

Tourism Holdings

Togo'ing

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UNDERPERFORM

Tourism Holdings (THL) has structured a staged exit from its tech JV Togo; it should at least take out of the JV what it put in. The deal values Togo at US\$100m, modestly but not materially above book value, and compares to inception value of US\$94m. While the blue sky option value for Togo now disappears, THL protects itself from further near term cash calls, in a period when balance sheet preservation is critical. While THL now trades at a meaningful discount to its net tangible asset value, we believe this is appropriate given significant demand uncertainty, and consequently, (1) the potential for operating losses as a result of inbound tourism markets being shut by border closures, and (2) vehicle sales markets being impacted by recessionary conditions. We retain an UNDERPERFORM rating.

NZX Code	THL	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.00	NPAT* (NZ\$m)	27.9	9.7	-14.8	44.2	EV/EBITDA	3.0	3.2	5.7	2.1
Target price	NZ\$1.50	EPS* (NZc)	22.2	6.5	-9.7	28.7	EV/EBIT	5.5	8.9	n/a	3.9
Risk rating	High	EPS growth* (%)	-28.3	-70.4	n/a	n/a	PE	4.5	15.3	n/a	3.5
Issued shares	147.1m	DPS (NZc)	27.0	10.0	0.0	20.0	Price / NTA	0.5	0.7	0.8	0.7
Market cap	NZ\$147m	Imputation (%)	76	50	50	50	Cash div yld (%)	27.0	10.0	0.0	20.0
Avg daily turnover	204.6k (NZ\$585k)	*Based on normalised profits					Gross div yld (%)	35.0	11.9	0.0	23.9

Managed exit from Togo

THL will retain an effective 26.5% stake in Togo through preference shares, which will pay an annual fixed dividend of ~US\$0.6m. This means THL has no further funding obligations for Togo. THL's stake is reduced by 23.5% reflecting:

- 6% for a cash payment of US\$6m from JV partner Thor.
- 17.5% for (1) the exclusive rights of Togo Fleet globally to specified types of third parties, (2) the rights for peer-to-peer RV rental platform Mighway in Australasia, (3) the rights for use and sale of Togo Insights (RV telematics), and (4) Togo's 46% shareholding in Australasian travel and tourism online business Outdoria (which incorporates CamperMate).

Thor has an option to acquire THL's remaining stake for US\$20m, exercisable within the next four years. The preference shares will convert back to common equity if Thor doesn't exercise its option.

Figure 1. What THL put in vs. what it extracts from Togo

Added to Togo since inception for its 50% stake	THL will now have
<ul style="list-style-type: none"> ▶ Cosmos platform, in vehicle tablet technology and telematics ▶ Mighway ▶ 23% Roadtrippers (US\$7.6m), 50% Roadtrippers Australia (US\$1.0m) ▶ Initial cash injection (US\$2.5m), further investment (NZ\$14.8m), advances (NZ\$8.1m) 	<ul style="list-style-type: none"> ▶ Togo Fleet (Cosmos), Togo Insights (telematics) ▶ Mighway (Australia and NZ) ▶ 46% Outdoria ▶ US\$6m cash for 6% stake, redeemable preference shares for effective 26.5% stake (valued at US\$20m/NZ\$33m)

Source: Forsyth Barr analysis

Earnings boost from Togo exit

In anticipation of a wider business update from THL, we adjust our modelling solely for the managed exit from Togo. No further Togo investment, together with its preference share dividends, lead us to upgrade earnings in each of our explicit forecast years. The impact on NTA (net tangible assets) is immaterial and therefore we make no change to our target price.

Tourism Holdings (THL)

Priced as at 03 Apr 2020 (NZ\$)						1.00						
12-month target price (NZ\$)*						1.50	Spot valuations (NZ\$)					
Expected share price return						50.0%	1. Price to book					1.50
Net dividend yield						1.7%	2. n/a					n/a
Estimated 12-month return						51.7%	3. n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						2.00%	Total firm value					643
Equity beta						1.30	(Net debt)/cash					(215)
WACC						10.2%	Less: Capitalised operating leases					(173)
Terminal growth						1.5%	Value of equity					255
Profit and Loss Account (NZ\$m)						Valuation Ratios						
Sales revenue	2018A	2019A	2020E	2021E	2022E	2018A	2019A	2020E	2021E	2022E		
Normalised EBITDA	425.9	423.0	385.0	314.2	435.4	EV/EBITDA (x)	2.9	3.0	3.2	5.7	2.1	
Depreciation and amortisation	110.9	114.8	97.3	47.7	129.8	EV/EBIT (x)	5.1	5.5	8.9	n/a	3.9	
Normalised EBIT	(47.4)	(52.6)	(62.9)	(61.0)	(60.4)	PE (x)	3.2	4.5	15.3	n/a	3.5	
Net interest	63.5	62.1	34.4	(13.3)	69.3	Price/NTA (x)	0.6	0.5	0.7	0.8	0.7	
Associate income	(9.4)	(11.2)	(12.8)	(10.7)	(11.7)	Free cash flow yield (%)	-58.6	-60.6	-36.1	-87.5	-62.8	
Tax	(1.0)	(11.0)	(8.2)	3.4	3.6	Net dividend yield (%)	27.0	27.0	10.0	0.0	20.0	
Minority interests	(15.6)	(12.0)	(3.7)	5.9	(17.0)	Gross dividend yield (%)	35.0	35.0	11.9	0.0	23.9	
Normalised NPAT	0	0	0	0	0	Capital Structure						
Abnormals/other	37.5	27.9	9.7	(14.8)	44.2	Interest cover EBIT (x)	6.8	5.5	2.7	n/a	5.9	
Reported NPAT	24.9	1.9	0	0	0	Interest cover EBITDA (x)	11.8	10.2	7.6	4.5	11.0	
Normalised EPS (cps)	62.4	29.8	9.7	(14.8)	44.2	Net debt/ND+E (%)	44.3	42.2	32.3	41.2	39.8	
DPS (cps)	30.9	22.2	6.5	(9.7)	28.7	Net debt/EBITDA (x)	1.8	1.8	1.4	3.6	1.4	
	27.0	27.0	10.0	0	20.0	Key Ratios						
Growth Rates						2018A	2019A	2020E	2021E	2022E		
Revenue (%)	25.2	-0.7	-9.0	-18.4	38.6	Return on assets (%)	11.0	10.3	5.6	-2.2	10.7	
EBITDA (%)	26.7	3.5	-15.3	-51.0	>100	Return on equity (%)	15.0	10.1	3.5	-6.0	16.7	
EBIT (%)	33.1	-2.2	-44.7	n/a	n/a	Return on funds employed (%)	15.5	13.4	7.7	-3.2	16.1	
Normalised NPAT (%)	24.3	-25.6	-65.1	n/a	n/a	EBITDA margin (%)	26.0	27.1	25.3	15.2	29.8	
Normalised EPS (%)	20.5	-28.3	-70.4	n/a	n/a	EBIT margin (%)	14.9	14.7	8.9	-4.2	15.9	
Ordinary DPS (%)	28.6	0.0	-63.0	-100.0	n/a	Capex to sales (%)	42.4	42.5	31.1	51.4	42.1	
Cash Flow (NZ\$m)						392	349	194	269	309		
EBITDA	110.9	114.8	97.3	47.7	129.8	Imputation (%)	76	76	50	50	50	
Working capital change	0	0	0	0	0	Pay-out ratio (%)	87	122	153	0	70	
Interest & tax paid	(25.0)	(23.2)	(12.4)	(0.8)	(24.7)	Operating Performance						
Other	8.6	(0.8)	(18.2)	(14.2)	(14.2)	2018A	2019A	2020E	2021E	2022E		
Operating cash flow	94.5	90.8	66.6	32.6	90.8	Revenue (NZ\$m)						
Capital expenditure	(180.7)	(180.0)	(119.8)	(161.4)	(183.2)	Rentals NZ	135.3	148.7	150.7	132.1	165.7	
(Acquisitions)/divestments	98.1	84.8	89.4	96.2	105.9	Tourism Group	41.8	41.4	29.0	29.0	39.2	
Other	(14.3)	(0.3)	0	0	0	Rentals Australia	80.2	83.5	78.5	60.6	87.1	
Funding available/(required)	(2.4)	(4.8)	36.2	(32.5)	13.4	Rentals US	167.7	149.4	126.8	92.4	143.5	
Dividends paid	(22.9)	(29.4)	(16.8)	(7.5)	(15.3)	Total	425.1	423.0	385.0	314.2	435.4	
Equity raised/(returned)	2.8	30.8	49.3	0	0	Normalised EBIT (NZ\$m)						
(Increase)/decrease in net debt	(22.5)	(3.4)	68.7	(40.1)	(1.8)	Rentals NZ	25.7	31.5	28.2	14.2	38.2	
Balance Sheet (NZ\$m)						Tourism Group	11.9	12.3	4.4	4.7	10.7	
Working capital	24.5	37.7	19.2	15.7	21.8	Rentals Australia	10.6	11.3	6.3	-7.5	13.9	
Fixed assets	384.2	407.0	373.8	382.4	403.6	Rentals US	19.7	13.0	-1.0	-20.9	10.7	
Intangibles	44.6	44.2	53.1	52.0	50.9	Group support services	(4.4)	(6.0)	(3.6)	(3.9)	(4.1)	
Right of use asset	0	0	68.8	68.8	68.8	Total	63.5	62.1	34.4	-13.3	69.3	
Other assets	59.2	57.3	43.2	43.2	43.2	EBIT (NZ\$m)						
Total funds employed	512.5	546.1	558.1	562.0	588.2	Services	43.2	48.0	22.1	-27.0	51.9	
Net debt/(cash)	198.8	202.2	133.5	173.5	175.4	Goods	20.3	14.1	12.3	13.7	17.5	
Lease liability	0	0	80.5	80.5	80.5	Total	63.5	62.1	34.4	-13.3	69.3	
Other liabilities	63.7	66.9	64.6	60.4	67.7	NZDAUD						
Shareholder's funds	250.0	277.0	279.6	247.7	264.7	0.94	0.92	0.94	0.94	0.91		
Minority interests	0	0	0	0	0	NZDUSD						
Total funding sources	512.5	546.1	558.1	562.0	588.2	0.73	0.67	0.63	0.65	0.67		

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

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 inbound growth and US vehicle sales market woes have challenged this backdrop. We remain 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. **UNDERPERFORM.**

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.

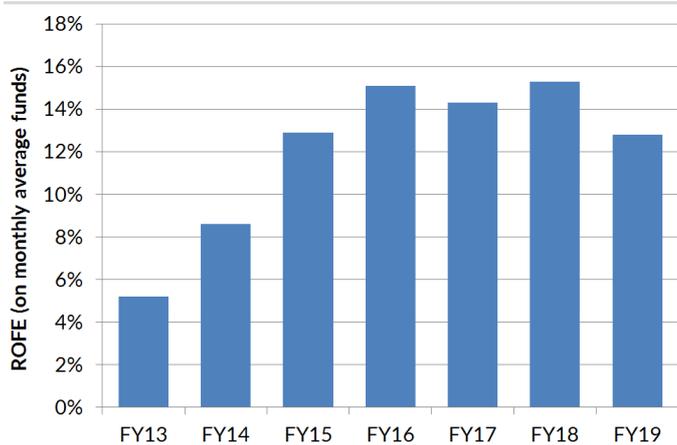
Financial structure

- **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

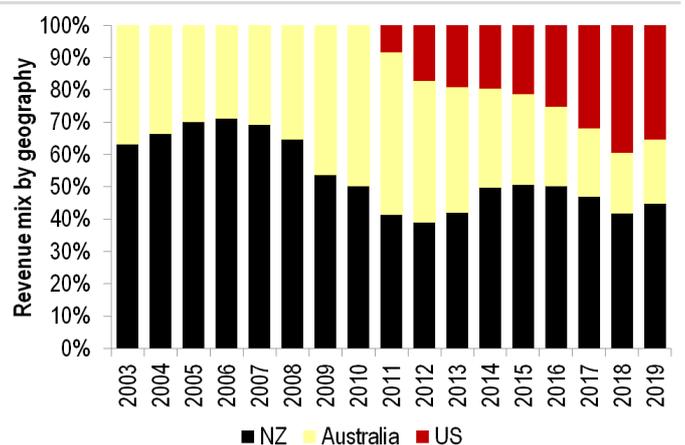
- **Low barriers to entry:** New operators may enter the motorhome rental market attracted by improving industry returns.
- **Economic slowdown in key origin countries:** Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 2. ROFE



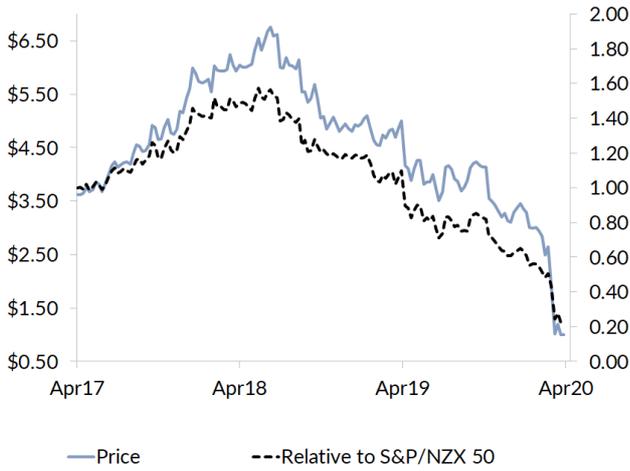
Source: Forsyth Barr analysis

Figure 3. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	8.0%

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

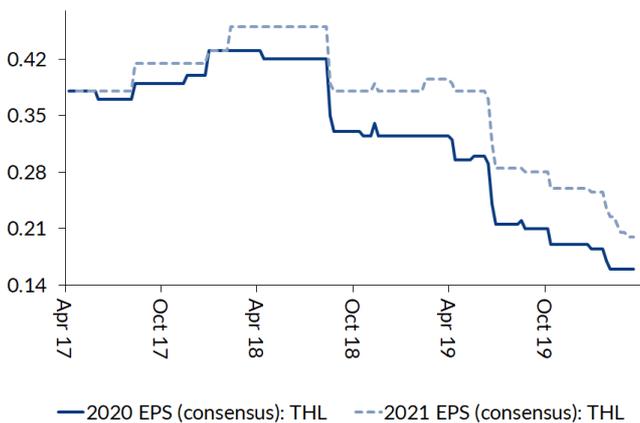
Figure 6. International valuation comparisons

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\$1.00	NZ\$147	15.3x	<0x	3.6x	7.3x	10.2x	<0x	0.0%
APOLLO TOURISM & LEISURE	ATL AT	A\$0.08	A\$14	2.7x	1.5x	6.6x	6.0x	13.7x	11.4x	26.7%
THOR INDUSTRIES INC	THO US	US\$36.70	US\$1,999	7.7x	n/a	5.7x	n/a	8.4x	n/a	n/a
Air New Zealand *	AIR NZ	NZ\$0.85	NZ\$949	<0x	<0x	3.5x	3.3x	<0x	<0x	13.0%
QANTAS AIRWAYS	QAN AT	A\$2.59	A\$3,861	28.8x	8.5x	3.9x	3.2x	21.6x	11.2x	6.7%
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$9.91	A\$1,002	6.8x	5.8x	2.3x	1.9x	3.9x	3.2x	10.4%
ARDENT LEISURE GROUP	AAD AT	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
SEALINK TRAVEL GROUP	SLK AT	A\$2.79	A\$609	13.0x	9.8x	8.9x	5.3x	14.5x	8.3x	6.2%
AVIS BUDGET GROUP INC	CAR US	US\$16.29	US\$1,219	4.1x	4.1x	13.1x	21.1x	42.6x	49.8x	n/a
HERTZ GLOBAL HOLDINGS INC	HTZ US	US\$7.72	US\$1,095	<0x	6.0x	17.2x	26.7x	n/a	n/a	n/a
Compco Average:				10.5x	6.0x	7.6x	9.6x	17.4x	16.8x	12.6%
THL Relative:				45%	n/a	-53%	-24%	-42%	n/a	-100%

EV = Current Market Cap + Actual Net Debt

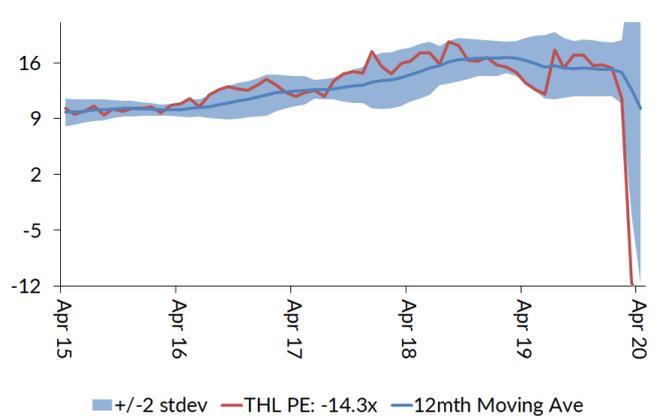
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (THL) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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