

# Tourism Holdings

## The Great New Zealand Motorhome Sale

**ANDY BOWLEY**

 andy.bowley@forsythbarr.co.nz  
 +64 4 495 8246

**SCOTT ANDERSON**

 scott.anderson@forsythbarr.co.nz  
 +64 4 914 2219

### NEUTRAL

Tourism Holdings (THL) is taking advantage of buoyant domestic motorhome demand by aggressively increasing its sales objectives for the next 12 months. Thereby reducing equity dilution from vehicle holding costs in the absence of inbound tourist demand. The strong up-take for ex-fleet vehicles is providing a welcome cashflow boost and given robust margins, a profitability injection. THL could now conceivably generate underlying profits in each year through COVID-19. The resultant impact on THL's net asset value (NAV) at year end FY21 is positive, and further supported by the prospect of a sooner reopening of the Tasman border given a more progressive stance taken by the Australian Prime Minister as outlined on Friday. We lift our target price accordingly, though retain a NEUTRAL rating.

NZX Code	THL	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.16	NPAT* (NZ\$m)	27.9	18.6	3.0	4.5	PE	9.7	17.3	n/a	73.6
Target price	NZ\$2.20	EPS* (NZc)	22.2	12.5	2.0	2.9	EV/EBIT	8.3	10.0	58.8	79.2
Risk rating	High	EPS growth* (%)	-28.3	-43.6	-84.3	49.5	EV/EBITDA	4.5	4.3	7.4	8.8
Issued shares	147.1m	DPS (NZc)	27.0	0.0	0.0	2.2	Price / NTA	1.2	1.3	1.3	1.3
Market cap	NZ\$318m	Imputation (%)	76	n/a	n/a	50	Cash div yld (%)	12.5	0.0	0.0	1.0
Avg daily turnover	307.5k (NZ\$617k)	*Based on normalised profits					Gross div yld (%)	16.2	n/a	n/a	1.2

#### What's changed?

- **Earnings:** FY21 upgraded to small profit making position given gain on sale margin benefits
- **Target price:** Lifted to NZ\$2.20 to reflect better net asset value path over FY20 and FY21

#### Strong vehicle demand provides scope for more vehicles sales

The domestic vehicle sales market remains strong. THL says that its three strongest ever months for vehicle sales in New Zealand were July 2020, August 2020, and June 2020. FY21 has started strongly with good margins being generated. Consequently, the company has lifted its sales target by 1,000 vehicles to 1,500–1,800 in total and announced "The Great New Zealand Motorhome Sale". The increase largely reflects ex-rental vehicles but also includes some additional new purchases (for immediate resale) given its confidence in sustained demand.

#### Shifting into domestic wholesale

THL is using the opportunity of limited vehicle (manufacturing/import barriers) and low dealer inventory levels, to act in a wholesale capacity. This provides scope for more efficient bulk sales of ex-rental vehicles but also allows it to participate in the import market with greater scale. THL has in recent years employed a 100% retail sales approach in New Zealand, despite using wholesale channels in the US and Australia.

#### Fire impact operationally challenging; financially immaterial

Last week's fire at one of THL's Auckland facilities has resulted in c.150 motorhomes incurring some form of damage. Of these we understand that only c.10% are write-offs with most of the remaining incurring low level damage. The vehicles were insured, though THL will be liable for policy excesses (the cost of which should be largely immaterial). The site near Auckland Airport is THL's main Auckland rental pick-up and drop-off location.

**Tourism Holdings (THL)**

Priced as at 04 Sep 2020 (NZ\$)

**2.16**
**12-month target price (NZ\$)\***
**2.20**

Expected share price return

1.9%

Net dividend yield

0.3%

Estimated 12-month return

2.1%

**Spot valuations (NZ\$)**

1. Price to book

2.05

2. n/a

n/a

3. n/a

n/a

**Key WACC assumptions**

Risk free rate

1.30%

Equity beta

1.43

WACC

8.6%

Terminal growth

1.5%

**DCF valuation summary (NZ\$m)**

Total firm value

748

(Net debt)/cash

(223)

Less: Capitalised operating leases

(173)

Value of equity

352

**Profit and Loss Account (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Sales revenue	425.9	423.0	395.1	359.8	282.7
<b>Normalised EBITDA</b>	<b>110.9</b>	<b>114.8</b>	<b>109.8</b>	<b>59.3</b>	<b>50.1</b>
Depreciation and amortisation	(47.4)	(52.6)	(62.0)	(51.8)	(44.6)
<b>Normalised EBIT</b>	<b>63.5</b>	<b>62.1</b>	<b>47.8</b>	<b>7.5</b>	<b>5.5</b>
Net interest	(9.4)	(11.2)	(12.7)	(5.3)	(2.3)
Associate income	(1.0)	(11.0)	(9.3)	2.0	3.0
Tax	(15.6)	(12.0)	(7.2)	(1.2)	(1.8)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>37.5</b>	<b>27.9</b>	<b>18.6</b>	<b>3.0</b>	<b>4.5</b>
Abnormals/other	24.9	1.9	0	0	0
<b>Reported NPAT</b>	<b>62.4</b>	<b>29.8</b>	<b>18.6</b>	<b>3.0</b>	<b>4.5</b>
Normalised EPS (cps)	30.9	22.2	12.5	2.0	2.9
DPS (cps)	27.0	27.0	0	0	2.2

**Growth Rates**

	2018A	2019A	2020E	2021E	2022E
Revenue (%)	25.2	-0.7	-6.6	-8.9	-21.4
EBITDA (%)	26.7	3.5	-4.3	-46.0	-15.5
EBIT (%)	33.1	-2.2	-23.1	-84.4	-25.8
Normalised NPAT (%)	24.3	-25.6	-33.3	-84.0	51.4
Normalised EPS (%)	20.5	-28.3	-43.6	-84.3	49.5
Ordinary DPS (%)	28.6	0.0	-100.0	n/a	n/a

**Cash Flow (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
<b>EBITDA</b>	<b>110.9</b>	<b>114.8</b>	<b>109.8</b>	<b>59.3</b>	<b>50.1</b>
Working capital change	6.9	(4.8)	(5.5)	21.4	(0.8)
Interest & tax paid	(25.0)	(23.2)	(15.9)	(2.5)	0.0
Other	1.7	4.0	(12.2)	(11.2)	(11.2)
<b>Operating cash flow</b>	<b>94.5</b>	<b>90.8</b>	<b>76.2</b>	<b>67.0</b>	<b>38.1</b>
Capital expenditure	(180.7)	(180.0)	(114.5)	(58.1)	(147.6)
(Acquisitions)/divestments	98.1	84.8	95.6	160.5	64.1
Other	(14.3)	(0.3)	(17.5)	0	0
<b>Funding available/(required)</b>	<b>(2.4)</b>	<b>(4.8)</b>	<b>39.7</b>	<b>169.3</b>	<b>(45.4)</b>
Dividends paid	(22.9)	(29.4)	(17.4)	0	(1.7)
Equity raised/(returned)	2.8	30.8	49.3	0	0
<b>(Increase)/decrease in net debt</b>	<b>(22.5)</b>	<b>(3.4)</b>	<b>71.6</b>	<b>169.3</b>	<b>(47.1)</b>

**Balance Sheet (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Working capital	24.5	37.7	27.7	18.0	14.1
Fixed assets	384.2	407.0	363.3	213.4	256.7
Intangibles	44.6	44.2	58.1	57.0	55.9
Right of use asset	0	0	68.8	68.8	68.8
Other assets	59.2	57.3	55.2	55.2	55.2
<b>Total funds employed</b>	<b>512.5</b>	<b>546.1</b>	<b>573.0</b>	<b>412.4</b>	<b>450.7</b>
Net debt/(cash)	198.8	202.2	130.6	(38.7)	8.3
Lease liability	0	0	80.5	80.5	80.5
Other liabilities	63.7	66.9	51.4	63.1	58.5
Shareholder's funds	250.0	277.0	310.5	307.5	303.4
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>512.5</b>	<b>546.1</b>	<b>573.0</b>	<b>412.4</b>	<b>450.7</b>

**Valuation Ratios**

	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	4.5	4.5	4.3	7.4	8.8
EV/EBIT (x)	7.8	8.3	10.0	58.8	79.2
PE (x)	7.0	9.7	17.3	>100x	73.6
Price/NTA (x)	1.3	1.2	1.3	1.3	1.3
Free cash flow yield (%)	-27.1	-28.1	-12.1	2.8	-34.5
Net dividend yield (%)	12.5	12.5	0.0	0.0	1.0
Gross dividend yield (%)	16.2	16.2	n/a	n/a	1.2

**Capital Structure**

	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	6.8	5.5	3.8	1.4	2.4
Interest cover EBITDA (x)	11.8	10.2	8.7	11.1	22.1
Net debt/ND+E (%)	44.3	42.2	29.6	-14.4	2.7
Net debt/EBITDA (x)	1.8	1.8	1.2	n/a	0.2

**Key Ratios**

	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	11.0	10.3	7.8	1.6	1.1
Return on equity (%)	15.0	10.1	6.0	1.0	1.5
Return on funds employed (%)	15.5	13.4	10.4	2.1	1.9
EBITDA margin (%)	26.0	27.1	27.8	16.5	17.7
EBIT margin (%)	14.9	14.7	12.1	2.1	2.0
Capex to sales (%)	42.4	42.5	29.0	16.2	52.2
Capex to depreciation (%)	392	349	188	115	339
Imputation (%)	76	76	n/a	n/a	50
Pay-out ratio (%)	87	122	0	0	75

**Operating Performance**

	2018A	2019A	2020E	2021E	2022E
<b>Revenue (NZ\$m)</b>					
Rentals NZ	135.3	148.7	138.6	154.5	86.2
Tourism Group	41.8	41.4	29.0	11.6	17.4
Rentals Australia	80.2	83.5	87.6	54.9	74.9
Rentals US	167.7	149.4	139.9	138.7	104.2
<b>Total</b>	<b>425.1</b>	<b>423.0</b>	<b>395.1</b>	<b>359.8</b>	<b>282.7</b>

**Normalised EBIT (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Rentals NZ	25.7	31.5	31.8	9.3	4.4
Tourism Group	11.9	12.3	4.4	(0.0)	0.4
Rentals Australia	10.6	11.3	5.4	(1.0)	7.4
Rentals US	19.7	13.0	9.2	2.4	(3.3)
Group support services	(4.4)	(6.0)	(3.0)	(3.2)	(3.4)
<b>Total</b>	<b>63.5</b>	<b>62.1</b>	<b>47.8</b>	<b>7.5</b>	<b>5.5</b>

**EBIT (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Services	43.2	48.0	30.9	(14.7)	(5.2)
Goods	20.3	14.1	16.9	22.2	10.7
<b>Total</b>	<b>63.5</b>	<b>62.1</b>	<b>47.8</b>	<b>7.5</b>	<b>5.5</b>
NZDAUD	0.94	0.92	0.95	0.90	0.88
NZDUSD	0.73	0.67	0.63	0.65	0.65

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

## Vehicles sales boost

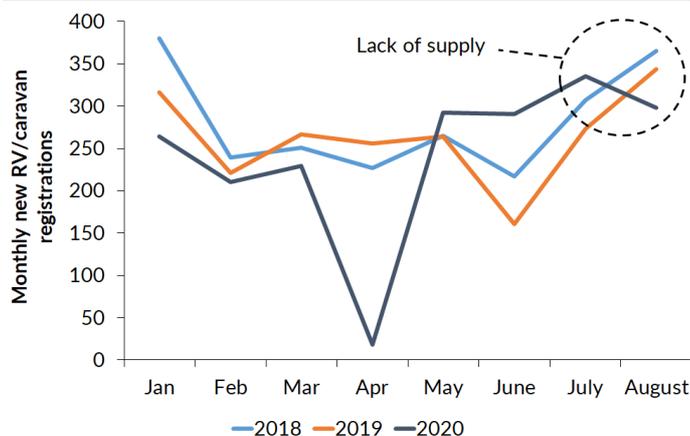
Demand in the New Zealand motorhome sales market is robust as illustrated by THL's significantly increased vehicles sales target for FY21. There is limited data to support THL's commentary, albeit it is consistent with anecdotal commentary that suggests big-ticket personal items remain in hot demand among New Zealand consumers. NZTA data (Figure 1) shows that new registrations dipped in July after strong months in May and June, which is likely a function of new (imported) vehicle supply shortages. A shortage of imported vehicles will only support THL's bid to sell more ex-fleet vehicles (these are already registered with NZTA so do not show up in the new registrations data).

### Boost to Tasman prospects

Australian Prime Minister, Scott Morrison, suggested on Friday that restrictions may ease soon on New Zealanders travelling to Australia. "That means when we're in a position to do so, and when the acting chief medical officer has come to a set of arrangements with New Zealand, then we would be able to have New Zealanders come to Australia... That doesn't mean Australians can go to New Zealand, that's a matter for Prime Minister Ardern, but if there's no Covid in Christchurch, and there's no Covid in Queensland, then there's no reason both of them can't come to Sydney...The idea that New Zealanders would not have to go into quarantine because they're coming from Covid-free areas would also free up places in quarantine."

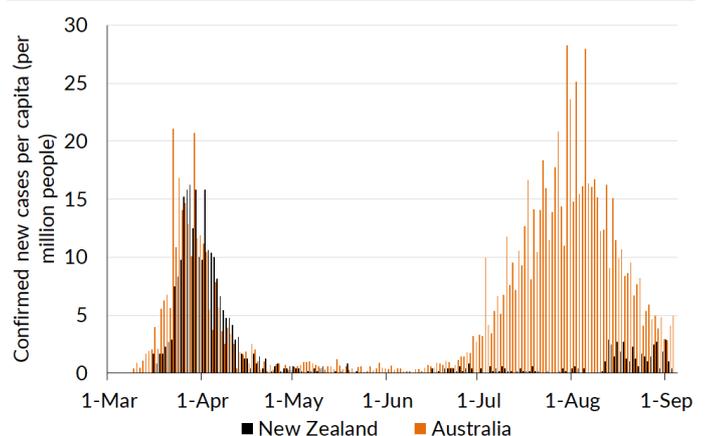
The new approach would mean the removal of hard borders between states, which would free up domestic travel in Australia. While this means the prospect of inbound tourism in New Zealand is closer it is still reliant on the New Zealand Government loosening its border restrictions. We see scope for borders to reopen in early 2021, which is incorporated into our modelling. Albeit, we caution that the vast majority of THL's historic rental demand has stemmed from Europe.

Figure 1. New motorhome/caravan registrations in NZ



Source: NZTA, Forsyth Barr analysis

Figure 2. New COVID-19 cases included border quarantine



Source: WHO, Forsyth Barr analysis

## Earnings revisions

We upgrade our FY21 earnings forecasts to reflect a substantially higher level of vehicle sales than previously envisaged. We now expect THL to generate a small profit in FY21 and end the year with a net cash position (vs. net of ~NZ\$130m in FY20). In light of the uncertain inbound tourism demand profile we recognise a reasonable margin for error in our forecasts.

Figure 3. Earnings revisions (NZ\$m)

	FY20E			FY21E			FY22E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales revenue	382.0	395.1	3.4%	305.3	359.8	17.8%	319.0	282.7	-11.4%
EBIT	48.3	47.8	-0.9%	(5.3)	7.5	241.6%	14.5	5.5	-61.7%
Reported NPAT	18.7	18.6	-0.8%	(7.4)	3.0	140.1%	8.9	4.5	-49.3%
<b>Underlying NPAT</b>	<b>18.7</b>	<b>18.6</b>	<b>-0.8%</b>	<b>(7.4)</b>	<b>3.0</b>	<b>140.1%</b>	<b>8.9</b>	<b>4.5</b>	<b>-49.3%</b>
Underlying EPS (cents)	12.6	12.5	-0.8%	(4.9)	2.0	140.1%	5.8	2.9	-49.3%
DPS (cents)	0.0	0.0	n/a	0.0	0.0	n/a	4.3	2.2	-49.3%

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 US vehicle sales market woes and border restrictions have challenged this backdrop. We are 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

- **COVID-19:** Border closures will have a significant impact on inbound tourism for the foreseeable future. Domestic tourism will increase but won't fully mitigate the yield impact on THL, in our opinion.
- **Vehicle sales:** Any sustained economic downturn will adversely impact the used RV market.
- **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 longer term tourism inflows.

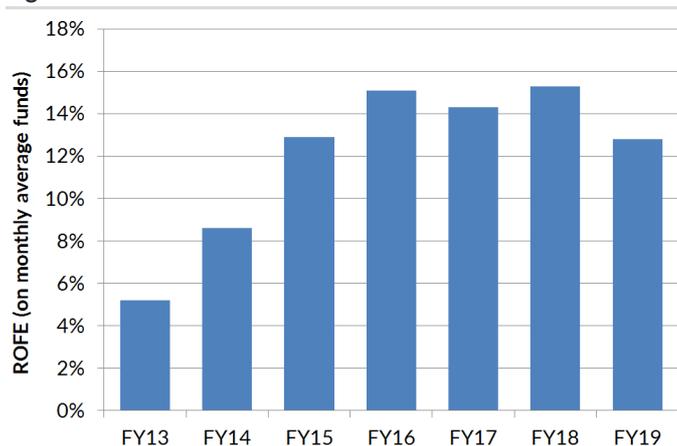
### Financial structure

- **Balance sheet:** Gearing levels have been improved by the 2019 capital raise and have put THL in a reasonable position ahead of the demand challenges from COVID-19.

### Risk factors

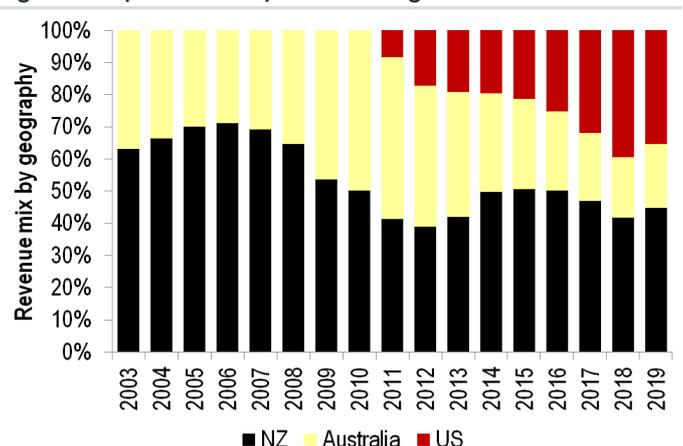
- **Low barriers to entry:** New operators may enter the motorhome rental market attracted by improving industry returns.
- **Economic slowdown in key origin countries:** Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 4. ROFE



Source: Forsyth Barr analysis

Figure 5. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

**Figure 6. Price performance**


Source: Forsyth Barr analysis

**Figure 7. Substantial shareholders**

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	8.0%

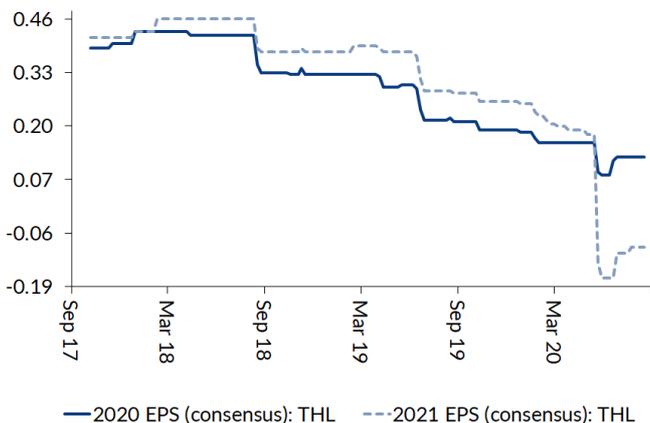
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 8. International valuation comparisons**

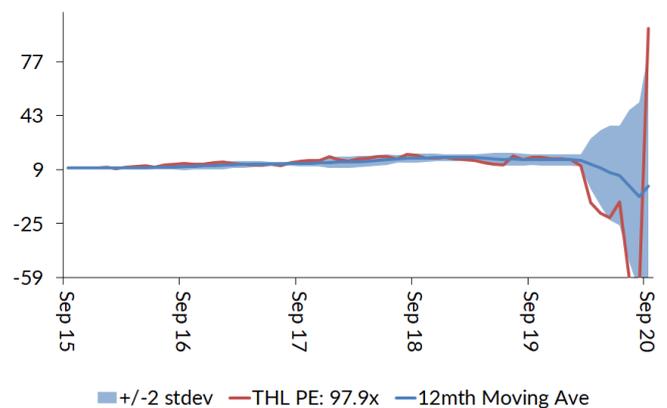
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Tourism Holdings	THL NZ	NZ\$2.16	NZ\$318	17.3x	>50x	4.7x	8.8x	10.9x	69.7x	0.0%
APOLLO TOURISM & LEISURE	ATLAT	A\$0.29	A\$54	<0x	<0x	n/a	n/a	n/a	n/a	6.9%
THOR INDUSTRIES INC	THO US	US\$90.02	US\$4,969	27.7x	16.7x	12.1x	9.1x	18.6x	n/a	1.8%
AVIS BUDGET GROUP INC	CAR US	US\$34.58	US\$2,409	2.1x	13.1x	<0x	<0x	<0x	n/a	n/a
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$12.74	A\$2,536	<0x	<0x	<0x	<0x	<0x	<0x	1.9%
WEBJET	WEB AT	A\$3.58	A\$1,214	<0x	<0x	44.2x	<0x	<0x	<0x	0.1%
SEALINK TRAVEL GROUP	SLK AT	A\$4.95	A\$1,081	<0x	20.2x	22.0x	11.0x	>75x	20.1x	2.5%
<b>Compcpo Average:</b>				<b>14.9x</b>	<b>16.7x</b>	<b>26.1x</b>	<b>10.1x</b>	<b>18.6x</b>	<b>20.1x</b>	<b>2.6%</b>
<b>THL Relative:</b>				<b>16%</b>	<b>n/a</b>	<b>-82%</b>	<b>-13%</b>	<b>-41%</b>	<b>246%</b>	<b>-100%</b>

EV = Current Market Cap + Actual Net Debt

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

**Figure 9. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 10. One year forward PE (x)**


Source: Forsyth Barr analysis

**Analyst certification:** The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

**Analyst holdings:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Ratings distributions:** As at 4 Sep 2020, Forsyth Barr's research ratings were distributed as follows:

	<b>OUTPERFORM</b>	<b>NEUTRAL</b>	<b>UNDERPERFORM</b>
	<b>44.4%</b>	<b>42.6%</b>	<b>13.0%</b>

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

**Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

**Investment banking engagements:** Other than confidential engagements, Forsyth Barr has not within the past 12 months been engaged to provide investment banking services to the issuer that is the subject of this publication. For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to any other issuer referred to in this publication, please refer to the most recent research report for that issuer's financial products.

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

**Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

**Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.