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NEW ZEALAND EQUITY RESEARCH | TOURISM | TOURISM OPERATOR

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Tourism Holdings
1H21 — Ready for More Action

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NEUTRAL

We upgrade Tourism Holdings (THL) to NEUTRAL from UNDERPERFORM given the equally balanced risks between recovery potential and opportunities, and further equity dilution from prolonged losses. The company reported a challenged 1H21 result, reliant on domestic only rentals as a result of border closures, partially offset by booming vehicle sales. An underlying post-tax loss of -NZ$2.7m was its first since 1H12. Rental demand has been significantly impacted by border restrictions, particularly in New Zealand, where domestic rentals have historically been a smaller proportion of the customer mix. This will play out to a greater extent in 2H21; we expect losses to deepen further. The strength of vehicle sales have provided THL the relative luxury of a strong balance sheet with negligible net debt at period end and allows scope for reinvestment in fleet ahead of an anticipated recovery, for which THL is well placed.

NZX Code	THL
Share price	NZ$2.25
Target price	NZ$2.50
Risk rating	High
Issued shares	151.2m
Market cap	NZ$340m
Avg daily turnover	305.9k (NZ$546k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	20.0	-23.1	-5.2	19.3
EPS* (NZc)	13.6	-15.5	-3.5	12.8
EPS growth* (%)	-38.5	n/a	77.7	n/a
DPS (NZc)	0.0	0.0	0.0	9.6
Imputation (%)	n/a	n/a	50	50
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	16.5	n/a	n/a	17.6
EV/EBIT	11.4	n/a	n/a	13.5
EV/EBITDA	5.1	20.4	9.2	5.2
Price / NTA	1.2	1.3	1.4	1.3
Cash div yld (%)	0.0	0.0	0.0	4.3
Gross div yld (%)	n/a	n/a	0.0	5.1

What's changed?

- **Earnings:** Downgrades to forecasts in each outlook year (FY21–FY23) to reflect later start to border re-openings
- **Target price:** Lifted to NZ$2.50 (from NZ$2.15) as we reincorporate DCF into our valuation approach
- **Rating:** Upgrade to NEUTRAL from UNDERPERFORM

Rental markets subdued; domestic only

Rental revenues declined materially in 1H21 as THL is highly leveraged to international visitors. Growth in domestic rentals have helped partially mitigate the lower demand environment, particularly in the US. However, in New Zealand, where reliance on international inbound is highest, the losses stemming from rental operations are most accute. This is unlikely to change unless (1) borders reopen, or (2) THL downsizes its fleet and operational capability further.

Vehicle sales will slow through 2H21

THL has sold a record number of vehicles in 1H21; its fleet has fallen by -27%. However, this rate of vehicle sales is not sustainable and will slow. Consequently, the profit benefit from gain on vehicle sales will dissipiate and contribute to the worsening losses through 2H21. Gain on sale margins have been solid, reflecting the strong demand environment for used vehicles in each market and could strengthen over the next six months as the number of vehicles on offer decline and sales terms tighten.

Action acquisition appeals

THL will acquire the remaining 50% in Action Manufacturing, its New Zealand based vehicle manufacturing operation, from JV partner Grant Brady for NZ$9m through a combination of shares and cash. Action Manufacturing is a key part of THL's build-buy, rent, sell model in New Zealand and Australia, and provides some diversification benefits outside of RVs. This represents a sensible acquisition at a very good price (3x–6x historic PE and below book value).

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Tourism Holdings (THL)

Priced as at 26 Feb 2021 (NZ$)	2.25

12-month target price (NZ$)*	2.50
Expected share price return	11.1%
Net dividend yield	0.0%
Estimated 12-month return	11.1%

Key WACC assumptions	
Risk free rate	2.30%
Equity beta	1.43
WACC	8.7%
Terminal growth	1.5%

Profit and Loss Account (NZ$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	423.0	400.9	333.2	332.3	416.7
Normalised EBITDA	**114.8**	**114.1**	**25.8**	**54.9**	**97.8**
Depreciation and amortisation	(52.6)	(63.1)	(49.6)	(54.4)	(60.5)
Normalised EBIT	**62.1**	**51.0**	**(23.9)**	**0.6**	**37.3**
Net interest	(11.2)	(12.9)	(10.9)	(9.6)	(12.3)
Associate income	(11.0)	(9.5)	1.8	1.3	1.3
Tax	(12.0)	(8.5)	9.6	2.5	(7.0)
Minority interests	0	0	0	0	0
Normalised NPAT	**27.9**	**20.0**	**(23.1)**	**(5.2)**	**19.3**
Abnormals/other	1.9	7.3	1.2	0	0
Reported NPAT	**29.8**	**27.3**	**(21.9)**	**(5.2)**	**19.3**
Normalised EPS (cps)	22.2	13.6	(15.5)	(3.5)	12.8
DPS (cps)	27.0	0	0	0	9.6

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	-0.7	-5.2	-16.9	-0.3	25.4
EBITDA (%)	3.5	-0.6	-77.4	>100	78.0
EBIT (%)	-2.2	-18.0	n/a	n/a	>100
Normalised NPAT (%)	-25.6	-28.3	n/a	n/a	n/a
Normalised EPS (%)	-28.3	-38.5	n/a	n/a	n/a
Ordinary DPS (%)	0.0	-100.0	n/a	n/a	n/a

Cash Flow (NZ$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	**114.8**	**114.1**	**25.8**	**54.9**	**97.8**
Working capital change	(4.8)	(19.7)	3.2	(1.4)	13.2
Interest & tax paid	(23.2)	(17.4)	2.8	(3.3)	(16.0)
Other	4.0	(7.7)	(3.8)	(3.7)	(3.3)
Operating cash flow	**90.8**	**69.3**	**28.0**	**46.5**	**91.7**
Capital expenditure	(180.0)	(112.9)	(123.0)	(209.2)	(218.5)
(Acquisitions)/divestments	84.8	97.2	138.5	85.2	99.6
Other	(0.3)	(11.1)	(10.5)	(7.0)	(7.0)
Funding available/(required)	**(4.8)**	**42.5**	**33.0**	**(84.4)**	**(34.2)**
Dividends paid	(29.4)	(17.4)	0	0	(7.2)
Equity raised/(returned)	30.8	49.3	0	0	0
(Increase)/decrease in net debt	**(3.4)**	**74.4**	**33.0**	**(84.4)**	**(41.5)**

Balance Sheet (NZ$m)	2019A	2020A	2021E	2022E	2023E
Working capital	37.7	60.4	50.0	56.5	45.8
Fixed assets	407.0	359.7	309.4	382.8	444.3
Intangibles	44.2	50.3	49.1	47.9	46.8
Right of use asset	0	69.6	62.1	55.5	49.5
Other assets	57.3	40.8	40.8	40.8	40.8
Total funds employed	**546.1**	**580.8**	**511.4**	**583.5**	**627.3**
Net debt/(cash)	202.2	127.8	94.8	179.2	220.7
Lease liability	0	81.9	74.7	67.7	60.7
Other liabilities	66.9	46.3	39.1	44.2	46.7
Shareholder's funds	277.0	325.1	302.9	292.4	299.1
Minority interests	0	0	0	0	0
Total funding sources	**546.1**	**581.0**	**511.4**	**583.5**	**627.3**

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

Spot valuations (NZ$)	
1. NAV (50%)	2.05
2. DCF (50%)	2.44
3. n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	666
(Net debt)/cash	(124)
Less: Capitalised operating leases	(173)
Value of equity	369

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	4.7	4.4	17.3	7.8	4.4
EV/EBIT (x)	8.6	9.8	n/a	>100x	11.5
PE (x)	10.2	16.5	n/a	n/a	17.6
Price/NTA (x)	1.2	1.2	1.3	1.4	1.3
Free cash flow yield (%)	-26.2	-12.8	-27.9	-47.8	-37.3
Net dividend yield (%)	12.0	0.0	0.0	0.0	4.3
Gross dividend yield (%)	15.5	n/a	n/a	0.0	5.1

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	5.5	3.9	n/a	0.1	3.0
Interest cover EBITDA (x)	10.2	8.8	2.4	5.7	7.9
Net debt/ND+E (%)	42.2	28.2	23.8	38.0	42.5
Net debt/EBITDA (x)	1.8	1.1	3.7	3.3	2.3

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	10.3	7.8	-4.3	0.1	5.5
Return on equity (%)	10.1	6.2	-7.6	-1.8	6.4
Return on funds employed (%)	13.4	10.9	-5.6	0.1	7.5
EBITDA margin (%)	27.1	28.5	7.7	16.5	23.5
EBIT margin (%)	14.7	12.7	-7.2	0.2	8.9
Capex to sales (%)	42.5	28.2	36.9	62.9	52.4
Capex to depreciation (%)	349	182	254	393	368
Imputation (%)	76	n/a	n/a	50	50
Pay-out ratio (%)	122	0	0	0	75

Operating Performance	2019A	2020A	2021E	2022E	2023E
Revenue (NZ$m)					
Rentals NZ	148.7	137.5	133.5	90.3	129.1
Tourism Group	41.4	30.7	5.2	13.1	32.6
Rentals Australia	83.5	74.4	49.5	61.6	74.1
Rentals US	149.4	158.3	139.0	145.4	157.7
Total	**423.0**	**400.9**	**327.2**	**310.3**	**393.6**
Normalised EBIT (NZ$m)					
Rentals NZ	31.5	30.2	(23.6)	(12.8)	17.1
Tourism Group	12.3	3.9	(1.1)	0.8	7.6
Rentals Australia	11.3	8.6	(7.3)	6.5	5.3
Rentals US	13.0	10.9	11.8	6.9	8.4
Group support services	(6.0)	(2.7)	(5.0)	(5.4)	(5.7)
Total	**62.1**	**51.0**	**(25.1)**	**(3.8)**	**32.7**
EBIT (NZ$m)					
Services	48.0	35.4	(53.6)	(14.3)	20.7
Goods	14.1	15.6	29.8	14.8	16.6
Total	**62.1**	**51.0**	**(23.9)**	**0.6**	**37.3**
NZDAUD	0.92	0.95	0.93	0.92	0.91
NZDUSD	0.67	0.63	0.70	0.72	0.71

Risks more balanced; Upgrade to NEUTRAL

Tourism Holdings (THL) has navigated COVID-19 admirably to-date. Losses have been mitigated through cost management and an acceleration in vehicle sales. However, earnings deteriorate from here as vehicle sales slow and the current reliance on domestic only rentals is unable to compensate. Losses deepen through 2H21 and may continue into FY22 given shortened booking cycles and the prospect of borders being closed until early CY22. While losses will feature for the foreseeable future, the balance sheet is strong, helped by the relatively liquid nature of its fleet. Net debt is at very low levels and allows for considerable fleet reinvestment once leading demand indicators provide sufficient optimism for recovery. We revise our valuation approach to reincorporate our DCF (~NZ$2.45/share) at a 50% weighting, to acknowledge recovery potential, but retain net asset value (NAV) as a partial valuation anchor at 50%, which we estimate will fall to NZ$2.05/share at year end FY21. We upgrade to NEUTRAL given downside risk from current levels is limited by NAV, but upside potential exists if the recovery is quicker and steeper than anticipated.

THL's relative strength in its core markets is clear. It has a balance sheet ready to invest and pre COVID-19 generated attractive through the cycle returns. We acknowledge it is a best in class operator. Even in more normalised times market dynamics are not always favourable (i.e. the US vehicle sales challenges in FY19–20). The post COVID-19 world is likely to be different to the pre COVID-19 world. Travel propensity is unlikely to be the same. We recognise a post COVID-19 world may favour longer duration trips, given the added risk of border closures or other journey related challenges (i.e. additional border costs and protocols) there remains a large level of uncertainty. For investors there will be a time to take advantage of the recovery opportunity, just not yet, in our opinion.

Result summary

THL reported a soft 1H21 result, broadly in line with our estimates, reflecting the significant demand changes that have impacted over the period. While US profitability held up at prior year levels, given solid domestic rental demand and a substantial improvement in vehicle sales, the contributions from New Zealand and Australia fell materially. THL received NZ$6.6m of government support in 1H21 across NZ, Australia and the US. Net debt of just NZ$22m at period end fell NZ$106m during 1H21 due to the significant lift in vehicle sales (1,786 vs 944 in 1H20). In contrast, rental revenue declined -54%. NAV has fallen to NZ$2.10 from NZ$2.20 at year end FY20. We expect NAV dilution to accelerate through 2H21 given the likely larger losses that loom.

Figure 1. Summary of 1H21 result (NZ$m)

	1H20	1H21	Change	Forbar
Sales revenue	207.5	204.5	-1%	207.2
EBITDA	62.1	25.7	-59%	28.5
EBIT	31.0	0.2	-99%	(3.7)
Reported NPAT	13.1	(1.4)	-111%	(4.0)
Underlying NPAT	**13.1**	**(2.7)**	**-120%**	**(4.0)**
Underlying EPS (cents)	8.9	(1.8)	-120%	(2.7)
Interim DPS (cents)	0.0	0.0	n/a	0.0

Source: THL, Forsyth Barr analysis

Figure 2. Segmental split of 1H21 result (NZ$m)

	1H20	1H21	Change	Forbar
Rentals NZ	7.5	(10.8)	-244.6%	(10.3)
Tourism Group	4.3	(0.5)	-111.5%	(1.0)
Rentals Australia	8.6	(2.6)	-130.4%	0.4
Rentals US	12.4	16.6	33.8%	9.1
Group support services	(1.8)	(2.4)	34.7%	(1.8)
Total EBIT	**31.0**	**0.2**	**-99.3%**	**(3.7)**
..including gain on sale	7.8	20.1	157.7%	7.8

Source: THL, Forsyth Barr analysis

Earnings revisions

We lower our underlying NPAT forecasts in each outlook year as summarised in Figure 3. The downgrades principally reflect a later start to the inbound tourism recovery in each market, particularly New Zealand. Assuming that borders remains largely closed for the remainder of CY21, our base case scenario for THL is for a further year of losses in FY22. We consolidate Action Manufacturing from 1 April 2021.

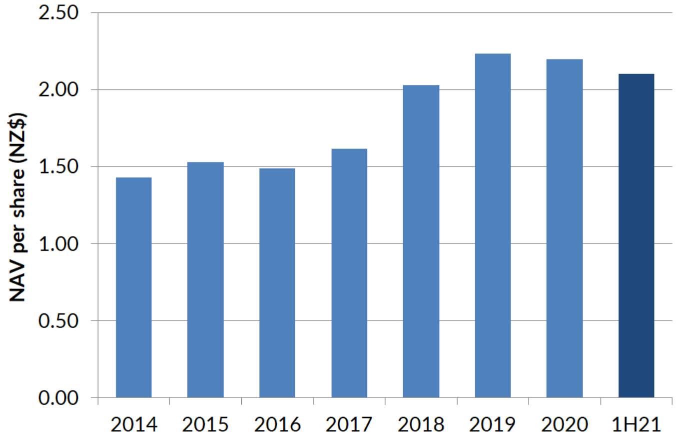
Figure 3. Earnings revisions (NZ$m)

	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales revenue	299.8	333.2	11.2%	309.9	332.3	7.2%	409.8	416.7	1.7%
EBIT	(24.6)	(23.9)	2.8%	11.1	0.6	-95.0%	37.4	37.3	-0.3%
Reported NPAT	(22.4)	(21.9)	2.2%	3.7	(5.2)	-241.3%	21.3	19.3	-9.4%
Underlying NPAT	**(22.4)**	**(23.1)**	**-3.3%**	**3.7**	**(5.2)**	**-241.3%**	**21.3**	**19.3**	**-9.4%**
Underlying EPS (cents)	(15.1)	(15.5)	-2.7%	2.5	(3.5)	-238.3%	14.4	12.8	-11.4%
DPS (cents)	0.0	0.0	n/a	0.0	0.0	n/a	10.8	9.6	-11.4%

Source: Forsyth Barr analysis

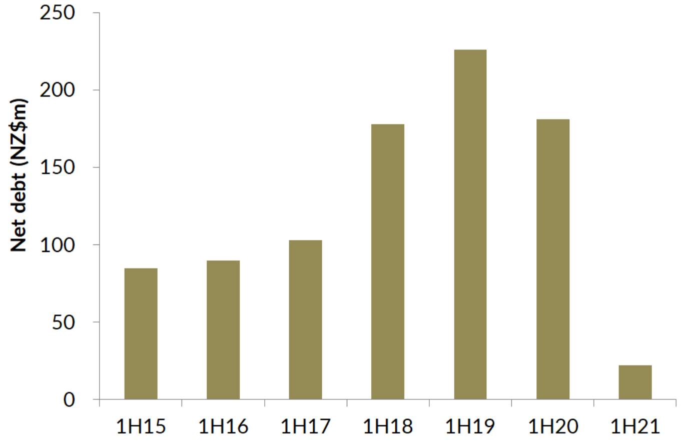
Key charts following THL's 1H21 result

Figure 4. Net asset value (NAV): 10c decline in NAV during 1H21, though a larger fall is likely in 2H20 as losses deepen



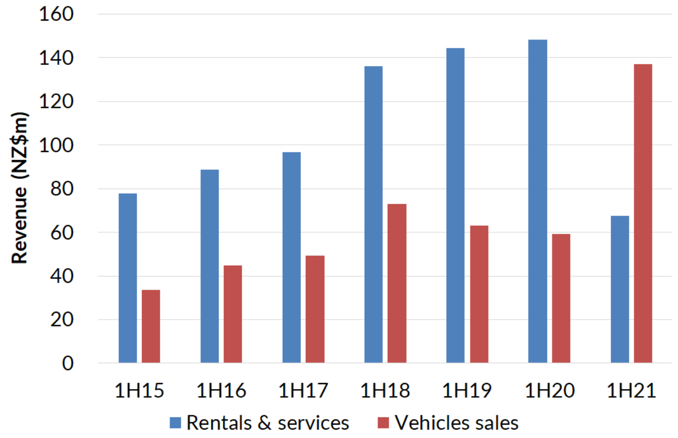
Source: THL, Forsyth Barr analysis

Figure 5. Net debt: vehicle sales strength has reduced net debt substantially. FY21 guidance lowered to NZ$90m



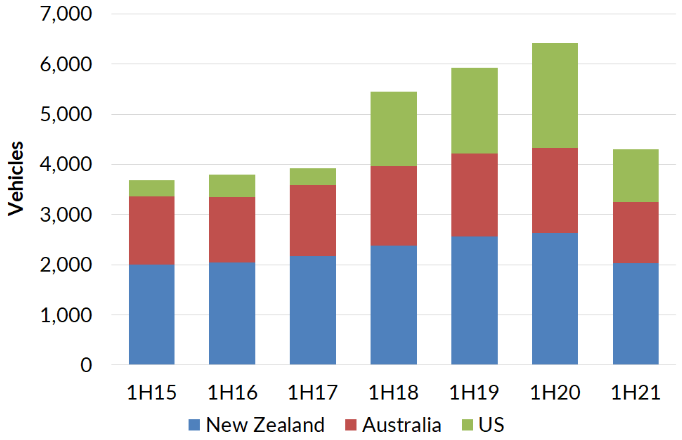
Source: THL, Forsyth Barr analysis

Figure 6. Revenue mix: Dramatic switch to vehicle sales in 1H21 highlights THL's business model flexibility



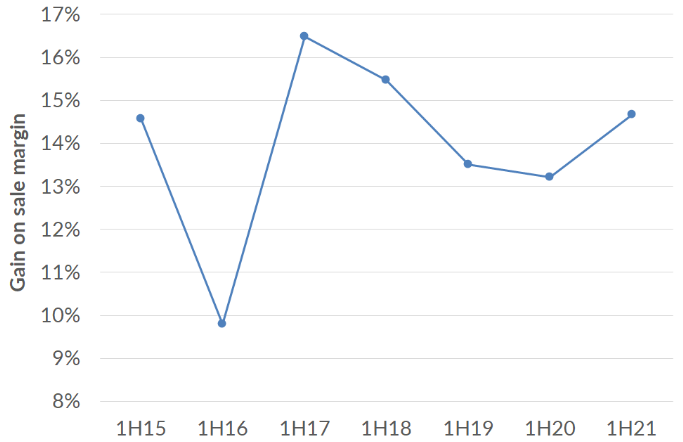
Source: THL, Forsyth Barr analysis

Figure 7. Fleet size: Vehicles sales have led to a -27% reduction in the total fleet size



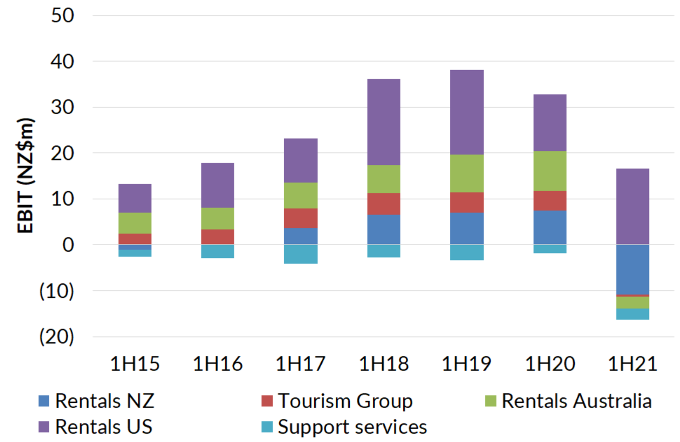
Source: THL, Forsyth Barr analysis

Figure 8. Gain on sale margin: Significant growth in US margins, though reduction in New Zealand due to issued vouchers



Source: THL, Forsyth Barr analysis

Figure 9. Divisional EBIT: Only Rentals US was profitable through 1H21



Source: THL, Forsyth Barr analysis

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Result analysis

Figure 10. Key line items from the result (NZ$m)

	1H20	1H21	Change	Comments
Profit and loss account				
Sales revenue	207.5	204.5	-1%	Vehicles sales +132%, rental and services revenue -54%
EBITDA	62.1	25.7	-59%	Government subsidy benefit of NZ$6.6m in total during the period
Depreciation & amort.	(31.1)	(25.5)	-18%	Lease depreciation amounts to NZ$3.9m
NZ Rentals	7.5	(10.8)	-245%	
Tourism Group	4.3	(0.5)	-112%	Assisted by NZ$1.3m from Strategic Tourism Asset Protection Programme
Australia Rentals	8.6	(2.6)	-130%	
US Rentals	12.4	16.6	34%	Record number of vehicle sales (870) at good margins; domestic rental yields up
Group support services	(1.8)	(2.4)	35%	Includes NZ$1.3m of revenue from thl digital
EBIT	**31.0**	**0.2**	**-99%**	
Associates	0.2	0.8	250%	Growth in rental yields and sales margins at Just Go
JV profits	(5.9)	0.2	-104%	Action Manufacturing contribution impacted by lower RV production
Interest expense	(4.6)	(5.7)	24%	Lease interest adds NZ$2.1m
Profit before tax	20.7	(4.5)	-122%	
Taxation	(5.7)	1.6	-127%	Effective rate of ~29%
Minorities	0.0	0.3	n/a	
Underlying NPAT	**15.0**	**(2.7)**	**-120%**	**No FY21 guidance albeit losses will likely increase in 2H21**
Non-recurring (post tax)	0.0	1.2	n/a	
Reported NPAT	15.0	(1.5)	-112%	
Underlying EPS (cents)	8.9	(1.8)	-120%	Shares on issue of ~148m
Interim DPS (cents)	0.0	0.0	n/a	
Cashflow and net debt				
Operating cashflow	22.9	4.4	-81%	Impacted by weaker rental markets
Fleet capex	(81.0)	(32.2)	-60%	Reduced fleet investment in all markets
Fleet disposals	59.1	133.2	126%	Record level of vehicle sales
Other capex	(1.8)	(2.5)	39%	
Other disposals	0.1	0.1	n/a	
Free cash flow	(0.8)	103.0	-13481%	
Acquisitions	0.0	(2.3)	n/a	
Net debt/(cash)	181.0	22.0	-88%	THL targeting year end net debt of ~NZ$90m; total debt facilities of NZ$197m
Key statistics				
Rental/Tourism EBIT	25.0	(17.5)	-170%	Domestic only rental demand in all markets
Gain on sale	7.8	20.1	158%	Real depreciation rates in all markets improved (NZ to ~5%, Aus ~7%, US ~4%)
Group support services	(1.8)	(2.4)	35%	Incorporates revenue and costs from thl digital and triptech
Group EBIT	31.0	0.2	-99%	
Revenue growth (local currency)				
NZ Rentals	8.4%	5.9%	n/a	Rentals +5%; vehicle sales +14%
Tourism Group	-3.5%	-85.3%	n/a	Reduction in visitors in period
Australia Rentals	1.7%	0.0%	n/a	Rentals +4%; vehicle sales -9%. Bush fire impacted ~NZ$1m
US Rentals	-8.8%	38.4%	n/a	USD rental revenue flat; sharp decline in vehicle sales
EBIT margins	14.9%	0.1%	-1,484bp	
NZ Rentals	11.3%	-15.4%	-2,672bp	Domestic rental yields down -30% to -40% on previous norms; low utilisation
Tourism Group	24.3%	-19.0%	-4,324bp	Waitomo operating at minimum viable level; Kiwi Experience in hibernation
Australia Rentals	19.0%	-8.8%	-2,776bp	Domestic yields flat; rental demand influenced by state borders; Jobseeker ends March 2021
US Rentals	15.9%	16.3%	42bp	Significant temporary gain on vehicle sales margin expansion; utilisation down but rental yields up

Source: Forsyth Barr analysis

Figure 11. Price performance

Source: Forsyth Barr analysis

Figure 12. Substantial shareholders

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

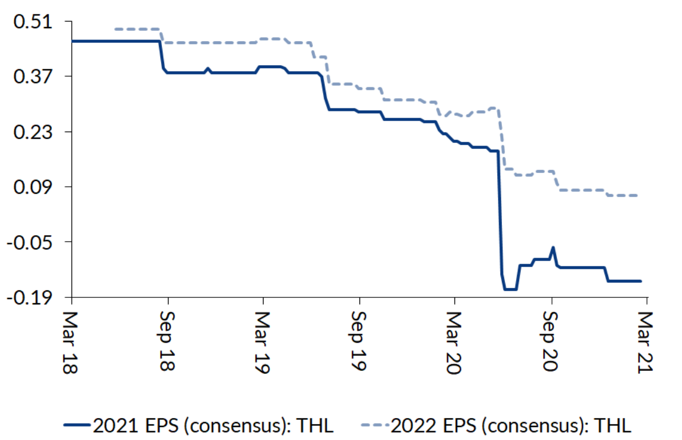
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 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$2.25**	**NZ$340**	**<0x**	**<0x**	**18.1x**	**8.5x**	**<0x**	**>75x**	**0.0%**
APOLLO TOURISM & LEISURE	ATL AT	A$0.32	A$59	<0x	>50x	24.6x	6.8x	<0x	21.4x	0.0%
THOR INDUSTRIES INC	THO US	US$117.75	US$6,519	16.1x	13.9x	9.3x	8.3x	12.9x	n/a	1.4%
AVIS BUDGET GROUP INC	CAR US	US$54.51	US$3,807	>50x	>50x	22.1x	28.5x	6.8x	42.1x	n/a
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A$17.79	A$3,544	<0x	>50x	<0x	10.2x	<0x	22.4x	0.6%
WEBJET	WEB AT	A$5.74	A$1,946	<0x	>50x	<0x	23.6x	<0x	63.7x	0.6%
SEALINK TRAVEL GROUP	SLK AT	A$8.60	A$1,878	27.7x	24.6x	14.3x	12.8x	26.8x	23.4x	2.2%
			Compco Average:	**21.9x**	**19.2x**	**17.5x**	**15.1x**	**15.5x**	**34.6x**	**1.0%**
EV = Current Market Cap + Actual Net Debt			**THL Relative:**	**n/a**	**n/a**	**4%**	**-43%**	**n/a**	**n/a**	**-100%**

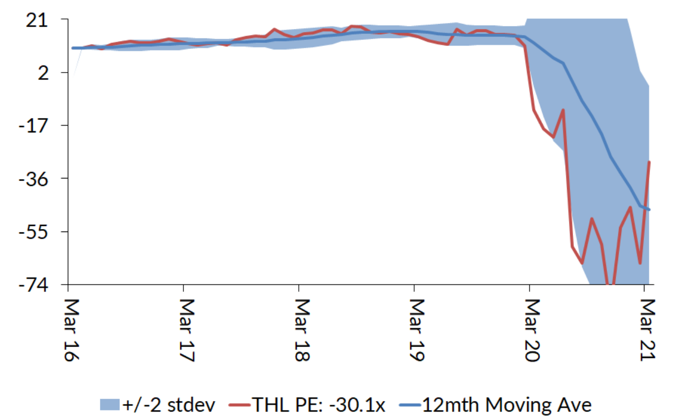
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (THL) companies fiscal year end

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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