

# **Tourism Holdings**

## FY19 Preview — Rent and Buy

Tourism Holdings (THL) will report its FY19 result on Tuesday 27 August 2019; updated guidance as of last week suggests underlying NPAT will be at the top or slightly above the previous range of NZ\$25m-NZ\$27m. It's been a challenging year for THL with M&A positioned as a big theme, but none eventuating and US market challenges dampening underlying profitability.

### Key issues to consider at the FY19 result

- Forward demand in rentals: The last update from THL suggested forward demand for peak season 2019–20 in New Zealand was ahead of the prior year. Industry feedback suggests demand remains solid, despite slowing inbound tourism growth. US rentals demand through its current peak season will set the tone for FY20.
- Fleet sales in the US: The dealership inventory issue which plagued FY19 is likely to flow into FY20 given (1) we expect the issue has yet to self-correct itself, (2) THL's backlog of ex-fleet vehicles will take time to clear, and (3) THL will incur holding costs on unused new vehicles through FY20.
- Fleet sales elsewhere: THL's business model is reliant on selling ex-rental vehicles in each of its markets. Notwithstanding recent comments from Apollo, the ex-rental sales market in New Zealand remains active.
- **Dividend:** THL has been committed to retaining its dividend at 27c in FY19 and has suggested that its dividend payments will be considered against earnings pre-Togo losses. They are; just about. Though any further cut to forward earnings pre-Togo losses could mean a cut to the dividend.
- Togo (previously called TH2): Behind on its tech development schedule and a greater investment burden (i.e. higher losses) in FY20 than previously outlined, investors will be looking for evidence that Togo is making headway via its Togo app and Tripadviser.

### Conference call details

THL will host an FY19 result conference call at 12pm on 27 August 2019. Dial details: NZ 0800 667 018, Australia +61 2803 85271 Code: 4865647.

Figure 1. Earnings forecasts summary (NZ\$m)

	FY18	FY19E	Change	Consensus		
Sales revenue	425.9	405.2	-4.9%	414.1		
EBITDA	110.9	113.8	2.7%	111.3		
EBIT	63.5	60.4	-4.8%	60.0		
Reported NPAT	62.4	26.1	-58.2%	n/a		
Underlying NPAT	37.5	26.1	-30.4%	25.7		
Underlying EPS (cents)	30.9	20.9	-32.4%	20.3		
Final DPS (cents)	14.0	14.0	0.0%	13.7		

Source: Eikon, Forsyth Barr analysis

### **Investment View**

THL is an RV/campervan centric tourism business executing a value accretive and growth strategy. Improved return on capital in recent years has been driven by better capital deployment, a more competitive cost base, and favourable industry growth trends. While still susceptible to external tourism shocks, we think the company can better manage these now than in the past. We rate THL OUTPERFORM.

### **OUTPERFORM**

NZX Code				TH				
Share price		NZ\$3.70						
Target price		NZ\$4.50						
Risk rating				Hig				
Issued shares			1	47.1ı				
Market cap			NZS	\$553i				
Average daily turnover		163.	2k (NZS	\$7601				
Share Price Performance	)							
\$7.00	۸/			2.50				
\$6.00	yw h	l,		2.00				
\$5.00 -	•	بالممرار	4	1.50				
\$4.00			YDV-	1.00				
\$3.00				0.50				
Aug16 Aug17 ————————————————————————————————————		g18 tive to S&	Aug19 P/NZX 5					
Financials: June	18A	19E	20E	21				
NPAT* (NZ\$m)	37.5	26.1	33.7					
ι τι	37.3	20.1	33.1	44.				
EPS* (NZc)	30.9	20.9	22.8					
· · · · · ·				29.				
EPS* (NZc)	30.9	20.9	22.8	29 29				
EPS* (NZc) EPS growth* (%)	30.9 20.5	20.9 -32.4	22.8 9.0	29 29 27				
EPS* (NZc) EPS growth* (%) DPS (NZc)	30.9 20.5 27.0	20.9 -32.4 27.0	22.8 9.0 27.0	29. 29. 27. 5				
EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%)	30.9 20.5 27.0 76	20.9 -32.4 27.0 50	22.8 9.0 27.0 50	29. 29. 27. 5				
EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%)  Valuation (x)	30.9 20.5 27.0 76	20.9 -32.4 27.0 50	22.8 9.0 27.0 50 <b>20E</b>	29. 29. 27. 5 <b>21</b>				
EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%)  Valuation (x) EV/EBITDA	30.9 20.5 27.0 76 <b>18A</b> 6.6	20.9 -32.4 27.0 50 <b>19E</b> 6.6	22.8 9.0 27.0 50 <b>20E</b> 6.5	29. 29. 27. 5 <b>21</b> 6. 10.				
EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%)  Valuation (x) EV/EBITDA EV/EBIT	30.9 20.5 27.0 76 <b>18A</b> 6.6 11.5	20.9 -32.4 27.0 50 <b>19E</b> 6.6 12.5	22.8 9.0 27.0 50 <b>20E</b> 6.5 11.8	29. 29. 27. 5 <b>21</b> 6. 10. 12.				
EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%)  Valuation (x) EV/EBITDA EV/EBIT PE	30.9 20.5 27.0 76 <b>18A</b> 6.6 11.5 12.2	20.9 -32.4 27.0 50 <b>19E</b> 6.6 12.5 18.0	22.8 9.0 27.0 50 <b>20E</b> 6.5 11.8 16.5	44. 29. 27. 5 <b>21</b> 6. 10. 12. 2.				

### **Andy Bowley**

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Tourism Holdings (THL)						****	June year end				
Forsyth Barr valuation						Valuation Ratios	2017A	2018A	2019E	2020E	2021E
Valuation methodology			DCF a	nd peer co	mparison	EV/EBITDA (x)	7.7	6.6	6.6	6.5	6.2
		· · · · · · · · · · · · · · · · · · ·		EV/EBIT (x)	14.1	11.5	12.5	11.8	10.6		
12-month target price (NZ\$)*	4.50	Spot va	luations (l	NZ\$)		PE (x)	14.7	12.2	18.0	16.5	12.8
Expected share price return	19.7%	1. DCF			4.37	Price/NTA (x)	2.9	2.2	2.1	2.1	2.0
Net dividend yield	7.2%	2. Peer	compariso	ı	4.07	Free cash flow yield (%)	-13.3	-15.6	-14.9	-2.1	-11.1
Estimated 12-month return	26.9%	3. n/a	· · · · · · · · · · · · · · · · · · ·		Net dividend yield (%)	5.6	7.2	7.2	7.2	7.2	
						Gross dividend yield (%)	6.7	9.3	8.6	8.6	8.6
Key WACC assumptions		DCF val	uation su	mmary (N	Z\$m)	Imputation (%)	50	76	50	50	50
Risk free rate	2.75%	Total fire		. , (	881	Pay-out ratio (%)	82	87	129	119	92
Equity beta	1.30	(Net deb			(239)						
WACC	11.2%	Value of	,		643	Capital Structure	2017A	2018A	2019E	2020E	2021E
Terminal growth	1.5%	Shares			147	Interest cover EBIT (x)	7.1	6.8	5.8	9.4	11.7
Terrifical growth	1.070	Ondies	(111)		177	Interest cover EBITDA (x)	13.1	11.8	11.0	17.2	20.1
Profit and Loca Account (N7\$m)	2017A	2018A	2019E	2020E	2021E	( )	47.6	44.3	45.0	29.2	27.2
Profit and Loss Account (NZ\$m)						Net debt/ND+E (%)					
Sales revenue	340.2	425.9	405.2	416.5	443.4	Net debt/EBITDA (x)	2.0	1.8	1.9	1.1	1.0
Normalised EBITDA	87.5	110.9	113.8	118.3	123.9	<b>к</b> Б.:	00474	00404	00405		00045
Depreciation and amortisation	(39.8)	(47.4)	(53.4)	(53.6)	(51.9)	Key Ratios	2017A	2018A	2019E	2020E	2021E
Normalised EBIT	47.7	63.5	60.4	64.7	72.1	Return on assets (%)	10.2	11.0	10.2	11.6	12.9
Net interest	(6.7)	(9.4)	(10.4)	(6.9)	(6.2)	Return on equity (%)	15.6	15.0	9.9	10.8	14.0
Associate income	2.7	(1.0)	(13.1)	(10.4)	(3.3)	Return on funds employed (%)	15.4	15.5	13.0	14.1	16.5
Tax	(13.6)	(15.6)	(10.9)	(13.7)	(18.1)	EBITDA margin (%)	25.7	26.0	28.1	28.4	28.0
Minority interests	-	-	-	-	-	EBIT margin (%)	14.0	14.9	14.9	15.5	16.3
Normalised NPAT	30.2	37.5	26.1	33.7	44.5	Capex to sales (%)	44.9	42.4	41.7	25.5	35.7
Abnormals/other	-	24.9	-	-	-	Capex to depreciation (%)	398	392	325	204	313
Reported NPAT	30.2	62.4	26.1	33.7	44.5						
Normalised EPS (cps)	25.6	30.9	20.9	22.8	29.5	Operating Performance	2017A	2018A	2019E	2020E	2021E
DPS (cps)	21.0	27.0	27.0	27.0	27.0	Revenue (NZ\$m)					
()						Rentals NZ	120.4	135.3	147.7	148.2	151.3
Growth Rates	2017A	2018A	2019E	2020E	2021E	Tourism Group	39.9	41.8	41.8	42.6	43.9
Revenue (%)	22.0	25.2	-4.9	2.8	6.5	Rentals Australia	71.2	80.2	84.3	82.1	86.4
EBITDA (%)	18.9	26.7	2.7	3.9	4.8	Rentals US	108.7	167.7	131.4	143.6	161.7
EBIT (%)	23.2	33.1	-4.8	7.0	11.5	Total	340.2	425.1	405.2	416.5	443.4
` '	23.8	24.3	-30.4	29.0	32.2	Total	340.2	423.1	403.2	410.5	445.4
Normalised NPAT (%)						Devenue (N7¢m)					
Normalised EPS (%)	20.0	20.5	-32.4	9.0	29.3	Revenue (NZ\$m)	005.0	070.4	007.5	000.0	202.7
DPS (%)	10.5	28.6	0.0	0.0	0.0	Services	225.6	273.1	287.5	293.8	303.7
						Goods	114.6	152.8	117.7	122.7	139.7
Cash Flow (NZ\$m)	2017A	2018A	2019E	2020E	2021E	Total	340.2	425.9	405.2	416.5	443.4
EBITDA	87.5	110.9	113.8	118.3	123.9						
Working capital change	-	-	-	2.0	4.0	Normalised EBIT (NZ\$m)					
Interest & tax paid	(20.2)	(25.0)	(21.2)	(20.6)	(24.3)	Rentals NZ	24.2	25.7	30.1	31.4	32.1
Other	11.5	8.6	(6.0)	(5.0)	(7.0)	Tourism Group	10.7	11.9	11.5	11.6	12.0
Operating cash flow	78.8	94.5	86.6	94.7	96.6	Rentals Australia	7.8	10.6	11.3	13.0	16.0
Capital expenditure	(152.6)	(180.7)	(169.1)	(106.4)	(158.2)	Rentals US	12.2	19.7	12.7	12.7	16.4
(Acquisitions)/divestments	(5.4)	96.8	64.3	78.2	103.3	Group support services	(7.2)	(4.4)	(5.2)	(4.0)	(4.3)
Other	3.2	(14.3)	(10.0)	-	-	Total	47.7	63.5	60.4	64.7	72.1
Funding available/(required)	(75.9)	(3.7)	(28.2)	66.4	41.7						
Dividends paid	(22.4)	(22.9)	(25.1)	(36.8)	(40.4)	EBIT (NZ\$m)					
Equity raised/(returned)	0.8	2.8	36.8	57.4	8.1	Services	27.4	43.2	47.0	50.1	55.6
Increase/(decrease) in net debt	97.3	22.5	16.5	(87.0)	(9.4)	Goods	20.3	20.3	13.4	14.5	16.4
increase/(decrease) in het debt	31.3	22.3	10.5	(07.0)	(3.4)	Total	47.7				
Balance Sheet (NZ\$m)	20474	20404	2019E	2020E	2021E	ı Uldi	41.1	63.5	60.4	64.7	72.1
Working capital	2017A	2018A				EDIT margin (9/)					
	23.2	24.5	20.3	20.8	22.2	EBIT margin (%)	00.4	40.0	00.4	04.0	01.0
• •	340.2	384.2	417.9	379.9	380.3	Rentals NZ	20.1	19.0	20.4	21.2	21.2
Fixed assets				42.0	40.7	Tourism Group	26.9	28.5	27.5	27.2	27.2
Fixed assets Intangibles	42.4	44.6	43.3								
Fixed assets Intangibles Other assets	42.4 18.7	59.2	59.2	59.2	59.2	Rentals Australia	11.0	13.2	13.4	15.8	
Fixed assets Intangibles Other assets Total funds employed	42.4 18.7 <b>424.5</b>	59.2 <b>512.5</b>	59.2 <b>540.7</b>	59.2 <b>501.9</b>	59.2 <b>502.4</b>	Rentals Australia Rentals US	11.2	11.8	9.7	15.8 8.9	10.1
Fixed assets Intangibles Other assets	42.4 18.7	59.2	59.2	59.2	59.2						10.1
Fixed assets Intangibles Other assets Total funds employed	42.4 18.7 <b>424.5</b>	59.2 <b>512.5</b>	59.2 <b>540.7</b>	59.2 <b>501.9</b>	59.2 <b>502.4</b>	Rentals US	11.2	11.8	9.7	8.9	10.1
Fixed assets Intangibles Other assets Total funds employed Net debt/(cash)	42.4 18.7 <b>424.5</b> 176.3	59.2 <b>512.5</b> 198.8	59.2 <b>540.7</b> 215.2	59.2 <b>501.9</b> 128.3	59.2 <b>502.4</b> 118.9	Rentals US	11.2	11.8	9.7	8.9	10.1
Fixed assets Intangibles Other assets Total funds employed Net debt/(cash) Other non current liabilities	42.4 18.7 <b>424.5</b> 176.3 54.2	59.2 <b>512.5</b> 198.8 63.7	59.2 <b>540.7</b> 215.2 62.5	59.2 <b>501.9</b> 128.3 63.2	59.2 <b>502.4</b> 118.9 64.7	Rentals US Total	11.2	11.8	9.7	8.9	18.5 10.1 <b>16.3</b> 0.90

<sup>\*</sup> Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend



# **FY19 preview**

Figure 2. Earnings forecasts (NZ\$m)

	FY18	FY19E	Change
Profit and loss account			
Sales revenue	425.9	405.2	-5%
EBITDA	110.9	113.8	3%
Depreciation and amortisation	(47.4)	(53.4)	13%
NZ Rentals	25.7	30.1	17%
Tourism Group	11.9	11.5	-3%
Australia Rentals	10.6	11.3	7%
US Rentals	19.7	12.7	-36%
Group support services and other	(4.4)	(5.2)	19%
EBIT	63.5	60.4	-5%
Associates	(0.8)	0.1	-113%
JV profits	(0.2)	(13.2)	5288%
Interest expense	(9.4)	(10.4)	10%
Profit before tax	53.1	37.0	-30%
Taxation (incl. abnormal tax)	(15.6)	(10.9)	-30%
Underlying NPAT	37.5	26.1	-30%
Non-recurring (post tax)	24.9	0.0	n/a
Reported NPAT	62.4	26.1	-58%
Underlying EPS (cents)	30.9	20.9	-32%
Final DPS (cents)	14.0	14.0	0%
Cashflow and net debt			
Operating cashflow (pre-fleet investment)	74.2	73.2	-1%
Fleet capex	(145.5)	(178.1)	22%
Fleet disposals	101.6	128.5	26%
Other capex	(2.6)	(4.0)	53%
Other disposals	1.2	0.0	n/a
Free cash flow	28.9	19.6	-32%
Acquisitions	(11.4)	(15.0)	n/a
Net debt/(cash)	(198.8)	(215.2)	8%
Key statistics			
Rental/Tourism EBIT	47.6	52.2	10%
Gain on sale	20.3	13.4	-34%
Group support services and other	(4.4)	(5.2)	19%
Group EBIT	63.5	60.4	-5%

Source: Forsyth Barr analysis



### **Investment summary**

Tourism Holdings' (THL) management has executed very strongly on a clear strategic drive to enhance economic returns by reducing capital intensity, improving industry structure, and enabling technology solutions to lift performance and generate growth. As a result, earnings have increased significantly in recent years, assisted by positive tourism inflows. While the uncertain near term outlook is dominated by the prospect of M&A and a material investment in the TH2 JV, we see a value opportunity given recent share price weakness. OUTPERFORM.

#### **Business quality**

- Market leadership: THL is the largest RV rental player globally with the top two positions in New Zealand, Australia and the US. Economies of scale benefits exist from procurement, fleet flexibility, pick-up/drop-off locations and presence in key sales channels.
- ROFE focus: THL is a very return on capital focussed business. Returns have improved in recent years given a combination of market growth and company initiatives including flex-fleet.
- Track record: Management has a strong history of creating value through reducing capital intensity, leading consolidation to improve industry structure and a disciplined approach to earnings accretive M&A.

### Earnings and cash flow outlook

- Tourism growth: European tourist arrivals are key drivers for motorhome rentals in Australasia and the US. Consumer confidence in origin countries, oil prices and currency movements all impact tourism inflows.
- Togo tech opportunity: THL's JV with Thor, TH2, provides a key value opportunity. Togo presents the biggest opportunity, in our opinion. Current earnings are depressed given heavy TH2 investment levels.

### **Financial structure**

■ Balance sheet: Current gearing levels are elevated with net debt to EBITDA of 2.0x. Some uncertainty surrounds THL's capital needs given the potential for significant M&A activity with THL's desire to expand.

### Key risks

- Low barriers to entry: New operators may enter the motorhome rental market attracted by improving industry returns.
- Economic slowdown in key origin countries: Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 3. ROFE

Company description

THL is the largest motorhome rentals

operator globally operating under the

Maui, Britz, Mighty, Road Bear and El

Monte brands. It is the market leader in New Zealand, #2 in Australia and the US

and also owns a 49% stake in Just Go, a UK based motorhome rentals and sales

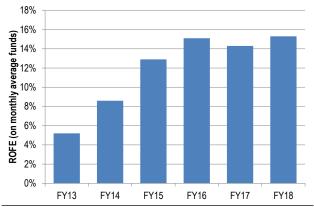
business. In NZ it has a 50% stake in

Action Manufacturing which designs and

builds motorhomes and parts for its NZ and Australian fleets. THL also operates leading tourism attractions and guided

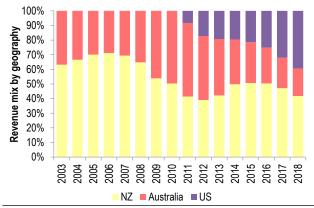
experiences in NZ through Kiwi

Experience and Waitomo Caves.



Source: Forsyth Barr analysis

Figure 4. Revenue split



Source: Forsyth Barr analysis



Figure 5. Substantial Shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	5.4%

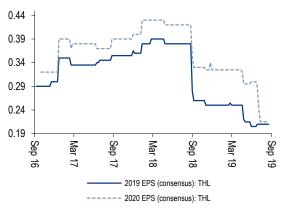
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 6. International Compcos

Company	Code	Price Mkt Cap		PE		EV/EBITDA		EV/EBI	T Ca	Cash D/Yld	
(metrics re-weighted to reflect THL's balance date - June)			(m)	2019E	2020E	2019E	2020E	2019E	2020E	2020E	
Tourism Holdings	THL NZ	NZ\$3.76	NZ\$553	18.0x	16.5x	6.6x	6.4x	12.4x	11.6x	7.2%	
Apollo Tourism & Leisure	ATL AT	A\$0.42	A\$77	4.9x	4.8x	4.9x	4.6x	8.7x	8.2x	9.4%	
Thor Industries Inc	THO US	US\$46.56	US\$2,564	8.8x	7.6x	8.3x	6.2x	10.0x	n/a	3.4%	
Air New Zealand *	AIR NZ	NZ\$2.75	NZ\$3,088	12.0x	10.4x	5.0x	4.6x	12.8x	11.1x	8.0%	
Qantas Airways	QAN AT	A\$5.64	A\$8,858	9.6x	8.7x	3.9x	3.8x	8.0x	7.9x	4.6%	
Flight Centre Travel Group	FLT AT	A\$43.69	A\$4,418	17.7x	15.7x	7.9x	7.0x	9.7x	8.6x	3.9%	
Ardent Leisure Group	AAD AT	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
SeaLink Travel Group	SLK AT	A\$3.70	A\$375	15.9x	14.1x	9.8x	9.1x	14.5x	13.0x	4.6%	
Avis Budget Group Inc	CAR US	US\$26.29	US\$1,999	9.6x	6.3x	14.6x	22.5x	27.2x	n/a	n/a	
Hertz Global Holdings Inc	HTZ US	US\$12.55	US\$1,784	2.2x	8.7x	18.6x	28.9x	<0x	n/a	n/a	
		Com	pco Average:	10.1x	9.5x	9.1x	10.8x	13.0x	9.7x	5.6%	
EV = Current Market Cap + Actual Net Debt			THL Relative:	+78%	+73%	-27%	-41%	-4%	+19%	+27%	

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (THL) companies fiscal year end

Figure 7. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 8. 12 Month Forward PE



Source: Forsyth Barr analysis

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