

Delticom (DEX GY) | Retail

May 17, 2022

Q1: Disappointment at the earnings level

We reduce our recommendation from Buy to Hold after another mixed quarter which showed reasonable top line growth of around 4% yoy on a comparable basis but a disappointing earnings development. Group EBITDA of EUR 1.7 m (after 1.1 m) includes a gain from the sale of the North American business of EUR 2.5 m which makes the underlying EBITDA and also the EBIT (EUR -3.2 m for the core activities) negative. Our price target is cut drastically from EUR 8 to EUR 3.3. That reflects clearly reduced revenue and earnings estimates (we move our revenue and EBITDA projections from the high end to the low end of the target range) and above-average risk of the investment into DEX. There are no indications for a quick improvement of the situation. On the contrary: High fuel costs could dampen overall mileage driven and thus the demand for replacement tires.

- Q1: All relevant financials were either slightly (revenues) or clearly (EBITDA, EBIT) below our expectations. Rising procurement costs (which could not fully be passed over to customers) and slightly expanding personell expenses hampered a profit improvement.
- 2022e: Delticom confirmed its outlook, but we regard the low end of the revenue and EBITDA target range (EUR 480 m; 12 m) already as ambitious.
- Valuation: The clear changes of estimates (short-term and longer-term) in combination with a revision of the beta lead to a cut of the price target from EUR 8 to EUR 3.3.

Fundamentals (in EUR m) ¹	2018	2019	2020	2021e	2022e	2023e
Sales	646	626	541	585	480	500
EBITDA	14	-2	15	17	12	17
EBIT	1	-42	5	7	6	10
EPS adj. (EUR)	-0.16	-3.28	0.54	0.45	0.26	0.49
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	7.8	5.0
EV/EBIT	106.4	-3.6	30.1	20.6	15.6	8.1
P/E adj.	-44.6	-1.4	11.1	14.2	11.9	6.4
Dividend yield (%)	1.4	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	2.2	-0.4	2.8	2.9	2.5	3.4
EBIT margin (%)	0.2	-6.7	1.0	1.2	1.2	2.1
Net debt/EBITDA	2.0	-39.0	5.9	3.0	4.0	2.3
PBV	1.8	6.7	5.4	2.6	1.0	0.9

¹Sources: Bloomberg, Metzler Research

Hold



down from buy

Price*

EUR 3.12

Price target

EUR 3.30 (8.00)

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

Market Cap (EUR m) ¹	46
Enterprise Value (EUR m) ¹	94
Free Float (%) ¹	0.0

Price (in EUR)¹



Performance (in %) ¹	1m	3m	12m
Share	-7.1	-44.1	-57.2
Rel. to Prime All Share	-5.1	-38.5	-53.1

Changes in estimates (in %) ¹	2021e	2022e	2023e
Sales	0.0	-7.7	-10.7
EBIT	0.0	-40.0	-40.0
EPS	0.0	-43.5	-41.9

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Personnel costs rise slightly

If one excludes a gain of EUR 2.5 m from the sale of the North American business, Delticom fell back into the red in Q1, nothing really unusual in the relatively unimportant first quarter, but nevertheless somehow disappointing after a longer restructuring period that left us rather convinced that DEX can avoid operating losses, even at a quarterly basis. The market environment was not extremely tough in Q1 from our perspective, and top line growth of 4% (on a comparable basis) was almost in line with expectations.

Procurement costs went up faster than revenues; that is well understandable. Our assumption, after former statements from Delticom, was that the inventory level was higher than usual and that the company could therefore sell a certain share of its volume at favourable margins thanks to lower priced inventory. That does not seem to be the case. Staff costs as well as marketing expenses were up slightly as % of revenues as a preparation for a more offensive selling strategy.

Profitability under pressure

Q1 key figures vs. Q1 2021; in EUR m

	Q1 2022	Q1 2021
Revenues	90.5 *	86.7
Gross profit	27.6 **	27.8
EBITDA	-0.8 **	1.1
EBIT	-3.2 **	1.7

* Excluding the North America business in both years

** Excluding gain on sales of NA business

Sources: Delticom, Metzler Research

We reduce our estimates for the current year substantially as revenues and even more so earnings have developed weaker than expected - not only in the most recent quarter but in H2 2021 as well. Delticom seems to have difficulties achieving solid top line growth (of at least 5% yoy) and an improving profitability at the same time. A rising online penetration as a potential growth driver does not seem to take place, at least not in any significant way.

We move our revenue (EUR 480 m) and EBITDA (12 m) estimate from the high end to the low end of the target range. The track record of the past years makes a more optimistic view too risky. The pressure on the procurement side and also from rising personnel costs should persist, so that a substantial improvement of the company's profitability seems to be further away.

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	585	8.1	480	-18.0	500	4.2
EBITDA	14	51.6	-2	-117.0	15	729.2	17	13.2	12	-29.8	17	41.7
EBITDA margin (%)	2.2	56.8	-0.4	-117.6	2.8	827.4	2.9	4.7	2.5	-14.4	3.4	36.0
EBIT	1	-45.0	-42	n.m.	5	112.9	7	31.5	6	-15.5	10	75.0
EBIT margin (%)	0.2	-43.1	-6.7	n.m.	1.0	114.9	1.2	21.6	1.2	3.1	2.1	68.0
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	5	2.0	10	90.0
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	4	-41.2	7	82.5
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	4	-41.8	7	84.6
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	0.26	-41.8	0.49	84.6
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.	2.2	n.a.	19.5	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	-18.9
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.	71.8	n.a.
Net debt/EBITDA	2.0	n.a.	-39.0	n.a.	5.9	n.a.	3.0	n.a.	4.0	n.a.	2.3	n.a.

ESG discussion

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

Sources: Bloomberg, Metzler Research

company note

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Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Delticom (DE0005146807)					
28.03.2022	Buy	Buy	3.63 EUR	8.00 EUR	Pieper, Jürgen
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

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

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*** All authors are financial analysts

Delticom

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