



LatAm Autos Ltd (LAA.ASX)

Expanding product range to include warranty product

Event:

- LAA expands cross sell product range with Motorfy Garantias – Extended Warranty product launch in Mexico.

Investment Highlights:

- LAA have expanded its cross sell product range and announced the launch in Mexico of Motorfy Garantias, an extended warranty product for car buyers.
- Motorfy Garantias offers warranty protection to car buyers on a 1 or 2 year plan, no excess on claims up to US\$5k; a car buyer can purchase Garantias in a bundle with Motorfy Credit, or as standalone product.
- Warranty product has no recourse to LAA: LAA has an exclusive distribution arrangement with SNG, an auto warranty manager, who bears the risk of honouring the warranty. SNG is a subsidiary of Peña Verde SA de CV, a US\$260M cap holding company, which owns insurance and reinsurance companies operating in Mexico.
- We estimate expected revenue to LAA per warranty product in the range of A\$150-175. LAA expects each extended warranty product increases total ARPU for a Motorfy bundle product by 23%; as a standalone each extended warranty product generates revenue to LAA equivalent to 2.2x the average monthly classifieds only package. Total addressable market of almost A\$1B, assuming 6M cars sold per year in Mexico.
- Ongoing strategy is to increase the range of products and increase conversion rates; we keenly anticipate the launch of near prime and sub prime credit products in the near term; LAA will also continue growing its number of dealers using the Motorfy product.
- Updated market statistics show encouraging signs. Notably, the number of dealers using Motorfy in 2Q18 has grown to ~275, from ~110 in 4Q17. LAA has maintained leading market positions in each of website traffic and car listings in both Mexico and Ecuador.

Earnings and Valuation:

- We continue to forecast a loss of \$6.1M in FY18e as the company works towards its cash flow breakeven milestone by CY18e end. We have an unchanged forecast FY19e NPAT of \$0.7M.
- We have an unchanged valuation for LAA of \$0.30/share by DCF, which does not yet include any contribution from the newly launched Garantias product at this stage. 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 maintain a Buy recommendation for LAA and an unchanged 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	Buy
Risk	High
Price Target (A\$)	\$ 0.30
Previous (A\$)	\$ 0.30
Share Price (A\$)	\$ 0.195
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	72.3
Net Cash/(Debt), A\$M	-4.4
EV (A\$M)	76.6
12mth Av Daily Volume ('000)	379

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	13.8	8.4	4.2	2.3

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.