

RECOMMENDATION

Buy

UzAuto Motors JSC

Upside potential: **25%**
 Target price per share: **90,637 UZS**
 IPO price per share range:
72,500 – 81,500 UZS

EQUITY MARKET

Capital valuation | DCF

Uzbekistan | Automotive

Initial IPO valuation

Largest CIS car manufacturer lists for IPO



Revenue, 6M2022, TTM (mln USD)	2,892
EBITDA, 6M2022, TTM (mln USD)	277
Net profit, 6M2022, TTM (mln USD)	209
Net debt, 6M2022 (mln USD)	221

P/E at fair value, 6M2022, TTM (x)	10.4x
P/B at fair value, 6M2022, TTM (x)	3.4x
EV/EBITDA at fair value, 6M2022, TTM (x)	8.7x
ROA, 6M2022, TTM (%)	9%
ROIC, 6M2022, TTM (%)	22%
ROE, 6M2022, TTM (%)	35%
EBITDA margin, 6M2022 (%)	9,6%

Market cap at minimum IPO price (mln USD)	1,748
Market cap at fair value (mln USD)	2,185
IPO discount range	10-20%
Upside potential to minimum IPO price (%)	25%
Dividend payout ratio (%).	30%
IPO book closes	22 Dec 2022



UzAuto Motors JSC is the largest car manufacturing company in the CIS, producing more than 360,000 cars annually, with plans to increase production capacity to 500,000 cars annually. The company produces 8 car models in alliance with General Motors, at the moment the government is the 100% end beneficiary of the company. The company is placing its shares on the Tashkent Stock Exchange at the end of 2022.

Leading position in Uzbekistan and Kazakhstan. The company has 90% market share in Uzbekistan, and also ranks first in Kazakhstan with a market share of more than 30%.

Rapid growth. The company has grown rapidly since 1993, increasing its revenue from 0.2 bln USD in 1993 to 2.9 bln USD (trailing twelve months 6M2022). Average annual revenue growth over the past five years was 26%, net income rose from 93 mln USD in 2018 to 215 mln USD (trailing twelve months 6M2022). The company is working on updating the lineup and modernizing current car models.

Entering the international capital markets. In April 2021, the company issued Eurobonds on the London Stock Exchange in the amount of 300 mln USD for a period of 5 years. The initial yield was set at 5.375%; after almost five times oversubscription, the rate was reduced to 4.85%. According to the President Decree, the company must IPO on the Tashkent Stock Exchange before the end of 2022, and then IPO internationally, offering investors up to 25% share in the company.

Rare investment opportunity. The growth scenario we used in our valuation model is made using the conservative production growth forecasts, taking into account a number of investment projects and an increase in production capacity. The valuation model projects the fair company value of the car manufacturer at 2,185 mln USD. The target price is 8.09 USD (90,637 UZS) per share. The upside from the minimum IPO price is 25%. The company is also going to allocate 30% of its net profit to dividend payments, which will provide investors with additional income.

Bekhruzbek Ochilov, ACSI
 Investment Banking Manager
 (+998) 99 857 17 84 | bochilov@ffin.uz

Iskandar Sheraliev
 Investment Analyst
 (+998) 90 805 82 65 | sheraliev@ffin.uz

UzAuto Motors JSC: financial statements

Profit and loss statement, mln USD					Balance sheet, mln USD				
	2019	2020	2021	6M22		2019	2020	2021	6M22
Revenue	2 799	2 624	2 162	1 739	Inventory	490	336	767	691
Prime cost	2 292	2 251	1 837	1 516	Receivables	196	271	207	178
Gross profit	507	373	325	223	Cash & cash equivalents	46	29	136	80
Sales expense	62	57	57	56	Other current assets	214	234	386	618
SG&A	95	86	93	47	Current assets	945	870	1 496	1 568
Other operational expenditure	8	7	1	-	Fixed assets	307	326	524	547
Other operating gains	5	7	27	24	Other non-current assets	112	101	210	193
EBIT	347	230	201	144	Non-current assets	419	427	734	740
Financial gains	9	29	20	13	Assets	1 364	1 297	2 230	2 308
Financial expenditure	64	60	22	6	Current account payable	446	366	442	496
Profit before tax	292	200	199	151	Car delivery liabilities	500	234	873	772
Tax	35	40	33	23	Current loans	12	239	29	3
Net profit	257	160	166	127	Other current liabilities	18	21	18	68
					Current liabilities	976	861	1 361	1 338
Growth and margin (%)	2019	2020	2021	6M22	Credits and loans	-	6	300	299
Revenue growth rate	30%	-6%	-18%	72%	Other non-current liabilities	32	26	24	21
EBIT growth rate	200%	-34%	-13%	47%	Non-current liabilities	32	32	324	320
NOPLAT growth rate	205%	-39%	-12%	-	Equity	356	404	545	650
Investment capital growth rate	187%	112%	199%	-	Liabilities and equity	1 364	1 297	2 230	2 308
Gross margin	18%	14%	15%	13%	ROIC element analysis	2019	2020	2021	6M22
EBITDA margin	14%	10%	11%	9%	NOPLAT margin, %	11%	7%	8%	-
NOPLAT margin	11%	7%	8%	-	ICTO, x	-	-	-	-
Net profit margin	9%	6%	8%	7%	ROIC, %	66%	37%	19%	22%
					Prime cost/revenue, %	-82%	-86%	-85%	-87%
					OPEX/revenue, %	-6%	-6%	-8%	-7%
Cash flow statement, mln USD	2019	2020	2021	6M22	Liquidity and capital structure	2019	2020	2021	6M22
CFO	259	(125)	518	(29)	Current liquidity, x	1,0x	1,0x	1,1x	1,2x
D&A	55	38	33	16	Debt/market cap, %	-	-	-	-
CFI	(27)	(115)	(473)	24	Debt/assets, %	1%	19%	15%	13%
CapEx	(19)	(90)	(250)	(48)	Debt/equity, x	3%	61%	60%	46%
CFF	(212)	233	72	(46)	Debt/IC, %	3%	38%	38%	32%
Cash flow	20	(7)	117	(56)	Equity/assets, %	26%	31%	24%	28%
					Assets/equity, x	383%	321%	409%	355%

Source: company data, Freedom Broker calculations

Figure 1. UzAuto Motors JSC's fair value and current market cap of other automotive producers comparable analysis

	ROE	ROA	Gross margin	Net profit margin	P/E at FV	P/S at FV	P/B at FV	5 year average revenue growth rate
UzAuto Motors at FV	35.16%	9.25%	12.80%	7.33	10.41	0.76	3.36	26%
General Motors	13.36%	3.47%	13.55%	6.66%	6.79	0.40	0.83	-3.17%
Hyundai	6.16%	2.63%	18.81%	4.31%	8.92	0.34	0.55	4.66%
Kia Motors	14.49%	7.2%	18.93%	6.64%	6.47	0.45	0.93	5.80%
Renault	6.25%	0.13%	19.92%	4.09%	4.89	0.18	0.30	-2.05%
BMW	26.29%	8.32%	18.04%	17.05%	2.58	0.44	0.60	3.39%
Volkswagen ST	11.26%	3.31%	18.21%	7.46%	4.16	0.34	0.53	2.86%

Source: company data, Freedom Broker calculations

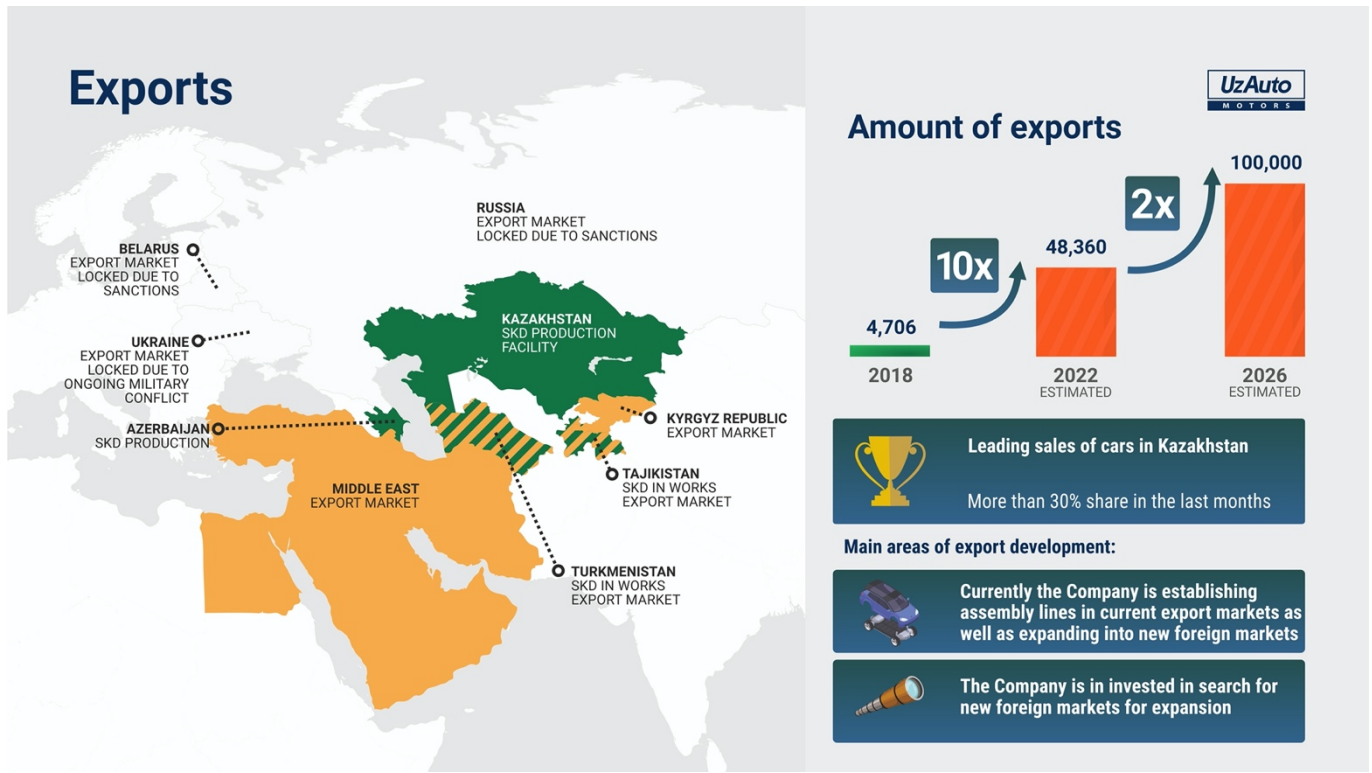
UzAuto Motors JSC: produced car models

			<i>Design and construction</i>
Class	Model (CKD)	Production forecast, units (2022)	Car body type
A	Spark	15,000	5 door hatchback
B	Nexia 3	24,000	4 door sedan
B	Cobalt	100,000	4 door sedan
B	Onix	Start in 2023	4 door sedan
C	Lacetti	90,000	4 door sedan
SUV	Tracker	19,000	5 door SUV
MPV	Damas/Labo	92,000	microvan
Class	Model (SUP)	Sales forecast, units (2022)	Car body type
D	Malibu 2		4 door sedan
SUV	Equinox	7,220	5 door universal
SUV	Trailblazer		5 door SUV
SUV	Traverse		5 door SUV
SUV	Tahoe		5 door SUV

Source: company data

UzAuto Motors JSC: export geography

Figure 2. UzAuto Motors JSC export and foreign production bases map



Source: company data

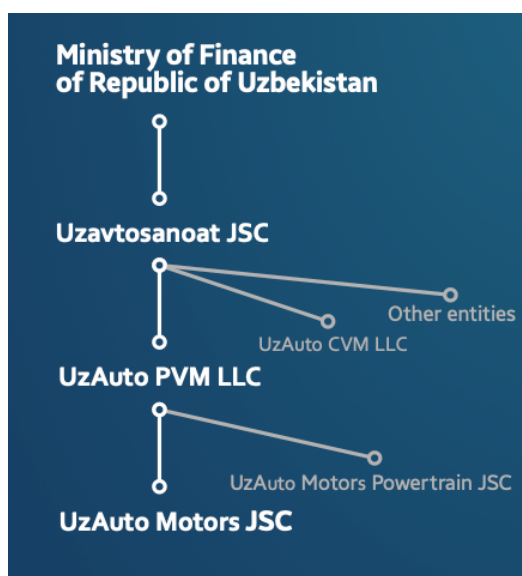
UzAuto Motors JSC: key facts

UzAuto Motors JSC is the largest car manufacturing company in the CIS, producing 360 thousand passenger cars a year with plans to expand its production capacity to 500 cars by 2026. The company produces 8 models of cars in alliance with General Motors, at the moment the state is a 100% end beneficiary of the company. The company is going to IPO on the Tashkent Stock Exchange at the end of 2022.

Shareholding structure.

The 100% shareholder of the company is UzAuto PVM LLC, whose 100% shareholder, in turn, is Uzavtosanoat JSC, which is also the regulator of the automotive industry in Uzbekistan. 100% shareholder of Uzavtosanoat JSC is the Ministry of Finance of the Republic of Uzbekistan.

Figure 4. UzAuto Motors JSC shareholding structure



Company history.



The company was founded in 1993, growing its revenue from 0.2 bln USD in 1993 to 2.9 bln USD for 6M2022 TTM. The company began production of its first car models in 1993 with the release of Nexia, Tico and Damas in the city of Asaka. In 2001, the production of Matiz cars

started, in 2003-2006, the production of Lacetti and the new Damas B150 model began.

In 2007, sales of the Tacuma, Epica and Captiva models started. A joint venture with General Motors was launched in 2008, along with the start of production of the Nexia 2 and the updated Lacetti model. In 2010, the production of the Spark model began, in 2012, the production of the Cobalt model and the sales of the Malibu model started. In 2013, the company started producing the Gentra model. In 2014, a new plant has launched in the city of Pintak in the Khorezm region, and sales of the Orlando model were also launched. In 2015-2016, production of the Labo and Nexia T250 models began. In 2017, a strategic alliance agreement was signed with General Motors, and sales of the second-generation Malibu model also started. In 2018, sales of the Tracker model started. In 2017-2019, the government of Uzbekistan began buying out General Motors' stake in General Motors Uzbekistan, and, having bought out the company in full in 2019, renamed it UzAuto Motors.



In 2019, the company launched sales of four car models at once - Equinox, Trailblazer, Traverse and Tahoe. In 2020, BIQ IV certification was obtained. In 2022, the production of Tracker cars (GEM) has started.

Production process.

The company's processes for its local production, which, except where specifically stated, apply equally to its production facilities at Asaka and Pitnak, include:

- **Stamping.** Steel plates are stamped into body parts of vehicles. Most of the stamping operation is completed at the company's Asaka production facility, and a stamping workshop is planned for the Pitnak facility in the near future;
- **Welding.** Welding is a process whereby the vehicle bodies are formed by welding together the relevant vehicle body parts produced by the Group's stamping workshop and other stamped parts and accessories procured from the suppliers
- **Painting.** All semi-finished components and external parts are treated on the surface and painted using advanced and automated processes;
- **Assembly.** All semi-finished components, external parts, tyres, engines and other standard outsourced parts are assembled to form the finished goods;
- **Testing and inspection.** Finished products are sent for testing and further adjustments and finetuning followed by comprehensive overall inspection; and

- **Warehousing and dispatch.** Final products are delivered to the warehouses of the company’s sales agents for storage.

Company’s future.

Figure 5. Diminishing returns model of motorization in Uzbekistan



Source: company data

At the moment, the car ownership rate in Uzbekistan is 87 cars per 1,000 people based on GDP per capita of 2,002 USD. The lower position in the correlation model is explained by the accumulation of demand carried over from 2020-2021. The average annual demand until 2027 is expected to be 500 thousand passenger cars. By 2027, at the current GDP per capita growth rate, the number of cars per 1,000 people will reach 140 cars per 1,000 people. The company, which occupies the dominant position in the local market, will increase production capacity to meet growing demand.

Thus, the growth of the company is planned to be ensured by increasing the localization of current manufactured models, increasing the capacity for the production of models, as well as introducing new car models.

The company plans to launch a new Chevrolet lineup and begin production of the B-Class Onix from 2023 on GM’s new unified platform known as the Global Emerging Market (GEM). The GEM platform includes hatchback, sedan, station wagon and crossover/SUV body styles. The company believes that the new lineup will boost both local and export sales. In July 2022 at the plant in Asaka, the production of the first model of this platform, the Tracker light crossover, was launched.

The company also plans to increase production volume and aims to modernize the current model range. Thus, it is expected to increase production to 500 thousand units per year and restyling of two current models that are popular among the population.

In the longer term, starting around 2027, the company plans to enter the electric vehicle market. Many leading car manufacturers have already announced their future strategy for the development and production of electric vehicles. Specifically, GM has announced plans to spend more than \$27 billion between 2020 and 2025 to develop products for electric

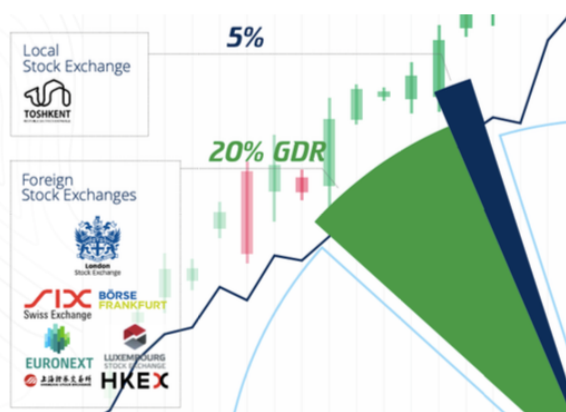
and autonomous vehicles, more than investments in gasoline and diesel, according to its website. In turn, this is expected to allow the company to accelerate the transition from the production of cars with internal combustion engines to electric vehicles.

In 2019, the Company and GM agreed that the company, during the remaining 10-year period of the alliance agreement, will have the exclusive right to export Chevrolet-branded vehicles and spare parts manufactured by it through distributors in the CIS countries and Afghanistan. Accordingly, from 2020, the Company switched from exporting its vehicles under the Ravon brand to exporting under the Chevrolet brand. In addition, the Company has also obtained the right to re-export premium Chevrolet models, which it imports as SUPs, dismantled in Uzbekistan, and then exported as SKDs, as this is more cost-effective than direct re-export of finished vehicles.

The company has been exporting vehicles in this manner for a number of years, with Kazakhstan remaining its main market. According to the results of the first half of 2022, the Cobalt and Nexia models are leading in the ranking of the best-selling cars in Kazakhstan. Chevrolet is the best-selling car brand in Kazakhstan, with a market share of over 30%. The Company is currently taking the same approach to car exports to Azerbaijan, and the Company also plans to use this approach to strengthen its position in some other CIS countries.

Entering international capital markets.

Figure 6. UzAuto Motors local and international IPO structure



In April 2021, the company issued Eurobonds on the London Stock Exchange in the amount of 300 mln USD for a period of 5 years. The initial yield was set at 5.375%; after almost five times oversubscription, the rate was reduced to 4.85%. According to the President Decree, the company must IPO on the Tashkent Stock Exchange before the end of 2022, and then IPO internationally, offering investors up to 25% share in the company.

Management.

Bo Inge Andersson was appointed CEO of the company in August 2021. He is a graduate of the Swedish Military Academy and the Senior Management Program at Harvard University, and holds a Bachelor of Business Administration degree from Stockholm University. He began his career in the automotive industry in 1987 as GM's relationship manager for Saab Automobile AB. In 1990, he was appointed VP of Procurement at SAAB. In 1993, he transferred back to GM as executive director of

electrical procurement, and in 1994 he headed the chemical procurement division. After several years of work in leadership positions, in 1997 he was appointed to the position of VP of Procurement for GM Europe. In 1999, he returned to North America, where he headed the GM international procurement group. From April 2007 to June 2009, GM Group VP for Global Procurement Policy and Supply Chain Development. In June 2009, he left General Motors and became the automotive industry adviser to Oleg Deripaska, heading the board of directors of the GAZ Group. On August 7, 2009, he was appointed President of the GAZ Group. Under his leadership, GAZ Group updated its model range in accordance with modern market requirements, launched joint projects with leading international automakers and strengthened its leadership in the light commercial vehicle market. In 2012, GAZ Group received a net profit of 8.8 bln RUB under IFRS, which is 3.5% higher than in 2011. On November 5, 2013, the Board of Directors of AvtoVAZ approved Andersson as president. He took office on January 13, 2014. Since that time, Bo Andersson has become chairman of the board of AvtoVAZ. Bo Andersson announced his resignation from AvtoVAZ on February 17, 2016. He worked at AvtoVAZ until April 3, 2016, dealing with the transfer of cases to the new management. After leaving AvtoVAZ, Andersson headed Bo Group Enterprises and began lecturing on procurement in an MBA course at Linköping University. Since July 2017, he became the director of Yazaki in Europe and Africa, and on March 3, 2018 in North and Central America.

Risks.

The company has high reputational risks.

The company's activities are often criticized for the inability to satisfy the growing demand for car, as well as for the dominant position in the local market.

The company relies on its alliance with GM to produce new models.

For auto manufacturing, the company relies on a partnership agreement with General Motors. There is no guarantee that the alliance will not be terminated, however, we see this risk as highly unlikely.

Company's competitiveness

The automotive industry is competitive and the company faces competition from other car manufacturers and distributors in Uzbekistan and other markets in which it operates. The Group's main competitors in Uzbekistan are Kia, Hyundai, and Cherry. Although the company remains the market leader in Uzbekistan, the decrease in import tariffs could have a significant negative impact on UzAuto Motors' business. Markets other than Uzbekistan, where UzAuto Motors exports its products, are competitive in terms of product quality, innovation, prices, fuel economy, reliability, safety, consumer service and financial services offered, and the company's competitors may be better capitalized and have a larger market share. In particular, UzAuto Motors may not be able to compete effectively with other vehicle manufacturers in terms of electrification, autonomous driving, mobility and other growing trends in the industry.

Valuation model projects 25% upside from minimum IPO price

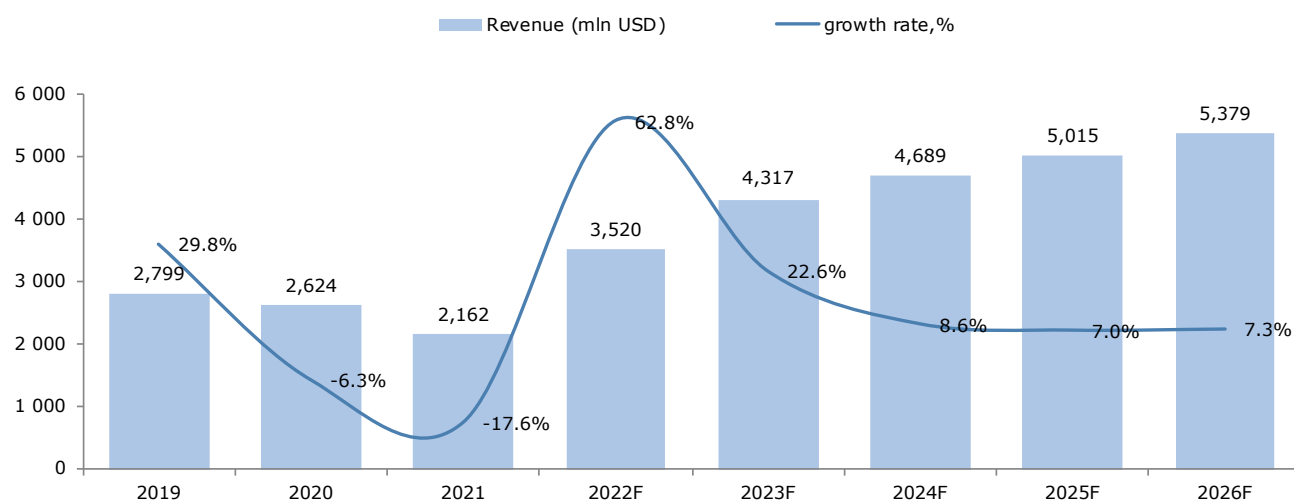
The revenue model, taking into account the new car models introduction, projects 5,379 mln USD in sales in 2026.

UzAuto Motors JSC is the largest car manufacturer in the CIS. Over the past five years, the company's revenue has grown at an average rate of 26%.

To forecast the revenue of the car manufacturer, we proceeded from the company's annual projections for revenue growth until 2026 which rely on the increase in the production of current models and the introduction of new models to the market. As a result, we assumed that the company will reach its maximum potential by 2026.

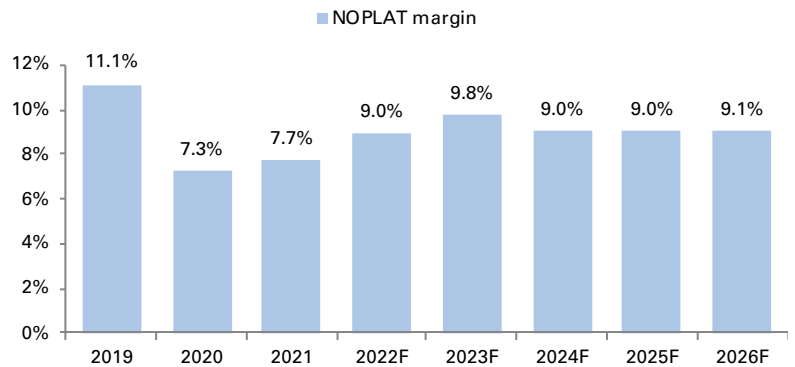
As a result, the revenue of UzAuto Motors JSC will reach 3,520 mln USD in 2022, 4,317 mln by 2023, 4,689 mln by 2024, 5,015 mln by 2025 and 5,379 mln by 2026. To model the revenue of UzAuto Motors JSC, we used the company's forecast for the production and sales of each produced car model, as well as the price forecast for the company's cars.

Chart 1. Revenue forecast for the period of 2022 - 2026.



Source: company data, Freedom Broker projections

EBIT margin – conservative forecast. EBIT margin grew rapidly in 2018, from 5.4% to 12.4%, then declined 2020 году, from 12.4% to 8.6%, due to the global semiconductor shortage, then recovered in 2021 to 9.3%. To model EBIT margin in 2022-2026 we relied on detailed OPEX and CAPEX forecasts provided by the company, thus, according to our model, EBIT margin is projected be 10.5% in 2022, 11.5% in 2023, and 10.6% in 2024-2026.

Chart 2. NOPLAT margin forecast for the period of 2022-2026.


Source: company data, Freedom Broker projections

WACC – 15.89%. To calculate the risk-free rate, we took the current yield of 10-year US government bonds at 2.8%, then applied the difference in long-term forecasted inflation in Uzbekistan and the United States to it, thus obtaining a risk-free rate of 5.9%. Using the levered beta of 1.55x, plus a 6% equity risk premium and a 4.5% country risk premium, we arrived at the cost of equity of 19.7%. To calculate the cost of debt, we used the default risk of 3.2% for Moody's B1 credit rating, resulting in a cost of debt of 13.5%, or 11.5% after tax. Thus, we came up with a weighted average cost of capital (WACC) of 15.89%.

Terminal period. The growth rate in the terminal period was conservatively assumed by us at 5.1% (the World Bank's forecast for long-term inflation in Uzbekistan), with an EBIT margin of 10.6%.

Valuation of 2,185 mln USD according to DCF model. Based on the above assumptions, the valuation of UzAuto Motors JSC cash flows in the forecast period is USD 1,140 mln USD and 1,267 mln USD in the terminal period. The enterprise value is 2,406 mln USD, taking into account cash of 80 mln USD minus debt of 302 mln USD, we obtain an estimate of the UzAuto Motors JSC company value at 2,185 mln USD, which is equivalent to 8.09 USD (90,637 UZS) per 1 ordinary share, based on 270 mln outstanding shares at the moment. **Given this fair value, the upside to the minimum IPO price is 25%.**

Figure 8. UzAuto Motors DCF model

DCF model, mln USD	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	maturity
revenue growth rate, %	29.8%	-6.3%	-17.6%	62.8%	22.6%	8.6%	7.0%	7.3%	5.1%
(+) Revenue	2,799	2,624	2,162	3,520	4,317	4,689	5,015	5,379	5,653
(x) EBIT margin	12.4%	8.8%	9.3%	10.5%	11.5%	10.6%	10.6%	10.6%	10.6%
(=) EBIT	347	230	201	369	495	496	531	572	599
Tax	10%	17%	16%	15%	15%	15%	15%	15%	15%
(-) Tax on EBIT	35	40	33	54	72	72	77	83	87
(=) NOPLAT	312	191	168	315	423	424	453	488	512
(-) net reinvestment				203	64	111	27	31	256
CapEx				145	100	150	100	120	
(+) change in WC				96	41	60	51	57	
(-) DD&A				38	78	99	124	146	
(=) FCFF				112	359	313	426	458	
(x) discount factor				0.96x	0.83x	0.72x	0.62x	0.53x	
PV FCF				108	299	224	264	244	
Terminal value					61%	50%	72%	94%	
PV of Terminal value									1,267
WACC calculation				2022F	2023F	2024F	2025F	2026F	
10-year US Treasuries yield				2.8%					
US long-term inflation forecast				2.0%					
Uzbekistan long-term inflation forecast				5.1%					
Risk-free rate				5.9%					
Beta				1.55					
ERP				6.0%					
CRP				4.5%					
Cost of equity				19.7%					
Default risk (B1)				3.2%					
Cost of debt				13.5%					
After-tax cost of debt				11.5%					
Debt/Company value				46.5%					
Equity/Company value				53.5%					
Weighted average cost of capital				15.89%					
Cumulative cost of capital				0.96x	0.83x	0.72x	0.62x	0.53x	
Equity valuation, mln USD									
(=) DCF in forecasted period				1,140					
(+) DCF in maturity				1,267					
(=) EV				2,406					
(-) Debt				302					
(+) Cash				80					
(=) Equity valuation				2,185					
Target price per share, USD				8.09					

Source: Freedom Broker projections

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