# Tourism Holdings

**OUTPERFORM**

## 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 |

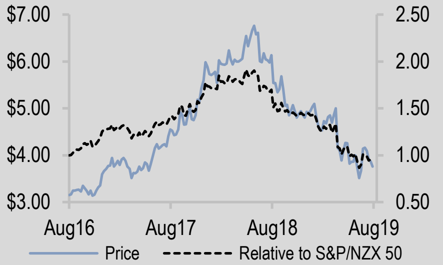
Source: Eikon, Forsyth Barr analysis

### 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.

| NZX Code | THL |
|---|---|
| Share price | NZ$3.76 |
| Target price | NZ$4.50 |
| Risk rating | High |
| Issued shares | 147.1m |
| Market cap | NZ$553m |
| Average daily turnover | 163.2k (NZ$760k) |

**Share Price Performance**




| Financials: June | 18A | 19E | 20E | 21E |
|---|---|---|---|---|
| NPAT* (NZ$m) | 37.5 | 26.1 | 33.7 | 44.5 |
| EPS* (NZc) | 30.9 | 20.9 | 22.8 | 29.5 |
| EPS growth* (%) | 20.5 | -32.4 | 9.0 | 29.3 |
| DPS (NZc) | 27.0 | 27.0 | 27.0 | 27.0 |
| Imputation (%) | 76 | 50 | 50 | 50 |

| Valuation (x) | 18A | 19E | 20E | 21E |
|---|---|---|---|---|
| EV/EBITDA | 6.6 | 6.6 | 6.5 | 6.2 |
| EV/EBIT | 11.5 | 12.5 | 11.8 | 10.6 |
| PE | 12.2 | 18.0 | 16.5 | 12.8 |
| Price / NTA | 2.2 | 2.1 | 2.1 | 2.0 |
| Cash dividend yield (%) | 7.2 | 7.2 | 7.2 | 7.2 |
| Gross dividend yield (%) | 9.3 | 8.6 | 8.6 | 8.6 |

*Historic and forecast numbers based on underlying profits

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Tourism Holdings (THL) — Priced as at 20 Aug 2019: NZ$3.76 — June year end

| Forsyth Barr valuation | | | |
|---|---|---|---|
| Valuation methodology | | | DCF and peer comparison |
| **12-month target price (NZ$)*** | **4.50** | **Spot valuations (NZ$)** | |
| Expected share price return | 19.7% | 1. DCF | 4.37 |
| Net dividend yield | 7.2% | 2. Peer comparison | 4.07 |
| Estimated 12-month return | 26.9% | 3. n/a | n/a |
| **Key WACC assumptions** | | **DCF valuation summary (NZ$m)** | |
| Risk free rate | 2.75% | Total firm value | 881 |
| Equity beta | 1.30 | (Net debt)/cash | (239) |
| WACC | 11.2% | Value of equity | 643 |
| Terminal growth | 1.5% | Shares (m) | 147 |

| **Profit and Loss Account (NZ$m)** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| Sales revenue | 340.2 | 425.9 | 405.2 | 416.5 | 443.4 |
| **Normalised EBITDA** | **87.5** | **110.9** | **113.8** | **118.3** | **123.9** |
| Depreciation and amortisation | (39.8) | (47.4) | (53.4) | (53.6) | (51.9) |
| **Normalised EBIT** | **47.7** | **63.5** | **60.4** | **64.7** | **72.1** |
| Net interest | (6.7) | (9.4) | (10.4) | (6.9) | (6.2) |
| Associate income | 2.7 | (1.0) | (13.1) | (10.4) | (3.3) |
| Tax | (13.6) | (15.6) | (10.9) | (13.7) | (18.1) |
| Minority interests | - | - | - | - | - |
| **Normalised NPAT** | **30.2** | **37.5** | **26.1** | **33.7** | **44.5** |
| Abnormals/other | - | 24.9 | - | - | - |
| **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 |
| DPS (cps) | 21.0 | 27.0 | 27.0 | 27.0 | 27.0 |

| **Growth Rates** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| Revenue (%) | 22.0 | 25.2 | -4.9 | 2.8 | 6.5 |
| EBITDA (%) | 18.9 | 26.7 | 2.7 | 3.9 | 4.8 |
| EBIT (%) | 23.2 | 33.1 | -4.8 | 7.0 | 11.5 |
| Normalised NPAT (%) | 23.8 | 24.3 | -30.4 | 29.0 | 32.2 |
| Normalised EPS (%) | 20.0 | 20.5 | -32.4 | 9.0 | 29.3 |
| DPS (%) | 10.5 | 28.6 | 0.0 | 0.0 | 0.0 |

| **Cash Flow (NZ$m)** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| **EBITDA** | **87.5** | **110.9** | **113.8** | **118.3** | **123.9** |
| Working capital change | - | - | - | 2.0 | 4.0 |
| Interest & tax paid | (20.2) | (25.0) | (21.2) | (20.6) | (24.3) |
| Other | 11.5 | 8.6 | (6.0) | (5.0) | (7.0) |
| **Operating cash flow** | **78.8** | **94.5** | **86.6** | **94.7** | **96.6** |
| Capital expenditure | (152.6) | (180.7) | (169.1) | (106.4) | (158.2) |
| (Acquisitions)/divestments | (5.4) | 96.8 | 64.3 | 78.2 | 103.3 |
| Other | 3.2 | (14.3) | (10.0) | - | - |
| **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) |
| Equity raised/(returned) | 0.8 | 2.8 | 36.8 | 57.4 | 8.1 |
| **Increase/(decrease) in net debt** | **97.3** | **22.5** | **16.5** | **(87.0)** | **(9.4)** |

| **Balance Sheet (NZ$m)** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| Working capital | 23.2 | 24.5 | 20.3 | 20.8 | 22.2 |
| Fixed assets | 340.2 | 384.2 | 417.9 | 379.9 | 380.3 |
| Intangibles | 42.4 | 44.6 | 43.3 | 42.0 | 40.7 |
| Other assets | 18.7 | 59.2 | 59.2 | 59.2 | 59.2 |
| **Total funds employed** | **424.5** | **512.5** | **540.7** | **501.9** | **502.4** |
| Net debt/(cash) | 176.3 | 198.8 | 215.2 | 128.3 | 118.9 |
| Other non current liabilities | 54.2 | 63.7 | 62.5 | 63.2 | 64.7 |
| Shareholder's funds | 193.9 | 250.0 | 262.9 | 310.4 | 318.7 |
| Minority interests | - | - | - | - | - |
| **Total funding sources** | **424.5** | **512.5** | **540.7** | **501.9** | **502.4** |

| **Valuation Ratios** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| 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 |
| PE (x) | 14.7 | 12.2 | 18.0 | 16.5 | 12.8 |
| Price/NTA (x) | 2.9 | 2.2 | 2.1 | 2.1 | 2.0 |
| Free cash flow yield (%) | -13.3 | -15.6 | -14.9 | -2.1 | -11.1 |
| 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 |
| Imputation (%) | 50 | 76 | 50 | 50 | 50 |
| Pay-out ratio (%) | 82 | 87 | 129 | 119 | 92 |

| **Capital Structure** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| Interest cover EBIT (x) | 7.1 | 6.8 | 5.8 | 9.4 | 11.7 |
| Interest cover EBITDA (x) | 13.1 | 11.8 | 11.0 | 17.2 | 20.1 |
| Net debt/ND+E (%) | 47.6 | 44.3 | 45.0 | 29.2 | 27.2 |
| Net debt/EBITDA (x) | 2.0 | 1.8 | 1.9 | 1.1 | 1.0 |

| **Key Ratios** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| Return on assets (%) | 10.2 | 11.0 | 10.2 | 11.6 | 12.9 |
| Return on equity (%) | 15.6 | 15.0 | 9.9 | 10.8 | 14.0 |
| Return on funds employed (%) | 15.4 | 15.5 | 13.0 | 14.1 | 16.5 |
| EBITDA margin (%) | 25.7 | 26.0 | 28.1 | 28.4 | 28.0 |
| EBIT margin (%) | 14.0 | 14.9 | 14.9 | 15.5 | 16.3 |
| Capex to sales (%) | 44.9 | 42.4 | 41.7 | 25.5 | 35.7 |
| Capex to depreciation (%) | 398 | 392 | 325 | 204 | 313 |

| **Operating Performance** | **2017A** | **2018A** | **2019E** | **2020E** | **2021E** |
|---|---|---|---|---|---|
| **Revenue (NZ$m)** | | | | | |
| Rentals NZ | 120.4 | 135.3 | 147.7 | 148.2 | 151.3 |
| Tourism Group | 39.9 | 41.8 | 41.8 | 42.6 | 43.9 |
| Rentals Australia | 71.2 | 80.2 | 84.3 | 82.1 | 86.4 |
| Rentals US | 108.7 | 167.7 | 131.4 | 143.6 | 161.7 |
| **Total** | **340.2** | **425.1** | **405.2** | **416.5** | **443.4** |
| **Revenue (NZ$m)** | | | | | |
| Services | 225.6 | 273.1 | 287.5 | 293.8 | 303.7 |
| Goods | 114.6 | 152.8 | 117.7 | 122.7 | 139.7 |
| **Total** | **340.2** | **425.9** | **405.2** | **416.5** | **443.4** |
| **Normalised EBIT (NZ$m)** | | | | | |
| Rentals NZ | 24.2 | 25.7 | 30.1 | 31.4 | 32.1 |
| Tourism Group | 10.7 | 11.9 | 11.5 | 11.6 | 12.0 |
| Rentals Australia | 7.8 | 10.6 | 11.3 | 13.0 | 16.0 |
| Rentals US | 12.2 | 19.7 | 12.7 | 12.7 | 16.4 |
| Group support services | (7.2) | (4.4) | (5.2) | (4.0) | (4.3) |
| **Total** | **47.7** | **63.5** | **60.4** | **64.7** | **72.1** |
| **EBIT (NZ$m)** | | | | | |
| Services | 27.4 | 43.2 | 47.0 | 50.1 | 55.6 |
| Goods | 20.3 | 20.3 | 13.4 | 14.5 | 16.4 |
| **Total** | **47.7** | **63.5** | **60.4** | **64.7** | **72.1** |
| **EBIT margin (%)** | | | | | |
| Rentals NZ | 20.1 | 19.0 | 20.4 | 21.2 | 21.2 |
| Tourism Group | 26.9 | 28.5 | 27.5 | 27.2 | 27.2 |
| Rentals Australia | 11.0 | 13.2 | 13.4 | 15.8 | 18.5 |
| Rentals US | 11.2 | 11.8 | 9.7 | 8.9 | 10.1 |
| **Total** | **14.0** | **14.9** | **14.9** | **15.5** | **16.3** |
| **Currency assumptions** | | | | | |
| NZDAUD | 0.97 | 0.94 | 0.92 | 0.93 | 0.90 |
| NZDUSD | 0.73 | 0.73 | 0.67 | 0.67 | 0.66 |

* 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.

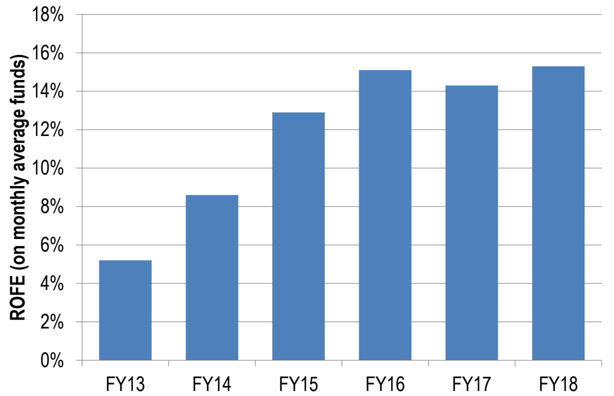
## Key risks

- **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.

**Company description**

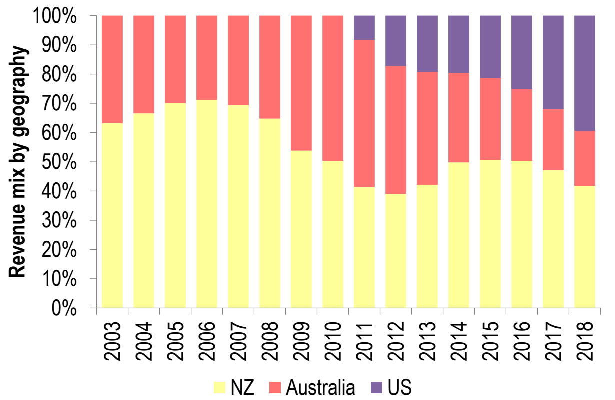
THL is the largest motorhome rentals operator globally operating under the Maui, Britz, Mighty, Road Bear and El Monte brands. It is the market leader in New Zealand, #2 in Australia and the US and also owns a 49% stake in Just Go, a UK based motorhome rentals and sales business. In NZ it has a 50% stake 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.

**Figure 3. ROFE**




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% |

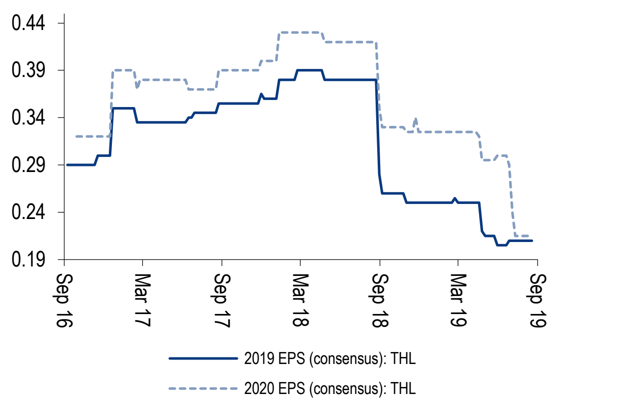
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 6. International Compcos**

| Company | Code | Price | Mkt Cap | PE | | EV/EBITDA | | EV/EBIT | | 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 |
| | | | **Compco 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%** |

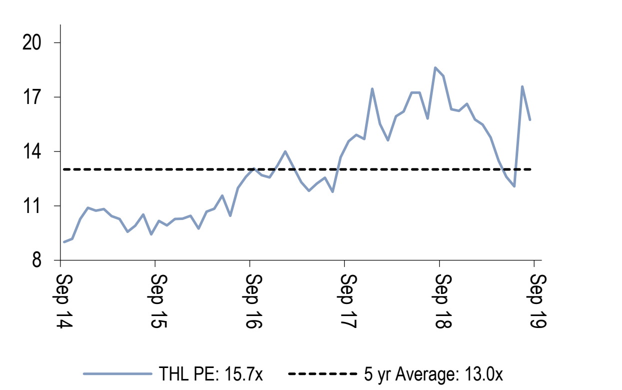
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (THL) companies fiscal year end

**Figure 7. Consensus EPS Momentum**




Source: Forsyth Barr analysis, Bloomberg

**Figure 8. 12 Month Forward PE**




Source: Forsyth Barr analysis