

Turners Automotive Group Ltd

Fueling Growth Despite Headwinds

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Turners Automotive Group (TRA) has updated its FY23 guidance, with profit before tax (PBT) now expected to be at least NZ\$44.0m for the year ending 31 March. TRA previously communicated that it expected a PBT result marginally ahead of the record NZ\$43.1m they achieved in FY22. We have revised our FY23 PBT estimates upwards by ~NZ\$0.9m, driven by the (1) Automotive Retail segment continuing to be resilient to the weakening New Zealand used car market through market share gains and stable margins, partially offset by, (2) increased arrears in the Finance segment, and (3) slower than expected recovery in TRA's Credit Management segment. Our PBT estimates for FY23 and FY24 move slightly higher due to lasting market share gain benefits. Our blended spot valuation rises +NZ10c to NZ\$3.90.

NZX Code	TRA	Financials: Mar/	22A	23E	24E	25E	Valuation (x)	22A	23E	24E	25E
Share price	NZ\$3.45	NPAT* (NZ\$m)	31.3	31.9	29.8	33.8	PE	9.5	9.5	10.2	9.0
Spot Valuation	NZ\$3.90 (from 3.80)	EPS* (NZc)	36.3	36.4	34.0	38.5	EV/EBIT	75.8	67.7	93.2	72.8
Risk rating	High	EPS growth* (%)	26.7	0.1	-6.6	13.4	EV/EBITDA	32.5	31.6	34.7	30.0
Issued shares	86.7m	DPS (NZc)	23.0	23.0	23.0	26.0	Price / NTA	3.6	3.0	2.7	2.5
Market cap	NZ\$299m	Imputation (%)	100	100	100	100	Cash div yld (%)	6.7	6.7	6.7	7.5
Avg daily turnover	26.5k (NZ\$97k)	*Based on normalised profits					Gross div yld (%)	9.3	9.3	9.3	10.5

What's changed?

- **Earnings:** We increase our FY23 PBT forecast +2% from \$43.5m to \$44.4m. Our FY24 and FY25 PBT forecasts also very modestly increase (<1%) as we anticipate some of TRA's market share gains to last into future years.
- **Spot Valuation:** Our spot valuation increases +3% from \$3.80 to \$3.90.

Auto business resilient

TRA's core Automotive business has held up well in 2H23 against a challenging used car market. Sales volumes in TRA's Automotive Retail segment have been strong, despite the number of used car transactions in the New Zealand market falling -8% year-over-year. TRA has offset market weakness by capturing further market share in its existing locations, with new sites in FY23 performing well and more in the pipeline. Despite softened demand, TRA's margins have remained buoyed by favourable supply dynamics. As shown in Figure 2, another 1% of registered dealers left the New Zealand market in January 2023 due to challenges with importing vehicles that meet new Clean Car Standards and other market headwinds. TRA has also benefitted from demand for used cars following the damage caused by the Auckland floods and Cyclone Gabrielle.

Mixed results across Finance, Insurance and Debt Collection

Rising interest rates have started to impact consumer discretionary spending and led to increased arrears in TRA's loan book compared to FY22, impacting the Finance segments profitability. The Credit Management business is also experiencing a slower than expected recovery in the wake of the extreme weather events experienced in January and February 2023 whilst lower than expected mechanical breakdown insurance claims have boosted profit margins for the Insurance business.

FY23 earnings revised upwards

We have increased our PBT forecast for FY23 +2% from NZ\$43.5m to NZ\$44.4m. This upwards revision is primarily driven by the Automotive Retail segment. We improve our forecasts for both vehicle volumes and prices in the wake of TRA's market update. Lower than expected insurance claims flow through to a small increase in profits, but falling margins in both the Finance and Debt Collection segments offset these gains.

Turners Automotive Group Ltd (TRA)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 07 Mar 2023					3.45	Discounted cash flow (DCF)					3.73
52 week high / low					4.20 / 3.12	Peers multiples					3.70
Market capitalisation (NZ\$m)					299.1	Discounted dividend model (DDM)					4.30
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate					4.50%	Total firm value					826
Equity beta					0.95	(Net debt)/cash					(413)
WACC					8.8%	Less: Capitalised operating leases					(75)
Terminal growth					1.5%	Value of equity					344
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	260.2	298.5	324.4	330.8	349.6	EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Normalised EBITDA	16.7	18.8	20.7	19.1	22.1	EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
Depreciation and amortisation	(11.4)	(10.7)	(11.0)	(12.0)	(13.0)	PE (x)	12.0	9.5	9.5	10.2	9.0
Normalised EBIT	5.3	8.1	9.7	7.1	9.1	Price/NTA (x)	4.3	3.6	3.0	2.7	2.5
Net interest	32.1	35.1	34.7	34.3	37.9	Free cash flow yield (%)	0.9	-19.9	-0.3	11.2	9.6
Associate income	0	0	0	0	0	Net dividend yield (%)	5.8	6.7	6.7	6.7	7.5
Tax	(12.8)	(11.8)	(12.4)	(11.6)	(13.2)	Gross dividend yield (%)	8.1	9.3	9.3	9.3	10.5
Minority interests	0	0	0	0	0	Capital Structure					
Normalised NPAT	24.5	31.3	31.9	29.8	33.8	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Abnormals/other	0	0	0	0	0	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Reported NPAT	24.5	31.3	31.9	29.8	33.8	Net debt/ND+E (%)	58.3	61.7	61.6	60.3	59.3
Normalised EPS (cps)	28.7	36.3	36.4	34.0	38.5	Net debt/EBITDA (x)	19.6	21.3	20.4	21.7	18.7
DPS (cps)	20.0	23.0	23.0	23.0	26.0	Key Ratios					
Growth Rates						Return on assets (%)	2021A	2022A	2023E	2024E	2025E
Revenue (%)	-9.0	14.7	8.7	2.0	5.7	Return on equity (%)	6.8	6.5	7.7	8.2	8.8
EBITDA (%)	>100	12.1	10.5	-7.9	15.7	Return on funds employed (%)	10.5	12.6	12.1	10.9	11.9
EBIT (%)	n/a	51.7	20.2	-26.5	28.0	EBITDA margin (%)	3.5	3.9	3.8	3.5	3.9
Normalised NPAT (%)	61.1	27.5	2.1	-6.6	13.4	EBIT margin (%)	6.4	6.3	6.4	5.8	6.3
Normalised EPS (%)	62.1	26.7	0.1	-6.6	13.4	Capex to sales (%)	2.0	2.7	3.0	2.2	2.6
Ordinary DPS (%)	42.9	15.0	0.0	0.0	13.0	Capex to depreciation (%)	3.1	5.2	6.0	4.9	3.7
Cash Flow (NZ\$m)						Imputation (%)	86	179	211	160	117
EBITDA	16.7	18.8	20.7	19.1	22.1	Pay-out ratio (%)	100	100	100	100	100
Working capital change	(11.3)	(83.1)	(24.3)	7.9	(5.1)	Operating Performance					
Interest & tax paid	22.5	24.5	22.3	22.7	24.7	2021A	2022A	2023E	2024E	2025E	
Other	(17.0)	(4.2)	0	0	0	Automotive Retail					
Operating cash flow	10.9	(43.9)	18.7	49.7	41.8	Revenue	200.9	242.5	268.4	273.4	289.6
Capital expenditure	(8.1)	(15.5)	(19.5)	(16.3)	(13.1)	Revenue growth (%)	-10.7	20.7	10.7	1.9	5.9
(Acquisitions)/divestments	0.2	3.4	0	0	0	Operating margin (%)	7.7	8.0	8.6	8.2	8.3
Other	(6.3)	(5.6)	(6.0)	(6.3)	(6.4)	Operating profit	15.4	19.4	23.1	22.4	23.9
Funding available/(required)	(3.3)	(61.6)	(6.9)	27.1	22.2	Finance					
Dividends paid	(17.2)	(13.8)	(19.9)	(20.1)	(21.0)	Revenue	47.9	51.9	58.9	65.4	69.4
Equity raised/(returned)	0	1.2	3.8	0	0	Revenue growth (%)	4.6	8.4	13.4	11.2	6.0
(Increase)/decrease in net debt	(20.5)	(74.2)	(22.9)	7.0	1.2	Operating margin (%)	33.0	34.7	26.0	20.0	23.5
Balance Sheet (NZ\$m)						Operating profit	15.8	18.0	15.3	13.1	16.3
Working capital	329.3	412.3	436.7	428.8	433.9	Insurance					
Fixed assets	60.3	67.6	83.3	94.8	101.9	Revenue	41.9	40.4	43.0	44.6	45.4
Intangibles	166.0	164.5	163.2	161.9	160.7	Revenue growth (%)	-5.0	-3.7	6.4	3.7	1.8
Right of use asset	23.6	23.5	22.7	22.4	22.2	Operating margin (%)	22.3	28.7	32.2	32.9	33.4
Other assets	89.2	94.4	99.0	102.6	104.1	Operating profit	9.4	11.6	13.9	14.7	15.1
Total funds employed	668.3	762.2	804.9	810.5	822.8	Credit Management					
Net debt/(cash)	327.7	399.4	422.3	415.3	414.1	Revenue	12.8	9.7	10.1	11.0	13.2
Lease liability	23.2	25.9	23.7	23.3	23.2	Revenue growth (%)	-28.9	-24.2	4.0	9.1	20.0
Other liabilities	83.8	84.6	85.4	87.2	89.0	Operating margin (%)	39.9	31.4	30.0	30.0	30.0
Shareholder's funds	233.6	252.4	273.5	284.6	296.5	Operating profit	5.1	3.0	3.0	3.3	4.0
Minority interests	0	0	0	0	0						
Total funding sources	668.3	762.2	804.9	810.5	822.8						

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

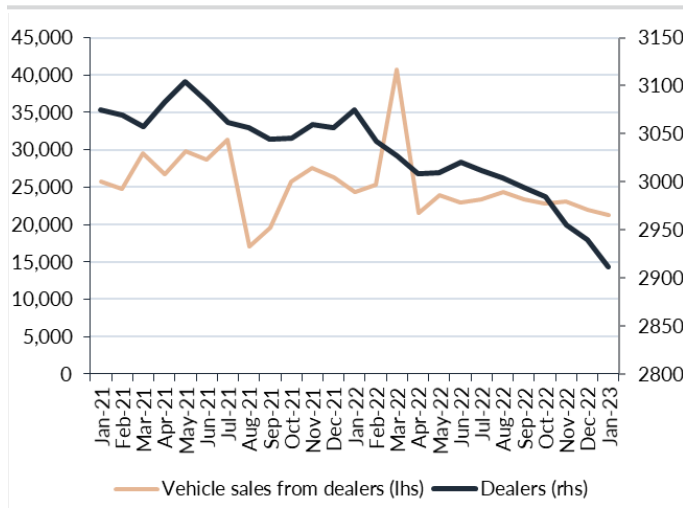
Earnings Revisions

Figure 1. Earnings Revisions

	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Operating Revenue	374.8	380.0	+1%	388.6	394.4	+1%	411.7	417.5	+1%
Other Income	0.3	0.3	+0%	0.0	0.0		0.0	0.0	
Total Income	375.1	380.3	+1%	388.6	394.4	+1%	411.7	417.5	+1%
Cost of goods sold	164.1	168.1	+2%	167.1	170.8	+2%	178.4	182.3	+2%
Interest expense	20.9	21.2	+1%	28.2	29.3	+4%	29.0	30.1	+4%
Impairment provision expense	3.0	3.5	+14%	5.3	5.5	+4%	5.1	5.3	+4%
Subcontracted service expense	12.0	12.1	+1%	12.2	12.3	+1%	12.8	12.9	+1%
Employee benefits	62.2	62.6	+1%	63.1	63.7	+1%	64.2	64.7	+1%
Commission	13.8	13.9	+1%	14.1	14.2	+1%	14.4	14.5	+1%
Advertising expense	4.8	4.8	+0%	5.3	5.3	+0%	5.5	5.5	+0%
Depreciation & amortisation expense	11.0	11.0	+0%	12.0	12.0	+0%	13.0	13.0	+0%
Systems maintenance	3.6	3.6	+0%	3.8	3.8	+0%	3.9	3.9	+0%
Claims	21.0	20.6	(2%)	21.4	21.3	(0%)	21.6	21.5	(0%)
Impairment of intangible brand asset	0.0	0.0		0.0	0.0		0.0	0.0	
Other expenses	15.0	14.5	(3%)	14.8	14.7	(1%)	17.0	16.9	(1%)
Total Expenses	331.6	335.9	+1%	347.4	353.0	+2%	364.9	370.6	+2%
Profit before taxation (PBT)	43.5	44.4	+2%	41.3	41.4	+0%	46.8	47.0	+0%
Taxation (expense)/benefit	12.2	12.4	+2%	11.6	11.6	+0%	13.1	13.2	+0%
Profit for the year (NPAT)	31.3	31.9	+2%	29.7	29.8	+0%	33.7	33.8	+0%

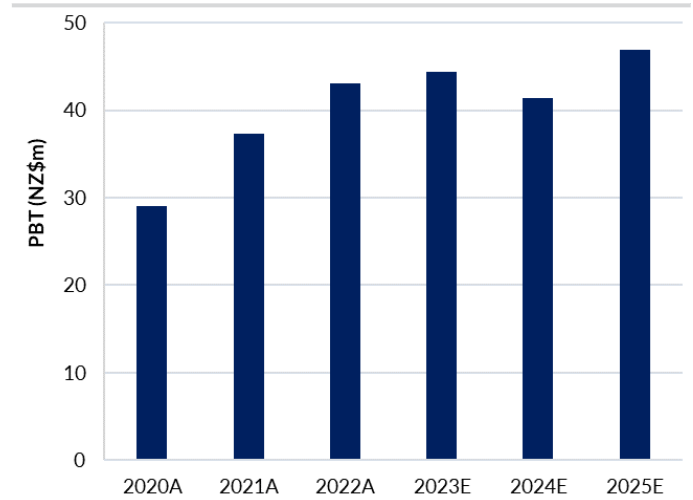
Source: Company data, Forsyth Barr analysis

Figure 2. Registered Motor Vehicle Dealers & Vehicle Sales in New Zealand



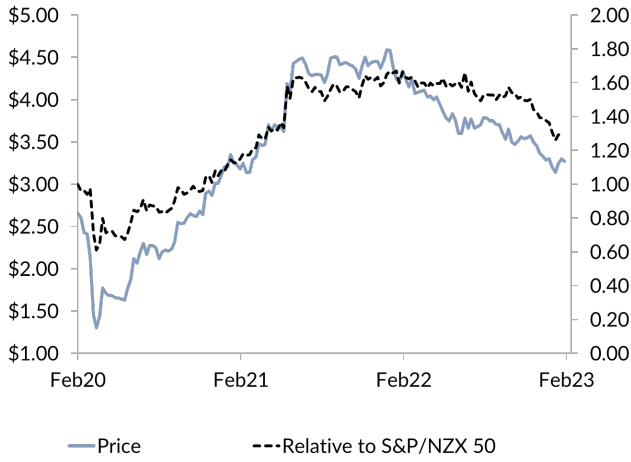
Source: Waka Kotahi, Company data, Forsyth Barr analysis

Figure 3. TRA – PBT (NZ\$m FY20-FY25)



Source: Company data, Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
Bartel Holdings	11.7%
Baker Investment Trust No 2	7.5%
Harrigens Trustee Limited	6.1%

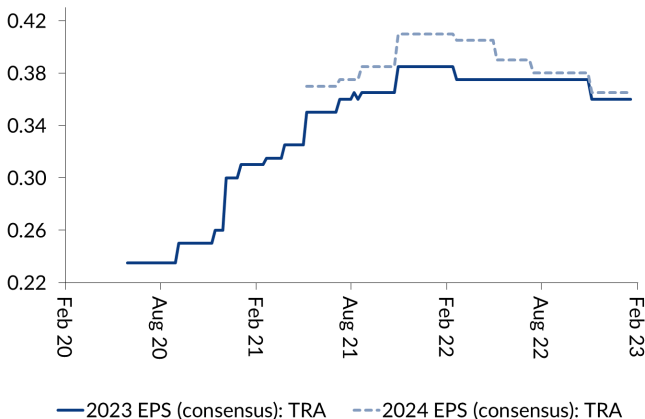
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2023E	PE 2024E	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBIT 2023E	EV/EBIT 2024E	Cash Yld 2024E		
(metrics re-weighted to reflect TRA's balance date - March)												
Turners Automotive	TRA NZ	NZ\$3.45	NZ\$299	9.5x	10.2x	31.9x	35.0x	68.3x	>75x	6.7%		
KMD Brands *	KMD NZ	NZ\$1.10	NZ\$782	15.7x	11.4x	5.1x	4.5x	11.8x	9.0x	6.2%		
The Warehouse Group *	WHS NZ	NZ\$2.60	NZ\$902	11.8x	11.4x	5.8x	5.6x	11.7x	11.3x	6.7%		
Briscoe Group	BGP NZ	NZ\$4.67	NZ\$1,040	12.1x	14.2x	7.4x	8.2x	9.3x	10.7x	5.4%		
Michael Hill International L	MHJ NZ	A\$1.13	A\$429	n/a	9.6x	4.0x	4.3x	6.9x	7.4x	7.0%		
Eagers Automotive	APE AT	A\$14.38	A\$3,673	12.1x	13.1x	8.8x	9.5x	10.7x	11.3x	4.7%		
Autosports Group	ASG AT	A\$2.18	A\$438	6.5x	6.7x	6.0x	6.2x	8.1x	8.1x	8.0%		
Motorcycle Holdings	MTO AT	A\$1.70	A\$124	5.2x	5.5x	5.3x	5.5x	7.3x	7.2x	10.0%		
Peter Warren Automotive Hold	PWR AT	A\$2.81	A\$483	8.2x	9.4x	7.5x	7.8x	9.7x	10.3x	7.2%		
Kamux Corp	KAMUX	€5.46	€218	18.5x	12.4x	9.0x	7.1x	15.2x	10.8x	4.0%		
America'S Car-Mart Inc	CRMT US	US\$84.48	US\$538	20.0x	15.1x	1.4x	5.9x	10.9x	15.9x	n/a		
Idom Inc	7599 JP	¥845.00	¥90,320	6.3x	6.8x	5.9x	5.6x	6.7x	6.4x	4.7%		
Compcop Average:				11.6x	10.5x	6.0x	6.4x	9.8x	9.9x	6.4%		
EV = Mkt cap+net debt+lease liabilities+min interests-investments				TRA Relative:		-19%	-3%	431%	449%	595%	n/a	4%

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

Figure 7. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

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