



Vested Equities
Research

ANALYST RESEARCH

LATAM AUTOS LIMITED BUY

23 NOVEMBER 2017

“HITTING AN INFLECTION POINT...”

A\$0.10
Current Price

A\$0.36
Target Price

ASX:LAA
Ticker Code



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We initiate our coverage on LatAm Autos Ltd (ASX: LAA), which operates a market leading online portal for car classifieds in Latin America. Post a recent management update in October, and after sitting on the sidelines watching the share price decline, we believe at current levels with management's renewed strategy new investors are presented with an attractive risk/return proposition. In our view, the Company is now at an important inflection point in its corporate life, with a clearly defined strategy to cash flow breakeven in the second half of FY18 (in our estimates we forecast positive group earnings in FY19). Our positive investment thesis is based on three drivers: (1) macro conditions remain supportive (e.g. growth in online penetration and traffic growth in LAA's platform in key regions); (2) recent business restructure will reduce cash burn and focus on markets closer to profitability; and (3) we believe profitability will be driven by increasing penetration of upsell (or depth) products. While execution risk remains, there is inherent value in LAA's key assets, well above existing share price. We initiate with a Buy recommendation with a price target of \$0.36 per share.

- **Company overview.** LatAm Autos owns and operates a network of market-leading online classifieds and content platforms in the Latin American automotive industry. With headquarters based in Mexico City, LAA has operations across three core markets of Mexico, Ecuador and Peru. The Company facilitates the contact between buyers and sellers and providing key information for the auto acquisition process. It is important to note that LAA's business model itself does not need to be validated, as it is already successfully being used around the world including in Australia by Carsales.com (CAR) and BitAuto (BITA) in China, with attractive cash flow profile and return metrics (high operating leverage in the business model). Simply put another way, investors are not betting on a speculative or unproven business model by investing in LAA – it is de-risked.
- **Macro environment remains supportive of growth.** Average internet penetration in LAA's key markets (2016: ~59%) remain well below-developed markets, such as Australia

(2016: 88%). While there are likely region-specific drivers which will make it difficult to achieve penetration of developed markets, we do expect further improvement in internet penetration from current levels. Key reasons driving this thought is that technological advancements are driving prices lower (not higher) and government policies in emerging economies are very much focused on increasing the prosperity of lower to middle-class citizens, which invariably means above-average economic growth and more people with access to the internet.

- **Business restructure supportive of quicker path to profitability.** Management has recently undertaken a restructure of the business which we believe will yield better results operationally and invariably will be positive for shareholder returns. There are three key aspects to this strategy we would highlight: (1) Management is now focused on key markets of Mexico and Ecuador, where LAA holds the number 1 market position by some margin. (2) Focusing on increasing the penetration of LAA's Upsell products in these core regions will see profitability significantly improve. (3) Ceasing operations in Argentina alone will result in operating cost reduction of A\$4.5m (FY16 actual spend).
- **Upsell (or depth) products' penetration will be a key driver of profitability.** In our view, the penetration of LAA depth products could be a material catalyst for profitability and share price re-rating. Depth products are readily used by online marketplaces which hold market-leading positions and degree of maturity in their technology platform. We note Carsales.com (CAR) and REA Group (REA) have both successfully increased the penetration of their respective depth products to drive higher profitability (increasing average revenue per customer) once achieving critical mass (leading market position). We believe LAA is now in a similar position in its core markets of Mexico and Ecuador. While still in early days, management's strategy to focus on upsell products is already yielding promising results. During 1H17, the introduction of depth products – MotorCredit, GPS tracking, General Insurance and Mechanical Guarantee - contributed A\$0.4m to revenue.
- **Key risks.** We see the following key risks to our positive view: (1) execution risk – management missteps; (2) competition from auto and general classifieds; (3) monetization delays; (4) significant macroeconomic shocks in key economies the

company operates in; and (5) currency risk (reducing earnings translated back to AUD).

Investment drivers...

In this section, we discuss key investment drivers for LAA.

Investment driver #1 – attractive addressable market. LAA's core markets of Mexico, Ecuador and Peru offer significant growth opportunity for the Company. Mexico alone has a population of 128 million, with a recent AFR article (9 August 2017) placing the inferred revenue opportunity for the Mexican online auto classifieds market at approximately A\$232m (versus LAA's FY16 Mexico revenue of A\$2.1m). Increasing internet penetration and higher GDP growth on the back of improving and growing middle class presents significant growth opportunities for business models such as LAA, who have first mover advantage and leading market positions. However, we do caveat this significant growth opportunity with commensurate risk, given emerging markets can be very volatile, which can lead to swings in currencies which may impact group earnings on translation. Acquiring shares at the current share price, we believe provides an attractive risk/reward opportunity.

Investment driver #2 – Recent restructure provides a better strategy for future growth. Management has recently undertaken a restructure of the business which we believe will yield better results operationally. The table below provides key focus areas of management's transformation strategy. There are three key aspects of this strategy we would highlight: (1) Management is now focused on key markets of Mexico and Ecuador, where LAA holds the number 1 market position by some margin. This will mean more focus (resources and funds deployed) on these core regions which are closer to LAA fully monetizing. (2) Focusing on increasing the penetration of LAA's Upsell products in these core regions will see profitability significantly improve, as these products offer the Company higher margins. (3) Ceasing operations in Argentina has significantly reduced the group's cash burn, with the segment reporting operating costs of A\$4.5m in FY16. Management is targeting cash flow breakeven during second half of FY18 (further in this report we show how LAA's quarterly cash flows have been on an improving trend).

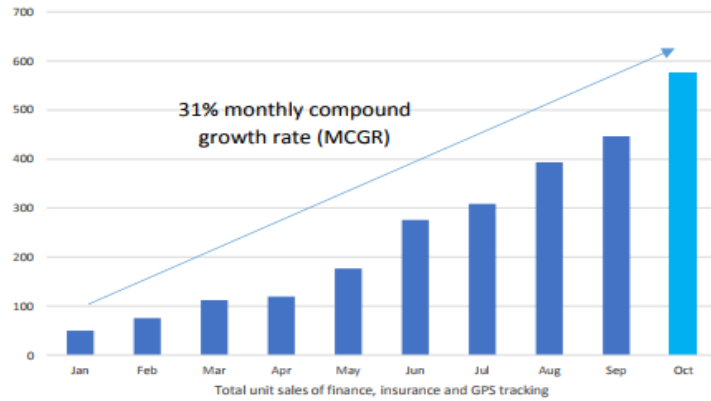
FIGURE 1: LAA TRANSFORMATION STRATEGY

AREAS OF TRANSFORMATION	2016	2017
STRATEGY	<ul style="list-style-type: none"> Targeting 4 markets Mexico, Argentina, Ecuador and Peru Growth primarily from traditional classifieds revenue streams 	<ul style="list-style-type: none"> Focused on core markets of Mexico (4x nearest competitor) and Ecuador (no significant competition) Growth from classifieds but particularly from high margin Upsell Products
FINANCIAL	<ul style="list-style-type: none"> Building market share through investment in marketing, brand, people Record local currency revenue growth in Mexico (+62%) Argentina (+61%), Peru (+31%), Ecuador (+29%) 	<ul style="list-style-type: none"> Restructure completed to focus resources on high prospect markets Mexico and Ecuador, and profitability +50% increase in cash receipts, and 46% decrease in cash outflows from core markets
MARKET POSITION	<ul style="list-style-type: none"> Mexico (seminuevos.com) 3.1x larger than closest competitor Ecuador (patiotuerca.com) dominant market position 	<ul style="list-style-type: none"> Mexico (seminuevos.com) extends lead to be 3.5x larger than closest competitor (revenues basis) Ecuador (patiotuerca.com) maintains dominant market position
PROFITABILITY	<ul style="list-style-type: none"> Profitability driven by growth in dealer revenues, advertising and private listings 	<ul style="list-style-type: none"> Dealer ARPU has potential to materially increase due to introduction of Upsell Products
ORGANIC GROWTH	<ul style="list-style-type: none"> Significant marketing investment in 2016 Offline marketing campaign through BTL, radio and billboards 	<ul style="list-style-type: none"> Resultant growth in organic traffic in Mexico (+107%), Ecuador (+64%) and Peru (31%)

SOURCE: COMPANY, VESTED

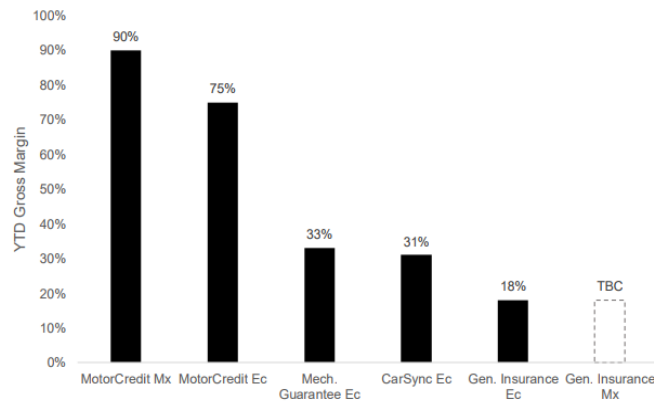
Investment driver #3 – Upsell equates to higher margins. While still in early days, management’s strategy to focus on Upsell products is already yielding promising results. During first half FY17 (1H17), the introduction of Upsell (or depth) products – MotorCredit, GPS tracking, General Insurance and Mechanical Guarantee - contributed A\$0.4m to revenue. In Oct-17 (figure 2), Upsell products (finance, insurance & GPS tracking) volume growth accelerated, breaking through the 500 monthly sales mark for the first time. As the chart in figure 3 highlights, this will have a positive impact on earnings (gross margin) as some of these products offer very attractive margins.

FIGURE 2: UPSELL PRODUCTS (UNIT SALES PER MONTH IN ECUADOR & MEXICO)



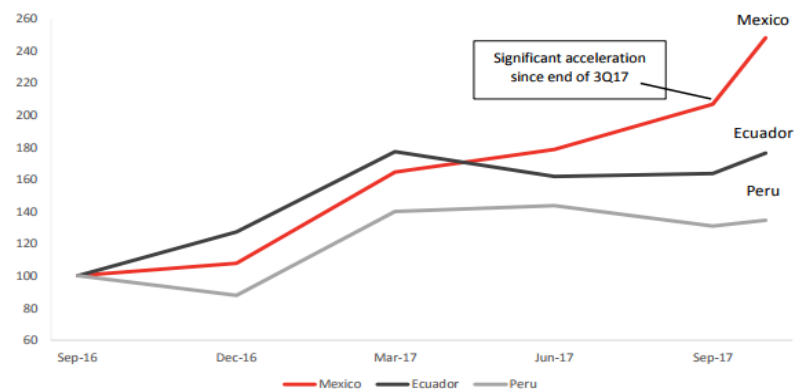
SOURCE: COMPANY, VESTED

FIGURE 3: YTD GROSS MARGINS OF UPSELL PRODUCTS



SOURCE: COMPANY, VESTED

Investment driver #4 – organic traffic growth remains strong in core markets where LAA holds the number 1 position. LAA continues to experience solid growth across its key regions, with particularly strong organic online traffic growth in Mexico which has seen a significant acceleration since the end of third quarter 2017 (3Q17) (figure 4). At the expense of pointing out the obvious, this is critical for any company which operates an online marketplace. Particularly an online auto classifieds business given the virtuous cycle – traffic (buyers) attract listings (sellers) attracts inventory (more choice in one place) attracts traffic (buyers).

FIGURE 4: ORGANIC TRAFFIC GROWTH (SEO & DIRECT REBASED TO 100)

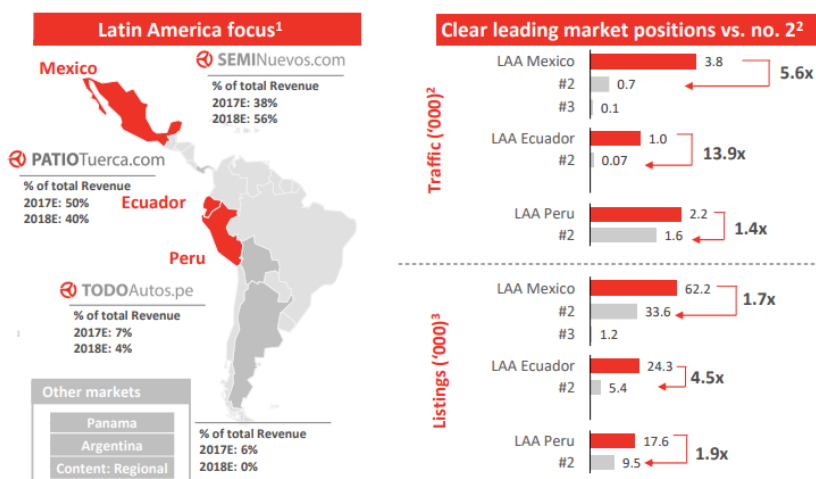
SOURCE: COMPANY, VESTED

Strategic partnerships should see the company maintain its top market position. In August 2017, LAA announced a strategic partnership with ANCA, which is the largest association of dealers for used cars and trucks in Mexico, with 450+ members across Mexico. LAA's portal website seminuevos.com was selected over two other websites to be the exclusive auto portal provider to ANCA. Separately in July 2017, LAA signed an agreement with a global top 5 OEM to bring an additional 100+ new and used car dealers onto its seminuevos.com platform, which should support organic growth going forward and cementing its market-leading position in the Mexican market.

Company Overview...

LatAm Autos (LAA) owns and operates a network of market-leading online classifieds and content platform in the Latin American automotive industry. With headquarters based in Mexico City, LAA has operations across three core markets of Mexico, Ecuador and Peru.

FIGURE 5: LAA SNAPSHOT



SOURCE: COMPANY, NOTE: (1) REVENUE COUNTRY PERCENTAGE ESTIMATED USING FY2017E, (2) TRAFFIC SOURCE: SIMILAR WEB, TRAFFIC FOR SEP-2017, SIMILARWEB.COM THIRD PARTY SERVICE PROVIDER THAT PROVIDES ESTIMATES ONLY, ACTUAL RESULTS MAY BE SIGNIFICANTLY DIFFERENT TO SIMILAR WEB ESTIMATES.

LAA was founded by Australian Tim Handley (Chairman), Gareth Bannan (CFO) and Jorge Mejia Ribadeneira (CEO), who identified an opportunity to aggregate leading auto classified players across Latin America to create a dominant regional platform. The Company, at the time of its listing on the ASX in Dec-14, had five websites in its portfolio. Over the years, management has integrated regional websites which operate on the one platform. As highlighted in figure 5 (above), the Company's websites are market leading in its core regions. In 2017, management decided to no longer invest additional funds in Panama and Argentina, however it is our understanding that the Company continues to operate websites in these regions. This will result in Mexico and Ecuador contributing over 90% to group revenue.

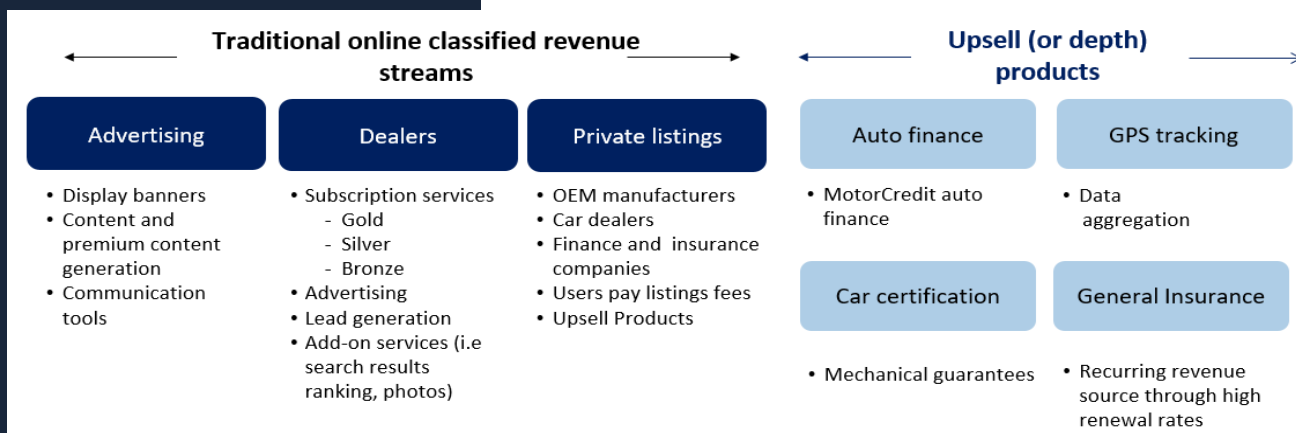
Business strategy now moving into the monetizing phase. In our view, LAA is at an inflection point in its corporate life. The Company has gone through the (painful) iteration of acquiring key businesses, bedding down integration, putting the right management team in place and building on their market leading positions. It has not been all smooth sailing, with Argentina a good example of how lack of competitive advantage and heightened competition can render #3 or #4 players non-viable. At the expense of pointing out the obvious, being the #1 or #2 player in a market is critical for any company which operates an online marketplace. Particularly an online auto classifieds business given the cycle = traffic (buyers) attract listings (sellers)

attracts inventory (more choice in one place) attracts traffic (buyers).

Revenue model. LAA provides an online automotive marketplace, supplemented by a range of depth products (Upsell product). Figure 6 provides an overview of how LAA generates revenue and in the section below we discuss this in more detail.

1. **Advertising. (1) Display banners.** Revenue generated from external companies purchasing display banners on the websites to promote their products. While the advertising is likely to be auto-industry related, we note a captured audience could be highly lucrative for any business/product, as people purchasing cars come from “all walks of life” given a car would be considered a necessity. **(2) Content and premium content generation.** This type of advertising is typically relevant for automakers or spare parts/accessories markers. We would also see this service being highly valuable to large auto dealer groups. **(3) Lead generation.** LAA generates revenue from each lead received by the dealer from their display ads. **(4) Communication tools.** Companies can use this email communication services to run product/service campaigns.
2. **Dealers. (1) Subscription services.** Dealers use subscriptions to list their inventory and can subscribe to Gold, Silver and Bronze packages. **(2) Add-on services** (i.e. search results ranking, photos). Dealers add on additional services to the basic listing costs.
3. **Private Listings. (1) User pay listings fee.** Users are charged to place ads for their cars.
4. **Upsell (or depth) Products.** Auto-related products which can increase the revenue per customer (discussed in more detail below).

FIGURE 6: LAA REVENUE MODEL



SOURCE: COMPANY, VESTED

Strategic Review. At the beginning of FY17, management undertook a strategic review of its operations. In figure 7 below, we have outlined the main focus questions of the review and subsequent findings.

FIGURE 7: STRATEGIC REVIEW LEADS TO A MORE FOCUSED PATH TO PROFITABILITY

Key Strategic Questions	Conclusion / Action
Identify LAA key markets with strong market leadership and upside potential	Focus on Mexico and Ecuador to maximise return on investment
Exit operations considered non-core or unable to achieve profitability	Ceased operations in Argentina
Decrease cash burn to accelerate path to profitability	Argentina operating costs during FY16 totaled A\$4.5m, which will not recur besides one-off restructuring costs; reduction in average monthly operational cash burn of 39% versus pcp and 40% versus 1Q17.
Raise sufficient capital to support strategic objectives	Company raised A\$10m through the issue of a secured convertible note underwritten by Non-Executive Directors Mike Fitzpatrick and Simon Clausen

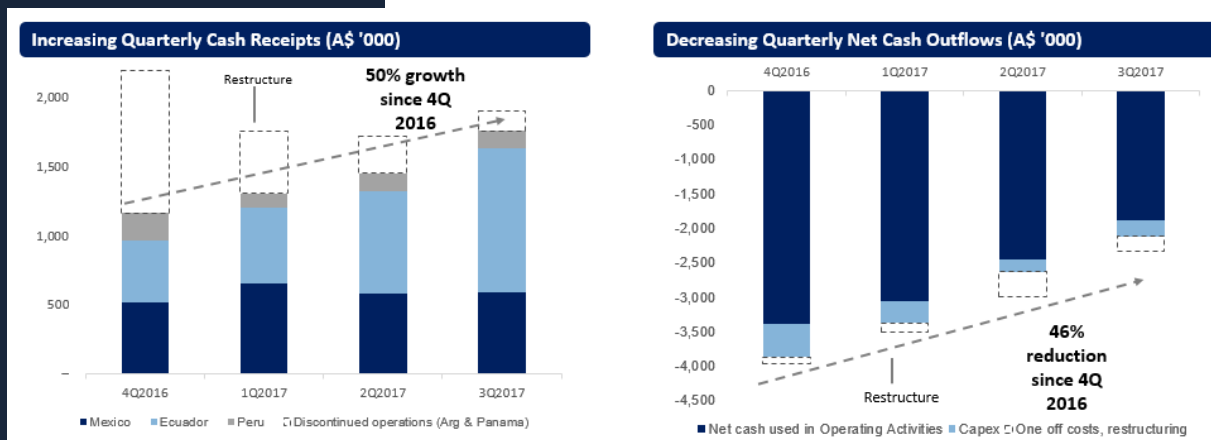
SOURCE: COMPANY, VESTED

With the restructuring completed, the Company took a A\$0.7m restructure charge during the 1H17.

Reducing cash burn. LAA’s Argentinean business has not progressed the way management had planned and was not viewed as having the potential to reach significant profitability within an acceptable time frame. Management has made the prudent decision to reduce the cash burn on the overall business and achieving breakeven as key priority going forward. Given the competitive environment of classifieds in Argentina, management has decided to discontinue the Argentinean operations to now focus on three core markets – Mexico, Ecuador and Peru. As the charts in figure 8 below highlights,

quarterly cash receipts have been on an improving trajectory, as well as the net cash outflows.

FIGURE 8: IMPACT OF RESTRUCTURE CASH FLOWS



SOURCE: COMPANY, VESTED

Upsell (or depth) products. In our view, the penetration of LAA depth products could be a material catalyst for profitability and share price re-rating. Depth products are readily used by online marketplaces which hold market-leading positions and have a degree of maturity in their technology. We note Carsales.com (CAR), Domain Holdings (DHG) and REA Group (REA) have all successfully increased the penetration of their respective depth products to drive higher profitability (increased average revenue per customer) once achieving critical mass with respect to online traffic. We believe LAA is now in a similar position in its core markets of Mexico and Ecuador, where it holds the number 1 market position by some margin. In 1H17, the Company added new revenue streams:

(1) MotorCredit. MotorCredit is a proprietary automotive finance product developed by LAA specifically for the Mexican and Ecuadorean markets. Consumers can take out 1-4 year loans to purchase used cars, with the car being used as collateral in most cases. The loan is underwritten by external banks, with LAA receiving a combination of a fixed fee and a percentage of the overall loan value. The Company estimates 4.8 million used cars are sold per year in Mexico alone. MotorCredit was launched in Ecuador in Dec-16 and Mexico in May-17, with MotorCredit receiving US\$29m worth of loan applications in Mexico by Sept-17 alone.

Recent IPO of Yixin in Hong Kong validates the strong potential of MotorCredit. BitAuto recently spun off its auto finance subsidiary Yixin Group, which provides auto finance in China and is estimated to hold a 2% market share of China's used care market in 2016. The Company recently raised HK\$6.77bn (or A\$1.14bn at current HKD/AUD spot rate of 0.1691) by listing on the Hong Kong stock exchange, with BitAuto retaining 36.5% of shares (source: Bloomberg). Yixin also has Tencent and JD Financial investment among its shareholders. Given the strong investor demand and money raised by Yixin, we believe this transaction provides a validation for management's strategy to focus on monetizing MotorCredit in its core markets of Ecuador and Mexico.

(2) GPS tracking. GPS tracking is a telematics solution of an electronic device installed in vehicles which allows real-time tracking of location and other data services. In Ecuador, drivers are legally required to install a GPS tracking device on all debt-financed cars. While approximately 75,000 insured cars are stolen each year in Mexico, with GPS tracking increasing the likelihood recovery. LAA is paid for the installation and renewal of the annual service, calculated as a percentage of the total price charged to customers.

(3) General insurance. LAA has signed an agreement with a European insurance company Mapfre to provide a car insurance product for used cars. LAA generates revenues depending on the value of the car that is insured.

(4) Mechanical guarantee. LAA sells a mechanical guarantee product through its dealership network, which provides a guarantee on the functioning of certain parts of a used car for a period of up to six months or 12,000kms.

What could Upsell products be worth? In our view, MotorCredit represents the most exciting opportunity for the Company in the near-term (share price re-rating should growth rates meet market expectations) and long-term (could be the most meaningful contributor to group earnings). We believe management is cognizant of this opportunity. However, we would note that investors should also not discount the potential growth opportunity in insurance and GPS tracking products, given that these are sold in conjunction with MotorCredit. In order to put numbers around what MotorCredit, insurance and GPS tracking could be worth for LAA, we have provided in figure 9 below our

bottom-up valuation of MotorCredit, insurance and GPS tracking for Mexico and Ecuador. Our analysis suggests that should management be able to execute in penetrating these products, these new revenue streams alone easily exceeds LAA current market capitalization.

FIGURE 9: MOTORCREDIT, INSURANCE AND GPS TRACKING VALUATION – MEXICO & ECUADOR

	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Units Sold	175	2,000	3,000	5,100	6,500	8,250	8,900	9,000	9,200	9,500
ARPU (A\$)	975	1020	1145	1170	1185	1185	1185	1185	1185	1185
Ecuador Revenue (A\$m)	0.2	2.0	3.4	6.0	7.7	9.8	10.5	10.7	10.9	11.3
Units Sold	575	3,250	11,000	13,500	16,500	19,000	23,000	27,500	29,000	29,500
ARPU (A\$)	925	960	985	1,035	1,040	1,045	1,070	1,080	1,080	1,080
Mexico Revenue (A\$m)	0.5	3.1	10.8	14.0	17.2	19.9	24.6	29.7	31.3	31.9
Revenue (A\$m)	0.7	5.2	14.3	19.9	24.9	29.6	35.2	40.4	42.2	43.1
CoGS	(0.3)	(2.4)	(4.6)	(5.9)	(6.6)	(6.7)	(7.1)	(7.3)	(7.5)	(7.7)
Gross Profit	0.4	2.7	9.7	14.1	18.2	22.9	28.1	33.0	34.7	35.5
Discount factor	0.873	0.772	0.682	0.603	0.533	0.472	0.417	0.369	0.326	0.326
Midyear adjustment factor	1.063	1.063	1.063	1.063	1.063	1.063	1.063	1.063	1.063	1.063
Present Value of Free Cash Flows	0.4	2.2	7.0	9.0	10.3	11.5	12.5	13.0	12.0	12.3
Sum of PV of Free Cash Flow (A\$m)	90.3									
WACC	13.1%									
Terminal Value:										
Long-term growth rate	4.0%									
Free cash flow (t+1)	12.8									
Terminal Value	140.5									
Mid-year adjusted Terminal Value	149.4									
Present Value of Terminal Value (A\$m)	48.7									
Net Present Value (NPV) (A\$m)	139.0									
Per Share Value (A\$)	\$0.45									

SOURCE: VESTED ESTIMATES

Listed Comparables...

In figure 10 below, we have provided listed comparable companies to LAA including direct peers, wider auto peers and companies which operate an online marketplace. Points for consideration:

- In our view, the most relevant comparable multiple for LAA is Enterprise Value (EV) to last 12-months revenue (LTM Rev), which we have highlighted in the table below. We use this metric as the Company itself (and most of its direct, high growth peers) are still in early stages where earnings, business strategy and margins continue to evolve. LAA's decision to exit its underperforming Argentina segment

(which contributed A\$2.7m in revenue in FY16) is a prime example of this.

- In our view, iCar Asia (ICQ) – which has presence in Malaysia, Thailand and Indonesia - provides the best direct comparable to LAA. Both companies have emerging market exposure and direct management teams on the ground. On this basis, LAA's current EV/LTM Rev multiple of 6.7x (we have used FY16 group revenue of A\$5.3 which excludes Argentina & Panama) looks attractive versus ICQ's current multiple of 8.3x – a discount of 19.3%.
- As we have discussed above in this report, depth products are readily used by online marketplaces which hold market-leading positions, with Carsales.com, Domain and REA Group all successfully increasing the penetration of their respective depth products to drive higher profitability. LAA is now in a position (i.e. driving depth products) in its core markets of Mexico and Ecuador (combined revenue of A\$4.5m in FY16). In the table below, we have provided a peer group of online marketplace companies. We believe the average multiple from this peer group can be applied to LAA revenue to assess LAA's relative valuation. On this basis, LAA's current EV/LTM Rev multiple of 7.9x (FY16 revenue incl. Mexico & Ecuador only) looks attractive versus peer group current multiple of 10.7x – a discount of 26.2%.

FIGURE 10: LAA LISTED DOMESTIC AND GLOBAL PEERS

	Current Level	EV / LTM Rev	FWD EV/Rev		FWD EV/EBITDA			FWD EBITDA Margin		Share Price Performance				Market Cap (\$m)
			1-YR	2-YR	1-YR	2-YR	3-YR	1-YR	2-YR	1-day	1-month	6-month	1-year	
Direct Peers														
ICAR ASIA LTD	0.18	8.3	3.5x	2.8x	nm	nm	70.4x	nm	nm	2.9%	-17.5%	-34.0%	-21.1%	\$58
FRONTIER DIGITAL VENTURES LT	0.64	40.0	nm	nm	nm	nm	-121.4%	-52.3%	0.0%	-0.8%	23.1%	28.0%		\$141
AVERAGE		24.2	3.5	2.8	nm	70.4	-121.4%	-52.3%						
Auto Peers														
CARSALES.COM LTD	14.14	7.9	25.7x	23.2x	18.2x	16.1x	15.0x	46.2%	46.3%	2.1%	2.9%	22.2%	33.3%	\$3,429
ICAR ASIA LTD	0.18	8.3	0.5x	0.4x	nm	nm	70.4x	-133.3%	-70.0%	2.9%	-17.5%	-34.0%	-21.1%	\$58
AUTO TRADER GROUP PLC	330.90	12.9	18.7x	16.7x	15.2x	13.9x	12.8x	66.9%	67.9%	0.7%	-8.6%	-18.4%	-18.1%	\$3,187
BITAUTO HOLDINGS LTD-ADR	34.02	0.9	31.4x	16.7x	30.4x	18.8x	13.9x	2.7%	10.6%	-9.5%	-32.2%	4.7%	49.4%	\$2,406
SCOUT24 AG	35.64	9.2	26.5x	22.8x	17.7x	15.2x	13.2x	41.8%	44.9%	-0.1%	5.0%	5.7%	7.1%	\$3,832
AUTOHOME INC-ADR	63.50	6.1	26.8x	21.9x	21.3x	16.4x	12.5x	32.2%	34.6%	5.2%	7.4%	49.4%	133.2%	\$7,503
AVERAGE		7.5	21.6	16.9	20.6	16.1	23.0	9.4%	22.4%					
Online Marketplace Peers														
REA GROUP LTD	77.13	13.2	35.3x	29.6x	22.4x	19.0x	16.7x	51.7%	53.4%	0.2%	7.0%	22.3%	50.9%	\$10,159
DOMAIN HOLDINGS AUSTRALIA LT	3.57	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	4.4%	na	na	na	\$2,052
SEEK LTD	19.13	6.5	31.4x	28.0x	18.1x	15.8x	13.8x	27.2%	27.9%	-0.7%	5.1%	8.7%	29.3%	\$6,708
COVATA LTD	0.05	24.8	nm	nm	nm	nm	nm	nm	nm	-2.0%	8.7%	92.3%	-37.5%	\$30
FREELANCER LTD	0.54	6.2	nm	540.0x	nm	201.6x	47.6x	-1.8%	0.5%	0.9%	5.9%	-39.0%	-49.1%	\$248
ZILLOW GROUP INC - C	41.36	7.1	78.6x	47.6x	31.5x	22.5x	16.7x	11.4%	13.3%	1.0%	0.3%	0.2%	14.3%	\$7,814
RIGHTMOVE PLC	4,027.00	16.9	25.4x	22.7x	19.9x	18.0x	16.5x	74.7%	75.3%	0.1%	-0.7%	-4.9%	2.6%	\$3,687
TRADE ME GROUP LTD	4.71	9.4	19.0x	17.8x	11.7x	10.9x	10.6x	54.1%	53.7%	-0.4%	7.0%	-11.1%	-2.9%	\$1,871
ZPG PLC	352.10	8.2	24.6x	20.5x	19.0x	15.7x	13.5x	30.5%	32.3%	0.3%	-1.2%	-4.8%	9.4%	\$1,546
FANG HOLDINGS LTD - ADR	4.58	4.3	95.4x	21.2x	31.6x	8.7x	6.3x	7.6%	27.2%	-3.4%	9.0%	20.5%	55.8%	\$2,029
AVERAGE		10.7	44.2	90.9	22.0	39.0	17.7	29.1%	35.4%					

SOURCE: VESTED, BLOOMBERG (CONSENSUS ESTIMATES); PRICE COB 22 NOV-17; EV = ENTERPRISE VALUE; LTM REV = LAST 12-MONTHS REVENUE

Valuation...

We use the DCF valuation methodology to arrive at our equity valuation of A\$111.8m and EV of A\$116.4m, versus LAA's current market capitalization of A\$31.2m. On a per share basis, we arrive at a valuation of A\$0.36, which is more in line with LAA's IPO price of A\$0.30 per share. The critical driver which management need to execute on to achieve our valuation will be the successful penetration of Upsell (or depth) products in its core markets of Mexico and Ecuador. While macro conditions (currency movements / economic growth) are external factors out of management's control (true for most companies), we believe a share price re-rating will follow the growth rate of depth products penetration. At the expense of over-simplifying things, our assumptions have been sternly focused on top line growth and operating expense management. We have kept all other assumptions relatively stable. We see FY17 as an inflection point, with our earnings estimates looking for significant improvement from here and expect the Company to achieve positive earnings in FY19. Our DCF calculation is provided in figure 11 below.

DCF Valuation | ASX: LatAm Autos

(\$ in AUD Millions, Unless Otherwise Noted)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	31-12-17	31-12-18	31-12-19	31-12-20	31-12-21	31-12-22	31-12-23	31-12-24	31-12-25	31-12-26
Total Revenues	5.9	11.6	22.6	38.6	44.4	49.6	53.2	55.5	57.2	58.3
EBITDA	-6.3	-2.1	5.7	18.8	21.8	25.3	27.6	28.9	29.7	30.1
EBIT	-8.0	-3.9	4.0	17.0	20.0	23.4	25.7	26.9	27.7	28.0
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBIAT	-5.6	-2.7	2.8	11.9	14.0	16.4	18.0	18.8	19.4	19.6
Depreciation & Amortization	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.0
Cash from Working Capital	0.2	-1.0	-1.8	-2.6	-0.9	-0.9	-0.6	-0.4	-0.3	-0.2
Capital expenditures	-0.9	-0.8	-0.9	-1.2	-1.1	-1.1	-1.3	-1.4	-1.4	-1.6
Unlevered Free Cash Flows	-4.6	-2.7	1.8	9.9	13.8	16.3	18.0	19.0	19.7	19.8
Discount factor	0.873	0.772	0.682	0.603	0.533	0.472	0.417	0.369	0.326	0.326
Midyear adjustment factor	1.063	1.063	1.063	1.063	1.063	1.063	1.063	1.063	1.063	1.063
Present Value of Free Cash Flows	-4.2	-2.3	1.3	6.3	7.8	8.2	8.0	7.5	6.8	6.9
Sum of present values of FCF	46.3									

SOURCE: VESTED ESTIMATES

FIGURE 11: DCF VALUATION SUMMARY

Equity Value	Terminal Value
Firm Value (\$AUD)	116.4
Less: Net Debt	4.6
Equity Value (\$AUDm)	111.8
# Shares Outstd. (m)	312.2
Equity Value Per Share (AUD)	\$0.36
Current Price	\$0.100
Potential Return	258.2%
Key Assumptions:	
Risk-free Rate	5.0%
Equity risk premium	5.5%
Net Debt / Equity	0.0%
Equity Beta	1.2
Cost of Equity	11.6%
Add: Management Execution Risk	1.5%
Adjusted Cost of Equity	13.1%
Cost of Debt (before tax)	8.0%
Tax Rate	30.0%
Weighted Average Cost of Capital	13.1%
Growth in Perpetuity Method	
Long-term growth rate	3.0%
Free cash flow (t+1)	20.4
Terminal Value	202.3
Mid-year adjusted Terminal Value	215.1
Present Value of Terminal Value	70.1
Enterprise Value	116.4

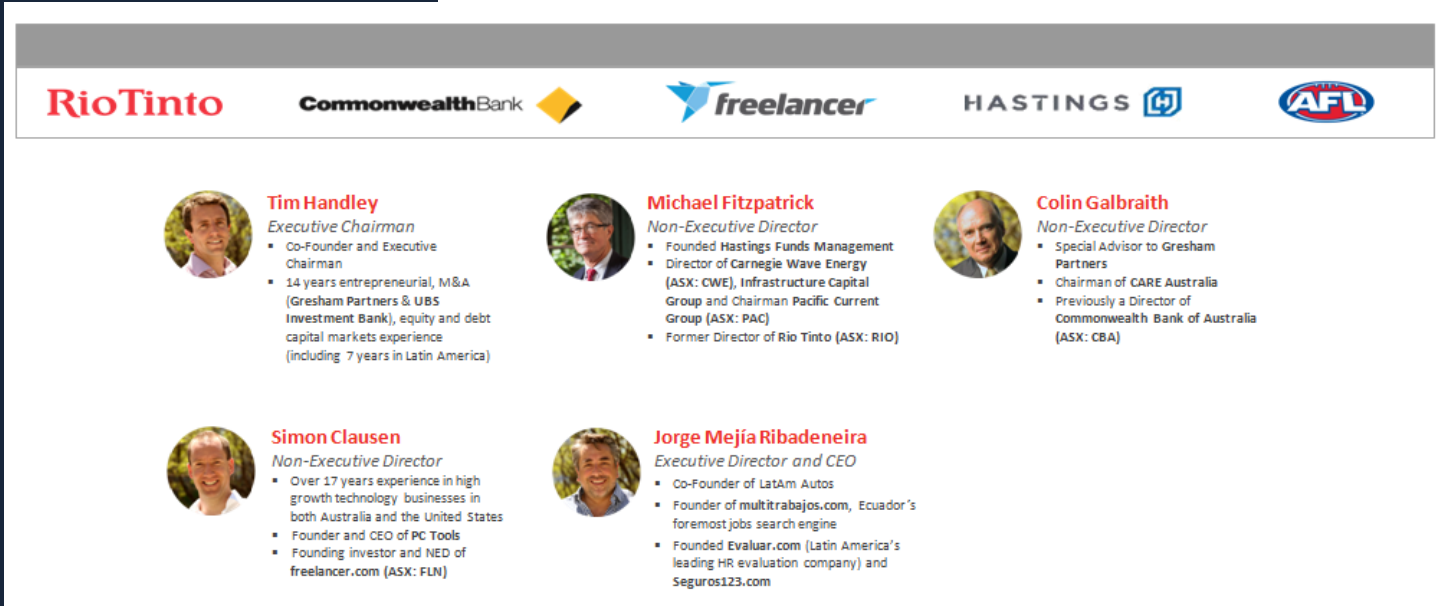
FIGURE 12: LAA FINANCIAL SUMMARY

Year-end Dec (AUD\$ millions)						
PROFIT & LOSS (P&L)	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Sales Revenue	5.9	11.6	22.6	38.6	44.4	49.6
Operating Expenses	12.2	13.8	16.8	19.9	22.5	24.3
EBITDA	-6.3	-2.1	5.7	18.8	21.8	25.3
<i>% Margin</i>	<i>-107.3%</i>	<i>-18.4%</i>	<i>25.4%</i>	<i>48.6%</i>	<i>49.2%</i>	<i>51.0%</i>
Depreciation & Amortisation	1.7	1.7	1.8	1.8	1.8	1.9
EBIT	-8.0	-3.9	4.0	17.0	20.0	23.4
<i>% Margin</i>	<i>-136.1%</i>	<i>-33.2%</i>	<i>17.6%</i>	<i>44.0%</i>	<i>45.1%</i>	<i>47.3%</i>
Reported NPAT	-8.3	-4.6	3.2	12.7	15.0	17.7
Underlying NPAT	-8.3	-4.6	3.2	12.7	15.0	17.7
Underlying EPS (cps)	-2.7	-1.5	1.0	4.1	4.8	5.7
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0
Payout Ratio	0%	0%	0%	0%	0%	0%
Growth Rates:						
Revenue	-26.4%	98.4%	93.8%	71.2%	14.8%	11.8%
EBIT	-14.2%	-51.6%	-202.9%	327.2%	17.7%	17.2%
Underlying NPAT	27.2%	-44.7%	-170.4%	291.2%	18.5%	17.8%
VALUATION	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
PE multiple (x)	-3.8x	-6.8x	9.6x	2.5x	2.1x	1.8x
P/B ratio (x)	1.5x	1.9x	1.6x	1.0x	0.7x	0.5x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV / Sales (x)	6.1x	3.1x	1.6x	0.9x	0.8x	0.7x
EV / EBIT (x)	-4.5x	-9.3x	9.0x	2.1x	1.8x	1.5x
BALANCE SHEET SUMMARY	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Cash	7.3	3.5	7.2	19.9	35.5	53.8
Current Receivables	3.2	6.3	12.2	20.9	24.0	26.8
Current Inventories	0.0	0.0	0.0	0.1	0.1	0.1
Property, Plant & Equipment	0.5	0.5	0.5	0.6	0.7	0.7
Other	24.3	23.4	22.6	21.8	21.0	20.2
Total Assets	35.3	33.7	42.5	63.3	81.2	101.6
Current Payables	2.2	4.4	8.5	14.6	16.7	18.7
Total Debt	10.0	10.0	10.0	10.0	10.0	10.0
Other Liabilities	2.1	2.8	4.2	6.3	7.1	7.8
Total Liabilities	14.3	17.2	22.8	30.9	33.8	36.5
Shareholders Equity	21.1	16.5	19.7	32.4	47.4	65.1
Net Debt / Equity	12.6%	39.8%	14.3%	-30.7%	-53.8%	-67.3%
Net Debt / (ND+E)	11.2%	28.5%	12.5%	-44.3%	-116.4%	-205.5%
CASH FLOW SUMMARY	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
Net Income	-8.3	-4.6	3.2	12.7	15.0	17.7
Depn & Amortisation	1.7	1.7	1.8	1.8	1.8	1.9
Changes in WC	-0.1	-0.2	-0.4	-0.6	-0.2	-0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0
Operating Cash Flow	-8.3	-4.6	3.2	12.7	15.0	17.7
Capital Expenditure	-0.9	-0.8	-0.9	-1.2	-1.1	-1.1
Free Cash Flow	-9.2	-5.4	2.3	11.5	13.9	16.6

SOURCE: BTIG, COMPANY, BLOOMBERG

APPENDIX 1: Key Management Personnel. LAA has a highly credible team, with extensive experience in operating technology companies, undertaking mergers & acquisitions (M&A) and, more importantly, local knowledge. Additionally, the senior management team and company Board members collectively own approximately 43% of the Company, giving them significant skin in the game and alignment with other shareholders.

FIGURE 13: BOARD BIOS AND PAST EXPERIENCE



SOURCE: COMPANY

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