

Tourism Holdings

Flood, Fire and Plague – Surviving and Ultimately Thriving

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OUTPERFORM

We upgrade Tourism Holdings (THL) to OUTPERFORM from NEUTRAL at a time when investor sentiment towards the company is at a low point following a lengthy earnings downgrade cycle, but valuation levels now offer a free option on medium recovery and Togo value crystallisation, in our opinion. THL continues to navigate an extremely challenging trading environment with a flood of supply in the US vehicle sales market, bush fires disrupting its Australian business, and the coronavirus (COVID-19) outbreak impacting demand, particularly for Waitomo. However, these negatives are more than factored into the current share price.

NZX Code	THL	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.55	NPAT* (NZ\$m)	27.9	24.0	32.5	43.5	EV/EBITDA	5.0	4.5	4.2	3.9
Target price	NZ\$3.00	EPS* (NZc)	22.2	16.1	21.4	28.2	EV/EBIT	9.2	9.4	8.3	7.2
Risk rating	High	EPS growth* (%)	-28.3	-27.2	32.4	32.1	PE	11.5	15.8	11.9	9.0
Issued shares	147.1m	DPS (NZc)	27.0	20.0	22.0	25.0	Price / NTA	1.4	1.6	1.6	1.6
Market cap	NZ\$375m	Imputation (%)	76	50	50	50	Cash div yld (%)	10.6	7.8	8.6	9.8
Avg daily turnover	150.4k (NZ\$545k)	*Based on normalised profits					Gross div yld (%)	13.7	9.4	10.3	11.7

COVID-19 risks

THL is not immune to COVID-19. It has already seen a significant decline in Waitomo visitors, given the border restrictions in place for Chinese visitors. However, Waitomo represents only ~6% of group revenue and ~12% of group EBIT. Thus far, the impact of the outbreak has not had a material impact on rentals. In fact, on the positive side of the ledger it rented a significant number of vehicles to the NZ Government to quarantine the Wuhan returnees recently. However, we do recognise the risk that the US mid-year peak and next season's Australasian peaks are impacted, to some extent, by inbound tourists.

Free option on upside potential

The US vehicle sales market has been a major problem for THL over the past 18 months. Market conditions have severely impacted vehicle sales volumes and margins. While we accept conditions could deteriorate further, they could also get a whole lot better, with the current environment and THL's profitability well below our assessment of mid-cycle. In addition, THL is reviewing the nature of its investment in tech JV Togo. The cash burn and lack of revenue are key concerns. We believe it could crystallise the value of some of its Togo equity, while attracting a new investor that could enhance its ultimate competitive advantage.

Valuation advantage in expensive market

Last week the company reset its dividend at 10c for 1H20 from 13c in the prior year. The new dividend run rate still provides an attractive annualised cash yield of ~8%. After adjusting for the loss making nature of Togo, we calculate that THL is trading at a one year forward PE of ~8x. While the company continues to trade at an enterprise value premium to invested capital (EV/IC>1), we believe this is fair given (1) the underlying value of its fleet, and (2) the above WACC return on capital that it generates through the cycle, well demonstrated in New Zealand and Australia.

Tourism Holdings (THL)

Priced as at 04 Mar 2020 (NZ\$)						2.55						
12-month target price (NZ\$)*						3.00	Spot valuations (NZ\$)					
Expected share price return						17.6%	1. DCF					2.63
Net dividend yield						8.4%	2. Peer comparison					2.96
Estimated 12-month return						26.1%	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)	5.0	5.0	4.5	4.2	3.9	
Depreciation and amortisation	110.9	114.8	120.4	121.7	131.0	EV/EBIT (x)	8.7	9.2	9.4	8.3	7.2	
Normalised EBIT	(47.4)	(52.6)	(62.8)	(61.1)	(60.7)	PE (x)	8.3	11.5	15.8	11.9	9.0	
Net interest	63.5	62.1	57.5	60.6	70.3	Price/NTA (x)	1.5	1.4	1.6	1.6	1.6	
Associate income	(9.4)	(11.2)	(12.8)	(11.0)	(11.8)	Free cash flow yield (%)	-23.0	-23.8	-10.1	-19.7	-24.4	
Tax	(1.0)	(11.0)	(11.5)	(4.6)	1.6	Net dividend yield (%)	10.6	10.6	7.8	8.6	9.8	
Minority interests	(15.6)	(12.0)	(9.2)	(12.5)	(16.7)	Gross dividend yield (%)	13.7	13.7	9.4	10.3	11.7	
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)	6.8	5.5	4.5	5.5	6.0	
Reported NPAT	24.9	1.9	0	0	0	Interest cover EBITDA (x)	11.8	10.2	9.4	11.1	11.1	
Normalised EPS (cps)	62.4	29.8	24.0	32.5	43.5	Net debt/ND+E (%)	44.3	42.2	32.3	33.8	37.0	
DPS (cps)	30.9	22.2	16.1	21.4	28.2	Net debt/EBITDA (x)	1.8	1.8	1.1	1.2	1.3	
	27.0	27.0	20.0	22.0	25.0	Key Ratios						
Growth Rates						2018A	2019A	2020E	2021E	2022E		
Revenue (%)	25.2	-0.7	-1.5	0.6	6.1	Return on assets (%)	11.0	10.3	9.3	9.6	10.8	
EBITDA (%)	26.7	3.5	4.9	1.1	7.7	Return on equity (%)	15.0	10.1	8.5	11.5	15.5	
EBIT (%)	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 NPAT (%)	24.3	-25.6	-13.9	35.2	33.9	EBITDA margin (%)	26.0	27.1	28.9	29.0	29.5	
Normalised EPS (%)	20.5	-28.3	-27.2	32.4	32.1	EBIT margin (%)	14.9	14.7	13.8	14.5	15.8	
Ordinary DPS (%)	28.6	0.0	-25.9	10.0	13.6	Capex to sales (%)	42.4	42.5	29.3	38.7	41.4	
Cash Flow (NZ\$m)						2018A	2019A	2020E	2021E	2022E		
EBITDA	110.9	114.8	120.4	121.7	131.0	Capex to depreciation (%)	392	349	197	270	308	
Working capital change	0	0	2.0	4.0	6.0	Imputation (%)	76	76	50	50	50	
Interest & tax paid	(25.0)	(23.2)	(18.0)	(19.5)	(24.5)	Pay-out ratio (%)	87	122	124	103	89	
Other	8.6	(0.8)	(20.2)	(18.2)	(20.2)	Operating Performance						
Operating cash flow	94.5	90.8	84.1	87.9	92.3	Revenue (NZ\$m)						
Capital expenditure	(180.7)	(180.0)	(121.8)	(162.0)	(183.9)	Rentals NZ	135.3	148.7	160.0	163.1	167.3	
(Acquisitions)/divestments	98.1	84.8	79.4	96.7	106.4	Tourism Group	41.8	41.4	35.6	37.1	41.5	
Other	(14.3)	(0.3)	0	0	0	Rentals Australia	80.2	83.5	83.2	84.8	89.3	
Funding available/(required)	(2.4)	(4.8)	41.7	22.6	14.8	Rentals US	167.7	149.4	137.7	134.1	146.5	
Dividends paid	(22.9)	(29.4)	(23.9)	(31.6)	(35.9)	Total	425.1	423.0	416.5	419.1	444.7	
Equity raised/(returned)	2.8	30.8	49.3	0	0	Normalised EBIT (NZ\$m)						
(Increase)/decrease in net debt	(22.5)	(3.4)	67.0	(8.9)	(21.1)	Rentals NZ	25.7	31.5	33.0	33.3	34.7	
Balance Sheet (NZ\$m)						2018A	2019A	2020E	2021E	2022E		
Working capital	24.5	37.7	20.8	21.0	22.2	Tourism Group	11.9	12.3	8.4	9.5	12.1	
Fixed assets	384.2	407.0	376.0	384.5	405.6	Rentals Australia	10.6	11.3	10.9	11.8	13.6	
Intangibles	44.6	44.2	43.1	42.0	40.9	Rentals US	19.7	13.0	8.8	9.8	14.1	
Right of use asset	0	0	68.8	68.8	68.8	Group support services	(4.4)	(6.0)	(3.6)	(3.9)	(4.1)	
Other assets	59.2	57.3	57.3	57.3	57.3	Total	63.5	62.1	57.5	60.6	70.3	
Total funds employed	512.5	546.1	565.9	573.5	594.8	EBIT (NZ\$m)						
Net debt/(cash)	198.8	202.2	135.2	144.1	165.2	Services	43.2	48.0	45.2	46.8	52.8	
Lease liability	0	0	80.5	80.5	80.5	Goods	20.3	14.1	12.3	13.8	17.5	
Other liabilities	63.7	66.9	66.5	66.7	68.2	Total	63.5	62.1	57.5	60.6	70.3	
Shareholder's funds	250.0	277.0	283.7	282.2	280.9	NZDAUD	0.94	0.92	0.94	0.94	0.91	
Minority interests	0	0	0	0	0	NZDUSD	0.73	0.67	0.63	0.65	0.67	
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

Valuation

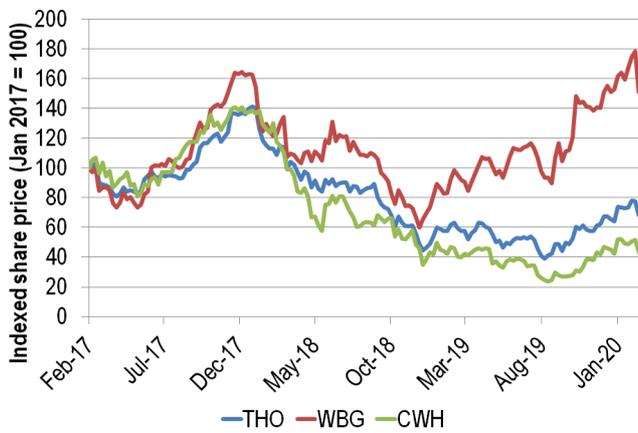
We retain our NZ\$3.00 target price.

Figure 1. THL vs Apollo Tourism & Leisure



Source: Eikon, Forsyth Barr analysis

Figure 3. US peers have re-rated



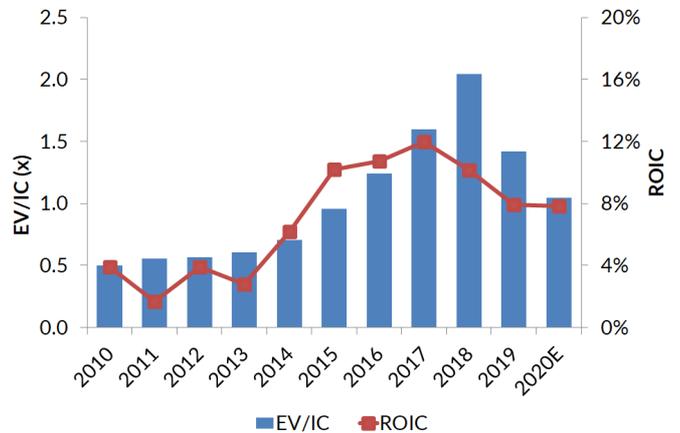
Source: Eikon, Forsyth Barr analysis THO = Thor, WBG = Winnebago, CWH = Camping World

Figure 2. 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
One year forward NPAT	29.7	29.7	29.7
TH2 loss 1-yr fwd		7.1	7.1
Adj 1-yr fwd NPAT	29.7	36.8	36.8
Adj PE	12.3x	9.9x	8.0x

Source: Eikon, Forsyth Barr analysis

Figure 4. THL's ROIC vs EV/IC



Source: Eikon, 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. **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 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.

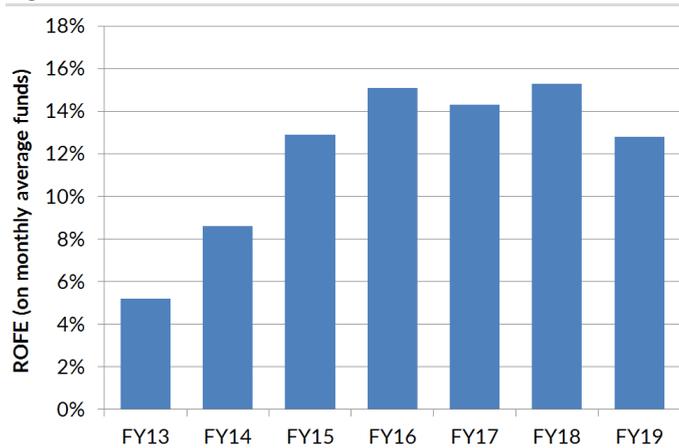
Financial structure

- **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

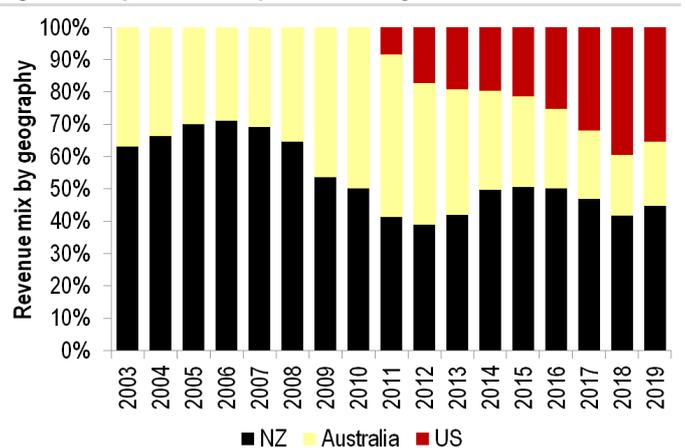
- **Low barriers to entry:** New operators may enter the motorhome rental market attracted by improving industry returns.
- **Economic slowdown in key origin countries:** Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 5. ROFE



Source: Forsyth Barr analysis

Figure 6. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

Figure 7. Price performance



Source: Forsyth Barr analysis

Figure 8. Substantial shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	6.7%

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

Figure 9. 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\$2.55	NZ\$375	15.8x	11.9x	4.8x	4.7x	10.0x	9.5x	8.6%
APOLLO TOURISM & LEISURE	ATL AT	A\$0.27	A\$50	6.3x	4.8x	6.8x	6.3x	13.2x	11.7x	7.4%
THOR INDUSTRIES INC	THO US	US\$76.95	US\$4,248	15.6x	n/a	9.2x	n/a	12.8x	n/a	n/a
Air New Zealand *	AIR NZ	NZ\$2.16	NZ\$2,425	10.4x	8.7x	3.3x	3.1x	7.0x	6.4x	10.2%
QANTAS AIRWAYS	QAN AT	A\$5.23	A\$7,797	10.3x	8.0x	4.0x	3.7x	9.7x	8.5x	5.4%
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$31.84	A\$3,220	17.6x	13.6x	7.0x	5.9x	11.2x	8.8x	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\$4.25	A\$928	18.2x	13.6x	12.3x	7.4x	19.4x	11.1x	4.4%
AVIS BUDGET GROUP INC	CAR US	US\$30.82	US\$2,290	7.6x	7.1x	13.5x	21.7x	26.6x	29.4x	n/a
HERTZ GLOBAL HOLDINGS INC	HTZ US	US\$11.88	US\$1,683	<0x	7.1x	14.8x	23.3x	<0x	n/a	n/a
Compco Average:				12.3x	9.0x	8.9x	10.2x	14.3x	12.6x	6.4%
THL Relative:				29%	33%	-46%	-54%	-30%	-25%	35%

EV = Current Market Cap + Actual Net Debt

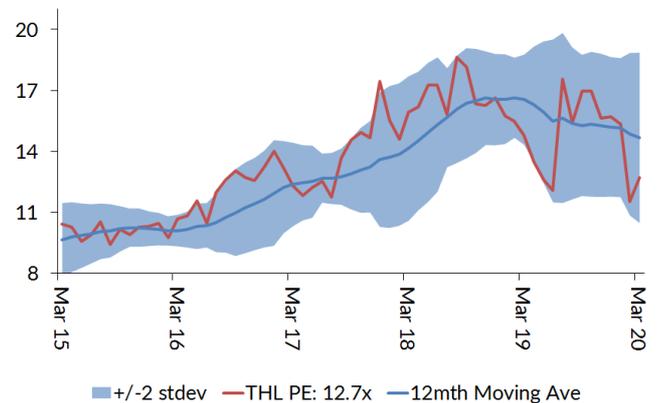
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (THL) companies fiscal year end

Figure 10. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 11. One year forward PE (x)



Source: Forsyth Barr analysis

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