

Tourism Holdings

Pothole Deepens

ANDY BOWLEY

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

SCOTT ANDERSON

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

UNDERPERFORM

Tourism Holdings' (THL) downgrade was the icing on the proverbial Christmas cake of a disastrous COVID-19 impacted year for tourism related companies. The company acknowledged that its after tax loss in FY21 will be larger than the market consensus average. The key change since the company's Annual Shareholder Meeting in October 2020 appears to be New Zealand related with lower rental demand than anticipated for the peak summer period and fewer vehicle sales than targeted in the "Great New Zealand Motorhome Sale". The balance sheet remains strong, with significant capacity to deploy capital when travel markets recover, however, we caution this is likely to be a lengthy and have a non-linear profile. With the company generating losses and no-line-of-sight to an above-WACC return on capital we continue to believe book value is the best valuation benchmark, versus which THL currently trades at a ~+25% premium. UNDERPERFORM.

NZX Code	THL	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$2.52	NPAT* (NZ\$m)	20.0	-22.4	3.7	21.3	PE	18.5	n/a	n/a	17.5
Target price	NZ\$2.15	EPS* (NZc)	13.6	-15.1	2.5	14.4	EV/EBIT	12.0	n/a	48.1	14.3
Risk rating	High	EPS growth* (%)	-38.5	n/a	n/a	n/a	EV/EBITDA	5.4	14.3	7.4	5.1
Issued shares	147.1m	DPS (NZc)	0.0	0.0	0.0	10.8	Price / NTA	1.3	1.5	1.5	1.5
Market cap	NZ\$371m	Imputation (%)	n/a	n/a	50	50	Cash div yld (%)	0.0	0.0	0.0	4.3
Avg daily turnover	322.2k (NZ\$605k)	*Based on normalised profits					Gross div yld (%)	n/a	n/a	0.0	5.1

What's changed?

- **Earnings:** NPAT loss increased in FY21 to -NZ\$22.4m
- **Target price:** Lowered to NZ\$2.15 from NZ\$2.20 to reflect FY21 downgrade

Domestic demand only

THL assumes that borders will remain closed for the remainder of FY21. In a domestic only demand environment management remains confident that it can be EBIT positive in both the US (as it will likely be in FY21) and Australia (EBIT loss making in FY21, but profitable if better prepared). New Zealand, in contrast, is far more reliant on international visitors, and will likely remain loss-making in order to be optimally positioned for a recovery. At a group level we expect losses to continue until borders reopen.

Non-linear recovery

THL's forward demand profile is highly uncertain, in our opinion. We expect a clunky approach to border reopening. While we believe THL will be better positioned relative to competitors given (1) its sales channels reach, (2) balance sheet strength, and (3) younger average fleet age, we expect rental markets will take time to settle-down and fleet reinvestment will be inhibited by potential access problems to new vehicles/chassis given global supply chain challenges. Moreover, vehicle sales will fall from current elevated levels. Therefore, THL's ability to generate an above WACC return on capital may be more longer rather than short term.

Book value basis for valuation

In light of the inherent difficulty in deriving earnings forecasts for THL currently, we believe the only appropriate basis for valuation is book value. Our estimate for THL's book value as at FY21 falls from ~NZ\$2.05 to ~NZ\$2.00 as a result of this downgrade. Our target price assumes a small premium to book value to reflect THL's ability to consistently generate a gain on sale margin on vehicle disposals.

Tourism Holdings (THL)

Priced as at 23 Dec 2020 (NZ\$)

2.52

12-month target price (NZ\$)*

2.15

Expected share price return	-14.7%
Net dividend yield	0.0%
Estimated 12-month return	-14.7%

Spot valuations (NZ\$)

1. Price to book	2.00
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	703
(Net debt)/cash	(211)
Less: Capitalised operating leases	(176)
Value of equity	316

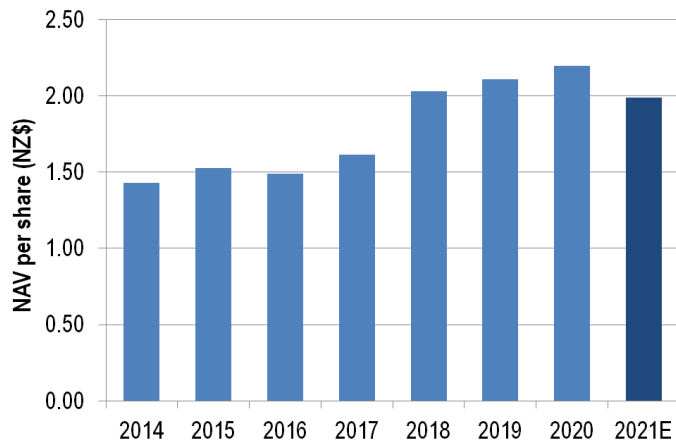
Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	423.0	400.9	299.8	309.9	409.8	EV/EBITDA (x)	4.9	4.7	12.3	6.4	4.4
Normalised EBITDA	114.8	114.1	38.9	72.1	105.3	EV/EBIT (x)	9.1	10.4	n/a	41.4	12.3
Depreciation and amortisation	(52.6)	(63.1)	(63.5)	(61.0)	(67.9)	PE (x)	11.4	18.5	n/a	>100x	17.5
Normalised EBIT	62.1	51.0	(24.6)	11.1	37.4	Price/NTA (x)	1.4	1.3	1.5	1.5	1.5
Net interest	(11.2)	(12.9)	(8.3)	(9.3)	(12.8)	Free cash flow yield (%)	-24.1	-11.8	-22.8	-43.4	-38.8
Associate income	(11.0)	(9.5)	2.0	3.2	4.7	Net dividend yield (%)	10.7	0.0	0.0	0.0	4.3
Tax	(12.0)	(8.5)	8.5	(1.3)	(8.1)	Gross dividend yield (%)	13.9	n/a	n/a	0.0	5.1
Minority interests	0	0	0	0	0						
Normalised NPAT	27.9	20.0	(22.4)	3.7	21.3	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	1.9	7.3	0	0	0	Interest cover EBIT (x)	5.5	3.9	n/a	1.2	2.9
Reported NPAT	29.8	27.3	(22.4)	3.7	21.3	Interest cover EBITDA (x)	10.2	8.8	4.7	7.7	8.2
Normalised EPS (cps)	22.2	13.6	(15.1)	2.5	14.4	Net debt/ND+E (%)	42.2	28.2	23.8	37.9	44.9
DPS (cps)	27.0	0	0	0	10.8	Net debt/EBITDA (x)	1.8	1.1	2.4	2.5	2.3
Growth Rates	2019A	2020A	2021E	2022E	2023E	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	-0.7	-5.2	-25.2	3.4	32.2	Return on assets (%)	10.3	7.8	-4.4	1.7	5.2
EBITDA (%)	3.5	-0.6	-65.9	85.1	46.1	Return on equity (%)	10.1	6.2	-7.4	1.2	7.0
EBIT (%)	-2.2	-18.0	n/a	n/a	>100	Return on funds employed (%)	13.4	10.9	-5.8	2.5	7.3
Normalised NPAT (%)	-25.6	-28.3	n/a	n/a	>100	EBITDA margin (%)	27.1	28.5	13.0	23.3	25.7
Normalised EPS (%)	-28.3	-38.5	n/a	n/a	>100	EBIT margin (%)	14.7	12.7	-8.2	3.6	9.1
Ordinary DPS (%)	0.0	-100.0	n/a	n/a	n/a	Capex to sales (%)	42.5	28.2	46.1	71.7	59.0
						Capex to depreciation (%)	349	182	221	372	362
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	76	n/a	n/a	50	50
EBITDA	114.8	114.1	38.9	72.1	105.3	Pay-out ratio (%)	122	0	0	0	75
Working capital change	(4.8)	(19.7)	14.3	0.0	13.6						
Interest & tax paid	(23.2)	(17.4)	3.9	(7.3)	(17.8)	Operating Performance	2019A	2020A	2021E	2022E	2023E
Other	4.0	(7.7)	(3.7)	(3.4)	(3.0)	Revenue (NZ\$m)					
Operating cash flow	90.8	69.3	53.4	61.4	98.1	Rentals NZ	148.7	137.5	99.7	94.7	141.3
Capital expenditure	(180.0)	(112.9)	(138.1)	(222.2)	(241.8)	Tourism Group	41.4	30.7	4.6	11.5	31.7
(Acquisitions)/divestments	84.8	97.2	122.9	79.7	94.1	Rentals Australia	83.5	74.4	55.2	59.9	73.2
Other	(0.3)	(11.1)	(7.0)	(7.0)	(7.0)	Rentals US	149.4	158.3	140.3	143.7	163.6
Funding available/(required)	(4.8)	42.5	31.2	(88.1)	(56.6)	Total	423.0	400.9	299.8	309.9	409.8
Dividends paid	(29.4)	(17.4)	0	0	(8.0)						
Equity raised/(returned)	30.8	49.3	2.0	0	0	Normalised EBIT (NZ\$m)					
(Increase)/decrease in net debt	(3.4)	74.4	33.2	(88.1)	(64.6)	Rentals NZ	31.5	30.2	(17.3)	5.1	20.1
						Tourism Group	12.3	3.9	(1.7)	(0.1)	7.0
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Rentals Australia	11.3	8.6	(5.8)	4.1	3.9
Working capital	37.7	60.4	39.0	43.4	32.8	Rentals US	13.0	10.9	3.7	5.8	10.5
Fixed assets	407.0	359.7	319.1	403.8	486.2	Group support services	(6.0)	(2.7)	(3.5)	(3.7)	(4.0)
Intangibles	44.2	50.3	49.1	47.9	46.8	Total	62.1	51.0	(24.6)	11.1	37.4
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	EBIT (NZ\$m)					
Total funds employed	546.1	580.8	511.0	592.9	658.2	Services	48.0	35.4	(44.0)	(2.8)	21.8
Net debt/(cash)	202.2	127.8	94.6	182.6	247.2	Goods	14.1	15.6	19.4	14.0	15.7
Lease liability	0	81.9	74.9	67.9	60.9	Total	62.1	51.0	(24.6)	11.1	37.4
Other liabilities	66.9	46.3	39.1	43.5	46.5						
Shareholder's funds	277.0	325.1	302.5	298.9	303.5	NZDAUD	0.92	0.95	0.93	0.92	0.91
Minority interests	0	0	0	0	0	NZDUSD	0.67	0.63	0.69	0.72	0.71
Total funding sources	546.1	581.0	511.0	592.9	658.2						

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

Greater NAV decline in FY21; remains key valuation benchmark

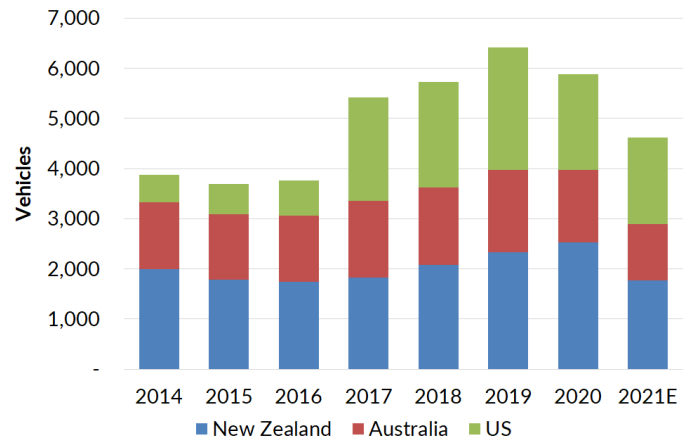
We now expect THL's net asset value per share to drop to ~NZ\$2.00 at year end from ~NZ\$2.20 at FY20. This incorporates year end net debt of ~NZ\$95m and reflects the significant net loss during the year. We now expect the year end fleet size to be ~4,600, a net decline of almost 1,300 vehicles during the year.

Figure 1. Net asset value per share (NZ\$)



Source: Forsyth Barr analysis

Figure 2. Fleet at year end



Source: THL, Forsyth Barr analysis

Earnings revisions

We increase the magnitude of expected losses implied in our earnings forecasts for FY21 as summarised in Figure 3. Our revised NPAT forecast is for a loss of -NZ\$22.4m, materially below current market consensus (-NZ\$12.8m). Our revisions primarily reflect:

- Lower rental revenues in New Zealand due to more subdued utilisation.
- Reduced number of vehicle sales in New Zealand to ~1,000 from ~1,500 in FY21.

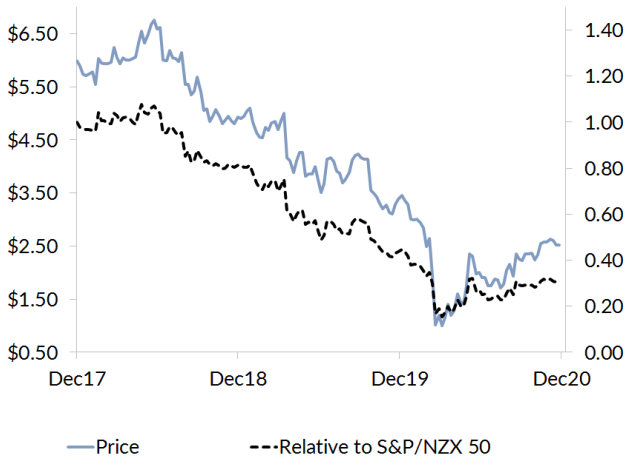
Our earnings forecasts for later years increase, reflecting the scope for higher future earnings from vehicle sales that were previously expected in FY21. However, given the high margin for error attached to all of our forecasts these should not be treated as 'upgrades'.

Figure 3. Earnings revisions (NZ\$m)

	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales revenue	349.5	299.8	-14.2%	306.2	309.9	1.2%	378.9	409.8	8.2%
EBIT	(7.2)	(24.6)	-241.3%	6.7	11.1	66.2%	26.7	37.4	40.2%
Reported NPAT	(9.3)	(22.4)	-140.5%	1.9	3.7	92.8%	15.4	21.3	38.0%
Underlying NPAT	(9.3)	(22.4)	-140.5%	1.9	3.7	92.8%	15.4	21.3	38.0%
Underlying EPS (cents)	(6.3)	(15.1)	-139.9%	1.3	2.5	90.4%	10.4	14.4	38.1%
DPS (cents)	0.0	0.0	n/a	0.0	0.0	n/a	7.8	10.8	38.1%

Source: Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	5.6%
Wilson Asset Management Group	5.0%

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

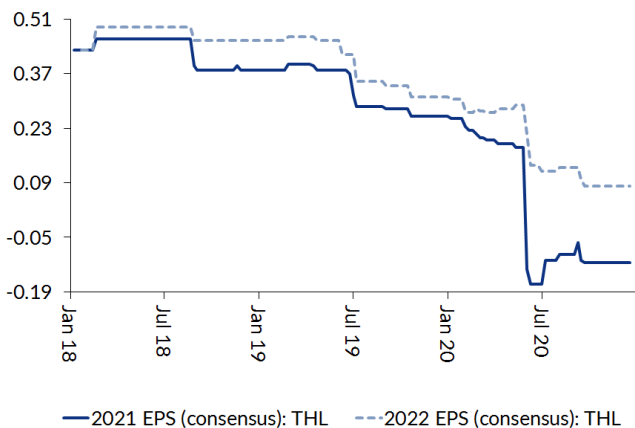
Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2021E	2022E	2021E	2022E	2021E	2022E	
Tourism Holdings	THL NZ	NZ\$2.52	NZ\$371	<0x	>50x	12.8x	6.9x	<0x	44.8x	0.0%
APOLLO TOURISM & LEISURE	ATLAT	A\$0.34	A\$63	<0x	26.2x	15.6x	7.7x	<0x	21.5x	0.0%
THOR INDUSTRIES INC	THO US	US\$94.17	US\$5,211	13.4x	11.7x	8.2x	7.3x	13.0x	n/a	1.8%
AVIS BUDGET GROUP INC	CAR US	US\$37.32	US\$2,601	>50x	>50x	<0x	26.9x	5.4x	40.8x	n/a
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$16.05	A\$3,196	<0x	47.2x	<0x	7.3x	<0x	15.9x	0.9%
WEBJET	WEB AT	A\$5.03	A\$1,705	<0x	40.6x	<0x	19.6x	<0x	53.7x	0.8%
SEALINK TRAVEL GROUP	SLK AT	A\$6.59	A\$1,439	23.9x	19.9x	12.5x	10.9x	27.1x	21.0x	2.8%
Compc Average:				18.6x	29.1x	12.1x	13.3x	15.2x	30.6x	1.3%
THL Relative:				n/a	n/a	6%	-48%	n/a	46%	-100%

EV = Current Market Cap + Actual Net Debt

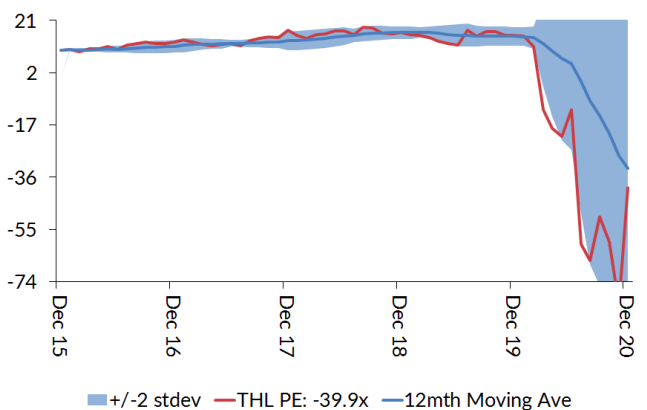
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compc metrics re-weighted to reflect headline (THL) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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 22 Dec 2020, Forsyth Barr's research ratings were distributed as follows:

	OUTPERFORM	NEUTRAL	UNDERPERFORM
	44.4%	38.9%	16.7%

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.