional players. Among the online dealers, DEX should be at least 4-5 times as big as the number two dealer in Europe. The penetration rate of eCommerce in the tire business should be not higher than 13% at present which leaves a lot of growth potential. We expect a moderate but steady growth of the penetration rate over the next at least five years (see following charts). Delticom as by far the biggest player in Europe and in much better shape than one or two years ago should be able to benefit from these market conditions.

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Online tire sales have been steadily gaining market share

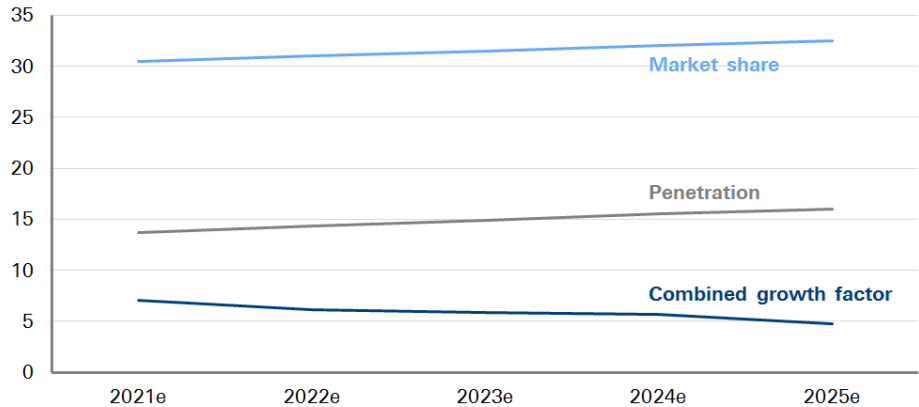
Penetration of the market for online tire sales in Europe, in % of the overall market



Source: Metzler Research

Growth driven by ongoing e-commerce penetration and market share gains

Delticom's market share in online tire sales in the EU (in %), and combined penetration/market share gain factors (in % y-o-y)



Source: Metzler Research

company note

Key Data

Company profile

CEO: Andreas Prüfer

CFO: Thomas Loock

Hanover, Germany

Delticom is Europe's leading tyre retailer. The company operates 137 online shops in 42 countries, including ReifenDirekt and Tirendo. The customer can choose between home delivery and delivery to one of ca. 40,000 service partners worldwide.

Major shareholders

Prüfer/Binder (50.04%)

Key figures

P&L (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Sales	646	-3.3	626	-3.1	541	-13.5	580	7.1	615	6.1	651	5.9
EBITDA	14	51.6	-2	-117.0	15	729.2	25	68.4	31	21.1	34	10.7
EBITDA margin (%)	2.2	56.8	-0.4	-117.6	2.8	827.4	4.4	57.3	5.0	14.1	5.2	4.5
EBIT	1	-45.0	-42	n.m.	5	112.9	15	176.5	21	42.6	24	13.1
EBIT margin (%)	0.2	-43.1	-6.7	n.m.	1.0	114.9	2.6	158.2	3.5	34.4	3.7	6.8
Financial result	-1	-75.0	-2	-114.3	-3	-86.7	-1	57.1	-1	33.3	-1	12.5
EBT	0	-75.0	-44	n.m.	3	106.0	11	312.8	20	91.0	23	14.1
Taxes	2	320.0	3	28.6	4	59.3	0	-100.0	0	n.a.	0	n.a.
Tax rate (%)	525.0	n.a.	-6.2	n.a.	165.4	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
Net income	-2	-254.5	-41	n.m.	7	116.9	8	9.2	16	113.7	18	13.0
Minority interests	0	175.0	0	-33.3	0	0.0	0	-50.0	0	0.0	0	0.0
Net Income after minorities	-2	-233.3	-41	n.m.	7	116.3	7	10.9	16	115.2	18	13.1
Number of shares outstanding (m)	12	n.a.	12	0.0	12	0.0	12	0.0	12	0.0	12	0.0
EPS adj. (EUR)	-0.16	n.a.	-3.28	n.m.	0.54	116.3	0.59	10.9	1.28	115.2	1.45	13.1
DPS (EUR)	0.10	n.a.	0.00	-100.0	0.00	n.a.	0.00	n.a.	0.00	n.a.	0.00	n.a.
Dividend yield (%)	1.4	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.
Cash Flow (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Gross Cash Flow	-12	-176.0	-22	-92.3	15	166.7	20	33.3	23	15.0	25	8.7
Increase in working capital	-5	n.a.	103	n.a.	24	n.a.	13	n.a.	8	n.a.	6	n.a.
Capital expenditures	-7	2.7	-4	37.5	-1	75.6	-4	-263.6	-4	0.0	-5	-25.0
D+A/Capex (%)	-180.6	n.a.	-880.0	n.a.	-881.8	n.a.	-262.5	n.a.	-237.5	n.a.	-200.0	n.a.
Free cash flow (Metzler definition)	-24	-233.3	76	416.7	38	-50.1	29	-23.5	27	-6.9	26	-3.7
Free cash flow yield (%)	-26.7	n.a.	133.6	n.a.	50.9	n.a.	28.2	n.a.	26.2	n.a.	25.2	n.a.
Dividend paid	-1	n.a.	0	100.0	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Free cash flow (post dividend)	-29	-259.4	74	357.5	37	-49.4	29	-22.5	27	-6.9	26	-3.7
Balance sheet (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Assets	232	14.9	188	-19.1	200	6.2	189	-5.3	193	2.1	199	2.8
Goodwill	35	0.0	35	0.0	55	55.2	35	-35.6	35	0.0	35	0.0
Shareholders' equity	49	-7.0	8	-83.2	15	78.3	11	-23.6	28	149.6	48	68.8
Equity/total assets (%)	21.2	n.a.	4.4	n.a.	7.4	n.a.	6.0	n.a.	14.6	n.a.	24.0	n.a.
Net Debt incl. Provisions	28	118.9	94	236.3	89	-5.2	72	-18.2	58	-20.7	40	-29.6
thereof pension provisions	0	-76.9	0	33.3	0	-75.0	0	400.0	0	0.0	0	0.0
Gearing (%)	56.4	n.a.	1126.5	n.a.	598.6	n.a.	641.6	n.a.	203.9	n.a.	85.1	n.a.
Net debt/EBITDA	2.0	n.a.	-39.0	n.a.	5.9	n.a.	2.9	n.a.	1.9	n.a.	1.2	n.a.

Sources: Refinitiv, Metzler Research

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Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			

Issuer/Financial Instrument (ISIN): Delticom (DE0005146807)

03.03.2021	n.a.	Buy	7.28 EUR	15.00 EUR	Pieper, Jürgen
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* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein

*** All authors are financial analysts

Delticom

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Metzler Capital Markets

B. Metzler seel. Sohn & Co.
Kommanditgesellschaft auf Aktien
Untermainanlage 1
60329 Frankfurt/Main, Germany
Phone (+49 - 69) 21 04 - extension
Fax (+49 - 69) 21 04 - 6 79
www.metzler.com

Mario Mattera

Head of Capital Markets

Research	Pascal Spano	Head of Research	43 65
Fax (+49 - 69) 28 31 59			
	Guido Hoymann	Head of Equity Research	3 98
		Transport, Utilities/Renewables	
	Stephan Bauer	Industrial Technology	43 63
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