



LatAm Autos Ltd (LAA.ASX)

Strong Growth Despite Q4 Dip

Event:

- FY18a report; revised earnings and PT.

Investment Highlights:

- LAA released its FY18a report on 28 February** with highlights including 36% YoY revenue growth to \$7.5M, in line with expectations. This included 145% YoY growth in cross sell revenues, which generated 32% of group revenue, up from 17% in the pcp. Operating costs also grew 13%, as the company posted a net loss of \$13.1M for FY18a, -6% YoY.
- Core markets continue strong growth:** revenue in Mexico and Ecuador grew 63% and 17% YoY, respectively. FY18a exhibited a broader trend of growth, but Q4a saw a slowdown (cash receipts -15% QoQ) in the growth experienced in the first three quarters of the year, and the first quarter of decline in cross sell unit sales since product launch (unit sales -20% QoQ), as the company focused on higher profitability products and was affected by business seasonality.
- FY18a cash receipts grew 40% YoY to \$9.8M.** Net operating cash outflows improved 35% YoY to \$6.7M in FY18a. The company continues to make head way into reducing cash burn, however, cash flow breakeven is now expected during FY19e, pushed back from FY18 end.
- Recent FinBe agreement gives LAA coverage of prime loan market, and we believe should assist with return to cross sell unit growth.** In our view this agreement allows the company to address the prime loan market for new and used car finance, leasing, and truck and motorcycle finance, and we keenly anticipate a return to high growth from unlocked customers along the credit profile. A focus on higher profitability product sales should increase unit prices for the company and boost revenue growth.
- Cash of \$6.6M, convertible debt of \$6.9M at December end.**

Earnings and Valuation:

- We have reduced NPAT forecasts of **-\$7.7M, -\$0.8M, and \$2.3M in FY19e to FY21e** (previously -\$7.3M, -\$0.3M, and \$2.5M), with EPS forecasts of -1.6cps, -0.2cps, and 0.5cps (previously -1.5cps, -0.1cps, and 0.5cps) as a result of modest increases to the cost base over the forecast horizon.
- We have a decreased valuation for LAA of \$0.24/share** (previously \$0.25).

Recommendation:

- We maintain a Buy recommendation for LAA and decrease our 12-month price target of \$0.24/share (previously \$0.25), 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) return to high growth in Motorfy cross sell units, and especially from recently finalised FinBe agreement; 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 937,500 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\$) | \$ 0.24 |
| Previous (A\$) | \$ 0.25 |
| Share Price (A\$) | \$ 0.14 |
| ASX Code | LAA |
| 52 week low - high (A\$) | 0.105-0.24 |
| Methodology | DCF |
| Capital structure | |
| Shares on Issue (M) | 418.4 |
| Options (M) | 55.1 |
| Undiluted Market Cap, A\$M | 58.6 |
| Net Cash/(Debt), A\$M | -0.3 |
| EV (A\$M) | 58.9 |
| 12mth Av Daily Volume ('000) | 602 |

| Forecasts, A\$M | 2018a | 2019e | 2020e | 2021e |
|-----------------|-------|-------|-------|-------|
| Revenue | 7.5 | 12.6 | 20.5 | 29.0 |
| EBITDA | -9.6 | -5.3 | 1.4 | 5.2 |
| NPAT | -13.1 | -7.7 | -0.8 | 2.3 |
| EPS, cps | -3.0 | -1.6 | -0.2 | 0.5 |
| EV/Sales, x | 7.8 | 4.7 | 2.9 | 2.0 |

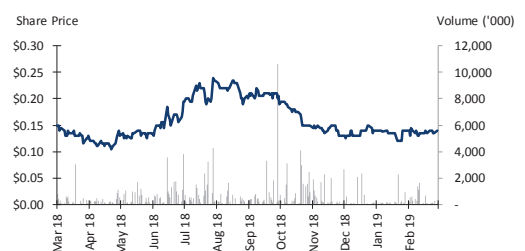
Shareholders

| | |
|---------------|-------|
| Perennial | 14.1% |
| Log Creek | 9.9% |
| Simon Clausen | 7.1% |
| 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



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