



LatAm Autos Ltd (LAA.ASX)

Cross sell products to fuel supercharged growth

Event:

- We initiate formal research coverage on LatAm Autos Limited (LAA).

Investment Highlights:

- LAA provides online auto classifieds platforms and services as well as transaction focused services** including car financing, insurance, and telematics products in Mexico and Ecuador.
- LatAm Autos has grown organically to be the leading dedicated online auto classifieds platform in Mexico and Ecuador.** LAA has 2x and 18x website traffic in Mexico and Ecuador over the number two competitors (*similarweb.com*); LAA has 1.7x and 3.3x the car listings over its nearest competitors.
- Recently expanded product offerings to leverage leading market position.** The company has recently launched a suite of cross sell products (Motorfy) including auto finance, insurance, and GPS tracking to facilitate online car transactions, enabling easier and quicker credit access for users. **High margin Motorfy product, growing at excellent rates, will fuel revenue uplift.**
- New product optionality:** LAA intends to launch a range of new cross sell products including truck and machinery financing and financing products tailored to different customer credit risk profiles. We believe the upside potential from these new products are not currently priced in to LAA.
- Dealer network complements online channel.** More than 150 auto dealers, representing ~12% of LAA's dealer base, are currently using the Motorfy product, having grown 80% from CY17 end. LAA is targeting 29% of its dealer base by CY18e end, and increasing average monthly loans per dealer by CY18e end to 1.7, from 1.1 at April 2018. Dealer growth is driven by LAA's relationship with used car dealer professional associations and strong dealer demand.
- Total addressable market of A\$2B in Mexico.** We estimate LAA's annual revenue opportunity from autofinancing in Mexico alone is A\$500M, based on a 25% share of ~6M used cars sold in Mexico, of which 50% require financing. LAA is experiencing rapid growth as it captures this market opportunity.
- Company targeting cash flow breakeven by CY18e end, and this is reflected in our forecasts.** Reducing cash burn and continued growth in higher margin cross sell products provides a path way to cash flow breakeven by CY18e end.

Earnings and Valuation:

- We forecast a loss of \$6.1M in FY18e as the company works towards its cash flow breakeven milestone by CY18e end. We forecast FY19e NPAT of \$0.7M.
- We derive a valuation for LAA of \$0.30/share by DCF. This value is within the range of that derived from using comparative peer EV/Sales and recent transaction multiples (\$0.25-\$0.41/share).

Recommendation:

- We initiate coverage on LAA with a Buy recommendation and 12-month price target of \$0.30/share, in line with our DCF valuation.
- Catalysts for the share price include 1) cash flow breakeven by CY18e end; 2) continued high growth in Motorfy cross sell units; 3) growth in dealer network and loans per dealer; 4) continued growth in classifieds business; 5) continued online penetration and market share growth.

Recommendation	Buy
Previous	N/A
Risk	High
Price Target (A\$)	\$ 0.30
Previous (A\$)	N/A
Share Price (A\$)	\$ 0.215
ASX Code	LAA
52 week low - high (A\$)	0.078-0.225
Methodology	DCF
Capital structure	
Shares on Issue (M)	370.7
Options (M)	69.0
Undiluted Market Cap, A\$M	79.7
Net Cash/(Debt), A\$M	-4.4
EV (A\$m)	84.0
12mth Av Daily Volume ('000)	346

Forecasts, A\$M	2017a	2018e	2019e	2020e
Revenue	5.6	9.2	18.3	33.6
EBITDA	-9.6	-3.4	3.7	15.1
NPAT	-12.3	-6.1	0.7	9.0
EPS, cps	-3.9	-1.4	0.2	2.0
EV/Sales, x	15.1	9.2	4.6	2.5

Shareholders

Log Creek (Mike Fitzpatrick)	11.1%
Timothy Handley	7.9%
Simon Clausen	7.4%
Gareth Bannan	5.7%
Jorge Ribadeneira	4.0%

Board

Mike Fitzpatrick	Non-Executive Director
Colin Galbraith	Non-Executive Director
Simon Clausen	Non-Executive Director
Timothy Handley	Executive Chairman
Jorge Ribadeneira	Executive Director, CEO
Cameron Griffin	Alternate Director
Gareth Bannan	Alternate Director, CFO

Share Price Graph



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The analyst does not own LAA securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own LAA securities.

Cranport Pty Ltd owns 1,000,000 LAA shares.

Refer to end of report for details.