

# Tourism Holdings

## Earnings Appear Bigger in Rear View Mirror

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### NEUTRAL

Tourism Holdings (THL) has pre-released its FY20 NPAT result, which is modestly above the previous guidance range set on 25 June 2020. THL will report underlying NPAT of "approximately NZ\$20m" on Friday 18 September 2020, which compares to the previous range of NZ\$17.5m–NZ\$19.0m. Management says the better than anticipated result reflects a higher level of vehicle sales, particularly in the US, which also lowers net debt to NZ\$128m from previous guidance of NZ\$133m. We raise our FY20 earnings forecasts accordingly but retain an asset based target price of NZ\$2.20. THL is trading broadly in line with our assessment of forward looking net asset value (NAV). The company has done well in reducing its capital base and lowering net debt through vehicle sales. This will remain a key theme through FY21, however, with border restrictions in place, rental operations will be limited by less profitable domestic demand. Our rating is NEUTRAL.

NZX Code	THL	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.19	NPAT* (NZ\$m)	27.9	20.2	2.1	3.6	PE	9.9	16.1	n/a	93.2
Target price	NZ\$2.20	EPS* (NZc)	22.2	13.6	1.4	2.3	EV/EBIT	8.3	9.6	71.9	n/a
Risk rating	High	EPS growth* (%)	-28.3	-38.7	-89.9	70.6	EV/EBITDA	4.5	4.3	7.6	9.0
Issued shares	147.1m	DPS (NZc)	27.0	0.0	0.0	1.8	Price / NTA	1.2	1.3	1.3	1.4
Market cap	NZ\$322m	Imputation (%)	76	n/a	n/a	50	Cash div yld (%)	12.3	0.0	0.0	0.8
Avg daily turnover	316.5k (NZ\$631k)	*Based on normalised profits					Gross div yld (%)	16.0	n/a	n/a	1.0

### What's changed?

- **Earnings:** We raise our FY20 NPAT forecast to be consistent with the pre-release

### Audit adjustment boost

THL's previous guidance for NPAT (on 25 June 2020) and net debt (31 July 2020) has been superseded and improved. In light of timing this suggests year end audit adjustments. THL has also outlined a number of one-off items including the partial Togo exit (NZ\$9.3m gain), a US tax benefit (NZ\$1.1m gain) and the write-off of goodwill attributed to Kiwi Experience (NZ\$3.1m loss). Reported NPAT after accounting for these one-offs will be "approximately NZ\$27m".

### Results conference call

Management will host a post-result investor conference call at 12pm on 18 September. Investors are required to register for the call using the following link: <http://apac.directeventreg.com/registration/event/4876698>

**Figure 1. Summary of FY20 forecasts (NZ\$m)**

	FY19	FY20E	Change
Sales revenue	423.0	395.8	-6.4%
EBITDA	114.8	111.9	-2.6%
EBIT	62.1	49.9	-19.6%
Reported NPAT	29.8	27.2	-8.7%
<b>Underlying NPAT</b>	<b>27.9</b>	<b>20.2</b>	<b>-27.6%</b>
Underlying EPS (cents)	22.2	13.6	-38.7%
Final DPS (cents)	14.0	0.0	-100.0%

Source: THL, Forsyth Barr analysis

**Figure 2. Divisional split (NZ\$m)**

	FY19	FY20E	Change
Rentals NZ	31.5	33.3	5.8%
Tourism Group	12.3	4.4	-63.8%
Rentals Australia	11.3	5.4	-52.7%
Rentals US	13.0	9.8	-24.6%
Group support services	(6.0)	(3.0)	-49.8%
<b>Total EBIT</b>	<b>62.1</b>	<b>49.9</b>	<b>-19.6%</b>
..including gain on sale	14.1	18.3	29.6%

Source: THL, Forsyth Barr analysis

## Tourism Holdings (THL)

Priced as at 14 Sep 2020 (NZ\$)

2.19

### 12-month target price (NZ\$)\*

2.20

Expected share price return

0.5%

Net dividend yield

0.2%

Estimated 12-month return

0.7%

### 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

(224)

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	395.8	356.3	280.1
<b>Normalised EBITDA</b>	<b>110.9</b>	<b>114.8</b>	<b>111.9</b>	<b>57.8</b>	<b>48.7</b>
Depreciation and amortisation	(47.4)	(52.6)	(61.9)	(51.7)	(44.5)
<b>Normalised EBIT</b>	<b>63.5</b>	<b>62.1</b>	<b>49.9</b>	<b>6.1</b>	<b>4.2</b>
Net interest	(9.4)	(11.2)	(12.6)	(5.2)	(2.2)
Associate income	(1.0)	(11.0)	(9.3)	2.0	3.0
Tax	(15.6)	(12.0)	(7.9)	(0.8)	(1.4)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>37.5</b>	<b>27.9</b>	<b>20.2</b>	<b>2.1</b>	<b>3.6</b>
Abnormals/other	24.9	1.9	7.0	0	0
<b>Reported NPAT</b>	<b>62.4</b>	<b>29.8</b>	<b>27.2</b>	<b>2.1</b>	<b>3.6</b>
Normalised EPS (cps)	30.9	22.2	13.6	1.4	2.3
DPS (cps)	27.0	27.0	0	0	1.8

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	25.2	-0.7	-6.4	-10.0	-21.4
EBITDA (%)	26.7	3.5	-2.6	-48.3	-15.7
EBIT (%)	33.1	-2.2	-19.6	-87.7	-30.8
Normalised NPAT (%)	24.3	-25.6	-27.6	-89.6	72.9
Normalised EPS (%)	20.5	-28.3	-38.7	-89.9	70.6
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>111.9</b>	<b>57.8</b>	<b>48.7</b>
Working capital change	6.9	(4.8)	(5.6)	21.4	(0.8)
Interest & tax paid	(25.0)	(23.2)	(16.4)	(2.0)	0.4
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>77.6</b>	<b>65.9</b>	<b>37.1</b>
Capital expenditure	(180.7)	(180.0)	(110.5)	(57.3)	(145.7)
(Acquisitions)/divestments	98.1	84.8	94.2	158.5	63.0
Other	(14.3)	(0.3)	(18.5)	0	0
<b>Funding available/(required)</b>	<b>(2.4)</b>	<b>(4.8)</b>	<b>42.9</b>	<b>167.1</b>	<b>(45.7)</b>
Dividends paid	(22.9)	(29.4)	(17.4)	0	(1.3)
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>74.8</b>	<b>167.1</b>	<b>(47.0)</b>

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	24.5	37.7	27.7	17.8	14.0
Fixed assets	384.2	407.0	360.7	212.2	254.8
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>570.4</b>	<b>410.9</b>	<b>448.6</b>
Net debt/(cash)	198.8	202.2	127.4	(39.7)	7.4
Lease liability	0	0	80.5	80.5	80.5
Other liabilities	63.7	66.9	51.4	62.9	58.3
Shareholder's funds	250.0	277.0	311.1	307.2	302.5
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>512.5</b>	<b>546.1</b>	<b>570.4</b>	<b>410.9</b>	<b>448.6</b>

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

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	4.5	4.5	4.3	7.6	9.0
EV/EBIT (x)	7.9	8.3	9.6	71.9	>100x
PE (x)	7.1	9.9	16.1	>100x	93.2
Price/NTA (x)	1.3	1.2	1.3	1.3	1.4
Free cash flow yield (%)	-26.8	-27.7	-10.2	2.7	-33.7
Net dividend yield (%)	12.3	12.3	0.0	0.0	0.8
Gross dividend yield (%)	16.0	16.0	n/a	n/a	1.0

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	6.8	5.5	4.0	1.2	1.9
Interest cover EBITDA (x)	11.8	10.2	8.9	11.1	22.0
Net debt/ND+E (%)	44.3	42.2	29.1	-14.8	2.4
Net debt/EBITDA (x)	1.8	1.8	1.1	n/a	0.2

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	11.0	10.3	8.2	1.3	0.9
Return on equity (%)	15.0	10.1	6.5	0.7	1.2
Return on funds employed (%)	15.5	13.4	10.9	1.7	1.5
EBITDA margin (%)	26.0	27.1	28.3	16.2	17.4
EBIT margin (%)	14.9	14.7	12.6	1.7	1.5
Capex to sales (%)	42.4	42.5	27.9	16.1	52.0
Capex to depreciation (%)	392	349	182	113	336
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	140.1	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	139.1	135.3	101.6
<b>Total</b>	<b>425.1</b>	<b>423.0</b>	<b>395.8</b>	<b>356.3</b>	<b>280.1</b>

<b>Normalised EBIT (NZ\$m)</b>					
Rentals NZ	25.7	31.5	33.3	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	9.8	1.1	(4.6)
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>49.9</b>	<b>6.1</b>	<b>4.2</b>

<b>EBIT (NZ\$m)</b>					
Services	43.2	48.0	31.7	(15.8)	(6.3)
Goods	20.3	14.1	18.3	21.9	10.6
<b>Total</b>	<b>63.5</b>	<b>62.1</b>	<b>49.9</b>	<b>6.1</b>	<b>4.2</b>

NZDAUD	0.94	0.92	0.95	0.90	0.88
NZDUSD	0.73	0.67	0.63	0.65	0.65

**Figure 3. Price performance**


Source: Forsyth Barr analysis

**Figure 4. Substantial shareholders**

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	8.0%

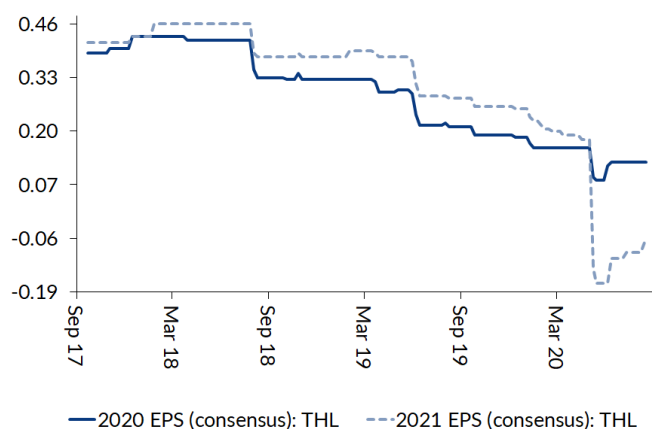
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 5. International valuation comparisons**

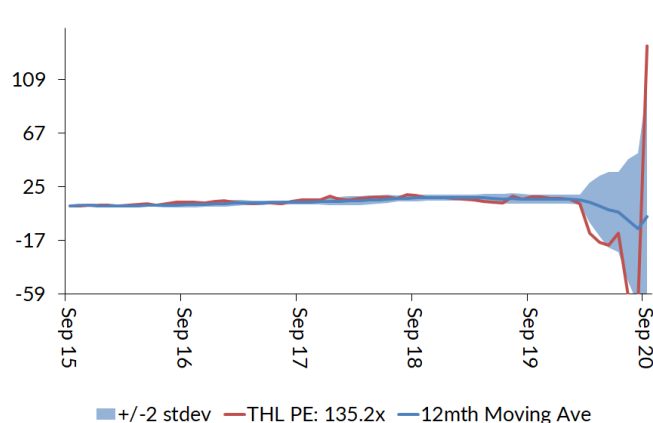
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect THL's balance date - June)										
Tourism Holdings	THL NZ	NZ\$2.19	NZ\$322	16.1x	>50x	4.7x	9.1x	10.5x	>75x	0.0%
APOLLO TOURISM & LEISURE	ATL AT	A\$0.26	A\$47	<0x	<0x	<0x	14.9x	<0x	<0x	3.9%
THOR INDUSTRIES INC	THO US	US\$92.36	US\$5,098	28.5x	17.1x	12.3x	9.2x	18.9x	n/a	1.8%
AVIS BUDGET GROUP INC	CAR US	US\$33.35	US\$2,323	2.0x	12.7x	<0x	<0x	<0x	n/a	n/a
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$13.03	A\$2,594	<0x	<0x	<0x	<0x	<0x	<0x	1.8%
WEBJET	WEB AT	A\$3.83	A\$1,298	<0x	<0x	47.3x	<0x	<0x	<0x	0.1%
SEALINK TRAVEL GROUP	SLK AT	A\$5.04	A\$1,101	<0x	22.3x	22.3x	11.0x	>75x	24.0x	2.5%
Compco Average:				15.2x	17.4x	27.3x	11.7x	18.9x	24.0x	2.0%
THL Relative:				6%	n/a	-83%	-23%	-45%	n/a	-100%

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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