NEW ZEALAND EQUITY RESEARCH | TOURISM | TOURISM OPERATOR
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Tourism Holdings
FY20; Vehicle Sales Driving Cashflow

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UNDERPERFORM

Tourism Holdings (THL) reported a resilient FY20 result in the face of COVID-19 challenges though losses will feature in FY21 in the absence of borders reopening; with the share price back above net asset value (NAV), we downgrade to UNDERPERFORM. THL has mitigated NAV downside risk from COVID-19 to date; it has done well to (1) reduce its cost base and cash burn, (2) take advantage of improved liquidity in the vehicle sales market to reduce its fleet and pay down debt, (3) stimulate domestic rental demand, and (4) ensure balance sheet capacity to allow for reinvestment in its fleet when the rental market recovers. However, we expect NAV to fall in FY21 given losses accruing from domestic only rental operations, which typically generate lower yields and lower utilisation than international rentals, and limited visitation for the Tourism Group division. Investors will need to be patient for market conditions to provide scope (possibly by FY23) for return on fund employed (ROFE) to exceed WACC, in our opinion.

NZX Code	THL
Share price	NZ$2.35
Target price	NZ$2.20
Risk rating	High
Issued shares	147.1m
Market cap	NZ$346m
Avg daily turnover	320.8k (NZ$639k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	20.0	-9.3	1.9	15.4
EPS* (NZc)	13.6	-6.3	1.3	10.4
EPS growth* (%)	-38.5	n/a	n/a	n/a
DPS (NZc)	0.0	0.0	0.0	7.8
Imputation (%)	n/a	n/a	50	50
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	17.2	n/a	n/a	22.6
EV/EBIT	11.7	n/a	60.2	15.2
EV/EBITDA	4.8	7.7	5.9	4.3
Price / NTA	1.3	1.3	1.3	1.3
Cash div yld (%)	0.0	0.0	0.0	3.3
Gross div yld (%)	n/a	n/a	0.0	4.0

What's changed?
- **Earnings:** FY20 NPAT downgraded to a loss of -NZ$9.3m

COVID-19 losses mitigated US pick-up

In the four months to June 2020, THL endured an underlying NPAT loss of -NZ$5.5m. The year on year decline during this period was just -NZ$3.0m, but helped by (1) the timing of the Togo exit and prior year Togo losses, and (2) weak prior year US vehicle sales activity. Remarkably US Rentals grew its contribution year on year. In contrast, Tourism Group assets, Waitomo (caves) and (bus tour business) Kiwi Experience, experienced the sharpest decline, given its reliance on inbound tourists.

Cashflow positive in FY21, but P&L losses

THL has increased its guidance for both purchases and vehicle sales in FY21. It now expects to purchase more than 1,340 vehicles (up from a range of 700-790). With supply issues emerging for new vehicles this level is unlikely to increase further. In addition, it also expects to sell more than 2,950 vehicles (up from a range of 1,500-2,350). The aggregate reduction in fleet size will help further reduce net debt through the year. While not providing explicit guidance, management suggests that THL will likely be loss-making (at the NPAT line) through FY21.

Domestic rentals only

Border closures will continue to significantly impact THL's (1) rental income with both utilisation and yield down on pre COVID-19 levels, and (2) Tourism Group operations in New Zealand. While the company has been successful in activating domestic consumers to the rentals market, particularly in New Zealand, the yield differential to international customers is very wide (more so in New Zealand than other regions) and utilisation is typically lower.

FORSYTH BARR

Tourism Holdings (THL)

Priced as at 18 Sep 2020 (NZ$)	2.35

12-month target price (NZ$)*	**2.20**
Expected share price return	-6.4%
Net dividend yield	0.0%
Estimated 12-month return	-6.4%

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	634
(Net debt)/cash	(206)
Less: Capitalised operating leases	(176)
Value of equity	252

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	423.0	400.9	349.5	306.2	378.9
Normalised EBITDA	**114.8**	**106.3**	**56.6**	**68.4**	**94.4**
Depreciation and amortisation	(52.6)	(63.1)	(63.8)	(61.7)	(67.7)
Normalised EBIT	**62.1**	**43.2**	**(7.2)**	**6.7**	**26.7**
Net interest	(11.2)	(12.9)	(7.5)	(7.3)	(10.1)
Associate income	(11.0)	(9.5)	2.0	3.2	4.7
Tax	(12.0)	(8.5)	3.4	(0.7)	(5.8)
Minority interests	0	0	0	0	0
Normalised NPAT	**27.9**	**20.0**	**(9.3)**	**1.9**	**15.4**
Abnormals/other	1.9	7.3	0	0	0
Reported NPAT	**29.8**	**27.3**	**(9.3)**	**1.9**	**15.4**
Normalised EPS (cps)	22.2	13.6	(6.3)	1.3	10.4
DPS (cps)	27.0	0	0	0	7.8

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	4.7	4.8	7.7	5.9	4.3
EV/EBIT (x)	8.7	11.7	n/a	60.2	15.2
PE (x)	10.6	17.2	n/a	>100x	22.6
Price/NTA (x)	1.3	1.3	1.3	1.3	1.3
Free cash flow yield (%)	-25.8	-12.6	-24.0	-42.2	-39.0
Net dividend yield (%)	11.5	0.0	0.0	0.0	3.3
Gross dividend yield (%)	14.9	n/a	n/a	0.0	4.0

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	5.5	3.3	n/a	0.9	2.6
Interest cover EBITDA (x)	10.2	8.2	7.5	9.4	9.3
Net debt/ND+E (%)	42.2	28.2	16.8	30.5	38.1
Net debt/EBITDA (x)	1.8	1.2	1.1	2.0	2.0

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	-0.7	-5.2	-12.8	-12.4	23.7
EBITDA (%)	3.5	-7.4	-46.8	21.0	37.8
EBIT (%)	-2.2	-30.5	n/a	n/a	>100
Normalised NPAT (%)	-25.6	-28.3	n/a	n/a	>100
Normalised EPS (%)	-28.3	-38.5	n/a	n/a	>100
Ordinary DPS (%)	0.0	-100.0	n/a	n/a	n/a

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	10.3	6.6	-1.3	1.1	4.0
Return on equity (%)	10.1	6.2	-3.0	0.6	5.0
Return on funds employed (%)	13.4	9.3	-1.8	1.6	5.7
EBITDA margin (%)	27.1	26.5	16.2	22.4	24.9
EBIT margin (%)	14.7	10.8	-2.1	2.2	7.0
Capex to sales (%)	42.5	28.2	41.0	69.6	60.2
Capex to depreciation (%)	349	182	229	352	343
Imputation (%)	76	n/a	n/a	50	50
Pay-out ratio (%)	122	0	0	0	75

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**114.8**	**106.3**	**56.6**	**68.4**	**94.4**
Working capital change	(4.8)	(19.7)	7.8	6.9	14.8
Interest & tax paid	(23.2)	(17.4)	(0.3)	(4.6)	(12.9)
Other	4.0	0.1	(3.7)	(3.4)	(3.0)
Operating cash flow	**90.8**	**69.3**	**60.3**	**67.3**	**93.2**
Capital expenditure	(180.0)	(112.9)	(143.4)	(213.3)	(228.1)
(Acquisitions)/divestments	84.8	97.2	155.0	81.7	93.0
Other	(0.3)	(11.1)	(7.0)	(7.0)	(7.0)
Funding available/(required)	**(4.8)**	**42.5**	**64.9**	**(71.2)**	**(48.9)**
Dividends paid	(29.4)	(17.4)	0	0	(5.8)
Equity raised/(returned)	30.8	49.3	0	0	0
(Increase)/decrease in net debt	**(3.4)**	**74.4**	**64.9**	**(71.2)**	**(54.7)**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (NZ$m)					
Rentals NZ	148.7	137.5	146.7	83.9	107.8
Tourism Group	41.4	30.7	4.6	11.5	31.7
Rentals Australia	83.5	74.4	56.0	58.9	70.9
Rentals US	149.4	158.3	142.2	151.9	168.5
Total	**423.0**	**400.9**	**349.5**	**306.2**	**378.9**
Normalised EBIT (NZ$m)					
Rentals NZ	31.5	30.2	0.9	4.4	11.3
Tourism Group	12.3	3.9	(1.7)	(0.1)	7.0
Rentals Australia	11.3	8.6	(5.7)	0.6	3.2
Rentals US	13.0	10.9	2.8	5.5	9.2
Group support services	(6.0)	(2.7)	(3.5)	(3.7)	(4.0)
Total	**62.1**	**51.0**	**(7.2)**	**6.7**	**26.7**
EBIT (NZ$m)					
Services	48.0	35.4	(30.3)	(7.6)	11.0
Goods	14.1	15.6	23.1	14.3	15.7
Total	**62.1**	**51.0**	**(7.2)**	**6.7**	**26.7**
NZDAUD	0.92	0.95	0.90	0.88	0.89
NZDUSD	0.67	0.63	0.65	0.65	0.65

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	37.7	60.4	45.4	42.9	30.3
Fixed assets	407.0	359.7	290.0	363.0	433.0
Intangibles	44.2	50.3	49.1	47.9	46.8
Right of use asset	0	69.6	63.0	57.0	51.6
Other assets	57.3	40.8	40.8	40.8	40.8
Total funds employed	**546.1**	**580.8**	**488.3**	**551.6**	**602.5**
Net debt/(cash)	202.2	127.8	62.9	134.1	188.8
Lease liability	0	81.9	74.9	67.9	60.9
Other liabilities	66.9	46.3	39.1	43.4	45.6
Shareholder's funds	277.0	325.1	311.5	306.2	307.2
Minority interests	0	0	0	0	0
Total funding sources	**546.1**	**581.0**	**488.3**	**551.6**	**602.5**

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

NAV set to fall in FY21; UNDERPERFORM

THL's share price is now back above NAV. Notwithstanding balance sheet resilience to COVID-19 to date, we expect NAV to deteriorate through FY21 given P&L losses. Moreover, we don't expect ROFE to climb back above WACC until FY23 at the earliest.

While THL is well placed to ultimately benefit as a result of COVID-19 from its superior competitive position and relative balance sheet strength, we believe it is too early to be getting exciting about longer term prospects. The international travel recovery profile is far from certain. The current liquidity in vehicle sales markets may reflect some pull forward of demand, which could impact future sales demand and margins. Assuming THL can return to prior profitability/ROFE levels, then a premium to NAV may be appropriate in time, but investors may need to be patient.

Used vehicle dealers often get a bad wrap. The less glamorous side to THL's business has been its saving grace in recent months given its ability to sell down its fleet thereby reducing net debt significantly, while rental income has fallen away materially. Equity dilution has been avoided, but with losses looming in FY21, dilution will be hard to avoid in the year ahead. From FY22 the company will be more reliant on rental demand, by which time borders may be reopening. Albeit THL is more leveraged to long haul rather than short haul travel.

Result summary

The FY20 result had already been pre-announced earlier in the week so there are no surprises in the headline numbers. The result highlights a reasonable degree of resilience in THL's business model to challenges posed by COVID-19 relative to other travel and tourism related companies. Management's focus through 4Q20 has been around cash preservation and capital management. While revenue in the final quarter was down -30%, a +35% increase in vehicle sales revenue partially mitigated the significant decline in rentals. Management undertook a significant cost reduction programme, which resulted in a -58% reduction in operating costs through the quarter.

No final dividend has been declared as already flagged and no change at this stage to the dividend pay-out policy of 75%-90% of NPAT. Net debt of NZ$128m at year end has since fallen to NZ$75m at the end of August given the continued strength of vehicle sales, particularly in the US and New Zealand. As a result, THL seemingly has more confidence in the liquidity of the new/used vehicle market and is acquiring more new vehicles than guided to previously, predominantly in the US.

Figure 1. Result summary (NZ$m)

	FY19	FY20	Change
Sales revenue	423.0	400.9	-5.2%
EBITDA	114.8	106.3	-7.4%
EBIT	**62.1**	**51.0**	**-18.0%**
Reported NPAT	29.8	27.4	-8.3%
Underlying NPAT	**27.9**	**20.0**	**-28.3%**
Underlying EPS (cents)	22.2	13.6	-38.5.9%
Final DPS (cents)	14.0	0.0	-100.0%

Source: THL, Forsyth Barr analysis

Figure 2. Divisional breakdown (NZ$m)

	FY19	FY20E	Change
Rentals NZ	31.5	30.2	-4.0%
Tourism Group	12.3	3.9	-68.1%
Rentals Australia	11.3	8.6	-23.6%
Rentals US	13.0	10.9	-16.4%
Group support services	(6.0)	(2.7)	-54.8%
Total EBIT	**62.1**	**51.0**	**-18.0%**
..including gain on sale	14.1	15.6	10.6%

Source: THL, Forsyth Barr analysis

Earnings revisions

We downgrade our FY21 forecasts materially as outlined in Figure 3. We now assume that THL generates an NPAT loss of NZ$9.3m, compared to our previous assumption that it would be profitable. The key assumption changes being (1) the timing of the resumption of international rental customers and (2) higher operating costs to sustain domestic only operations.

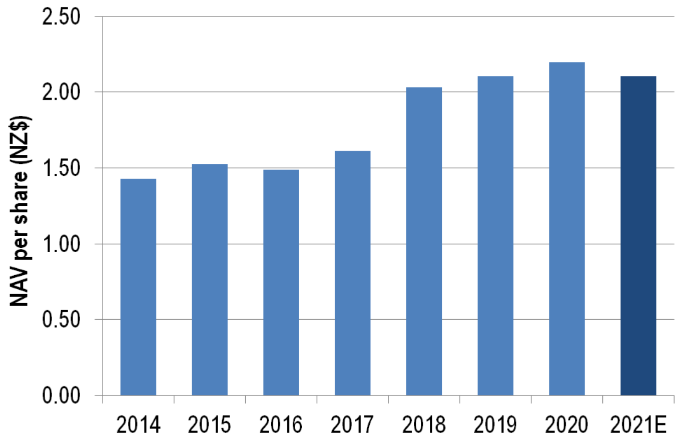
Figure 3. Earnings revisions (NZ$m)

	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales revenue	356.4	349.5	-1.9%	279.8	306.2	9.4%	n/a	378.9	n/a
EBIT	6.2	(7.2)	-217.4%	4.0	6.7	68.7%	n/a	26.7	n/a
Reported NPAT	2.1	(9.3)	-538.2%	3.4	1.9	-44.0%	n/a	15.4	n/a
Underlying NPAT	**2.1**	**(9.3)**	**-538.2%**	**3.4**	**1.9**	**-44.0%**	**n/a**	**15.4**	**n/a**
Underlying EPS (cents)	1.4	(6.3)	-549.8%	2.2	1.3	-41.7%	n/a	10.4	n/a
DPS (cents)	0.0	0.0	n/a	1.7	0.0	-100.0%	n/a	7.8	n/a

Source: Forsyth Barr analysis

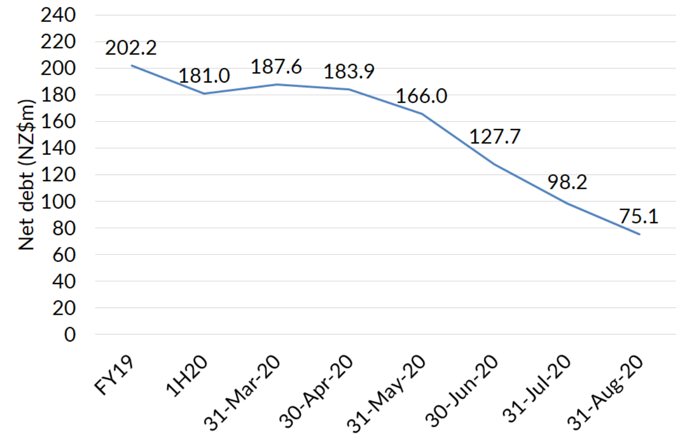
Key charts from FY20 result

Figure 4. Net asset value (NAV) up to NZ$2.20 per share at FY20 from NZ$2.11 at FY19, but set to decline in FY21



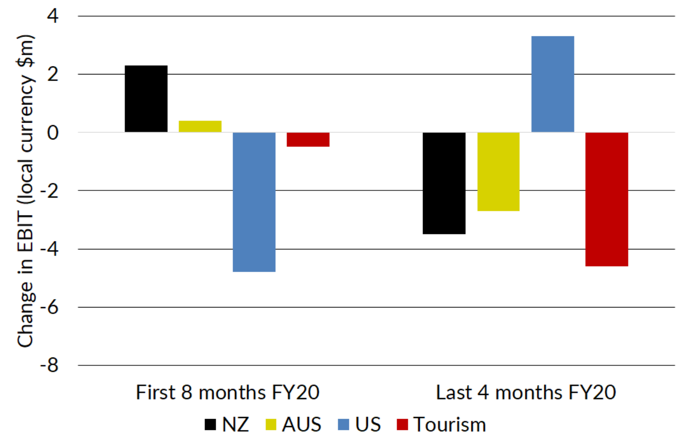
Source: THL, Forsyth Barr analysis

Figure 5. Net debt has fallen due to strong level of vehicle sales, especially in US and NZ



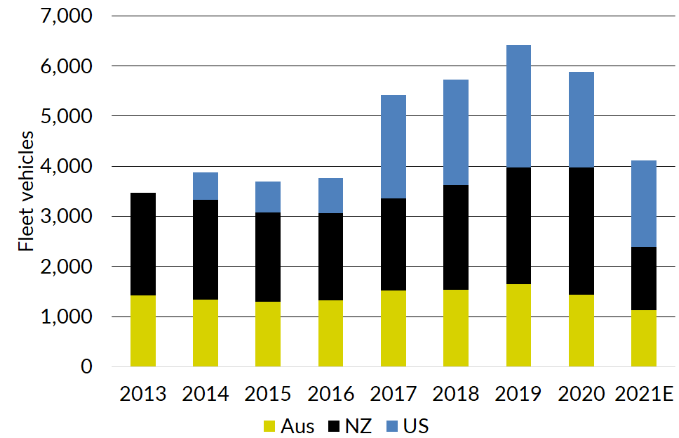
Source: THL, Forsyth Barr analysis

Figure 6. Last 4 months of FY20 impacted by COVID-19, although US performance improved from weak prior year



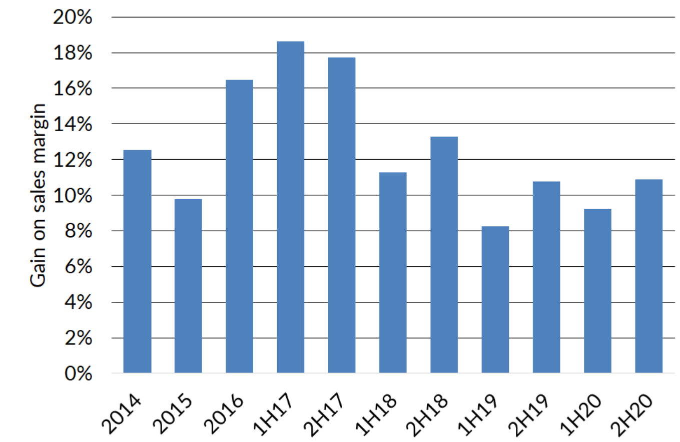
Source: THL, Forsyth Barr analysis

Figure 7. Fleet size has been increasing, however, we expect a decline next year on the back of increased vehicle sales



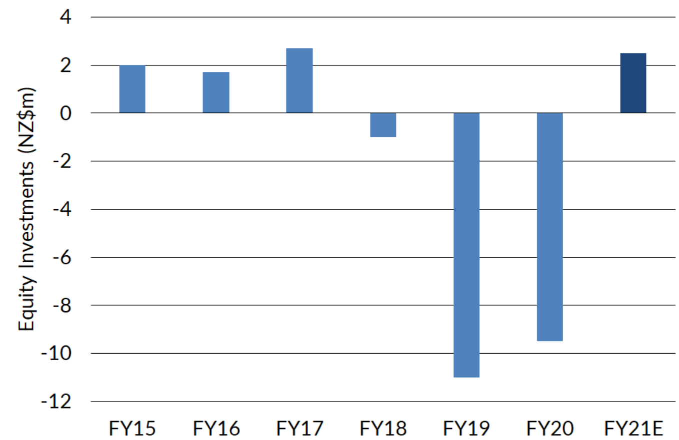
Source: THL, Forsyth Barr analysis

Figure 8. Gain on sales margins have been trending downward in recent years reflecting US market challenges



Source: THL, Forsyth Barr analysis

Figure 9. THL's exit from Togo JV in March 2020 will allow equity investments to return to profit in FY21



Source: THL, Forsyth Barr analysis

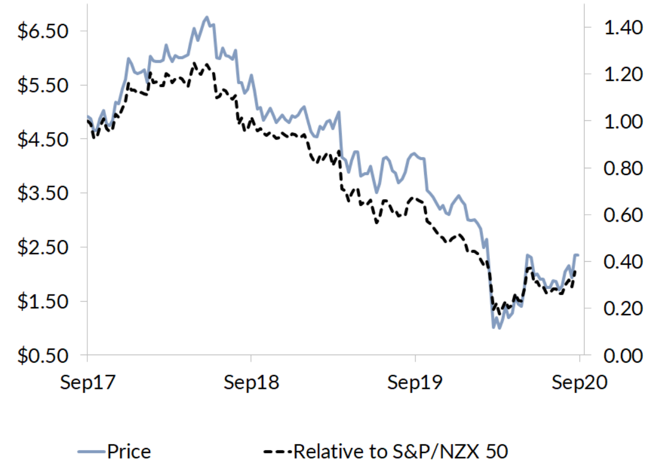
Result analysis

Figure 10. FY20 result summary (NZ$m)

	FY19	FY20	Change	Comments
Profit and loss account				
Sales revenue	423.0	400.9	-5%	Revenue was up for the first 8 months of FY20, pre COVID-19
EBITDA	114.8	106.3	-7%	EBITDA of NZ$101.3m pre IFRS 16
Depreciation and amortisation	(52.6)	(55.3)	5%	IFRS 16 lease depreciation of NZ$7.8m
NZ Rentals	31.5	30.2	-4%	EBIT +8% in first 8 months
Tourism Group	12.3	3.9	-68%	Kiwi Experience business placed in hibernation in March 2020
Australia Rentals	11.3	8.6	-24%	Impacted by bushfires as well as COVID-19. EBIT flat in first 8 months
US Rentals	13.0	10.9	-16%	Strong end to year led by volatile vehicle sales
Group support services and other	(6.0)	(2.7)	-55%	
EBIT	**62.1**	**51.0**	**-18%**	**Pre IFRS 16 EBIT of NZ$46m**
Associates	0.2	(0.4)	n/a	
JV profits	(11.3)	(9.2)	-19%	Exited loss making Togo JV in March 2020
Interest expense	(11.2)	(12.9)	16%	Includes lease interest of NZ$3.9m
Profit before tax	39.9	28.5	-29%	
Taxation (incl. abnormal tax)	(12.0)	(8.5)	-29%	
Underlying NPAT	**27.9**	**20.0**	**-28%**	**Was down -16% for the 8 months before COVID-19 due to US market challenges in 1H20**
Non-recurring (post tax)	1.9	7.3	n/a	One-off Togo exit/US tax benefit/Kiwi Experience lease write-offs
Reported NPAT	29.8	27.3	-8%	Pre IFRS 16 NPAT of NZ$28.3m
Underlying EPS (cents)	22.2	13.6	-38%	Weighted average shares on issue of 147m
Final DPS (cents)	14.0	0.0	-100%	No final dividend. Policy of 75%-90% of NPAT unchanged
Cashflow and net debt				
Operating cashflow (pre-fleet investment)	90.8	69.3	-24%	
Fleet capex	(176.1)	(108.8)	-38%	Fleet purchases of 1,433 in FY20, 2,612 in FY19
Fleet disposals	109.6	124.2	13%	2,066 vehicle sales, FY19 2,059
Other capex	(3.9)	(4.1)	6%	
Other disposals	0.0	0.0	n/a	
Free cash flow	**20.4**	**80.6**	**294%**	**Due to increase in vehicle sales**
Acquisitions	(10.7)	(11.4)	n/a	
Net debt/(cash)	(202.2)	(127.8)	-37%	Has since fallen to NZ$75m at the end of August given strong vehicle sales in NZ and US
Key statistics				
Rental/Tourism EBIT	54.0	38.1	-29%	Weaker margins given reduced utilisation and price drops in NZ campaign
Gain on sale	14.1	15.6	11%	Marginally higher vehicle sales margins
Group support services and other	(6.0)	(2.7)	-55%	Primarily due to reduced labour and rent costs
Group EBIT	**62.1**	**51.0**	**-18%**	
Revenue growth (local currency)				
NZ Rentals	9.8%	-7.5%	n/a	Hire days down -14% in last four months
Tourism Group	-0.9%	-25.9%	n/a	Waitomo operating at minium viable level rather than closed due to NZ$2m grant
Australia Rentals	3.6%	-9.8%	n/a	Hire day growth but low single digit yield decline in first 8 months of FY20
US Rentals	-18.5%	0.6%	n/a	Revenue growth of +68% in ;ast four months of FY20 vs. FY19
EBIT margins				
Total	14.7%	12.7%	-198bp	
NZ Rentals	21.2%	22.0%	80bp	EBIT growth through first 8 months was on track for another record year
Tourism Group	29.6%	12.7%	-1,694bp	Heavily reliant on international tourism.
Australia Rentals	13.6%	11.6%	-193bp	
US Rentals	8.7%	6.9%	-184bp	

Source: THL, Forsyth Barr analysis

Figure 11. Price performance



Source: Forsyth Barr analysis

Figure 12. Substantial shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	8.0%

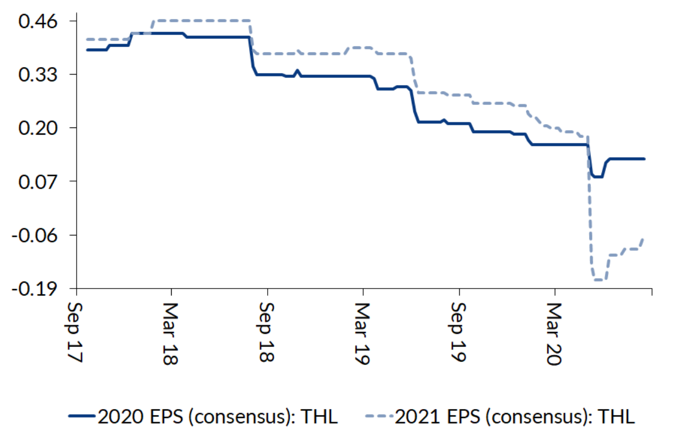
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 13. 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)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Tourism Holdings	**THL NZ**	**NZ$2.35**	**NZ$346**	**<0x**	**>50x**	**8.4x**	**6.9x**	**<0x**	**70.6x**	**0.0%**
APOLLO TOURISM & LEISURE	ATL AT	A$0.26	A$48	<0x	20.0x	15.0x	7.4x	<0x	20.6x	-0.4%
THOR INDUSTRIES INC	THO US	US$91.36	US$5,043	16.8x	13.6x	9.1x	8.3x	13.3x	n/a	1.8%
AVIS BUDGET GROUP INC	CAR US	US$32.57	US$2,269	12.4x	17.8x	<0x	32.6x	23.0x	n/a	n/a
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A$13.11	A$2,610	<0x	29.9x	<0x	5.3x	<0x	11.8x	1.4%
WEBJET	WEB AT	A$3.88	A$1,315	<0x	28.1x	<0x	13.9x	<0x	29.8x	1.5%
SEALINK TRAVEL GROUP	SLK AT	A$5.17	A$1,128	22.9x	18.9x	11.3x	10.0x	24.5x	19.3x	3.1%
			Compco Average:	**17.3x**	**21.4x**	**11.8x**	**12.9x**	**20.3x**	**20.4x**	**1.5%**
EV = Current Market Cap + Actual Net Debt			**THL Relative:**	**n/a**	**n/a**	**-29%**	**-46%**	**n/a**	**247%**	**-100%**

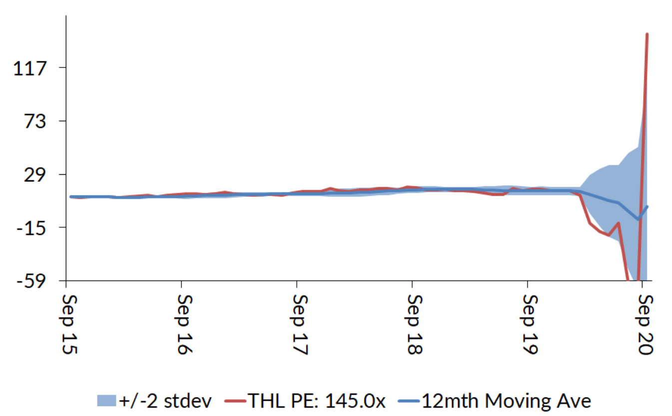
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (THL) companies fiscal year end

Figure 14. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 15. One year forward PE (x)



Source: Forsyth Barr analysis

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