Tourism Holdings
Tourism Temporarily Totalled; Downgrade to UNDERPERFORM

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UNDERPERFORM

We lower our rating on Tourism Holdings (THL) from NEUTRAL to UNDERPERFORM in light of the heightened restrictions on air travel for arrivals into New Zealand and Australia, and the US's decision to restrict European travellers from entering the US. THL's near term demand outlook for all parts of its business will be severely dented as a result. THL has already suspended its earnings guidance for FY20. Notwithstanding an otherwise healthy balance sheet, given the capital raise last year, we expect it to come under duress over the coming months with reduced revenue to offset the company's fixed cost base. Fortunately, the bulk of the New Zealand RV rental peak season has been banked for FY20, however, the upcoming peaks for the US and Queensland markets are at risk, and extreme uncertainty will have an impact on forward bookings for the 2020–21 summer peak seasons in New Zealand and Australia. We now forecast THL to make a loss in FY21, albeit our estimates encompass a wide margin for error. We lower our target price to NZ$1.50 (from NZ$2.05) to reflect our net tangible assets (NTA) valuation adjusted for cash losses over the next 12 months.

NZX Code	THL
Share price	NZ$1.95
Target price	NZ$1.50
Risk rating	High
Issued shares	147.1m
Market cap	NZ$287m
Avg daily turnover	154.4k (NZ$548k)

Financials: Jun/	19A	20E	21E	22E
NPAT* (NZ$m)	27.9	7.2	-21.5	41.7
EPS* (NZc)	22.2	4.8	-14.2	27.1
EPS growth* (%)	-28.3	-78.2	n/a	n/a
DPS (NZc)	27.0	10.0	0.0	20.0
Imputation (%)	76	50	50	50
*Based on normalised profits				

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	4.2	4.7	8.9	3.3
EV/EBIT	7.8	13.2	n/a	6.1
PE	8.8	40.4	n/a	7.2
Price / NTA	1.1	1.3	1.5	1.4
Cash div yld (%)	13.8	5.1	0.0	10.3
Gross div yld (%)	17.9	6.1	0.0	12.3

What's changed?

- **Rating**: Downgraded to UNDERPERFORM from NEUTRAL
- **Earnings**: Material reductions in FY20 and FY21
- **Target price**: Lowered to NZ$1.50 from NZ$2.05

RV rental demand to fall materially

The reduced demand for tourist travel and likely substantial reductions in airline capacity will severely impact on THL's various business, albeit to varying degrees given their seasonality. We expect sharply lower utilisation rates for RV rentals for the remainder of calendar 2020 and lower forward bookings for the next NZ and Australian peak summer season.

Balance sheet can absorb a meaningful downturn

While THL's balance sheet has capacity (at least NZ$80m) to absorb a meaningful downturn, assisted by the capital raise last year and existing vehicle asset backing, the likely suspension of its dividend, potential reduction in vehicle purchases, or a full or partial divestment of its 50% stake in tech JV Togo, we don't rule out a further capital raise. We assume that THL's vehicle sales markets are unchanged by the COVID-19 outbreak, albeit should economic recession take hold, then this may prove to be optimistic.

NTA under pressure from cash losses

We calculate THL's adjusted NTA at FY19 as NZ$2.05 per share. However, the likely cash losses that will be incurred over the next 12 months will lower this to ~NZ$1.50 on our estimates.

Tourism Holdings (THL)

Priced as at 13 Mar 2020 (NZ$)	**1.95**

12-month target price (NZ$)*	**1.50**
Expected share price return	-23.1%
Net dividend yield	1.3%
Estimated 12-month return	-21.8%

Spot valuations (NZ$)	
1. Price to book	1.50
2. n/a	n/a
3. n/a	n/a

Key WACC assumptions	
Risk free rate	2.00%
Equity beta	1.30
WACC	10.2%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	682
(Net debt)/cash	(214)
Less: Capitalised operating leases	0
Value of equity	296

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	425.9	423.0	385.0	314.2	435.4
Normalised EBITDA	**110.9**	**114.8**	**97.3**	**47.7**	**129.8**
Depreciation and amortisation	(47.4)	(52.6)	(62.9)	(61.0)	(60.4)
Normalised EBIT	**63.5**	**62.1**	**34.4**	**(13.3)**	**69.3**
Net interest	(9.4)	(11.2)	(13.0)	(12.1)	(13.2)
Associate income	(1.0)	(11.0)	(11.5)	(4.6)	1.6
Tax	(15.6)	(12.0)	(2.7)	8.5	(16.1)
Minority interests	0	0	0	0	0
Normalised NPAT	**37.5**	**27.9**	**7.2**	**(21.5)**	**41.7**
Abnormals/other	24.9	1.9	0	0	0
Reported NPAT	**62.4**	**29.8**	**7.2**	**(21.5)**	**41.7**
Normalised EPS (cps)	30.9	22.2	4.8	(14.2)	27.1
DPS (cps)	27.0	27.0	10.0	0	20.0

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	4.2	4.2	4.7	8.9	3.3
EV/EBIT (x)	7.3	7.8	13.2	n/a	6.1
PE (x)	6.3	8.8	40.4	n/a	7.2
Price/NTA (x)	1.2	1.1	1.3	1.5	1.4
Free cash flow yield (%)	-30.0	-31.1	-18.3	-44.4	-32.4
Net dividend yield (%)	13.8	13.8	5.1	0.0	10.3
Gross dividend yield (%)	17.9	17.9	6.1	0.0	12.3

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	6.8	5.5	2.6	n/a	5.3
Interest cover EBITDA (x)	11.8	10.2	7.5	3.9	9.9
Net debt/ND+E (%)	44.3	42.2	34.2	42.7	41.4
Net debt/EBITDA (x)	1.8	1.8	1.5	3.8	1.4

Growth Rates	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**
Revenue (%)	25.2	-0.7	-9.0	-18.4	38.6
EBITDA (%)	26.7	3.5	-15.3	-51.0	>100
EBIT (%)	33.1	-2.2	-44.7	n/a	n/a
Normalised NPAT (%)	24.3	-25.6	-74.2	n/a	n/a
Normalised EPS (%)	20.5	-28.3	-78.2	n/a	n/a
Ordinary DPS (%)	28.6	0.0	-63.0	-100.0	n/a

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	11.0	10.3	5.6	-2.2	10.7
Return on equity (%)	15.0	10.1	2.6	-8.8	16.0
Return on funds employed (%)	15.5	13.4	7.7	-3.2	16.0
EBITDA margin (%)	26.0	27.1	25.3	15.2	29.8
EBIT margin (%)	14.9	14.7	8.9	-4.2	15.9
Capex to sales (%)	42.4	42.5	31.1	51.4	42.1
Capex to depreciation (%)	392	349	194	269	309
Imputation (%)	76	76	50	50	50
Pay-out ratio (%)	87	122	207	0	74

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**110.9**	**114.8**	**97.3**	**47.7**	**129.8**
Working capital change	0	0	2.0	4.0	6.0
Interest & tax paid	(25.0)	(23.2)	(11.6)	0.4	(25.2)
Other	8.6	(0.8)	(20.2)	(18.2)	(20.2)
Operating cash flow	**94.5**	**90.8**	**67.4**	**33.9**	**90.3**
Capital expenditure	(180.7)	(180.0)	(119.8)	(161.4)	(183.2)
(Acquisitions)/divestments	98.1	84.8	79.4	96.2	105.9
Other	(14.3)	(0.3)	0	0	0
Funding available/(required)	**(2.4)**	**(4.8)**	**27.0**	**(31.3)**	**13.0**
Dividends paid	(22.9)	(29.4)	(16.8)	(7.5)	(15.3)
Equity raised/(returned)	2.8	30.8	49.3	0	0
(Increase)/decrease in net debt	**(22.5)**	**(3.4)**	**59.5**	**(38.8)**	**(2.3)**

Operating Performance	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (NZ$m)					
Rentals NZ	135.3	148.7	150.7	132.1	165.7
Tourism Group	41.8	41.4	29.0	29.0	39.2
Rentals Australia	80.2	83.5	78.5	60.6	87.1
Rentals US	167.7	149.4	126.8	92.4	143.5
Total	**425.1**	**423.0**	**385.0**	**314.2**	**435.4**
Normalised EBIT (NZ$m)					
Rentals NZ	25.7	31.5	28.2	14.2	38.2
Tourism Group	11.9	12.3	4.4	4.7	10.7
Rentals Australia	10.6	11.3	6.3	-7.5	13.9
Rentals US	19.7	13.0	-1.0	-20.9	10.7
Group support services	(4.4)	(6.0)	(3.6)	(3.9)	(4.1)
Total	**63.5**	**62.1**	**34.4**	**-13.3**	**69.3**
EBIT (NZ$m)					
Services	43.2	48.0	22.1	-27.0	51.9
Goods	20.3	14.1	12.3	13.7	17.5
Total	**63.5**	**62.1**	**34.4**	**-13.3**	**69.3**
NZDAUD	0.94	0.92	0.94	0.94	0.91
NZDUSD	0.73	0.67	0.63	0.65	0.67

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	24.5	37.7	19.2	15.7	21.8
Fixed assets	384.2	407.0	373.8	382.4	403.6
Intangibles	44.6	44.2	43.1	42.0	40.9
Right of use asset	0	0	68.8	68.8	68.8
Other assets	59.2	57.3	57.3	57.3	57.3
Total funds employed	**512.5**	**546.1**	**562.2**	**566.1**	**592.3**
Net debt/(cash)	198.8	202.2	142.7	181.6	183.9
Lease liability	0	0	80.5	80.5	80.5
Other liabilities	63.7	66.9	64.6	60.4	67.7
Shareholder's funds	250.0	277.0	274.4	243.7	260.3
Minority interests	0	0	0	0	0
Total funding sources	**512.5**	**546.1**	**562.2**	**566.1**	**592.3**

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

Earnings revisions

We make further cuts to our earnings forecasts as outlined in Figure 1. We assume that utilisation and yield is impacted in all RV rental markets through late FY20 and into the southern summer peak of FY21. We expect THL will suspend its divided from 2H20 through FY21 to reflect the losses being incurred by the business.

Figure 1. Earnings revisions (NZ$m)

	FY20E			FY21E			FY22E		
	Old	**New**	**Chg**	**Old**	**New**	**Chg**	**Old**	**New**	**Chg**
Sales revenue	419.9	385.0	-8.3%	427.2	314.2	-26.5%	450.1	435.4	-3.3%
EBIT	53.9	34.4	-36.2%	59.1	(13.3)	-122.5%	66.2	69.3	4.7%
Reported NPAT	24.0	7.2	-70.1%	35.6	(21.5)	-160.5%	44.6	41.7	-6.4%
Underlying NPAT	**24.0**	**7.2**	**-70.1%**	**35.6**	**(21.5)**	**-160.5%**	**44.6**	**41.7**	**-6.4%**
Underlying EPS (cents)	16.2	4.8	-70.2%	23.4	(14.2)	-160.6%	29.0	27.1	-6.5%
DPS (cents)	20.0	10.0	-50.0%	24.0	0.0	-100.0%	26.0	20.0	-23.1%

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

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.

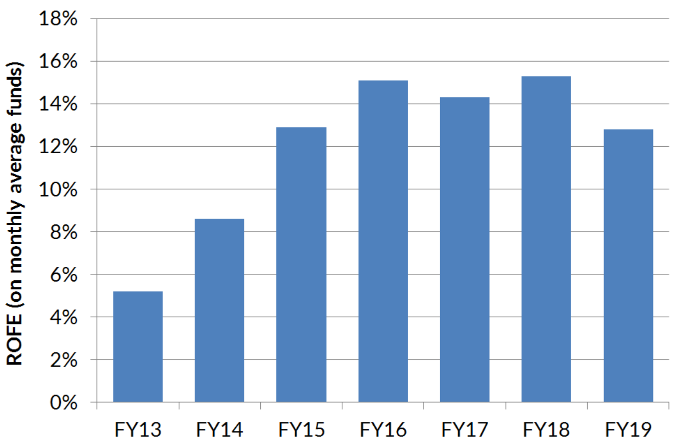
Financial structure

- **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

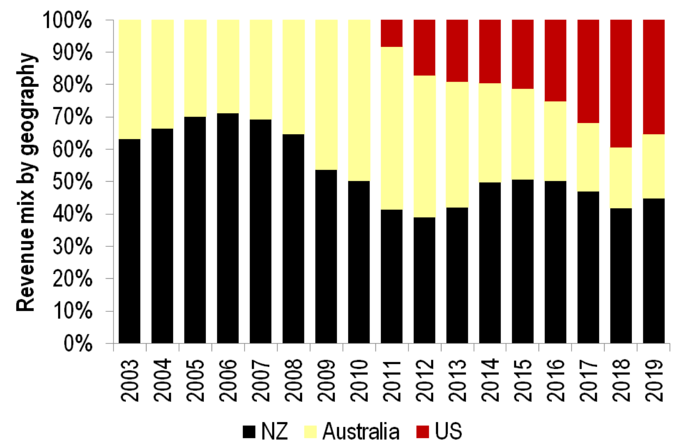
- **Low barriers to entry**: New operators may enter the motorhome rental market attracted by improving industry returns.
- **Economic slowdown in key origin countries**: Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 2. ROFE



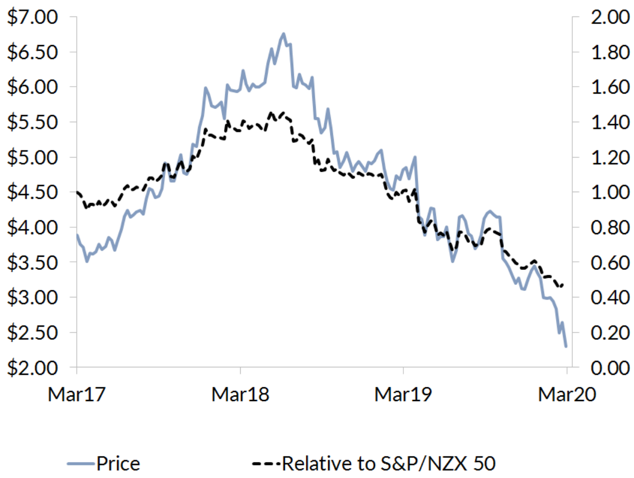
Source: Forsyth Barr analysis

Figure 3. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	6.7%

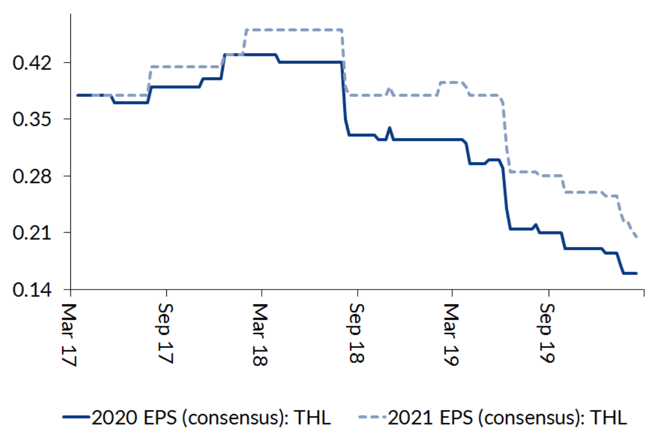
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect THL's balance date - June)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Tourism Holdings	**THL NZ**	**NZ$1.95**	**NZ$287**	**40.4x**	**<0x**	**5.0x**	**10.3x**	**14.2x**	**<0x**	**0.0%**
APOLLO TOURISM & LEISURE	ATL AT	A$0.19	A$35	4.4x	3.4x	6.5x	6.1x	12.7x	11.3x	10.5%
THOR INDUSTRIES INC	THO US	US$46.36	US$2,559	9.6x	n/a	6.5x	n/a	9.1x	n/a	n/a
Air New Zealand *	AIR NZ	NZ$1.76	NZ$1,976	<0x	<0x	4.9x	4.7x	<0x	<0x	6.2%
QANTAS AIRWAYS	QAN AT	A$3.64	A$5,426	9.4x	6.8x	3.5x	3.3x	10.5x	8.4x	6.6%
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A$19.61	A$1,983	11.4x	8.7x	4.2x	3.5x	7.0x	5.4x	7.1%
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$3.88	A$847	16.6x	12.4x	11.3x	6.8x	17.8x	10.2x	4.8%
AVIS BUDGET GROUP INC	CAR US	US$15.97	US$1,187	3.9x	3.7x	12.7x	20.4x	25.0x	27.6x	n/a
HERTZ GLOBAL HOLDINGS INC	HTZ US	US$7.02	US$997	<0x	4.1x	14.3x	22.6x	<0x	n/a	n/a
			Compco Average:	**9.2x**	**6.5x**	**8.0x**	**9.6x**	**13.7x**	**12.6x**	**7.1%**
EV = Current Market Cap + Actual Net Debt			**THL Relative:**	**338%**	**n/a**	**-37%**	**7%**	**4%**	**n/a**	**-100%**

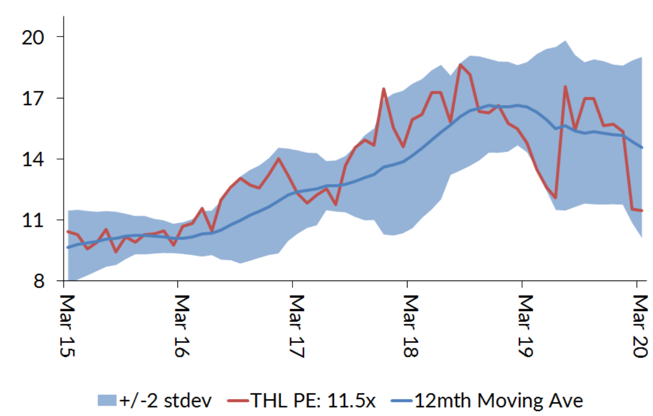
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (THL) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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OUTPERFORM	NEUTRAL	UNDERPERFORM
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