



LatAm Autos Ltd (LAA.ASX)

Seasonal pullback in final quarter dampens FY18 momentum

Event:

- FY18Q4a report; revised earnings and PT.

Investment Highlights:

- LAA released its FY18Q4a report on 31 January** with highlights including contract signing with Financiera Bepensa (FinBe) to provide new car finance and leasing, as well as truck and motorcycle finance. Operationally, the company experienced some adverse seasonal effects, disappointingly halting the momentum from the first three quarters of FY18e.
- FY18e exhibited broader trend of growth and progress:** annual unaudited FY18e revenues grew ~60% in Mexico, and ~15% in Ecuador. FY18a cash receipts grew 42% YoY to \$9.8M. Operating cash outflows improved 34% YoY.
- However, seasonal effect arrested FY18e momentum.** Q4a cash receipts of A\$2.4M was +51% vs pcp, although -15% QoQ. Cross sell unit sales grew 79% vs pcp, but -20% QoQ. This was the first ever QoQ decline in cross sell units, having only exhibited QoQ growth since launch. LAA attributed the decline to a focus on higher profitability products and business seasonality.
- FinBe agreement gives LAA coverage of prime loan market, and should assist with return to cross sell unit growth.** The agreement was positive and welcome, and in our view allows the company to address the prime loan market for new and used car finance, leasing, and truck and motorcycle finance.
- Cash of \$6.6M,** convertible debt of \$6.6M at December end. The company now expects cash flow breakeven during FY19e from FY18e end, while the company waited on finalising agreements with new loan providers.

Earnings and Valuation:

- We have decreased FY18e forecast revenue to \$7.5M from \$8.1M** as a result of lower than expected Q4a growth. Nevertheless, we still expect 36% sales growth for FY18e. We have also reduced FY19e and FY20e revenue forecasts to \$12.6M and \$20.5M (from \$15.0M and \$24.7M).
- We have **increased forecast losses of -\$9.9M, -\$7.3M, and -\$0.3M in FY18e to FY20e** (previously -\$9.3M, -\$3.1M, and \$3.0M), with EPS forecasts of -2.2cps, -1.5cps, and -0.1cps (previously -2.1cps, -0.6cps, and 0.6cps).
- We have a decreased valuation for LAA of \$0.25/share (prior \$0.27),** as a result of revised forecasts.

Recommendation:

- We maintain a Buy recommendation for LAA and decrease our 12-month price target of \$0.25/share (prior \$0.27), in line with our DCF valuation.**
- We are keen to see a return to growth in cross sell unit sales,** which should be boosted by the recent FinBe agreement, as well as further progress on other potential agreements. The focus on more profitable products should lift the average unit price (AUP) for the company over FY19e.
- Catalysts for the share price** include 1) cash flow breakeven in CY19e; 2) continued high growth in Motorfy cross sell units, and especially from FinBe; 3) growth in dealer network and loans per dealer; 4) increase in AUP from focus on more profitable products; 5) continued growth in classifieds business; 6) continued online penetration and market share growth.

Disclosures

The analyst does not own LAA securities.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,062,500 LAA shares.
Cranport Pty Ltd owns 3,480,000 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.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target (A\$)	\$ 0.25
Previous (A\$)	\$ 0.27
Share Price (A\$)	\$ 0.145
ASX Code	LAA
52 week low - high (A\$)	0.105-0.24
Methodology	DCF
Capital structure	
Shares on Issue (M)	418.4
Options (M)	57.7
Undiluted Market Cap, A\$M	60.7
Net Cash/(Debt), A\$M	0.0
EV (A\$M)	60.7
12mth Av Daily Volume ('000)	584
Forecasts, A\$M	
Revenue	2017a 5.6 2018e 7.5 2019e 12.6 2020e 20.5
EBITDA	-9.6 -7.5 -4.9 2.1
NPAT	-12.3 -9.9 -7.3 -0.3
EPS, cps	-3.9 -2.2 -1.5 -0.1
EV/Sales, x	10.9 8.0 4.8 3.0

Shareholders

Perennial	13.0%
Log Creek	9.9%
Simon Clausen	6.6%
Tim Handley	6.4%
Gareth Bannan	5.0%

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



Analyst: Matthew Chen
matthew.chen@fostock.com.au

+61 2 9993 8130