



## LatAm Autos Ltd (LAA.ASX)

### Just Getting Started

#### Event:

- 1H18a result; new loan product; revised earnings.

#### Investment Highlights:

- LAA reported its 1H18a result, with revenue for the half up \$3.4M, up 41% on pcp in constant currency.** This was below our estimate for the half of \$4.6M, as we had previously assumed cash conversion in line with revenue.
- Mexico showed strong growth, with 72% revenue growth on pcp in constant currency, as Motorfy sales continue to build.** Ecuador revenue grew 20% pcp.
- Updated market statistics show encouraging signs; second half off to a good start:** standout data point was annualised monthly revenue of cross sell products +48% MoM to \$3.4M in July 2018.
- Additional loan product to address demand announced on 29 August.** LAA has signed a loan distribution agreement with a new credit provider for non-bank secured loan products for car buyers using the Motorfy platform. The new product will meet the demand of customers with limited or no credit history, and address ~40% of existing loan applications that are not currently serviced.
- Cash balance of \$5.7M at 30 June,** and the company has \$10M in convertible debt.
- Targeting cash flow breakeven at CY18e end:** the company has reaffirmed expectations it will be group operating cash flow positive by CY18e end.

#### Earnings and Valuation:

- We have **increased forecast losses of \$8.4M and \$1.0M in FY18e and FY19e** (prior \$6.1M loss and \$0.7M profit) as a result of **increased cost assumptions for FY18e and FY19e of \$15M and \$17M** (prior \$12.6M and \$14.5M), in line with 1H18a result.
- We have **not yet included revenue from the recently launched warranty product (Garantias) and the newly launched loan product.** We keenly anticipate an update on performance before incorporating warranty and new product revenue into our forecasts.
- 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 or new loan product at this stage.
- We note the company is currently undertaking a placement and we have not factored this into our numbers.

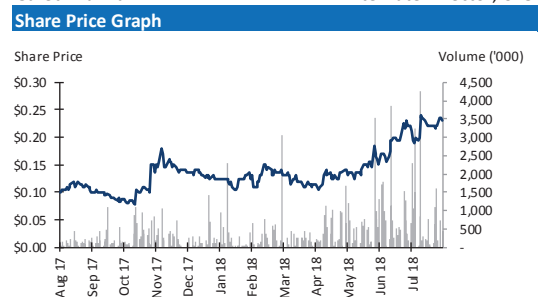
#### Recommendation:

- 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\$)	\$ 0.23			
ASX Code	LAA			
52 week low - high (A\$)	0.078-0.24			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	372.0			
Options (M)	57.7			
<b>Undiluted Market Cap, A\$M</b>	<b>85.5</b>			
Net Cash/(Debt), A\$M	-4.3			
<b>EV (A\$M)</b>	<b>89.9</b>			
12mth Av Daily Volume ('000)	412			
Forecasts, A\$M				
	2017a	2018e	2019e	2020e
Revenue	5.6	9.2	18.3	33.6
EBITDA	-9.6	-5.8	1.3	15.1
NPAT	-12.3	-8.4	-1.0	9.0
EPS, cps	-3.9	-1.9	-0.2	2.0
EV/Sales, x	16.2	9.8	4.9	2.7

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



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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.**

**Foster Stockbroking has been mandated on 30 August 2018 to undertake a placement of new LAA shares.**  
**Foster Stockbroking will receive fees for this service.**