Tourism Holdings Limited

Togo or not togo? Time will tell but we are backing them in

The THL final result (Normalised NPAT down 23% to $29.8m vs our estimate of $25.1m) reflected the combined impact of the decision to invest further dollars in the RV digital business (now called Togo) and a softening in the market for used RV's in the USA. We expect the Togo investment to continue to be a drag on near-term earnings ($US8.5m in FY20) but back the Company's ability to deliver over the medium-term.

Material winding back of fleet capex in the USA

The Company was caught out in FY19 by an unexpected deterioration in the USA sales environment after the FY19 fleet purchases had been committed (had little choice but to "grin and bear it"). In FY20, THL plans to significantly reduce fleet purchases to rectify the situation. This is expected to be the key driver of a material reduction in gross capex from $197m in FY19 to $135m to $145m in FY20 (likely to have a positive impact on operating cashflow but moderating earnings (lower fleet growth).

The core NZ and Australian rentals are performing well

The core rental businesses in NZ and to a lesser extent Australia performed solidly in what was a tough market (slowing Inbound and domestic demand). Further the Company stated that forward bookings are up on last year which points to a continuation of these trends.

Investment View – Retain Buy PT $4.74 (prev $4.19)

We have updated our growth assumptions for USA rental business in FY20 and FY21 (FY20 up and FY21 down due to delayed impact of lower average fleet number) together with a moderation in our Australian rental growth assumptions. The net effect of these changes are that our EPS estimates have been upgraded by 3% in FY20 and remain unchanged in FY21. Our 12-month price target has increased 13% to $4.74 due to a combination of our earnings revisions, the roll forward of our model and lower than expected debt profile. This price target is based on a target EV/EBITDA multiple derived from a ROIC model that looks at 1 year forward earnings. We retain our Buy rating noting the sound performance from the core businesses in NZ and Australia (positive outlook) and the medium-term upside from the Togo business.

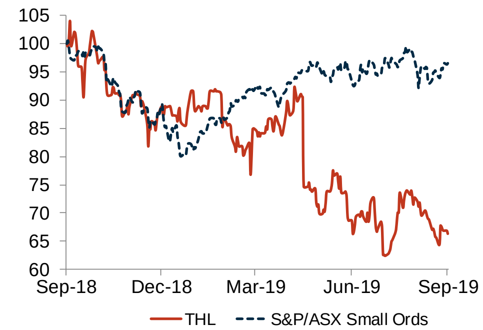
Key Financials Year-end June (NZ$)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue ($m)	425.9	423.0	449.8	472.1	497.6
EBITDA ($m)	110.9	114.8	120.9	126.9	132.3
EBIT ($m)	63.5	62.1	67.0	70.0	69.2
Reported NPAT ($m)	62.4	27.9	31.4	42.7	48.0
Reported EPS (c)	29.5	23.3	20.9	28.2	31.7
Normalised NPAT ($m)	38.8	29.8	31.4	42.7	48.0
Normalised EPS (c)	30.5	23.3	20.9	28.2	31.7
EPS Growth (%)	23.0	(23.7)	(10.4)	34.9	12.4
Dividend (c)	27.0	27.0	27.0	30.0	31.0
Net Yield (%)	7.2	7.2	7.2	8.0	8.3
Franking (%)	50	50	50	50	50
EV/EBITDA (X)	6.1	5.9	5.9	5.7	5.4
Normalised P/E (x)	12.2	16.0	17.9	13.2	11.8
Normalised ROE (%)	17.5	11.3	10.6	13.6	15.3

Source: OML, Iress, Tourism Holdings Limited

Last Price
NZ$3.73
Target Price
NZ$4.74 *(Previously NZ$4.19)*
Recommendation
Buy
Risk
Medium

Consumer Services	
ASX Code	THL
52 Week Range (NZ$)	3.51 - 5.85
Market Cap ($m)	565.6
Shares Outstanding (m)	151.6
Av Daily Turnover ($m)	0.2
3 Month Total Return (%)	-3.4
12 Month Total Return (%)	-33.6
Benchmark 12 Month Return (%)	-1.0
NTA FY20E (¢ per share)	180.9
Net Debt FY20E (NZ$m)	155.6

Relative Price Performance



Source: FactSet

Consensus Earnings	FY20E	FY21E
NPAT (C) ($m)	32.4	43.2
NPAT (OM) ($m)	31.4	42.7
EPS (C) (c)	22.8	29.8
EPS (OM) (c)	20.9	28.2

Source: OML, Iress, Tourism Holdings Limited

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Figure 1: The numbers and the key things you need to know

a) Summary P&L $m	Result vs PCP $NZ			Result vs OML est	
	FY19a	FY18a	Var	FY19e	Var
Revenue	423.0	425.9	-1%	450.3	-6%
EBITDA	114.8	110.9	4%	110.1	4%
....EBITDA margin*	27.1%	26.0%	111	24.4%	270
Deprec. & amort	-52.6	-47.4	11%	-50.7	4%
EBIT	62.1	63.5	-2%	59.4	5%
Interest expense	-11.2	-9.4	19%	-10.9	3%
Non recurring items	-1.9	23.1	-	3.6	-
Pre-tax profit	49.0	77.2	-36%	52.1	-6%
Tax expense	-10.1	-13.8	-27%	-14.6	-30%
....Tax rate*	20.7%	17.9%	278	28.0%	-732
Equity Acc/JV's	-11.0	-1.0	-	-10.2	-
NPAT reported	**27.9**	**62.4**	-55%	**27.3**	2%
NRI's post tax	1.9	-24.9	n/a	-3.6	-
NPAT pre-NRI's	29.8	37.5	-21%	23.7	25%
Norm adjs	0.0	1.3	n/a	1.3	-100%
NPAT normalised	**29.8**	**38.8**	-23%	**25.1**	19%
Core EPS (¢ps)	23.3	30.5	-24%	19.5	19%
DPS (¢ps)	27.0	27.0	0%	27.0	0%

Margins well above expectations driven primarily by the strong performance of the NZ business. We note the forward bookings outlook for this Division remains strong. Tax rate was assisted by a one-off US tax benefit which was flagged by the Company. Should normalise from next year onwards. The Togo digital investment (was called TH2) continues to be a drag on earnings as expected.

b) Divisional $m	Result vs PCP			Result vs OML est	
	FY19a	FY18a	Var	FY19e	Var
Revenue					
New Zealand Rentals	148.7	120.4	24%	154.0	-3%
New Zealand Tourism	41.4	39.9	4%	44.3	-7%
Australia Rentals	83.5	71.2	17%	85.0	-2%
USA Rentals	149.4	144.1	4%	167.0	-11%
Other/adj	0.0	-0.5	n/a	0.0	-
Total	**423.0**	**375.1**	**13%**	**450.3**	**-6%**
EBITDA					
New Zealand Rentals	51.0	42.9	19%	52.4	-3%
New Zealand Tourism	14.5	14.2	2%	14.2	2%
Australia Rentals	26.0	24.8	5%	27.2	-4%
USA Rentals	28.8	32.7	-12%	21.7	33%
Corporate	-5.5	19.3	n/a	-7.0	-21%
Other/adj	0.0	-23.1	n/a	1.6	-
Total	**114.8**	**110.9**	**4%**	**110.1**	**4%**

US delivered a disappointing result (although not a bad as we had expected) driven by a shortfall in used vehicle sales. Australia delivered a record ROFE of 13.9% and a 5% increase in EBITDA which we consider an excellent result in a difficult market.

c) Cashflow, Gearing & Returns	FY19a	FY18a	Var	FY19e	Var
Net Operating Cashflow	8	24	-67%	31	287%
Operating Cash Realisation %*	10%	22%	-55%	39%	300%
Net Debt/(Cash)	202	199	2%	174	-14%
Net /Equity %*	73%	80%	-652	63%	-14%
ROE*	11%	17%	-618	9%	181
ROIC*	13%	16%	-211	13%	23

*Change in basis points

ROE and ROIC declined due primarily to the investment in Togo, the soft performance from the rentals business in the USA (capex had already been committed) and the $80m capital raising/placement.

Source: Company Data, OMLe

Earnings and Valuation

EPS estimates upgraded by 3% in FY20 and unchanged in FY21

We have updated our growth assumptions for USA rental business in FY20 and FY21 (FY20 up and FY21 down due to delayed impact of lower average fleet number) together with a moderation in our Australian rental growth assumptions. The net effect of these changes are that our EPS estimates have been upgraded by 3% in FY20 and remain unchanged in FY21.

Figure 2: Earnings Revisions

	FY20			FY21		
	Old	New	% Change	Old	New	% Change
Revenue $m	465.6	449.8	-3%	488.5	472.1	-3%
EBITDA Divisional $m						
New Zealand Rentals	54.4	56.3	3%	57.4	60.7	6%
New Zealand Tourism	15.4	15.5	1%	15.8	16.3	3%
Australia	30.4	27.3	-10%	32.7	31.1	-5%
USA	23.8	25.7	8%	28.7	24.0	-16%
Corporate/Other	-6.7	-5.2	-21%	-7.3	-5.7	-21%
Adj	-1.2	1.3	-208%	-0.6	0.6	-191%
EBITDA $m	116.1	120.9	4%	126.7	126.9	0%
EBITDA Margin*	24.9%	26.9%	195	25.9%	26.9%	95
NPAT (adj) $m	30.5	31.4	3%	42.7	42.7	0%
EPS (adj) cps	20.2	20.9	3%	28.2	28.2	0%
DPS cps	27.5	27.0	-2%	28.0	30.0	7%

*Change in basis points

Source: OMLe

Price target $4.74 (Previously $4.19) based on ROIC model

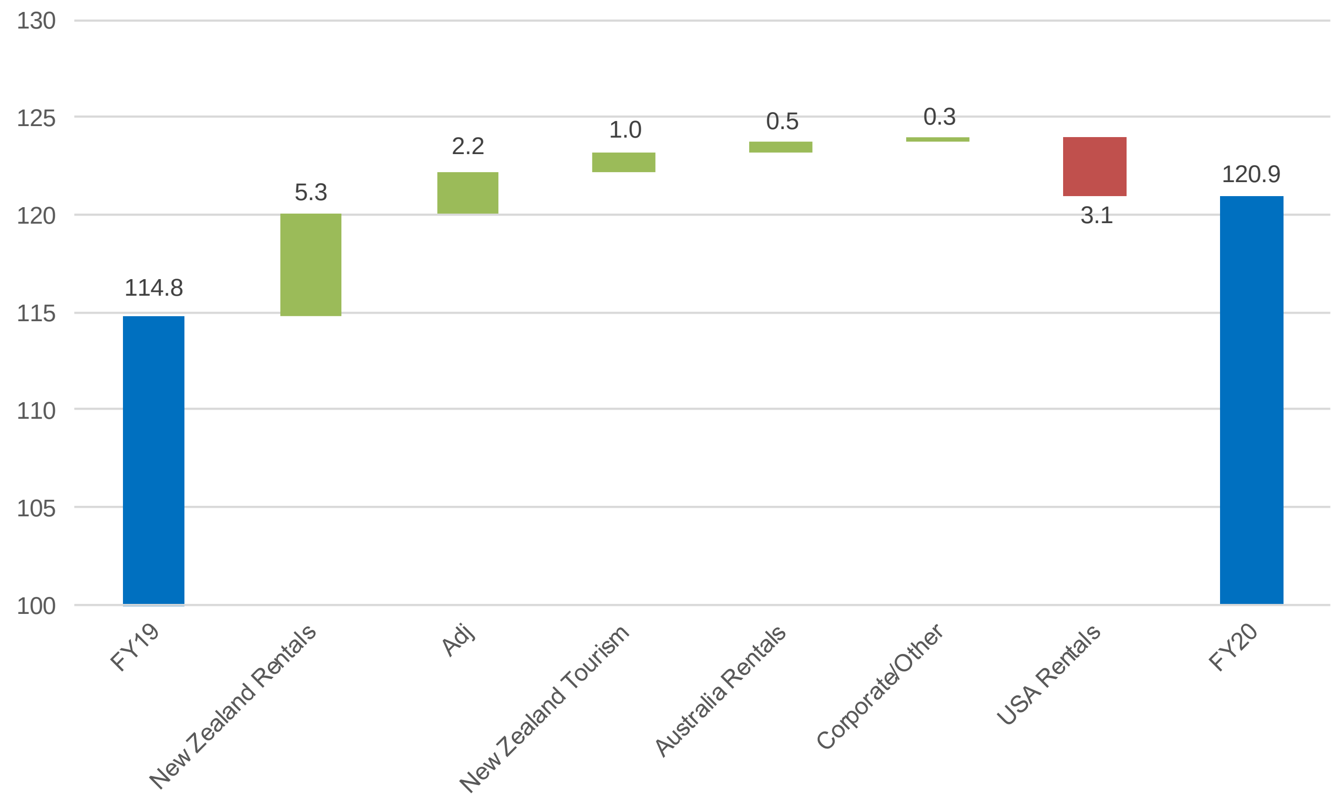
Our 12-month price target has increased 13% to $4.74 due to a combination of our earnings revisions, the roll forward of our model and lower than expected debt profile. This price target is based on a target EV/EBITDA multiple derived from a ROIC model that looks at 1 year forward earnings. We have also included an incremental value of $120m or $0.79c per share for the Togo JV based on the information provided to date.

Figure 3: ROIC valuation

Key Assumptions		Results	
ROIC 1 year fwd	14.2%	Implied 1-year fwd EV/EBITDA multiple	6.2
Growth rate	2.0%	1-year fwd EBITDA $m	122.1
WACC pre-tax	9.7%	Indicative Enterprise Value	754.6
D&A 1-year fwd ($m)	54.5		
EBITDA 1-year fwd ($m)	122.1	Rolling 1-year Net Cash (Debt)	-156.0
Debt:Equity Mix	30:70	Value of Equity	598.6
		No of shares (diluted)	151.64
JV value	120.0	Valuation per Share	$3.95
No of shares	151.64	plus JV value	$0.79
Value per share	$0.79		$4.74

Source: OMLe

Figure 4: THL EBITDA Bridge FY20 $m



Source: OMLe

Company Description

Tourism Holdings Limited is a New Zealand based Tourism Company and the largest provider of holiday vehicles for rent and sale in Australia and New Zealand. THL's rental vehicle brands in Australia and New Zealand include; Maui, Britz, Mighty, KEA Australia and Motek. In the USA it owns and operates the Road Bear and El Monte businesses which provide RV Rentals and Sales.

Within New Zealand, THL also operates Kiwi Experience and Discover Waitomo Group which offers experiences for Waitomo Glow-worm caves, Ruakuri Cave, Aranui Cave and operates The Legendary Black Water Rafting Co.

In 2012 the company entered into a JV to form RV Manufacturing Group which is NZ's largest motorhome specialist vehicle manufacturer and has operations in Auckland and Hamilton.

Risks

We believe there are a number of key risks that have the potential to impact our investment thesis as follows:

- Integration and Expansion risk – The Company could be impacted if it is unable to successfully integrate the acquired El Monte and Road Bear businesses, which involve successfully executing the Company's expansion strategy in the US;
- External shocks impacting inbound travel – THL's holiday vehicle rental and experiences businesses are reliant on international inbound tourism into NZ to stimulate demand for its offerings. The company is likely to be adversely affected by any major event which impacts demand for tourism and travel e.g. Sept 11 terrorist attacks; and
- Aggressive pricing behaviours by competitors – THL has a number of competitors in the divisions in which it operates and there is a risk that behaviours from these organisations could adversely impact earnings as well as market share position.

Tourism Holdings Limited

Buy

PROFIT & LOSS (NZ$m)	2018A	2019A	2020E	2021E	2022E
Revenue	425.9	423.0	449.8	472.1	497.6
Operating costs	(315.0)	(308.2)	(328.9)	(345.2)	(365.3)
Operating EBITDA	**110.9**	**114.8**	**120.9**	**126.9**	**132.3**
D&A	(47.4)	(52.6)	(53.9)	(56.9)	(63.1)
EBIT	**63.5**	**62.1**	**67.0**	**70.0**	**69.2**
Net interest	(9.4)	(11.2)	(8.1)	(7.3)	(9.3)
Pre-tax profit	**54.1**	**50.9**	**58.9**	**62.8**	**59.9**
Net tax (expense) / benefit	(15.6)	(10.1)	(16.5)	(17.6)	(16.8)
Significant items/Adj.	1.3	-	-	-	-
Associate NPAT	(1.0)	(11.0)	(11.0)	(2.5)	4.9
Normalised NPAT	**38.8**	**29.8**	**31.4**	**42.7**	**48.0**
Reported NPAT	**62.4**	**27.9**	**31.4**	**42.7**	**48.0**
Normalised dil. EPS (cps)	30.5	23.3	20.9	28.2	31.7
Reported EPS (cps)	29.5	23.3	20.9	28.2	31.7
Effective tax rate (%)	16.0	16.8	24.5	24.5	23.7
DPS (cps)	27.0	27.0	27.0	30.0	31.0
Dividend yield (%)	7.2	7.2	7.2	8.0	8.3
Payout ratio (%)	88.5	116.0	129.4	106.5	97.9
Franking (%)	50.0	50.0	50.0	50.0	50.0
Diluted # of shares (m)	127.1	127.8	150.5	151.6	151.6

CASH FLOW (NZ$m)	2018A	2019A	2020E	2021E	2022E
EBITDA incl. adjustments	40.7	34.4	65.8	80.3	89.6
Change in working capital	7.1	(4.8)	7.4	(1.1)	1.6
Net Interest (paid)/received	(9.4)	(11.2)	(8.1)	(7.3)	(9.3)
Income tax paid	(13.8)	(10.1)	(16.5)	(17.6)	(16.8)
Other operating items	-	-	-	-	-
Operating Cash Flow	**24.6**	**8.3**	**48.6**	**54.4**	**65.1**
Capex	(2.6)	(3.9)	(10.0)	(11.2)	(11.5)
Acquisitions	(2.0)	(0.4)	-	-	-
Other investing items	(8.4)	(10.3)	-	-	-
Investing Cash Flow	**(13.0)**	**(14.6)**	**(10.0)**	**(11.2)**	**(11.5)**
Inc/(Dec) in borrowings	15.3	(1.7)	-	-	-
Dividends paid	(22.9)	(29.4)	(40.6)	(45.5)	(47.0)
Other financing items	-	-	-	-	-
Financing Cash Flow	**(4.7)**	**(0.3)**	**9.9**	**(45.4)**	**(46.9)**
FX adjustment	0.5	0.0	-	-	-
Net Inc/(Dec) in Cash	7.4	(6.6)	48.5	(2.2)	6.7

BALANCE SHEET (NZ$m)	2018A	2019A	2020E	2021E	2022E
Cash	13.5	8.8	55.5	53.3	60.0
Receivables	26.6	29.0	24.7	28.3	29.9
Inventory	49.8	56.2	56.2	56.2	56.2
Other current assets	1.1	1.2	1.2	1.2	1.2
PP & E	384.2	407.0	407.2	405.6	401.6
Intangibles	44.6	44.2	44.2	44.2	44.2
Other non-current assets	58.1	56.1	56.1	56.1	56.1
Total Assets	**578.0**	**602.5**	**645.1**	**644.9**	**649.1**
Short term debt	0.2	0.0	0.0	0.0	0.0
Payables	51.9	47.5	50.7	53.2	56.3
Other current liabilities	37.7	38.9	38.9	38.9	38.9
Long term debt	212.1	211.0	211.0	211.0	211.0
Other non-current liabilities	26.0	28.0	28.0	28.0	28.0
Total Liabilities	**328.0**	**325.5**	**328.6**	**331.2**	**334.3**
Total Equity	**250.0**	**277.0**	**316.4**	**313.7**	**314.8**
Net debt (cash)	198.8	202.2	155.6	157.8	151.1

DIVISIONS	2018A	2019A	2020E	2021E	2022E
Revenue (NZ$m)					
New Zealand Rentals	135.3	148.7	165.6	181.1	195.3
New Zealand Tourism	41.8	41.4	43.1	46.5	49.8
Australia Rentals	80.2	83.5	85.4	94.4	99.5
USA Rentals	167.7	149.4	155.7	150.1	153.1
Adj	0.8	-	-	-	-
Total Revenue	**425.9**	**423.0**	**449.8**	**472.1**	**497.6**
EBITDA (NZ$m)					
New Zealand Rentals	42.9	51.0	56.3	60.7	62.5
New Zealand Tourism	14.2	14.5	15.5	16.3	17.4
Australia Rentals	24.8	26.0	27.3	31.1	32.8
USA Rentals	32.7	28.8	25.7	24.0	26.0
Corporate / Other	19.3	(5.5)	(5.2)	(5.7)	(6.3)
Adj	(23.1)	-	1.3	0.6	(0.1)
Total EBITDA	**110.9**	**114.8**	**120.9**	**126.9**	**132.3**

KEY METRICS (%)	2018A	2019A	2020E	2021E	2022E
Revenue growth	25.0	(0.7)	6.3	5.0	5.4
EBITDA growth	26.1	3.5	5.4	5.0	4.2
EBIT growth	32.1	(2.1)	7.8	4.5	(1.2)
Normalised EPS growth	23.0	(23.7)	(10.4)	34.9	12.4
EBITDA margin	26.0	27.1	26.9	26.9	26.6
EBIT margin	14.9	14.7	14.9	14.8	13.9
Return on assets	10.2	8.8	8.1	8.2	8.2
Return on equity	17.5	11.3	10.6	13.6	15.3

VALUATION RATIOS (x)	2018A	2019A	2020E	2021E	2022E
Reported P/E	12.7	16.0	17.9	13.2	11.8
Normalised P/E	12.2	16.0	17.9	13.2	11.8
Price To Free Cash Flow	6.5	5.6	5.8	5.4	4.8
Price To NTA	2.3	2.0	2.1	2.1	2.1
EV / EBITDA	6.1	5.9	5.9	5.7	5.4
EV / EBIT	10.6	10.9	10.7	10.3	10.4

LEVERAGE	2018A	2019A	2020E	2021E	2022E
ND / (ND + Equity) (%)	44.3	42.2	33.0	33.5	32.4
Net Debt / EBITDA (%)	179.3	176.1	128.6	124.3	114.2
EBIT Interest Cover (x)	6.8	5.5	8.2	9.7	7.4
EBITDA Interest Cover (x)	11.8	10.2	14.8	17.5	14.2

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Guide to Ord Minnett Recommendations

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.