

Delticom (DEX GY) | Retail

March 28, 2022

Growth perspectives after a difficult restructuring

We confirm our Buy recommendation albeit with a substantially lowered price target of EUR 8 after EUR 15. Delticom ended its deep restructuring at yearend 2021 with solid growth (EUR 585m, plus 8.2% versus 2020) but with a weaker than expected earnings picture. EBITDA of EUR 17.1 m came in clearly below our expectations (EUR 25 m) and close to the lower end of the targeted EUR 16-20 m range. It looked like DEX did not manage to achieve above-average growth and satisfying margins at the same time. What was even more disillusioning was the very defensive outlook on 2022e. Taking the divestment of the US business into account, Delticom is forecasting practically no growth (revenues to come in within a EUR 480-520 m range) and no profitability improvement (EBITDA in a EUR 12-15 m range). After having discussed with the company, our impression is that the combination of several risk factors (war in the Ukraine, inflationary economy, reduced growth expectations, rising transportation costs) lead the management to formulate almost extremely cautious targets.

- 2022e growth: We expect Delticom to achieve revenues of EUR 520 m which means that at least slight growth should be realized. Signals from the mileage driven in key European markets are fairly positive. The positive pricing environment should support DEX's sales and earnings as well.
- Valuation: The basis for our valuation is a detailed DCF model; key variables are cautiously calculated like a long-term top line growth of 1.5% per annum and an "eternal" EBIT margin of 2.5%.

Fundamentals (in EUR m) ¹	2018	2019	2020	2021e	2022e	2023e
Sales	646	626	541	585	520	560
EBITDA	14	-2	15	17	16	24
EBIT	1	-42	5	7	10	18
EPS adj. (EUR)	-0.16	-3.28	0.54	0.45	0.47	0.84
DPS (EUR)	0.10	0.00	0.00	0.00	0.00	0.00
BVPS (EUR)	3.94	0.67	1.10	2.49	3.05	3.61
Net Debt incl. Provisions	28	94	89	51	48	38
Ratios ¹	2018	2019	2020	2021e	2022e	2023e
EV/EBITDA	8.3	-62.5	10.8	8.5	6.3	3.8
EV/EBIT	106.4	-3.6	30.1	20.6	10.1	5.2
P/E adj.	-44.6	-1.4	11.1	14.2	7.8	4.3
Dividend yield (%)	1.4	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	2.2	-0.4	2.8	2.9	3.1	4.3
EBIT margin (%)	0.2	-6.7	1.0	1.2	1.9	3.1
Net debt/EBITDA	2.0	-39.0	5.9	3.0	3.0	1.6
PBV	1.8	6.7	5.4	2.6	1.2	1.0

¹Sources: Bloomberg, Metzler Research

Buy

 **unchanged**

Price*

EUR 3.63

Price target

EUR 8.00 (15.00)

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

Market Cap (EUR m) ¹	54
Enterprise Value (EUR m) ¹	101
Free Float (%) ¹	0.0

Price (in EUR)¹



Performance (in %) ¹	1m	3m	12m
Share	-34.5	-44.3	-55.7
Rel. to Prime All Share	-33.8	-37.7	-54.6

Changes in estimates (in %) ¹	2021e	2022e	2023e
Sales	2.4	-7.8	-6.5
EBIT	-52.4	-58.3	-34.0
EPS	-27.2	-61.5	-34.4

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Online penetration in tire business still low

The outlook on the current year (practically no growth; declining operating earnings) is quite disappointing, and the medium-term target of a 3% EBIT margin sounds rather unambitious as well. But we regard the outlook as very conservative. It should be seen as a very cautious view in light of a successful and existential restructuring. There are several reasons to believe that the future could be brighter than it looks today.

Still good chances for a sound performance

- Online penetration should be a strong driver; current eCommerce share in European tire market: ~15%
- Procurement conditions should be favorable for market leader DEX
- Restructuring measures have led to a lean cost structure
- High competence in logistics
- Tire market very stable with positive pricing trend

Source: Metzler Equity Research

The tire market is one of the most stable in the automotive area. There is practically no fight for market shares and price competition among the big five tire makers has been very low for years. Over the last 15 months, tire prices went up steadily. In that environment it should be able to strengthen the profitability with a good procurement and inventory management. Delticom presently holds above-average inventory volumes and should benefit from the positive pricing trend over the course of the year.

The demand for replacement tires is hardly connected to new or used car sales. The current problems of most auto producers that caused by supply chain constraints do almost not affect tire sales at all. The replacement tire markets rises and falls with the overall economy and even more so with the consumers' driving behavior. The mileage driven is the most important indicator for the consumption of replacement tires, and in a post-corona year (concerning the abolition of political restrictions), mileage and then tire sales should go up.

There is another distinctive characteristic of the tire market - the penetration of eCommerce of roughly 13-15% in this business is low. It is difficult to say where a saturation level of online trading of tires could be. But it seems very likely that the limit is far off. And a 1 %-point of penetration is (ceteris paribus) equivalent to roughly 7% of growth. That is a rate of expansion which Delticom should be able to realize on average, we think.

DEX still has the advantage of size on its side. It should have around one third of the European online tire market and thus should be at least twice as large as the

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number two. That advantage should pay off, through better procurement conditions and a more efficient usage of the logistics infrastructure.

Restructuring measures of the past two years should bear fruit

The restructuring measures of the past two years should pay off in an improving profitability. One visible progress has been achieved on the warehousing and distribution side; transportations costs grew slower than overall revenues last year - in a year of rapidly rising fuel costs. The new, decentralized logistics structure was responsible for that, and further improvements should be possible.

Overall, yearly growth rates of between 5% and 10% should be possible, at least until the end of the decade. And, with the realization of economies of scale and continued efficiency gains, solid margin expansions seem to be realistic. Even on the basis of the current forecast, with very cautious assumptions for the ongoing expansion and the estimated profitability, Delticom shares look clearly undervalued.

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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	585	8.1	520	-11.2	560	7.7
EBITDA	14	51.6	-2	-117.0	15	729.2	17	13.2	16	-6.4	24	50.0
EBITDA margin (%)	2.2	56.8	-0.4	-117.6	2.8	827.4	2.9	4.7	3.1	5.3	4.3	39.3
EBIT	1	-45.0	-42	n.m.	5	112.9	7	31.5	10	40.8	18	75.0
EBIT margin (%)	0.2	-43.1	-6.7	n.m.	1.0	114.9	1.2	21.6	1.9	58.6	3.1	62.5
Financial result	-1	-75.0	-2	-114.3	-3	-86.7	n.a.	n.a.	-1	n.a.	-1	0.0
EBT	0	-75.0	-44	n.m.	3	106.0	5	88.5	9	83.7	16	83.3
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	7	-1.4	7	2.9	12	78.6
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	0.0	7	3.0	12	79.7
Number of shares outstanding (m)	12	n.a.	12	0.0	12	0.0	15	18.6	15	0.0	15	0.0
EPS adj. (EUR)	-0.16	n.a.	-3.28	n.m.	0.54	116.3	0.45	-15.7	0.47	3.0	0.84	79.7
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	17	12.0	8	-52.4	13	62.5
Increase in working capital	-5	n.a.	103	n.a.	24	n.a.	4	n.a.	0	n.a.	0	n.a.
Capital expenditures	-7	2.7	-4	37.5	-1	75.6	1	172.7	-7	-975.0	-4	42.9
D+A/Capex (%)	-180.6	n.a.	-880.0	n.a.	-881.8	n.a.	1250.0	n.a.	-85.7	n.a.	-162.5	n.a.
Free cash flow (Metzler definition)	-24	-233.3	76	416.7	38	-50.1	22	-43.0	1	-95.4	9	800.0
Free cash flow yield (%)	-26.9	n.a.	134.4	n.a.	51.2	n.a.	22.8	n.a.	1.9	n.a.	16.7	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	21	-43.3	1	-95.3	9	800.0
Balance sheet (in EUR m)	2018	%	2019	%	2020	%	2021e	%	2022e	%	2023e	%
Assets	232	14.9	188	-19.1	200	6.2	218	8.9	197	-9.3	207	4.8
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	38	156.8	45	18.9	54	18.6
Equity/total assets (%)	21.2	n.a.	4.4	n.a.	7.4	n.a.	17.5	n.a.	22.9	n.a.	25.9	n.a.
Net Debt incl. Provisions	28	118.9	94	236.3	89	-5.2	51	-42.2	48	-7.2	38	-21.1
thereof pension provisions	0	-76.9	0	33.3	0	-75.0	0	0.0	0	400.0	0	0.0
Gearing (%)	56.4	n.a.	1126.5	n.a.	598.6	n.a.	134.7	n.a.	105.1	n.a.	70.0	n.a.
Net debt/EBITDA	2.0	n.a.	-39.0	n.a.	5.9	n.a.	3.0	n.a.	3.0	n.a.	1.6	n.a.

ESG discussion

CO2 emissions caused by the transport of tires to the customers are significant. Delticom will further optimize its distribution with the focus on minimizing the mileage driven.

Sources: Bloomberg, Metzler Research

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Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Delticom (DE0005146807)					
17.01.2022	Buy	Buy	6.52 EUR	15.00 EUR	Pieper, Jürgen
08.10.2021	Buy	Buy	8.30 EUR	16.00 EUR	Pieper, Jürgen
19.08.2021	Buy	Buy	8.64 EUR	16.00 EUR	Pieper, Jürgen
28.06.2021	Buy	Buy	9.08 EUR	15.00 EUR	Pieper, Jürgen
03.05.2021	Buy	Buy	8.31 EUR	15.00 EUR	Pieper, Jürgen
29.03.2021	Buy	Buy	8.19 EUR	15.00 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

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Delticom

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