

Tourism Holdings

1H20 – Togo To Go?

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NEUTRAL 

Tourism Holdings' (THL) first half result was challenged by US vehicle sales woes and start-up losses in its tech JV Togo. Both provide earnings upside opportunity over the medium term, but together with the potential coronavirus impact on demand, add to near term uncertainty. While valuation levels look appealing (after adjusting for Togo losses, it is trading at ~8x one year forward PE), we are wary of a deteriorating demand backdrop given the evolving coronavirus situation. We recognise the potential for THL to crystallise some value in Togo and partially protect it from ongoing losses, however, we are unable to build an investment case around such a potentially value accretive transaction. We, therefore, retain a NEUTRAL rating and expect better buying opportunities ahead.

NZX Code	THL	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.49	NPAT* (NZ\$m)	27.9	24.0	32.5	43.5	EV/EBITDA	4.9	4.4	4.1	3.8
Target price	NZ\$3.00	EPS* (NZc)	22.2	16.1	21.4	28.2	EV/EBIT	9.0	9.2	8.2	7.1
Risk rating	High	EPS growth* (%)	-28.3	-27.2	32.4	32.1	PE	11.2	15.4	11.7	8.8
Issued shares	147.1m	DPS (NZc)	27.0	20.0	22.0	25.0	Price / NTA	1.3	1.5	1.6	1.6
Market cap	NZ\$366m	Imputation (%)	76	50	50	50	Cash div yld (%)	10.8	8.0	8.8	10.0
Avg daily turnover	147.2k (NZ\$539k)	*Based on normalised profits					Gross div yld (%)	14.0	9.6	10.6	12.0

What's changed?

- **Earnings:** FY20 forecasts largely unchanged. FY21 cut materially to reflect hangover of coronavirus on demand and larger Togo losses. IFRS 16 incorporated for the first time
- **Target price:** Lowered to NZ\$3.00 from NZ\$3.40

Operational challenges persist

THL's business is being severely challenged by (1) the depressed US vehicle sales market, (2) the Australian bush fires, and (3) the coronavirus outbreak. Rental operations are performing well, and vehicle sales are solid in both New Zealand and Australia. There appears more optimism around the US vehicle sales market, which has scope for a significant recovery in earnings for THL. Tourism Group's Waitomo operations are most exposed to coronavirus (at least to-date given the impact on Chinese visitation). However, the big risk to near term demand stems from the spread of coronavirus, which if the situation is prolonged could have a severe impact on the US July–Aug peak, and next summer in Australasia.

Togo investment under review

THL is reviewing the nature of its future investment in Togo. While management wouldn't be drawn into what potential outcomes this may result in, we suspect that THL may look to crystallise the value of at least part of its 50% stake in the JV, thereby protecting itself from future losses – at the very least THL may test the market for potential acquirers and valuation discovery. Our THL valuation includes Togo at book value.

Dividend cut; yield attraction

The interim dividend has been cut to 10c from 13c, in-line with our expectations. In light of last year's capital raise the dividend reinvestment plan (DRP) is no longer offered. There is no change in the company's dividend policy, which means 10c is also likely for the final FY20 dividend assuming THL achieves earnings broadly in-line with current guidance. While risk to the near term dividend is to the downside, investors are being compensated to some extent with an ~8% cash dividend yield.

Tourism Holdings (THL)

Priced as at 28 Feb 2020 (NZ\$)						2.49						
12-month target price (NZ\$)*						3.00	Spot valuations (NZ\$)					
Expected share price return						20.5%	1. DCF					2.63
Net dividend yield						8.6%	2. Peer comparison					2.95
Estimated 12-month return						29.1%	3. n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						2.00%	Total firm value					773
Equity beta						1.30	(Net debt)/cash					(213)
WACC						10.2%	Less: Capitalised operating leases					0
Terminal growth						1.5%	Value of equity					387
Profit and Loss Account (NZ\$m)						Valuation Ratios						
Sales revenue	2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E		
Normalised EBITDA	425.9	423.0	416.5	419.1	444.7	EV/EBITDA (x)	4.9	4.9	4.4	4.1	3.8	
Depreciation and amortisation	110.9	114.8	120.4	121.7	131.0	EV/EBIT (x)	8.6	9.0	9.2	8.2	7.1	
Normalised EBIT	(47.4)	(52.6)	(62.8)	(61.1)	(60.7)	PE (x)	8.1	11.2	15.4	11.7	8.8	
Net interest	63.5	62.1	57.5	60.6	70.3	Price/NTA (x)	1.5	1.3	1.5	1.6	1.6	
Associate income	(9.4)	(11.2)	(12.8)	(11.0)	(11.8)	Free cash flow yield (%)	-23.5	-24.3	-10.3	-20.2	-25.0	
Tax	(1.0)	(11.0)	(11.5)	(4.6)	1.6	Net dividend yield (%)	10.8	10.8	8.0	8.8	10.0	
Minority interests	(15.6)	(12.0)	(9.2)	(12.5)	(16.7)	Gross dividend yield (%)	14.0	14.0	9.6	10.6	12.0	
Normalised NPAT	0	0	0	0	0	Capital Structure						
Abnormals/other	37.5	27.9	24.0	32.5	43.5	Interest cover EBIT (x)	2018A	2019A	2020E	2021E	2022E	
Reported NPAT	24.9	1.9	0	0	0	Interest cover EBITDA (x)	6.8	5.5	4.5	5.5	6.0	
Normalised EPS (cps)	62.4	29.8	24.0	32.5	43.5	Net debt/ND+E (%)	11.8	10.2	9.4	11.1	11.1	
DPS (cps)	30.9	22.2	16.1	21.4	28.2	Net debt/EBITDA (x)	44.3	42.2	32.3	33.8	37.0	
Growth Rates						Key Ratios						
Revenue (%)	2018A	2019A	2020A	2021A	2022A	2018A	2019A	2020E	2021E	2022E		
EBITDA (%)	25.2	-0.7	-1.5	0.6	6.1	Return on assets (%)	11.0	10.3	9.3	9.6	10.8	
EBIT (%)	26.7	3.5	4.9	1.1	7.7	Return on equity (%)	15.0	10.1	8.5	11.5	15.5	
Normalised NPAT (%)	33.1	-2.2	-7.4	5.3	16.1	Return on funds employed (%)	15.5	13.4	12.8	14.3	16.1	
Normalised EPS (%)	24.3	-25.6	-13.9	35.2	33.9	EBITDA margin (%)	26.0	27.1	28.9	29.0	29.5	
Ordinary DPS (%)	20.5	-28.3	-27.2	32.4	32.1	EBIT margin (%)	14.9	14.7	13.8	14.5	15.8	
Cash Flow (NZ\$m)						Operating Performance						
EBITDA	2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E		
Working capital change	110.9	114.8	120.4	121.7	131.0	Revenue (NZ\$m)	2018A	2019A	2020E	2021E	2022E	
Interest & tax paid	(25.0)	(23.2)	(18.0)	(19.5)	(24.5)	Rentals NZ	135.3	148.7	160.0	163.1	167.3	
Other	8.6	(0.8)	(20.2)	(18.2)	(20.2)	Tourism Group	41.8	41.4	35.6	37.1	41.5	
Operating cash flow	94.5	90.8	84.1	87.9	92.3	Rentals Australia	80.2	83.5	83.2	84.8	89.3	
Capital expenditure	(180.7)	(180.0)	(121.8)	(162.0)	(183.9)	Rentals US	167.7	149.4	137.7	134.1	146.5	
(Acquisitions)/divestments	98.1	84.8	79.4	96.7	106.4	Total	425.1	423.0	416.5	419.1	444.7	
Other	(14.3)	(0.3)	0	0	0	Normalised EBIT (NZ\$m)						
Funding available/(required)	(2.4)	(4.8)	41.7	22.6	14.8	Rentals NZ	25.7	31.5	33.0	33.3	34.7	
Dividends paid	(22.9)	(29.4)	(23.9)	(31.6)	(35.9)	Tourism Group	11.9	12.3	8.4	9.5	12.1	
Equity raised/(returned)	2.8	30.8	49.3	0	0	Rentals Australia	10.6	11.3	10.9	11.8	13.6	
(Increase)/decrease in net debt	(22.5)	(3.4)	67.0	(8.9)	(21.1)	Rentals US	19.7	13.0	8.8	9.8	14.1	
Balance Sheet (NZ\$m)						EBIT (NZ\$m)						
Working capital	2018A	2019A	2020E	2021E	2022E	Services	43.2	48.0	45.2	46.8	52.8	
Fixed assets	24.5	37.7	20.8	21.0	22.2	Goods	20.3	14.1	12.3	13.8	17.5	
Intangibles	384.2	407.0	376.0	384.5	405.6	Total	63.5	62.1	57.5	60.6	70.3	
Right of use asset	44.6	44.2	43.1	42.0	40.9	NZDAUD						
Other assets	0	0	68.8	68.8	68.8	0.94						
Other liabilities	59.2	57.3	57.3	57.3	57.3	NZDUSD						
Total funds employed	512.5	546.1	565.9	573.5	594.8	0.73						
Net debt/(cash)	198.8	202.2	135.2	144.1	165.2							
Lease liability	0	0	80.5	80.5	80.5							
Shareholder's funds	250.0	277.0	283.7	282.2	280.9							
Minority interests	0	0	0	0	0							
Total funding sources	512.5	546.1	565.9	573.5	594.8							

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

Appealing valuation but near term demand uncertainty

Tourism Holdings (THL) reported a weak 1H20 result reflecting challenges in the US vehicle sales market and continued investment in Togo, its tech JV. While there is some optimism that the former will begin to recover through CY20, THL is now reviewing the nature of its investment in the latter. Excluding the impact of IFRS 16 accounting changes, underlying NPAT fell -23% in the period against the prior year, on an EBITDA decline of -8%. The company has cut its interim dividend to 10c from 13c. At a divisional level the USA business was again disappointing. The vehicle sales margin declined -37% on -12% fewer vehicle sales. Rentals, in contrast, were flat year on year. Profits from both New Zealand and Australia were largely flat on the prior year reflecting slowing demand growth.

Figure 1. Result summary (NZ\$m)

	1H19	1H20	Change	Forbar
Sales revenue	207.3	207.5	0.1%	214.4
EBITDA	60.0	62.1	3.5%	60.4
EBIT	34.7	31.0	-10.7%	32.1
Reported NPAT	17.5	13.1	-25.4%	15.9
Underlying NPAT	17.5	13.1	-25.4%	15.9
Underlying EPS (cents)	14.0	8.9	-36.4%	10.8
Interim DPS (cents)	13.0	10.0	-23.1%	10.0

Source: Forsyth Barr analysis

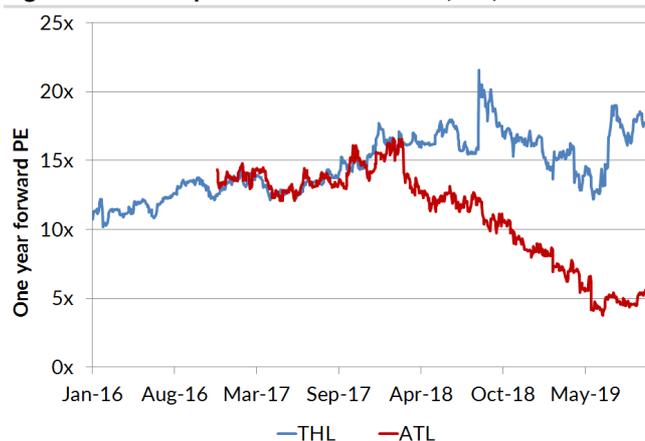
Figure 2. EBIT by division (NZ\$m)

	1H19	1H20	Change
Rentals NZ	7.0	7.5	6.3%
Tourism Group	4.4	4.3	-2.9%
Rentals Australia	8.2	8.6	5.1%
Rentals US	18.4	12.4	-32.8%
Group support services	(3.4)	(1.8)	-46.7%
Total EBIT	34.7	31.0	-10.8%
..including gain on sale	8.5	7.8	-8.2%

Source: Forsyth Barr analysis

We lower our target price to NZ\$3.00 to reflect our earnings revisions as summarised below and increasing uncertainty over the near term demand backdrop, in light of the spread of coronavirus. While THL looks increasingly attractive on forward valuation multiples, we are wary of the scope for further downgrades if demand deteriorates into the upcoming US peak rental season, and six-months later into Australasia.

Figure 3. THL vs Apollo Tourism & Leisure (ATL)



Source: Eikon, Forsyth Barr analysis

Figure 4. Adjusted forward PE multiple (NZ\$m)

	Forbar	FB adj for TH2 losses	FB adj for TH2 losses/TH2 BV
Share price (NZ\$)	2.49		
Shares on issue (m)	147		
Market cap	366	366	366
TH2 value	0	0	(72)
Adj market cap	366	366	294
1-yr fwd NPAT	29.2	29.2	29.2
TH2 loss 1-yr fwd		6.7	6.7
Adj 1-yr fwd NPAT	29.2	35.9	35.9
Adj PE	12.5x	10.2x	8.2x

Source: Eikon, Forsyth Barr analysis

Earnings revisions

We retain our existing FY20 earnings forecasts, albeit adjust for IFRS 16 lease accounting for the first time. In contrast, our FY21 and FY22 forecasts are cut to reflect (1) near term demand risk to Waitomo and to a lesser extent RV rentals in all RV rental businesses, and (2) bigger Togo JV losses over the medium term than previously anticipated. We no longer expect Togo to break-even in FY22.

Figure 5. Earnings revisions (NZ\$m)

	FY20E			FY21E			FY22E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales revenue	419.9	416.5	-0.8%	427.2	419.1	-1.9%	450.1	444.7	-1.2%
EBIT	53.9	57.5	6.7%	59.1	60.6	2.5%	66.2	70.3	6.2%
Reported NPAT	24.0	24.0	0.0%	35.6	32.5	-8.8%	44.6	43.5	-2.6%
Underlying NPAT	24.0	24.0	0.0%	35.6	32.5	-8.8%	44.6	43.5	-2.6%
Underlying EPS (cents)	16.2	16.1	-0.4%	23.4	21.4	-8.7%	29.0	28.2	-2.7%
DPS (cents)	20.0	20.0	0.0%	24.0	22.0	-8.3%	26.0	25.0	-3.8%

Source: Forsyth Barr analysis

Result analysis

Figure 6. Result Summary

	1H19	1H20	Change	Comments
Profit and loss account				
Sales revenue	207.3	207.5	0%	Due to reduced recovery of fuel costs and low international shipping rates
EBITDA	60.0	62.1	3%	Pre-IFRS 16 decline of -5%
Depreciation and amortisation	(25.3)	(27.4)	9%	Lease depreciation amounts to NZ\$3.6m
NZ Rentals	7.0	7.5	6%	
Tourism Group	4.4	4.3	-3%	Stronger margins at Kiwi Experience; Waitomo revenue and EBIT declined
Australia Rentals	8.2	8.6	5%	NZ\$1m impact from bush fires
US Rentals	18.4	12.4	-33%	Significant decline in vehicle sales margins and additional costs of bigger fleet
Group support services and other	(3.4)	(1.8)	-47%	Prior year costs associated with unsuccessful divestment of Tourism Group assets
EBIT	34.7	31.0	-11%	Pre-IFRS 16 decline of -15%
Associates	0.3	0.2	-28%	Just Go contribution in UK
JV profits	(4.9)	(5.9)	21%	Action Manufacturing improvement (NZ\$1.4m); TOGO losses (NZ\$7.3m)
Interest expense	(5.2)	(6.6)	28%	Lease interest adds NZ\$2.0m
Profit before tax	25.0	18.7	-25%	
Taxation (incl. abnormal tax)	(7.5)	(5.7)	-24%	Effective rate of ~28%
Underlying NPAT	17.5	13.1	-25%	FY20 guidance retained at "around NZ\$24m"
Non-recurring (post tax)	0.0	0.0	n/a	
Reported NPAT	17.5	13.1	-25%	
Underlying EPS (cents)	14.0	8.9	-36%	Shares on issue to 45m
Interim DPS (cents)	13.0	10.0	-23%	Pay-out of 82% excluding Togo losses
Cashflow and net debt				
Operating cashflow (pre-fleet investment)	18.8	22.9	22%	Cashflow stability despite profit decline
Fleet capex	(88.8)	(81.0)	-9%	Reduced fleet investment in both New Zealand and US
Fleet disposals	62.9	59.1	-6%	Weaker US vehicle sales
Other capex	(1.2)	(1.8)	51%	
Other disposals	0.0	0.0	n/a	
Free cash flow	(8.3)	(0.9)	-90%	
Acquisitions	(3.3)	0.0	n/a	
Net debt/(cash)	225.6	181.0	-20%	Net debt reduced by capital raise; THL targeting year end net debt of NZ\$135m-NZ\$145m
Key statistics				
Rental/Tourism EBIT	29.6	25.0	-16%	Weaker US rental margins given additional holding and associated costs of larger fleet
Gain on sale	8.5	7.8	-8%	Margin pressure in the US
Group support services and other	(3.4)	(1.8)	-47%	Prior year costs associated with unsuccessful divestment of Tourism Group assets
Group EBIT	34.7	31.0	-11%	
Revenue growth (local currency)				
NZ Rentals	7.7%	8.4%	n/a	Rentals +5%; vehicle sales +14%
Tourism Group	1.0%	-3.5%	n/a	Reduction in visitors in period
Australia Rentals	7.7%	1.7%	n/a	Rentals +4%; vehicle sales -9%. Bush fire impacted by ~NZ\$1m
US Rentals	-19.9%	-8.8%	n/a	USD rental revenue flat; sharp decline in vehicle sales
EBIT margins				
NZ Rentals	16.8%	14.9%	-181bp	
NZ Rentals	11.5%	11.3%	-22bp	
Tourism Group	24.1%	24.3%	17bp	Improved margins at Kiwi Experience
Australia Rentals	18.0%	19.0%	100bp	
US Rentals	22.4%	15.9%	-657bp	Vehicle sales margins under pressure

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. However, lower inbound growth and US vehicle sales market woes have challenged this backdrop. We remain confident that THL will grow earnings from its current base over the medium term but there are few near term catalysts. NEUTRAL.

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 cashflow 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, Togo, provides a key value opportunity. Togo presents the biggest opportunity, in our opinion. Current earnings are depressed given heavy Togo investment levels.

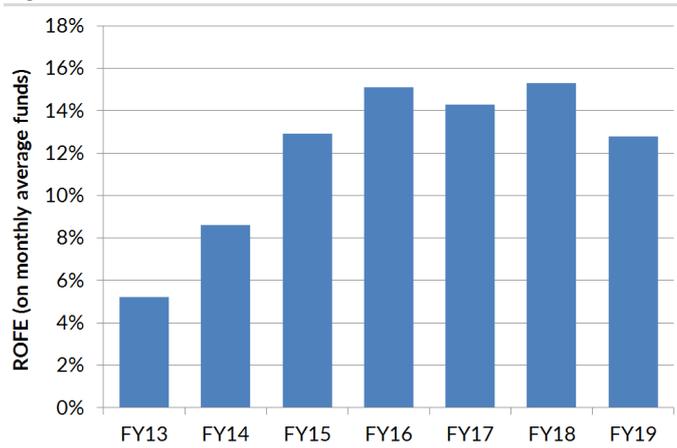
Financial structure

- **Balance sheet:** Gearing levels have been improved by the recent capital raise. Some uncertainty surrounds THL’s capital needs given the potential for significant M&A activity with THL’s desire to expand.

Risk factors

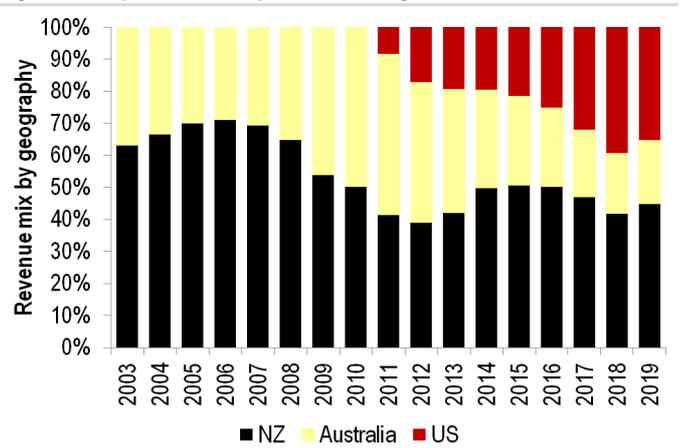
- **Low barriers to entry:** New operators may enter the motorhome rental market attracted by improving industry returns.
- **Economic slowdown in key origin countries:** Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 7. ROFE



Source: Forsyth Barr analysis

Figure 8. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

Figure 9. Price performance


Source: Forsyth Barr analysis

Figure 10. Substantial shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	6.7%

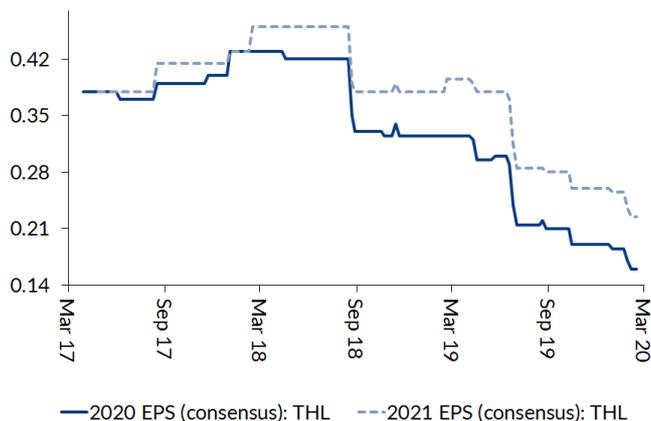
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 11. International valuation comparisons

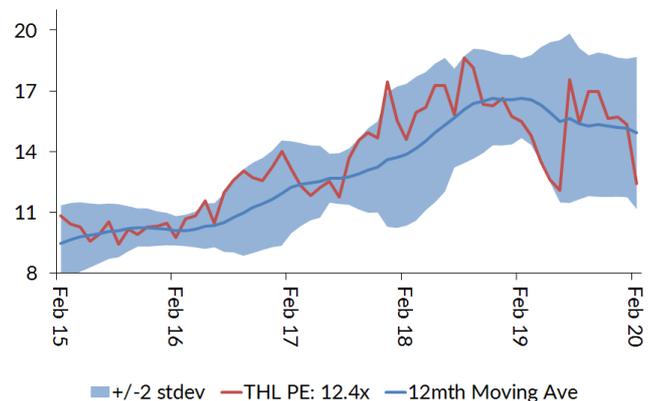
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Tourism Holdings	THL NZ	NZ\$2.49	NZ\$366	15.4x	11.7x	4.7x	4.7x	9.9x	9.4x	8.8%
APOLLO TOURISM & LEISURE	ATL AT	A\$0.33	A\$60	6.4x	4.8x	6.7x	6.2x	12.5x	10.9x	8.9%
THOR INDUSTRIES INC	THO US	US\$79.63	US\$4,395	16.0x	13.0x	9.4x	n/a	13.1x	n/a	2.1%
Air New Zealand *	AIR NZ	NZ\$2.37	NZ\$2,661	11.4x	9.5x	3.5x	3.3x	7.5x	6.7x	9.3%
QANTAS AIRWAYS	QAN AT	A\$5.64	A\$8,408	11.1x	8.6x	4.1x	3.9x	10.1x	8.9x	5.0%
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$34.30	A\$3,469	17.4x	13.6x	7.4x	6.4x	11.2x	9.1x	4.5%
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\$4.31	A\$941	17.9x	13.7x	12.2x	7.5x	19.0x	11.2x	4.4%
AVIS BUDGET GROUP INC	CAR US	US\$33.74	US\$2,509	8.3x	7.8x	13.7x	22.0x	26.9x	29.7x	n/a
HERTZ GLOBAL HOLDINGS INC	HTZ US	US\$13.45	US\$1,910	<0x	8.2x	15.0x	23.6x	<0x	n/a	n/a
Compco Average:				12.6x	9.9x	9.0x	10.4x	14.3x	12.8x	5.7%
THL Relative:				22%	18%	-48%	-55%	-31%	-26%	55%

EV = Current Market Cap + Actual Net Debt

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

Figure 12. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 13. One year forward PE (x)


Source: Forsyth Barr analysis

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29.4%	54.9%	15.7%

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