

Delticom (DEX GY) | Retail

November 16, 2023

The inflection point is yet to come

We reiterate our HOLD recommendation with an unchanged target price of EUR 2.5 per share following the solid Q3 results (Sales: EUR 97.7m; operating EBITDA: EUR2.6m). The management confirmed its full-year guidance (Sales: EUR470-504m; operating EBITDA: 14-18.9m). We believe the company is well on track to achieve its targets and should benefit from an uptick in winter tire demand in Q4e.

- **Short-term view:** the company should benefit from cooling off inflationary pressure, easing macroeconomic conditions and restocking tailwinds in late H1 FY24e.
- **Structurally sound case:** Delticom is an e-commerce player with structural long-term drivers being intact (ongoing digitization, omni-channel retail, growing share of digital natives, etc); We expect the share of online vehicle sales to increase manifold by the end of the decade. This should lead to a higher share of drivers who have bought their vehicles online and reduce their reluctance to order tires online.
- **Valuation:** Our multiple valuation indicates a fair target price of EUR 2.50 per share. Delticom is trading at 7.0x EV/EBITDA FY24e, i.e. at a ~13% discount to its closest European peer, Oponeo.pl. The stock lacks short-term triggers. However, better visibility on the macroeconomic situation and rebound momentum in late H1 FY24e could trigger a re-rating, in particular by putting more emphasis on the appealing long-term drivers.

Fundamentals (in EUR m) ¹	2020	2021	2022	2023e	2024e	2025e
Sales	541	585	509	502	521	547
EBITDA	15	17	15	15	17	18
EBIT	5	7	4	5	6	7
EPS adj. (EUR)	0.54	0.46	0.19	0.14	0.18	0.28
DPS (EUR)	0.00	0.00	0.00	0.10	0.00	0.00
BVPS (EUR)	1.10	2.49	2.68	2.80	2.99	3.27
Net Debt incl. Provisions	88	51	71	82	68	58
Ratios ¹	2020	2021	2022	2023e	2024e	2025e
EV/EBITDA	10.8	8.6	7.0	7.8	6.0	5.2
EV/EBIT	30.3	20.7	25.0	25.3	16.1	13.8
P/E adj.	11.0	14.1	12.4	15.1	11.9	7.8
Dividend yield (%)	0.0	0.0	0.0	4.6	0.0	0.0
EBITDA margin (%)	2.8	2.9	2.9	2.9	3.2	3.2
EBIT margin (%)	1.0	1.2	0.8	0.9	1.2	1.2
Net debt/EBITDA	5.9	3.0	4.7	5.6	4.1	3.3
PBV	5.4	2.6	0.9	0.8	0.7	0.7

¹Sources: Bloomberg, Metzler Research

Hold



unchanged

Price*

EUR 2.18

Price target

EUR 2.50 (unchanged)

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

Market Cap (EUR m) ¹	32
Enterprise Value (EUR m) ¹	114
Free Float (%) ¹	53.0

Price (in EUR)¹



Performance (in %) ¹	1m	3m	12m
Share	5.3	0.0	13.5
Rel. to Prime All Share	1.6	0.8	3.8

Changes in estimates (in %) ¹	2023e	2024e	2025e
Sales	0.0	0.0	0.0
EBIT	0.0	0.0	0.0
EPS	0.0	-30.5	-4.0

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Author: Pal Skirta

Financial Analyst Equities

+49 69 2104-525

Pal.Skirta@metzler.com

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Q3 Results & Preliminary thoughts on Q4e

In Q3 FY23 the Group printed sales of EUR 97.7m and an operating EBITDA of EUR2.6m. We believe Delticom demonstrated solid results despite the ongoing macroeconomic headwinds. We also highlight that the third quarter is typically flat for the Group with the replacement tires market being in a transition from summer to winter tire business.

According to the company, **there was no early start to the winter business in late Q3 demand as demand in Europe was penalized by the persistently warm weather. We believe the sluggish winter tire demand in late Q3 paves the way for an even stronger uptick in demand in Q4e, which is generally the strongest quarter in terms of sales with drivers seeking to buy new winter tires amidst the first snowfall and darker months of the year.** In our view, the inventory levels should have normalized even further and we expect a recovery in demand in H1e FY24 with potentially restocking tailwinds in late Q32e amidst cooling off inflationary pressure and macroeconomic recovery.

The management confirmed its full-year guidance (Sales: EUR470-504m; operating EBITDA: 14-18.9m). Given the solid operating EBITDA development in the first nine months of 2023 (EUR 10.2m), **we believe there is no risk of a profit warning and the Group will comfortably reach its targets by the year end.**

Valuation - Delticom is a structurally sound investment case

Our multiple valuation indicates a fair target price of EUR 2.50 per share. Delticom is trading at 7.0x EV/EBITDA FY24e, i.e. at a ~13% discount to its closest European peer, Oponeo.pl (not rated). In Q3 FY23, Delticom has outperformed its Polish peer in terms of margins (EBITDA margin: -0.5%).

We reiterate our HOLD recommendation as we believe Delticom has a structurally appealing case but is lacking short-term catalysts due to the current macroeconomic headwinds. **We expect Delticom to reach an inflection point in late H1 FY24e.** The replacement tire demand should pick up due to cooling off inflationary pressure and stabilizing/declining interest rates translating into improvements in customers' spending mood and purchasing power perception. We believe this recovery momentum will lead to a re-rating for Delticom. The spike in operating EBITDA to EUR 10.2m (+43% yoy) in the first 9 months of FY23 has led to an intraday highest price of EUR 2.12 on the reporting date (~ +8% vs previous closing price). **The share price should remain susceptible to positive newsflow in the upcoming quarters, we believe.**

From the long-term perspective, we continue to believe that Delticom is a structurally appealing case since:

- **The company is an e-commerce player with structural long-term drivers being intact (ongoing digitization, omnichannel retail, growing share of digital natives, etc);** That said, we highlight that our analysis indicates that **the post-COVID slump in online sales should have already normalized and we should not expect a further decline in online tires demand:**

company note

Google searches for winter tires in Germany: post-pandemic normalization should be over

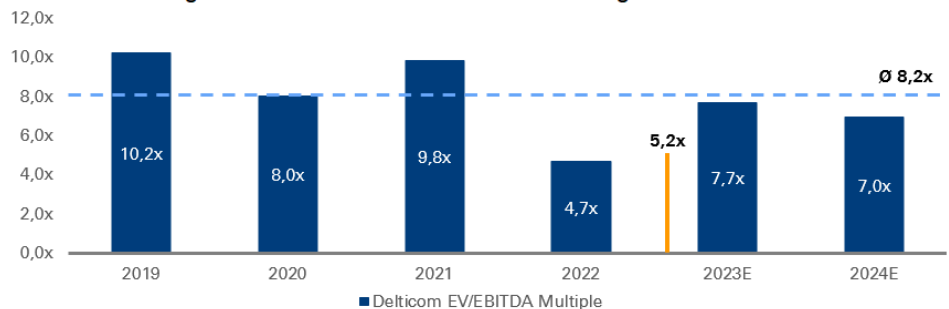


Source: Google Trends, Metzler Research

- All OEMs are increasingly shifting their sales to online sales channels hence allowing their customers to buy vehicles both online and offline. **We expect the share of online sales to increase manifold by the end of the decade. This will lead to a higher share of drivers who have bought their vehicle online thus reducing their reluctance to order tires online.**

We believe the current valuation is burdened by low visibility of short-term prospects amidst elevated macroeconomic uncertainty. The 12-month trailing EV/EBITDA multiple of just 5.2x indicates a ~37% discount to Delticom's 4-year historical average:

Delticom: Trading at a 37% discount to its historical average



Source: Bloomberg, Metzler Research

We think that the future macroeconomic rebound will be crucial for the Group as it will bring the appealing long-term equity story to the fore. The resulting future mix of short-term rebound momentum and the market emphasis on long-term prospects could pave the way for a significant re-rating. We hence reiterate our HOLD recommendation with an unchanged target price of EUR 2.50 as we continue to wait for better visibility on future catalysts.

company note

Key Data

Company profile

CEO: Andreas Prüfer

CFO: Philip von Grolman

Hanover, Germany

Delticom is Europe's leading online tire retailer. The company operates >300 online shops and sales platforms in >70 countries worldwide, including ReifenDirekt and Tirendo. The customer can choose between home delivery and delivery to one of ca. 38.000 service partners worldwide.

Major shareholders

Prüfer/Binder (50.04%)

Key figures

P&L (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Sales	541	-13.5	585	8.2	509	-13.0	502	-1.5	521	3.8	547	5.0
EBITDA	15	326.6	17	13.7	15	-12.2	15	-3.0	17	14.6	18	5.0
EBITDA margin (%)	2.8	362.0	2.9	5.1	2.9	0.9	2.9	-1.6	3.2	10.3	3.2	0.0
EBIT	5	113.5	7	31.8	4	-40.2	5	6.9	6	38.4	7	5.0
EBIT margin (%)	1.0	115.6	1.2	21.8	0.8	-31.2	0.9	8.5	1.2	33.3	1.2	0.0
Financial result	-3	-89.5	-2	23.6	-1	50.7	-2	-95.9	-3	-45.5	-2	45.0
EBT	3	106.3	5	91.0	3	-35.6	2	-22.2	3	32.6	5	50.2
Taxes	-4	-114.4	-2	56.4	0	119.9	0	-22.2	0	70.7	1	50.2
Tax rate (%)	-165.3	n.a.	-37.7	n.a.	11.7	n.a.	11.7	n.a.	15.0	n.a.	15.0	n.a.
Net income	7	117.6	7	-0.8	3	-58.7	2	-22.2	3	27.6	4	50.2
Minority interests	0	139.9	0	-53.7	0	-100.0	0	n.a.	0	40.0	0	0.0
Net Income after minorities	7	117.4	7	0.2	3	-58.3	2	-23.9	3	27.3	4	51.5
Number of shares outstanding (m)	12	0.0	15	18.6	15	0.0	15	0.0	15	0.0	15	0.0
EPS adj. (EUR)	0.54	117.4	0.46	-15.5	0.19	-58.3	0.14	-23.9	0.18	27.3	0.28	51.5
DPS (EUR)	0.00	n.a.	0.00	n.a.	0.00	n.a.	0.10	n.a.	0.00	-100.0	0.00	n.a.
Dividend yield (%)	0.0	n.a.	0.0	n.a.	0.0	n.a.	4.6	n.a.	0.0	n.a.	0.0	n.a.
Cash Flow (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Gross Cash Flow	12	161.0	18	49.7	13	-27.2	15	11.9	13	-9.4	15	14.5
Increase in working capital	-24	n.a.	1	n.a.	19	n.a.	12	n.a.	6	n.a.	1	n.a.
Capital expenditures	2	-61.4	0	-75.3	3	568.6	5	81.7	4	-22.8	4	5.0
D+A/Capex (%)	615.9	n.a.	2579.4	n.a.	414.4	n.a.	212.4	n.a.	285.7	n.a.	285.7	n.a.
Free cash flow (Metzler definition)	34	229.4	17	-51.8	-8	-149.1	-3	69.0	4	249.7	10	172.7
Free cash flow yield (%)	46.3	n.a.	17.4	n.a.	-23.2	n.a.	-7.8	n.a.	11.7	n.a.	31.8	n.a.
Dividend paid	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Free cash flow (post dividend)	35	221.1	16	-55.6	-8	-153.5	-1	85.5	4	410.4	10	172.7
Balance sheet (in EUR m)	2020	%	2021	%	2022	%	2023e	%	2024e	%	2025e	%
Assets	200	6.1	217	8.9	195	-10.2	167	-14.7	169	1.3	168	-0.3
Goodwill	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Shareholders' equity	15	78.9	38	156.6	40	4.4	42	4.7	44	6.7	49	9.5
Equity/total assets (%)	7.4	n.a.	17.5	n.a.	20.3	n.a.	24.9	n.a.	26.3	n.a.	28.8	n.a.
Net Debt incl. Provisions	88	0.8	51	-42.1	71	37.7	82	15.9	68	-16.4	58	-15.0
thereof pension provisions	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Gearing (%)	597.7	n.a.	134.9	n.a.	177.9	n.a.	197.0	n.a.	154.4	n.a.	119.8	n.a.
Net debt/EBITDA	5.9	n.a.	3.0	n.a.	4.7	n.a.	5.6	n.a.	4.1	n.a.	3.3	n.a.

ESG discussion

CO2 emissions caused by the transport of tires to the customers are significant. Delticom will further optimize its distribution with a focus on minimizing the mileage driven. In the long term, we expect a significant improvement in the environmental footprint of the Group due to the generally lower tailpipe and tire-related emissions as a result of the e-mobility transition, tighter regulation and further environmental advancements on the tire manufacturers' side.

Sources: Bloomberg, Metzler Research

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Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Delticom (DE0005146807)					
14.08.2023	Hold	Hold	2.10 EUR	2.50 EUR	Skirta, Pal
02.06.2023	Hold	Hold	1.80 EUR	2.50 EUR	Pieper, Jürgen

* 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. AG
Untermainanlage 1
60329 Frankfurt/Main, Germany
Phone +49 69 2104-extension
Fax +49 69 2104-679
www.metzler.com

Mario Mattera

Head of Capital Markets

Research	Pascal Spano	Head of Research	4365
Fax +49 69 283159			
	Guido Hoymann	Head of Equity Research	398
		Transport, Utilities/Renewables	
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