

Tourism Holdings

COVID-19 Trumped; Downgrade to NEUTRAL

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NEUTRAL 

We downgrade Tourism Holdings (THL) from OUTPERFORM to NEUTRAL, in light of rapidly worsening demand given the coronavirus (COVID-19) outbreak, despite having upgraded our rating just over a week ago. The risk and uncertainty around tourism flows has become extreme and for the foreseeable future investors are likely to assume the worst for both forward RV rental bookings and demand for THL's NZ tourism operations. The near term outlook for THL looks increasingly bleak, not least given the US government's decision to suspend travel between Europe (excluding the UK) and the US for 30 days from today. Europeans represent the majority of international customers for THL's rental operations. We await more information from THL as to the potential financial impact ahead of reviewing our earnings forecasts. In the meantime, we cut our target price to reflect adjusted book value (NZ\$2.05 per share), and lower our rating to NEUTRAL.

NZX Code	THL	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.34	NPAT* (NZ\$m)	27.9	24.0	32.5	43.5	EV/EBITDA	4.7	4.2	3.9	3.6
Target price	NZ\$2.05	EPS* (NZc)	22.2	16.1	21.4	28.2	EV/EBIT	8.7	8.8	7.8	6.7
Risk rating	High	EPS growth* (%)	-28.3	-27.2	32.4	32.1	PE	10.6	14.5	11.0	8.3
Issued shares	147.1m	DPS (NZc)	27.0	20.0	22.0	25.0	Price / NTA	1.3	1.4	1.5	1.5
Market cap	NZ\$344m	Imputation (%)	76	50	50	50	Cash div yld (%)	11.5	8.5	9.4	10.7
Avg daily turnover	154.6k (NZ\$552k)	*Based on normalised profits					Gross div yld (%)	14.9	10.2	11.2	12.8

What's changed?

- **Rating:** Downgraded to NEUTRAL from OUTPERFORM
- **Target price:** Lowered to NZ\$2.05 from NZ\$3.00

Newsflow continues to deteriorate at an alarming pace

The COVID-19 outbreak and the response to it, both consumer and government, is progressing at an alarming rate. We have been continuously surprised by its speed and severity. The previous worst case scenarios for domestic and international travel/tourism markets closing down for at least a period of time is looking more likely.

US peak season risk rising

President Trump's suspension of travel between Europe and the US for the next 30 days is unlikely to have a significant impact in isolation on THL. However, the likelihood that this suspension is extended (duration and geographically) is high given the strength and acceleration of the outbreak in Europe, and travel bans that have been extended in other parts of the world, after the expiring of their initial term. Moreover, it will impact on the confidence European customers have on their already booked itineraries, and therefore the potential for elevated cancellation rates is high.

Further downside to Australasia

THL previously provided updated NPAT guidance for FY20 of ~NZ\$24m. This reflected the impact of (1) the weak US vehicle sales market, (2) the Australian bush fires, and (3) the anticipated impact of COVID-19, which at that stage largely reflected the decline in Waitomo visitation from the Chinese visitor restrictions to New Zealand. Since then the forward outlook for inbound tourism has worsened dramatically. The impact on Waitomo will be exacerbated by the potential demand impact on the Queensland (Australia) peak RV rental season (June to October), and if the travel situation is prolonged, the NZ and Australia summer 2020–2021 season.

Tourism Holdings (THL)

Priced as at 12 Mar 2020 (NZ\$)						2.34					
12-month target price (NZ\$)*						2.05	Spot valuations (NZ\$)				
Expected share price return						-12.4%	1. Price to book 2.00				
Net dividend yield						9.2%	2. n/a n/a				
Estimated 12-month return						-3.2%	3. n/a n/a				
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						2.00%	Total firm value 775				
Equity beta						1.30	(Net debt)/cash (214)				
WACC						10.2%	Less: Capitalised operating leases 0				
Terminal growth						1.5%	Value of equity 388				
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)	4.7	4.7	4.2	3.9	3.6
Depreciation and amortisation	110.9	114.8	120.4	121.7	131.0	EV/EBIT (x)	8.2	8.7	8.8	7.8	6.7
Normalised EBIT	(47.4)	(52.6)	(62.8)	(61.1)	(60.7)	PE (x)	7.6	10.6	14.5	11.0	8.3
Net interest	63.5	62.1	57.5	60.6	70.3	Price/NTA (x)	1.4	1.3	1.4	1.5	1.5
Associate income	(9.4)	(11.2)	(12.8)	(11.0)	(11.8)	Free cash flow yield (%)	-25.0	-25.9	-11.0	-21.5	-26.6
Tax	(1.0)	(11.0)	(11.5)	(4.6)	1.6	Net dividend yield (%)	11.5	11.5	8.5	9.4	10.7
Minority interests	(15.6)	(12.0)	(9.2)	(12.5)	(16.7)	Gross dividend yield (%)	14.9	14.9	10.2	11.2	12.8
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
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	2018A	2019A	2020E	2021E	2022E	
Fixed assets	24.5	37.7	20.8	21.0	22.2	Services	43.2	48.0	45.2	46.8	52.8
Intangibles	384.2	407.0	376.0	384.5	405.6	Goods	20.3	14.1	12.3	13.8	17.5
Right of use asset	44.6	44.2	43.1	42.0	40.9	Total	63.5	62.1	57.5	60.6	70.3
Other assets	0	0	68.8	68.8	68.8	NZDAUD					
Other liabilities	59.2	57.3	57.3	57.3	57.3	0.94 0.92 0.94 0.94 0.91					
Total funds employed	512.5	546.1	565.9	573.5	594.8	NZDUSD					
Net debt/(cash)	198.8	202.2	135.2	144.1	165.2	0.73 0.67 0.63 0.65 0.67					
Lease liability	0	0	80.5	80.5	80.5						
Other liabilities	63.7	66.9	66.5	66.7	68.2						
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

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 it has significant near term COVID-19 related demand challenges. 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.

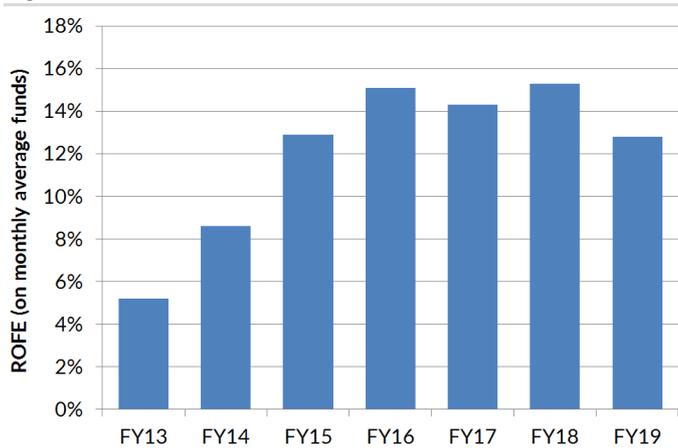
Financial structure

- **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

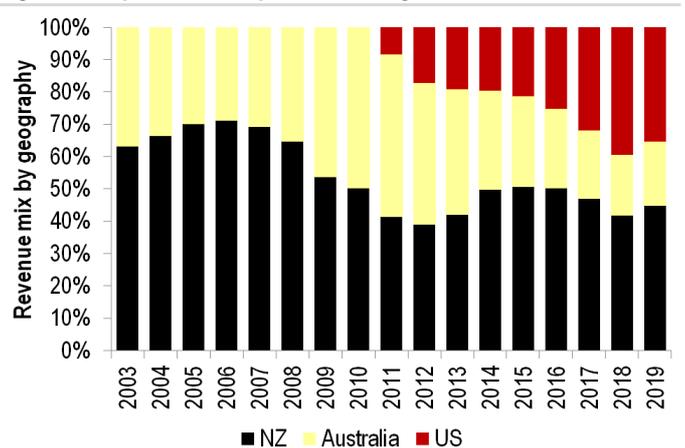
- **Low barriers to entry:** New operators may enter the motorhome rental market attracted by improving industry returns.
- **Economic slowdown in key origin countries:** Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 1. ROFE



Source: Forsyth Barr analysis

Figure 2. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	6.7%

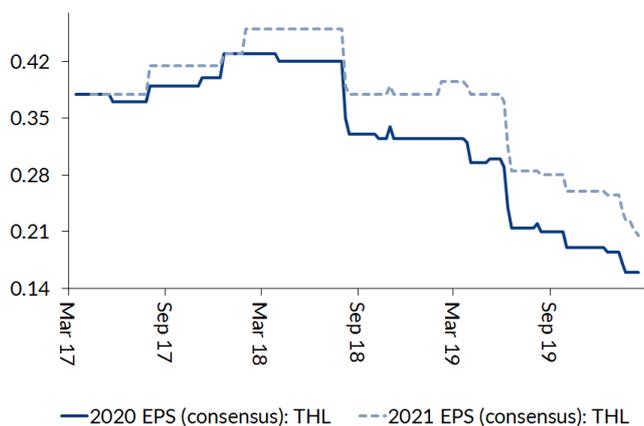
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International valuation comparisons

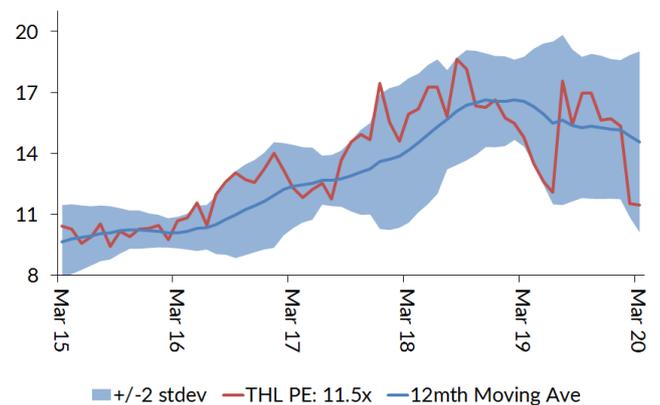
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Tourism Holdings	THL NZ	NZ\$2.34	NZ\$344	14.5x	11.0x	4.5x	4.5x	9.5x	9.0x	9.4%
APOLLO TOURISM & LEISURE	ATL AT	A\$0.23	A\$42	5.2x	4.0x	6.6x	6.2x	12.9x	11.5x	8.9%
THOR INDUSTRIES INC	THO US	US\$51.60	US\$2,848	10.6x	n/a	6.9x	n/a	9.7x	n/a	n/a
Air New Zealand *	AIR NZ	NZ\$1.92	NZ\$2,156	28.3x	19.0x	3.8x	3.6x	28.9x	22.1x	5.7%
QANTAS AIRWAYS	QAN AT	A\$4.04	A\$6,023	10.4x	7.5x	3.7x	3.4x	11.1x	8.9x	5.9%
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$23.98	A\$2,425	14.0x	10.6x	5.2x	4.4x	8.7x	6.7x	5.8%
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\$3.95	A\$863	16.9x	12.6x	11.5x	6.9x	18.1x	10.4x	4.7%
AVIS BUDGET GROUP INC	CAR US	US\$19.48	US\$1,448	4.8x	4.5x	12.9x	20.7x	25.4x	28.0x	n/a
HERTZ GLOBAL HOLDINGS INC	HTZ US	US\$8.00	US\$1,136	<0x	4.7x	14.4x	22.7x	<0x	n/a	n/a
Compco Average:				12.9x	9.0x	8.1x	9.7x	16.4x	14.6x	6.2%
THL Relative:				13%	22%	-44%	-54%	-42%	-38%	51%

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 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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OUTPERFORM	NEUTRAL	UNDERPERFORM
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