



LatAm Autos Ltd (LAA.ASX)

Ramping Up Dealer Numbers

Event:

- Honda and Acura dealer partnership in Mexico; revised earnings and PT.

Investment Highlights:

- LAA has announced today it has partnered with Asociacion Mexicana de Concesionarios Honda A.C. ('AMECAH'), the association of Honda and Acura car dealers in Mexico. The company has initiated the onboarding process for its car dealer members and affiliates.
- AMECAH members will have access to LAA's leading online auto classifieds portal via a classifieds package, as well as the Motorfy Vehicle Transaction Marketplace, with access to LAA's Vehicle Finance and Vehicle Value Add Products (including telematics, insurance, extended warranty products).
- AMECAH has 189 members and affiliates in Mexico, which would represent a ~70% uplift in dealer numbers using the Motorfy product (274 dealers at 2Q18a end).
- LAA has already commenced onboarding process for 64 AMECAH members and expect completion by CY18e end. The remaining 125 affiliates in Mexico are expected to be onboarded during 1H19e.
- Today's partnership announcement is a significant boost for the company to reach its previously announced 29% CY18e end target for dealers using the Motorfy product. We note today's announcement is an encouraging sign of progress in this area. With a decent uplift in dealer numbers after today's announcement, we keenly anticipate growth in the other key driver in loan applications per dealer.
- The company recently successfully completed a placement of 40M shares at \$0.20/sh to raise \$8M. We estimate the company has \$12M cash, and has \$10M convertible debt.

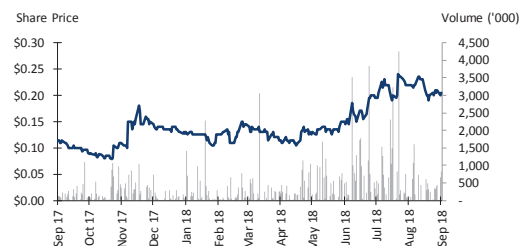
Earnings and Valuation:

- We now forecast losses of \$8.3M and \$1.0M in FY18e and FY19e, and a profit of \$9.3M in FY20e (previously -\$8.4M, -\$1.0M, and \$9.0M), and new EPS forecasts of -1.9cps, -0.2cps, and 1.9cps (previously -1.9cps, -0.2cps, and 2.0cps), as a result of the placement.
- We are yet to include 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 a decreased valuation for LAA of \$0.29/share (prior \$0.30), which factors in the recent placement but does not yet include any contribution from the newly launched Garantias product or new loan product at this stage.

Recommendation:

- We maintain a Buy recommendation for LAA and a decreased 12-month price target of \$0.29/share (prior \$0.30), 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\$)	\$ 0.29			
Previous (A\$)	\$ 0.30			
Share Price (A\$)	\$ 0.205			
ASX Code	LAA			
52 week low - high (A\$)	0.078-0.24			
Methodology	DCF			
Capital structure				
Shares on Issue (M)	412.0			
Options (M)	57.7			
Undiluted Market Cap, A\$M	84.5			
Net Cash/(Debt), A\$M	2.0			
EV (A\$m)	82.5			
12mth Av Daily Volume ('000)	424			
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	-8.3	-1.0	9.3
EPS, cps	-3.9	-1.9	-0.2	1.9
EV/Sales, x	14.8	9.0	4.5	2.5
Shareholders				
Tim Handley	12.1%			
Log Creek	9.1%			
Simon Clausen	6.4%			
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) own 537,500 LAA shares.
Cranport Pty Ltd owns 1,625,000 LAA shares.
Refer to end of report for details.

Foster Stockbroking acted as Sole Lead Manager to the placement of 40M shares at \$0.20 per share to raise \$8M in September 2018 and received fees for this service.