

# Turners Automotive Group Ltd

## Speeding to Record Profits in 1H24

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Turners Automotive Group (TRA) has released a positive trading update stating it expects 1H24 profit before tax (PBT) to be >NZ\$25m. Despite a challenging operating backdrop, TRA's strong performance continues to be driven by gains in its core Auto Retail division which now boasts >9% market share. This market share has more than doubled in the last five years thanks to TRA's increased brand awareness, superior vehicle sourcing capabilities, and increased footprint. TRA reiterated its guidance for FY24 PBT to be ahead of the record NZ\$45.5m it reported in FY23 and said it remains focussed on achieving its FY25 target of NZ\$50m in PBT. While TRA's trading update was broadly consistent with our expectations, we increase our FY24 PBT estimate by +NZ\$0.9m to NZ\$47.8m to account for a stronger-than-expected 1H24. Raised earnings estimates increase our blended spot valuation by +NZ16 cps to NZ\$4.16.

NZX Code	TRA	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$4.07	Rev (NZ\$m)	335.8	363.1	380.4	396.7	PE	11.0	10.3	9.6	9.1
Spot Valuation	NZ\$4.16 (from 4.00)	NPAT* (NZ\$m)	32.6	34.4	36.9	39.2	EV/EBIT	60.9	46.4	46.4	41.6
Risk rating	Medium	EPS* (NZc)	37.1	39.4	42.3	44.9	EV/EBITDA	30.6	25.0	24.5	22.9
Issued shares	87.4m	DPS (NZc)	23.0	24.5	28.5	29.5	Price / NTA	3.4	3.0	2.7	2.5
Market cap	NZ\$356m	Imputation (%)	100	100	100	100	Cash div yld (%)	5.7	6.0	7.0	7.2
Avg daily turnover	25.8k (NZ\$91k)	*Based on normalised profits					Gross div yld (%)	7.8	8.4	9.7	10.1

### What's changed?

- **Earnings:** PBT increases +2% to NZ\$47.8m in FY24 and +1% in FY25 and FY26 to NZ\$51.3m and NZ\$54.4m respectively.
- **Blended spot valuation:** Valuation rises +4% due to earnings and peer comparisons but offset by a recent risk-free rate increase.

### A familiar story: core Auto Retail continues its strong momentum

Strength in TRA's core Auto Retail division has been a constant theme for the company in the last few years, with market share gains driving a +22% PBT CAGR in the segment from FY20 to FY23. TRA has done a commendable job generating market share gains in a market where used car volumes are down and consumers have been squeezed by inflation and rising interest rates. The company said its market share has eclipsed 9% and is 'on track to exceed 10% in the near term'. Successful marketing campaigns like 'Tina from Turners' have heightened brand awareness, while TRA's strong vehicle sourcing capabilities and new sites have helped to cement its position as a trusted used car dealer. We forecast continued progress in 2H24 with FY24 PBT growing +5% on FY23 to NZ\$47.8m.

### A mixed bag in Finance, Insurance and Credit Management

Alongside the Auto Retail division, TRA's Insurance and Credit Management businesses are expected to contribute positively to its 1H24 result. 'Insurance continues to steadily grow its contribution to group earnings', and PBT in credit management is anticipated to be ahead of the NZ\$1.4m reported in 1H23. The speed of OCR hikes has pressured margins in the Finance book for 1H24 but we expect this dynamic to recover as the RBNZ has signalled the peak of its hiking cycle is in sight.

### Rising interest rates necessitate a change to WACC inputs

Given recent interest rate movements, we have increased our risk-free rate input assumption to ~5.25%, up ~+75bps from ~4.5%. Our WACC for TRA increases by ~+60bp to 9.65%, reducing our blended spot valuation by -NZ25cps to NZ\$4.0 prior to today's earnings upgrades. Earnings upgrades lift the blended spot valuation by +NZ16cps to NZ\$4.16, meaning the net impact of valuation changes since our last published report is -NZ9cps.

**Turners Automotive Group Ltd (TRA)**

<b>Market Data (NZ\$)</b>						<b>Spot valuation (NZ\$)</b>					
Priced as at 10 Oct 2023					4.07	Discounted cash flow (DCF)					4.14
52 week high / low					4.07 / 3.12	Peers multiples					4.32
Market capitalisation (NZ\$m)					355.6	Discounted dividend model (DDM)					3.90
<b>Key WACC assumptions</b>						<b>DCF valuation summary (NZ\$m)</b>					
Risk free rate					5.25%	Total firm value					848
Equity beta					1.00	(Net debt)/cash					(400)
WACC					9.6%	Less: Capitalised operating leases					(91)
Terminal growth					1.5%	Value of equity					362
<b>Profit and Loss Account (NZ\$m)</b>						<b>Valuation Ratios</b>					
Revenue	298.5	335.8	363.1	380.4	396.7	EV/Sales (x)	2.3	2.1	1.9	1.8	1.7
<b>Normalised EBITDA</b>	<b>18.8</b>	<b>23.1</b>	<b>28.0</b>	<b>28.1</b>	<b>30.2</b>	EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Depreciation and amortisation	(10.7)	(11.5)	(13.0)	(13.3)	(13.6)	EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
<b>Normalised EBIT</b>	<b>8.1</b>	<b>11.6</b>	<b>15.1</b>	<b>14.8</b>	<b>16.6</b>	PE (x)	11.2	11.0	10.3	9.6	9.1
Net interest	35.1	33.9	32.8	36.5	37.9	Price/NTA (x)	4.2	3.4	3.0	2.7	2.5
Associate income	0	0	0	0	0	Free cash flow yield (%)	-17.5	4.5	8.4	6.1	2.0
Tax	(11.8)	(13.0)	(13.4)	(14.4)	(15.2)	Adj. free cash flow yield (%)	-13.3	15.3	12.5	10.1	6.2
Minority interests	0	0	0	0	0	Net dividend yield (%)	5.7	5.7	6.0	7.0	7.2
<b>Normalised NPAT</b>	<b>31.3</b>	<b>32.6</b>	<b>34.4</b>	<b>36.9</b>	<b>39.2</b>	Gross dividend yield (%)	7.8	7.8	8.4	9.7	10.1
Abnormals/other	0	0	0	0	0	<b>Capital Structure</b>					
<b>Reported NPAT</b>	<b>31.3</b>	<b>32.6</b>	<b>34.4</b>	<b>36.9</b>	<b>39.2</b>	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (cps)	36.3	37.1	39.4	42.3	44.9	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
DPS (cps)	23.0	23.0	24.5	28.5	29.5	Net debt/ND+E (%)	61.7	60.0	58.1	57.0	57.0
<b>Growth Rates</b>						Net debt/EBITDA (x)	21.3	17.3	13.9	13.8	13.4
Revenue (%)	14.7	12.5	8.1	4.8	4.3	<b>Key Ratios</b>					
EBITDA (%)	12.1	23.1	21.3	0.4	7.2	Return on assets (%)	6.5	7.7	9.3	9.6	9.7
EBIT (%)	51.7	44.1	29.7	-1.5	11.7	Return on equity (%)	12.6	12.2	12.3	12.6	12.8
Normalised NPAT (%)	27.5	4.1	5.7	7.3	6.1	Return on funds employed (%)	3.9	3.9	4.1	4.3	4.4
Normalised EPS (%)	26.7	2.1	6.3	7.3	6.1	EBITDA margin (%)	6.3	6.9	7.7	7.4	7.6
Ordinary DPS (%)	15.0	0.0	6.5	16.3	3.5	EBIT margin (%)	2.7	3.5	4.1	3.9	4.2
<b>Cash Flow (NZ\$m)</b>						Capex to sales (%)	5.2	12.9	4.4	4.1	4.1
<b>EBITDA</b>	<b>18.8</b>	<b>23.1</b>	<b>28.0</b>	<b>28.1</b>	<b>30.2</b>	Capex to depreciation (%)	179	439	144	127	129
Working capital change	(83.1)	9.9	9.6	(2.8)	(20.5)	Imputation (%)	100	100	100	100	100
Interest & tax paid	25.7	23.5	19.4	22.1	22.6	Pay-out ratio (%)	63	62	62	67	66
Other	(4.2)	12.3	0	0	0	<b>Operating Performance</b>					
<b>Operating cash flow</b>	<b>(42.7)</b>	<b>68.7</b>	<b>57.0</b>	<b>47.4</b>	<b>32.3</b>	Operating Performance	2022A	2023A	2024E	2025E	2026E
Capital expenditure	(15.5)	(43.2)	(16.2)	(15.7)	(16.3)	<b>Automotive Retail</b>					
(Acquisitions)/divestments	3.4	0	0	0	0	Revenue	242.5	278.2	304.8	319.8	333.0
Other	(5.6)	(7.5)	(7.9)	(8.1)	(8.3)	Revenue growth (%)	20.7	14.7	9.6	4.9	4.1
<b>Funding available/(required)</b>	<b>(60.4)</b>	<b>18.0</b>	<b>32.9</b>	<b>23.7</b>	<b>7.7</b>	Operating margin (%)	8.0	9.0	10.0	9.3	9.0
Dividends paid	(13.8)	(19.9)	(20.9)	(22.6)	(25.3)	<b>Finance</b>					
Equity raised/(returned)	1.2	1.4	0	0	0	Revenue	51.9	58.6	67.4	71.3	73.4
<b>(Increase)/decrease in net debt</b>	<b>(72.9)</b>	<b>(0.4)</b>	<b>12.1</b>	<b>1.1</b>	<b>(17.6)</b>	Revenue growth (%)	8.4	13.0	15.0	5.8	2.9
<b>Balance Sheet (NZ\$m)</b>						Operating margin (%)	34.7	25.5	18.0	22.0	24.0
Working capital	412.3	402.5	392.9	395.6	416.1	<b>Insurance</b>					
Fixed assets	67.6	106.0	117.4	126.4	135.1	Revenue	40.4	43.6	46.1	46.9	47.7
Intangibles	164.5	163.6	162.6	162.6	162.5	Revenue growth (%)	-3.7	7.9	5.7	1.7	1.9
Right of use asset	23.5	22.2	21.0	20.8	21.3	Operating margin (%)	28.7	28.9	29.8	30.3	30.3
Other assets	94.4	89.8	93.5	95.1	96.6	<b>Credit Management</b>					
<b>Total funds employed</b>	<b>762.2</b>	<b>784.1</b>	<b>787.5</b>	<b>800.6</b>	<b>831.6</b>	Revenue	9.7	9.2	10.6	12.8	14.9
Net debt/(cash)	399.4	400.2	388.1	387.1	404.7	Revenue growth (%)	-24.2	-4.6	15.4	20.0	17.0
Lease liability	25.9	27.1	22.0	21.8	22.2	Operating margin (%)	31.4	31.1	31.1	31.1	31.0
Other liabilities	84.6	84.5	85.6	86.7	87.8						
Shareholder's funds	252.4	272.3	291.7	305.0	316.9						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>762.2</b>	<b>784.1</b>	<b>787.5</b>	<b>800.6</b>	<b>831.6</b>						

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

## Earnings revisions

Following TRA's trading update we adjust our Auto Retail estimates but leave Finance, Insurance and Credit management unchanged. Given market share gains continue to track ahead of our expectations, we increase our estimate for number of cars sold through the retail channel. As the retail channel is more profitable for TRA relative to its auction channel, we also make upwards revisions to our margin assumptions. In aggregate, these changes mean PBT rises +2% in FY24 to NZ\$47.8m which flows through to +1% increases in PBT for both FY25 and FY26.

Figure 1. Earnings revisions

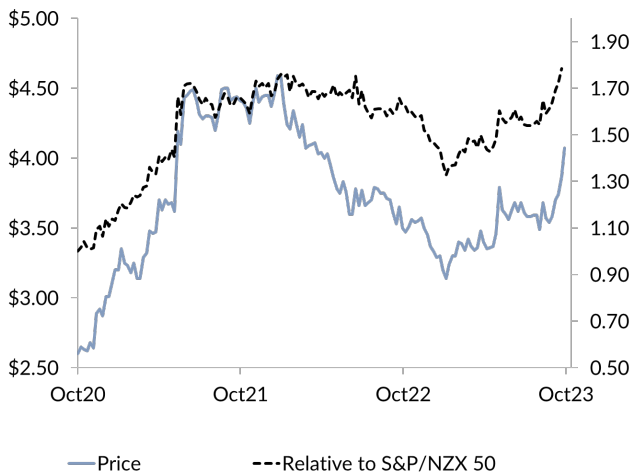
NZ\$m	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Operating Revenue</b>	424.5	428.8	+1%	446.1	450.6	+1%	464.2	468.9	+1%
Other Income	0.1	0.1		0.1	0.1		0.1	0.1	
<b>Total Income</b>	424.6	429.0	+1%	446.2	450.8	+1%	464.3	469.1	+1%
Cost of goods sold	185.3	188.0	+1%	199.1	202.0	+1%	207.8	210.9	+1%
Interest expense	33.1	33.1	+0%	33.8	33.8	+0%	34.5	34.5	+0%
Impairment provision expense	5.0	5.0	+0%	5.0	5.0	+0%	4.9	4.9	+0%
Subcontracted service expense	13.0	13.1	+1%	13.4	13.5	+1%	13.9	14.0	+1%
Employee benefits	66.2	66.6	+1%	65.9	66.3	+1%	68.3	68.8	+1%
Commission	15.3	15.4	+1%	15.3	15.4	+1%	15.8	15.9	+1%
Advertising expense	5.6	5.6	+0%	6.1	6.1	+0%	6.5	6.5	+0%
Depreciation & amortisation expense	13.0	13.0	+0%	12.6	12.6	+0%	12.8	12.8	+0%
Systems maintenance	5.4	5.4	+0%	5.4	5.4	+0%	5.6	5.6	+0%
Claims	22.1	22.1	+0%	22.3	22.3	+0%	22.6	22.6	+0%
Other expenses	13.7	13.8	+1%	16.4	17.0	+4%	17.5	18.1	+4%
<b>Total Expenses</b>	377.7	381.1	+1%	395.3	399.4	+1%	410.3	414.6	+1%
<b>Profit before taxation (PBT)</b>	46.9	47.8	+2%	50.9	51.3	+1%	54.0	54.4	+1%
Taxation (expense)/benefit	13.1	13.4	+2%	14.3	14.4	+1%	15.1	15.2	+1%
<b>Net profit after tax (NPAT)</b>	33.8	34.4	+2%	36.6	36.9	+1%	38.9	39.2	+1%

Source: Company data, Forsyth Barr analysis

## Knocking on the door of the NZX50

Recent strength in TRA's share price (+22% YTD) relative to other companies listed on the NZX could mean inclusion in the NZX50. To be eligible for entry into the NZX50 a stock must be one of the 50 largest listed on the NZX by free-float market capitalisation over six months and meet stringent liquidity conditions. As things stand, TRA (currently ranked 50th by free-float market capitalisation) will likely be included at the next index review in December 2023 as we expect some existing constituents to fall out of the index. Becoming a constituent of NZ's leading share index is a testament to management's execution in a challenging environment and could bring increased exposure and improved liquidity.

**Figure 2. Price performance**



Source: Forsyth Barr analysis

**Figure 3. Substantial shareholders**

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

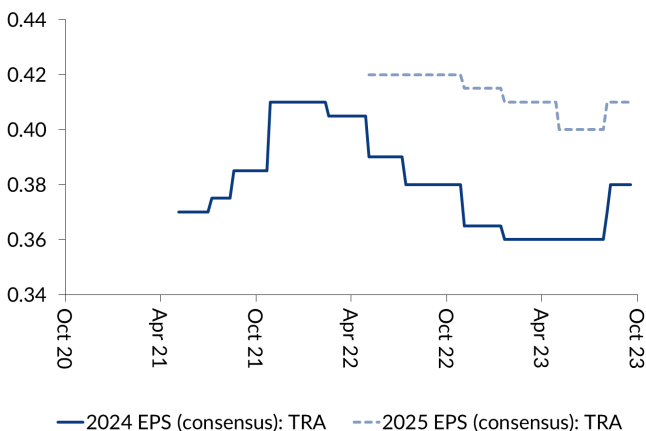
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 4. International valuation comparisons**

Company	Code	Price	Mkt Cap (m)	PE 2024E	PE 2025E	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBIT 2024E	EV/EBIT 2025E	Cash Yld 2025E
<i>(metrics re-weighted to reflect TRA's balance date - March)</i>										
Turners Automotive	TRA NZ	NZ\$4.07	NZ\$356	10.3x	9.6x	25.2x	24.7x	46.8x	46.8x	7.0%
KMD Brands *	KMD NZ	NZ\$0.87	NZ\$619	14.5x	11.4x	4.2x	3.8x	10.3x	8.7x	5.7%
The Warehouse Group *	WHS NZ	NZ\$1.73	NZ\$600	14.5x	11.7x	5.0x	4.7x	13.4x	11.8x	6.4%
Briscoe Group	BGP NZ	NZ\$4.70	NZ\$1,047	13.0x	12.5x	7.7x	7.5x	9.8x	9.5x	6.0%
Michael Hill International L	MHJ NZ	A\$0.95	A\$365	n/a	8.9x	4.1x	3.8x	8.3x	7.5x	8.1%
Eagers Automotive	APE AT	A\$13.93	A\$3,579	12.5x	13.1x	9.4x	9.4x	10.6x	11.0x	4.9%
Autosports Group	ASG AT	A\$2.48	A\$498	7.1x	7.5x	6.6x	7.0x	8.6x	9.4x	7.7%
Motorcycle Holdings	MTO AT	A\$2.10	A\$155	7.3x	7.5x	5.5x	5.9x	7.9x	8.1x	7.9%
Peter Warren Automotive Hold	PWR AT	A\$2.50	A\$431	8.1x	8.5x	6.9x	6.9x	8.8x	9.0x	8.0%
Kamux Corp	KAMUX	€5.56	€222	14.9x	10.2x	9.1x	7.0x	14.2x	9.7x	4.3%
	FH									
America'S Car-Mart Inc	CRMT US	US\$90.99	US\$581	21.5x	14.2x	11.2x	10.9x	17.9x	17.5x	n/a
Idom Inc	7599 JP	¥729.00	¥77,921	6.6x	6.0x	5.3x	4.8x	5.6x	5.1x	5.0%
	<b>Compco Average:</b>			<b>12.0x</b>	<b>10.1x</b>	<b>6.8x</b>	<b>6.5x</b>	<b>10.5x</b>	<b>9.8x</b>	<b>6.4%</b>
	<b>TRA Relative:</b>			<b>-14%</b>	<b>-5%</b>	<b>269%</b>	<b>279%</b>	<b>346%</b>	<b>380%</b>	<b>9%</b>

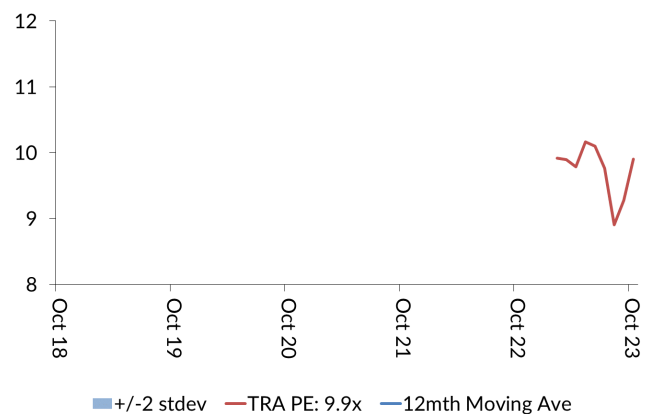
EV = Mkt cap+net debt+lease liabilities+min interests-investments  
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (TRA) companies fiscal year end

**Figure 5. Consensus EPS momentum (NZ\$)**



Source: Forsyth Barr analysis

**Figure 6. One year forward PE (x)**



Source: Forsyth Barr analysis

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