

# Tourism Holdings

## A Classic RV Rally

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**UNDERPERFORM** 

Tourism Holdings (THL) provided a market update highlighting the COVID-19 impact on its balance sheet has been modest, with some diminution in net asset value (NAV) in light of operating losses, but vehicle sales have picked up in all markets with realisable values in excess of book. We expect the business will generate an after tax loss in 2H20, which will continue through FY21, given the impact on rental demand from border closures and the likely apathy to travel among key customer groups. THL is now trading at a lofty ~55% premium to our assessment of its NAV as at 30 June 2021. While in recent years THL has been able to generate a return on capital in excess of its WACC, which ordinarily should justify a NAV premium, we can no longer say with any certainty that its returns profile will sufficiently recover over the foreseeable future. We, therefore, retain an UNDERPERFORM rating with an unchanged target price of NZ\$1.50.

NZX Code	THL	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.34	NPAT* (NZ\$m)	27.9	7.6	-26.3	16.2	EV/EBITDA	4.7	5.4	17.0	6.1
Target price	NZ\$1.50	EPS* (NZc)	22.2	5.1	-17.3	10.5	EV/EBIT	8.7	16.0	n/a	17.2
Risk rating	High	EPS growth* (%)	-28.3	-76.9	n/a	n/a	PE	10.6	45.7	n/a	22.3
Issued shares	147.1m	DPS (NZc)	27.0	0.0	0.0	8.0	Price / NTA	1.3	1.6	2.0	2.1
Market cap	NZ\$344m	Imputation (%)	76	n/a	50	50	Cash div yld (%)	11.5	0.0	0.0	3.4
Avg daily turnover	290.4k (NZ\$649k)	*Based on normalised profits					Gross div yld (%)	14.9	n/a	0.0	4.1

**What's changed?**

- Earnings: Longer dated recovery built into FY22 estimates

**Market update**

THL's update provided lots of information about current trading, but in light of business complexity and seasonality, we have limited ability to translate it into a current or forward view on underlying profitability. There still remains a wide margin for error in our earnings forecasts. Our key takeaways are as follows:

- **Vehicle sales:** Lower in 2H20 than the prior year given minimal sales in March and April, but have rebounded strongly in May and early June. It is too early to say whether this reflects pent-up demand or a structural lift in RV demand as a result of COVID-19
- **Forward rental bookings:** Down in all markets. New Zealand's domestic rental campaign is being undertaken at no margin
- **Net debt:** Guidance for FY20 has increased by +NZ\$30m to NZ\$165m–NZ\$175m since the 1H20 result, despite the benefit of (1) a reduction of NZ\$23m in gross capex guidance, (2) the cancelled interim dividend of ~NZ\$15m, and (3) Togo exit proceeds/lower 2H20 Togo investment totalling ~NZ\$15m. This means operating losses, lower vehicle sales and working capital changes (forwarding bookings in particular), amount in combination to NZ\$80m–NZ\$85m. We don't know what the split of these items is, albeit the key working capital change will be a reduction in 'revenue in advance' for forward bookings, which, given management commentary, may be down by ~-50% or NZ\$10m–NZ\$15m. The greater the proportion of operating losses of the remaining ~NZ\$70m, the greater the impact on NAV
- **Capex:** FY21 will be substantially lower than FY20
- **Debt covenants:** A new debt covenant package is expected to be in place by 30 June 2020
- **Tourism Group businesses:** Kiwi Experience (backpacker bus tours) is in hibernation. Waitomo remains open thanks to government funding

**Tourism Holdings (THL)**

 Priced as at 11 Jun 2020 (NZ\$) 2.34

<b>12-month target price (NZ\$)*</b>	<b>1.50</b>	<b>Spot valuations (NZ\$)</b>	
Expected share price return	-35.9%	1. Price to book	1.50
Net dividend yield	0.0%	2. n/a	n/a
Estimated 12-month return	-35.9%	3. n/a	n/a

<b>Key WACC assumptions</b>		<b>DCF valuation summary (NZ\$m)</b>	
Risk free rate	2.00%	Total firm value	563
Equity beta	1.30	(Net debt)/cash	(219)
WACC	10.2%	Less: Capitalised operating leases	(173)
Terminal growth	1.5%	Value of equity	171

<b>Profit and Loss Account (NZ\$m)</b>	2018A	2019A	2020E	2021E	2022E	<b>Valuation Ratios</b>	2018A	2019A	2020E	2021E	2022E
Sales revenue	425.9	423.0	364.5	298.8	345.3	EV/EBITDA (x)	4.7	4.7	5.4	17.0	6.1
<b>Normalised EBITDA</b>	<b>110.9</b>	<b>114.8</b>	<b>96.0</b>	<b>29.4</b>	<b>82.4</b>	EV/EBIT (x)	8.2	8.7	16.0	n/a	17.2
Depreciation and amortisation	(47.4)	(52.6)	(63.5)	(57.9)	(53.2)	PE (x)	7.6	10.6	45.7	n/a	22.3
<b>Normalised EBIT</b>	<b>63.5</b>	<b>62.1</b>	<b>32.5</b>	<b>(28.5)</b>	<b>29.1</b>	Price/NTA (x)	1.4	1.3	1.6	2.0	2.1
Net interest	(9.4)	(11.2)	(12.6)	(10.1)	(9.7)	Free cash flow yield (%)	-25.0	-25.9	-19.2	-18.6	-33.8
Associate income	(1.0)	(11.0)	(9.3)	2.0	3.0	Net dividend yield (%)	11.5	11.5	0.0	0.0	3.4
Tax	(15.6)	(12.0)	(3.0)	10.2	(6.3)	Gross dividend yield (%)	14.9	14.9	n/a	0.0	4.1
Minority interests	0	0	0	0	0						
<b>Normalised NPAT</b>	<b>37.5</b>	<b>27.9</b>	<b>7.6</b>	<b>(26.3)</b>	<b>16.2</b>	<b>Capital Structure</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Abnormals/other	24.9	1.9	0	0	0	Interest cover EBIT (x)	6.8	5.5	2.6	n/a	3.0
<b>Reported NPAT</b>	<b>62.4</b>	<b>29.8</b>	<b>7.6</b>	<b>(26.3)</b>	<b>16.2</b>	Interest cover EBITDA (x)	11.8	10.2	7.6	2.9	8.5
Normalised EPS (cps)	30.9	22.2	5.1	(17.3)	10.5	Net debt/ND+E (%)	44.3	42.2	37.9	33.9	40.1
DPS (cps)	27.0	27.0	0	0	8.0	Net debt/EBITDA (x)	1.8	1.8	1.7	3.9	1.8

<b>Growth Rates</b>	2018A	2019A	2020E	2021E	2022E	<b>Key Ratios</b>	2018A	2019A	2020E	2021E	2022E
Revenue (%)	25.2	-0.7	-13.8	-18.0	15.6	Return on assets (%)	11.0	10.3	5.2	-5.5	5.2
EBITDA (%)	26.7	3.5	-16.4	-69.4	>100	Return on equity (%)	15.0	10.1	2.8	-11.7	7.2
EBIT (%)	33.1	-2.2	-47.7	n/a	n/a	Return on funds employed (%)	15.5	13.4	7.1	-7.3	8.1
Normalised NPAT (%)	24.3	-25.6	-72.7	n/a	n/a	EBITDA margin (%)	26.0	27.1	26.3	9.8	23.9
Normalised EPS (%)	20.5	-28.3	-76.9	n/a	n/a	EBIT margin (%)	14.9	14.7	8.9	-9.5	8.4
Ordinary DPS (%)	28.6	0.0	-100.0	n/a	n/a	Capex to sales (%)	42.4	42.5	31.3	27.9	50.0

<b>Cash Flow (NZ\$m)</b>	2018A	2019A	2020E	2021E	2022E	<b>Operating Performance</b>	2018A	2019A	2020E	2021E	2022E
<b>EBITDA</b>	<b>110.9</b>	<b>114.8</b>	<b>96.0</b>	<b>29.4</b>	<b>82.4</b>	<b>Revenue (NZ\$m)</b>					
Working capital change	0	0	0	0	0.0	Rentals NZ	135.3	148.7	131.6	129.5	126.8
Interest & tax paid	(25.0)	(23.2)	(11.5)	4.2	(12.0)	Tourism Group	41.8	41.4	29.0	14.5	21.8
Other	8.6	(0.8)	(36.2)	(14.2)	(14.2)	Rentals Australia	80.2	83.5	73.0	61.2	75.4
<b>Operating cash flow</b>	<b>94.5</b>	<b>90.8</b>	<b>48.2</b>	<b>19.3</b>	<b>56.2</b>	Rentals US	167.7	149.4	130.9	93.7	121.3
Capital expenditure	(180.7)	(180.0)	(114.2)	(83.4)	(172.7)	<b>Total</b>	<b>425.1</b>	<b>423.0</b>	<b>364.5</b>	<b>298.8</b>	<b>345.3</b>
(Acquisitions)/divestments	98.1	84.8	70.2	114.6	87.2						
Other	(14.3)	(0.3)	0	0	0	<b>Normalised EBIT (NZ\$m)</b>					
<b>Funding available/(required)</b>	<b>(2.4)</b>	<b>(4.8)</b>	<b>4.2</b>	<b>50.6</b>	<b>(29.3)</b>	Rentals NZ	25.7	31.5	24.1	6.0	20.3
Dividends paid	(22.9)	(29.4)	(17.4)	0	(6.1)	Tourism Group	11.9	12.3	4.4	0.7	3.1
Equity raised/(returned)	2.8	30.8	49.3	0	0	Rentals Australia	10.6	11.3	7.3	(9.4)	7.0
<b>(Increase)/decrease in net debt</b>	<b>(22.5)</b>	<b>(3.4)</b>	<b>36.1</b>	<b>50.6</b>	<b>(35.4)</b>	Rentals US	19.7	13.0	0.2	(21.9)	2.9

<b>Balance Sheet (NZ\$m)</b>	2018A	2019A	2020E	2021E	2022E	<b>EBIT (NZ\$m)</b>	2018A	2019A	2020E	2021E	2022E
Working capital	24.5	37.7	18.2	14.9	17.3	Services	43.2	48.0	21.9	(41.9)	15.8
Fixed assets	384.2	407.0	386.8	302.0	338.6	Goods	20.3	14.1	10.6	13.4	13.3
Intangibles	44.6	44.2	53.1	52.0	50.9	<b>Total</b>	<b>63.5</b>	<b>62.1</b>	<b>32.5</b>	<b>(28.5)</b>	<b>29.1</b>
Right of use asset	0	0	68.8	68.8	68.8						
Other assets	59.2	57.3	43.2	43.2	43.2	NZDAUD	0.94	0.92	0.95	0.92	0.91
<b>Total funds employed</b>	<b>512.5</b>	<b>546.1</b>	<b>570.1</b>	<b>480.9</b>	<b>518.7</b>	NZDUSD	0.73	0.67	0.64	0.61	0.63
Net debt/(cash)	198.8	202.2	166.1	115.5	151.0						
Lease liability	0	0	80.5	80.5	80.5						
Other liabilities	63.7	66.9	51.4	59.4	62.2						
Shareholder's funds	250.0	277.0	272.1	225.5	225.1						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>512.5</b>	<b>546.1</b>	<b>570.1</b>	<b>480.9</b>	<b>518.7</b>						

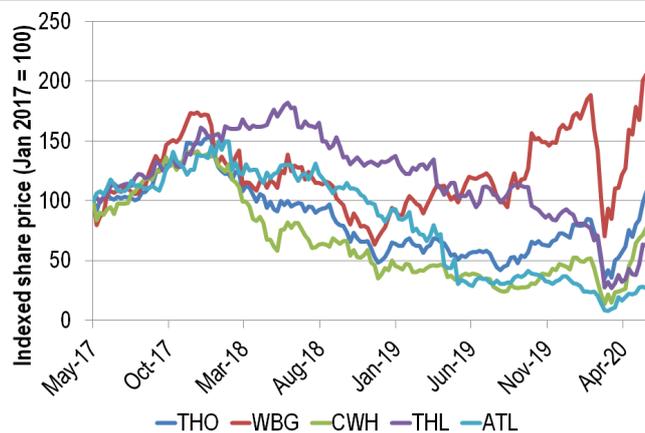
\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

## Valuation anchored to NAV

The rally in tourism related stocks in recent weeks has been dramatic (refer to Figure 1). THL is now up +325% from its low of 55c on 23 March 2020. Rising risk tolerance has led to share prices implying lofty profit expectations. However, with the level of demand uncertainty extremely high, we believe THL's scope for generating a return on capital in excess of its WACC is limited at least over the foreseeable future. Historically it has been able to, helped by super-high returns from Waitomo, but not consistently through the cycle.

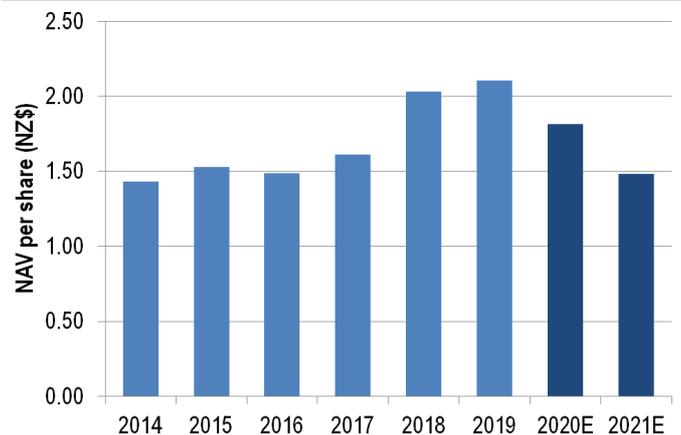
We, therefore, believe that the appropriate valuation measure for THL is applying an EV/IC (enterprise value to invested capital) of 1.0x, which assumes a sustainable ROIC (return on invested capital) consistent with WACC. Where EV equals IC, the implied share price equals NAV. Our forward estimates suggest a NAV per share of ~NZ\$1.50 as at 30 June 2021, which we retain as our target price.

**Figure 1. Strong COVID-19 recovery across global RV stocks**



Source: Eikon, Forsyth Barr analysis THO = Thor, WBG = Winnebago, CWH = Camping World, ATL = Apollo Tourism & Leisure

**Figure 2. NAV history in recent years**



Source: Forsyth Barr analysis

## Earnings revisions

We make changes to our earnings forecasts as summarised in Figure 3. While FY20 underlying NPAT is raised marginally, FY21 losses are extended and FY22 earnings fall materially from previous expectations given a long dated recovery assumption for international travel. Consequently dividends resume in FY22 but at a lower level than previously expected.

We are cognisant that the margin for error is significant given the wide range of potential outcomes over the near, medium and long term. We expect to make subsequent material changes to these forecasts as the outlook for THL becomes clearer.

**Figure 3. Earnings revisions (NZ\$m)**

	FY20E			FY21E			FY22E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales revenue	385.0	364.5	-5.3%	314.2	298.8	-4.9%	435.4	345.3	-20.7%
EBIT	34.4	32.5	-5.5%	(13.3)	(28.5)	114.4%	69.3	29.1	-58.0%
Reported NPAT	7.2	7.6	6.0%	(21.5)	(26.3)	22.2%	41.7	16.2	-61.2%
<b>Underlying NPAT</b>	<b>7.2</b>	<b>7.6</b>	<b>6.0%</b>	<b>(21.5)</b>	<b>(26.3)</b>	<b>22.2%</b>	<b>41.7</b>	<b>16.2</b>	<b>-61.2%</b>
Underlying EPS (cents)	4.8	5.1	6.0%	(14.2)	(17.3)	22.2%	27.1	10.5	-61.2%
DPS (cents)	10.0	0.0	-100.0%	0.0	0.0	n/a	20.0	8.0	-60.0%

Source: Forsyth Barr analysis

## 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.

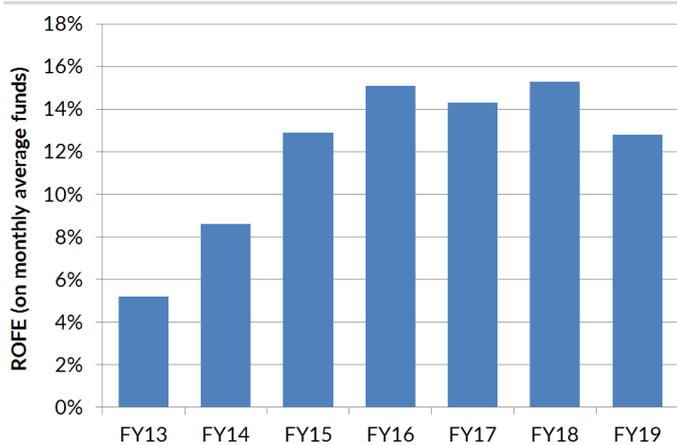
### Financial structure

- **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

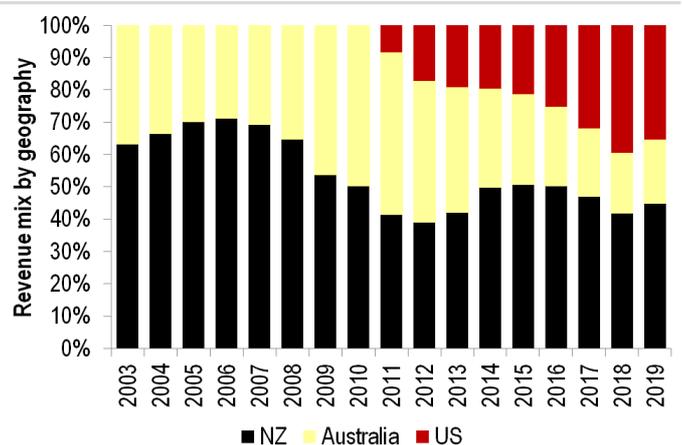
- **Low barriers to entry:** New operators may enter the motorhome rental market attracted by improving industry returns.
- **Economic slowdown in key origin countries:** Lower economic growth in Europe, the UK and key origin countries for THL could threaten earnings.

Figure 4. ROFE

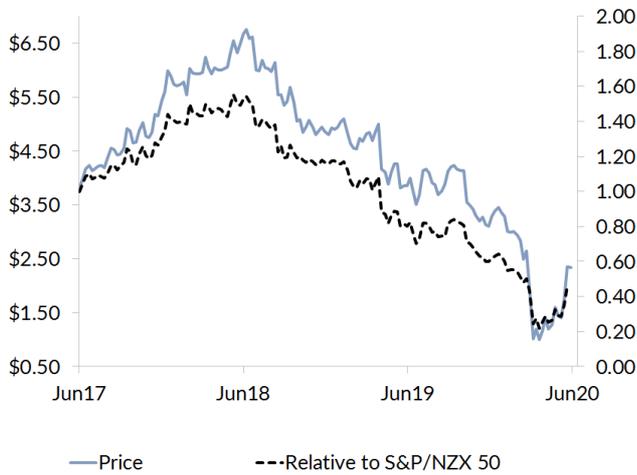


Source: Forsyth Barr analysis

Figure 5. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

**Figure 6. Price performance**


Source: Forsyth Barr analysis

**Figure 7. Substantial shareholders**

Shareholder	Latest Holding
HB Holdings	18.3%
ACC	8.0%

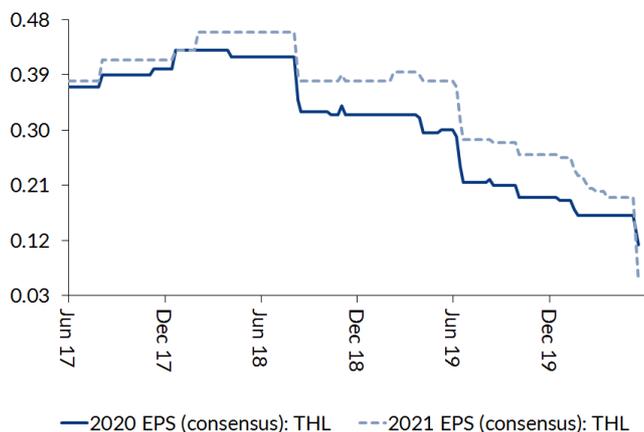
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 8. International valuation comparisons**

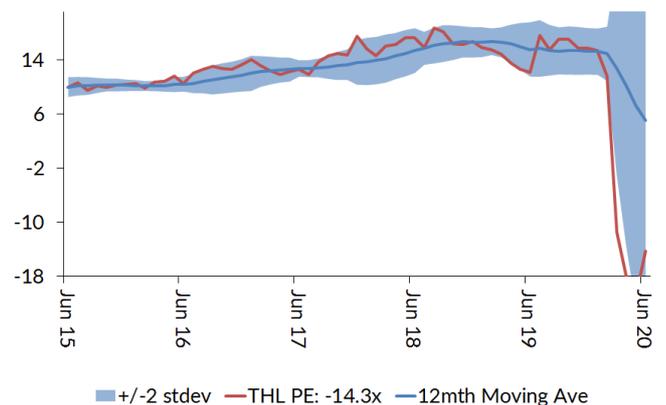
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
<b>Tourism Holdings</b>	<b>THL NZ</b>	<b>NZ\$2.34</b>	<b>NZ\$344</b>	<b>45.7x</b>	<b>&lt;0x</b>	<b>5.7x</b>	<b>18.6x</b>	<b>16.8x</b>	<b>&lt;0x</b>	<b>0.0%</b>
APOLLO TOURISM & LEISURE	ATLAT	A\$0.34	A\$63	<0x	8.3x	10.2x	7.6x	14.7x	15.1x	n/a
THOR INDUSTRIES INC	THO US	US\$109.95	US\$6,069	36.5x	22.5x	15.1x	11.5x	21.9x	n/a	n/a
Air New Zealand *	AIR NZ	NZ\$1.86	NZ\$2,088	<0x	<0x	5.2x	5.1x	<0x	<0x	0.0%
QANTAS AIRWAYS	QAN AT	A\$4.95	A\$7,379	<0x	>50x	6.5x	5.9x	<0x	73.0x	1.3%
FLIGHT CENTRE TRAVEL GROUP L	FLT AT	A\$16.85	A\$3,352	<0x	<0x	46.2x	30.9x	<0x	>75x	1.4%
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\$4.65	A\$1,016	25.0x	18.4x	15.2x	9.0x	26.4x	14.8x	3.0%
AVIS BUDGET GROUP INC	CAR US	US\$27.09	US\$1,884	1.6x	10.6x	<0x	<0x	<0x	6.9x	n/a
HERTZ GLOBAL HOLDINGS INC	HTZ US	US\$2.52	US\$358	<0x	<0x	<0x	<0x	6.3x	n/a	n/a
<b>Compcop Average:</b>				<b>21.0x</b>	<b>14.9x</b>	<b>16.4x</b>	<b>11.6x</b>	<b>17.3x</b>	<b>27.5x</b>	<b>1.4%</b>
<b>THL Relative:</b>				<b>117%</b>	<b>n/a</b>	<b>-65%</b>	<b>60%</b>	<b>-3%</b>	<b>n/a</b>	<b>-100%</b>

EV = Current Market Cap + Actual Net Debt

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

**Figure 9. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 10. One year forward PE (x)**


Source: Forsyth Barr analysis

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