

Turners Automotive Group Ltd

Steering Through 1H24 Drives Growth

JAMES LINDSAY

 James.Lindsay@forsythbarr.co.nz
 +64 9 368 0145

WILL TWISS

 will.twiss@forsythbarr.co.nz
 +64 9 368 0129

Turners Automotive Group's (TRA) 1H24 result reflects a robust performance across its core business segments, with solid growth in revenue and profitability. Profit Before Tax (PBT) grew +10% to NZ\$25.7m, assisted by a +16% lift in total revenue to NZ\$214.2m. Growth was underpinned by a strong showing in the Auto Retail division, and resilient performances in the Insurance segment (despite macroeconomic challenges) and Credit Management. This was partially offset by a weak period for Finance as net interest margin (NIM) contracted due to the speed of the interest rate hiking cycle. The result indicates strategic success in Auto Retail network expansion, the effective 'Tina from Turners' brand development, margin expansion with more owned car sales, and its vehicle sourcing strategy; positioning the company well for sustained growth. TRA reaffirmed guidance that FY24 PBT would be above FY23 (NZ\$45.5m) and we marginally lift our estimate to NZ\$48.2m. Our blended spot valuation rises +4% to NZ\$4.31.

NZX Code	TRA	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$4.58	Rev (NZ\$m)	335.8	364.1	384.1	400.4	PE	12.3	11.5	10.6	9.9
Spot Valuation	NZ\$4.31 (from 4.16)	NPAT* (NZ\$m)	32.6	34.7	37.7	40.6	EV/EBIT	64.7	46.4	37.7	33.2
Risk rating	Medium	EPS* (NZc)	37.1	39.7	43.1	46.4	EV/EBITDA	32.6	25.9	22.7	20.2
Issued shares	87.4m	DPS (NZc)	23.0	25.0	27.0	29.0	Price / NTA	3.8	3.4	3.0	2.7
Market cap	NZ\$400m	Imputation (%)	100	100	100	100	Cash div yld (%)	5.0	5.5	5.9	6.3
Avg daily turnover	28.7k (NZ\$105k)	*Based on normalised profits					Gross div yld (%)	7.0	7.6	8.2	8.8

What's changed?

- **Earnings:** Our FY24/FY25/FY26 PBT estimates rise +1%, +2%, and +4% respectively to NZ\$48.2m, NZ\$52.3m, and NZ\$56.4m.
- **Dividend:** We adjust our dividend track across FY24/FY25/FY26 to 25/27/29cps respectively.
- **Spot valuation:** Our spot valuation lifts +15cps to NZ\$4.31.

Navigating market volatility with strategic agility – Auto Retail stands out

The Auto Retail division's performance is the key highlight of the 1H24 result. TRA's used car volumes exceeded expectations, helping margins, and saw growth in market share in the used car segment (9%-10% share). TRA attributes this to its agile approach to vehicle sourcing and its expansion strategy, including enhancing the retail network footprint. Nelson and Rotorua have opened over the last year, Timaru has just opened, the Napier (expansion) site opens in January 2024, and three new sites are planned for FY25.

Finance division close to a profit trough

The Finance division faced 'significant headwinds' due to the rising interest rate environment, leading to a contraction in NIM and impacting consumer borrowing and spending patterns. A margin turnaround is expected as interest rates peak and decline in future periods. TRA's focus on customer-centric products and a lift in high-credit loans are critical for driving long-term sustainable growth.

Strategy creates competitive advantage

In a tough operating environment TRA's strategy has emphasised: 1) the data analytics opportunity, 2) a push for more owned vehicles, 3) new site and retail optimisation, 4) a higher attachment rate of finance and insurance products, and 5) investing in the brand has been pivotal to success. Continuing these strategies should ensure that recent market share/margin gains are sustainable and the consistent growth observed over recent periods is repeatable looking forward.

Turners Automotive Group Ltd (TRA)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 22 Nov 2023						4.58	4.31				
52 week high / low						4.58 / 3.12	Discounted cash flow (DCF) 4.16				
Market capitalisation (NZ\$m)						400.1	Peers multiples 4.27				
						Discounted dividend model (DDM) 4.70					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						5.25%	Total firm value 855				
Equity beta						1.00	(Net debt)/cash (400)				
WACC						9.6%	Less: Capitalised operating leases (91)				
Terminal growth						1.5%	Value of equity 369				
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Revenue	2022A	2023A	2024E	2025E	2026E	2022A	2023A	2024E	2025E	2026E	
Normalised EBITDA	298.5	335.8	364.1	384.1	400.4	EV/Sales (x)	2.4	2.2	2.1	1.9	
Depreciation and amortisation	18.8	23.1	28.9	32.6	36.6	EV/EBITDA (x)	n/a	n/a	n/a	n/a	
Normalised EBIT	(10.7)	(11.5)	(12.7)	(13.0)	(14.3)	EV/EBIT (x)	n/a	n/a	n/a	n/a	
Net interest	8.1	11.6	16.1	19.6	22.3	PE (x)	12.6	12.3	11.5	10.6	
Associate income	35.1	33.9	32.1	32.7	34.1	Price/NTA (x)	4.7	3.8	3.4	3.0	
Tax	0	0	0	0	0	Free cash flow yield (%)	-17.5	4.5	7.0	6.3	
Minority interests	(11.8)	(13.0)	(13.5)	(14.7)	(15.8)	Adj. free cash flow yield (%)	-13.3	15.3	11.0	10.2	
Normalised NPAT	0	0	0	0	0	Net dividend yield (%)	5.0	5.0	5.5	5.9	
Abnormals/other	31.3	32.6	34.7	37.7	40.6	Gross dividend yield (%)	7.0	7.0	7.6	8.2	
Reported NPAT	0	0	0	0	0	Capital Structure					
Normalised EPS (cps)	31.3	32.6	34.7	37.7	40.6	2022A	2023A	2024E	2025E	2026E	
DPS (cps)	36.3	37.1	39.7	43.1	46.4	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	
						Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	
						Net debt/ND+E (%)	61.7	60.0	58.5	57.1	
						Net debt/EBITDA (x)	21.3	17.3	13.7	12.0	
						Key Ratios					
						2022A	2023A	2024E	2025E	2026E	
Growth Rates						Return on assets (%)	6.5	7.7	8.7	9.2	
Revenue (%)	2022A	2023A	2024E	2025E	2026E	Return on equity (%)	12.6	12.2	12.4	12.8	
EBITDA (%)	14.7	12.5	8.4	5.5	4.2	Return on funds employed (%)	3.9	3.9	4.1	4.3	
EBIT (%)	12.1	23.1	25.0	13.1	12.1	EBITDA margin (%)	6.3	6.9	7.9	8.5	
Normalised NPAT (%)	51.7	44.1	38.8	21.8	13.3	EBIT margin (%)	2.7	3.5	4.4	5.1	
Normalised EPS (%)	27.5	4.1	6.6	8.6	7.7	Capex to sales (%)	5.2	12.9	4.4	4.0	
Ordinary DPS (%)	26.7	2.1	7.1	8.6	7.7	Capex to depreciation (%)	179	439	145	129	
						Imputation (%)	100	100	100	100	
						Pay-out ratio (%)	63	62	63	63	
						Operating Performance					
						2022A	2023A	2024E	2025E	2026E	
Cash Flow (NZ\$m)						Automotive Retail					
EBITDA	2022A	2023A	2024E	2025E	2026E	Revenue	242.5	278.2	305.6	323.0	
Working capital change	18.8	23.1	28.9	32.6	36.6	Revenue growth (%)	20.7	14.7	9.9	5.7	
Interest & tax paid	(83.1)	9.9	4.0	(2.2)	(19.8)	Operating margin (%)	8.0	9.0	10.6	10.1	
Other	25.7	23.5	18.6	18.0	18.3	Finance					
Operating cash flow	(4.2)	12.3	0	0	0	Revenue	51.9	58.6	61.5	63.7	
Capital expenditure	(42.7)	68.7	51.5	48.4	35.1	Revenue growth (%)	8.4	13.0	5.0	3.6	
Acquisitions/divestments	(15.5)	(43.2)	(16.0)	(15.5)	(16.2)	Operating margin (%)	34.7	25.5	18.0	22.4	
Other	(5.6)	(7.5)	(7.9)	(8.1)	(8.3)	Insurance					
Funding available/(required)	(60.4)	18.0	27.6	24.8	10.7	Revenue	40.4	43.6	46.3	47.5	
Dividends paid	(13.8)	(19.9)	(21.8)	(22.7)	(24.4)	Revenue growth (%)	-3.7	7.9	6.2	2.7	
Equity raised/(returned)	1.2	1.4	0	0	0	Operating margin (%)	28.7	28.9	29.8	30.2	
(Increase)/decrease in net debt	(72.9)	(0.4)	5.9	2.1	(13.7)	Credit Management					
						Revenue	9.7	9.2	10.6	12.8	
						Revenue growth (%)	-24.2	-4.6	15.4	20.0	
						Operating margin (%)	31.4	31.1	31.1	31.1	
						Balance Sheet (NZ\$m)					
2022A	2023A	2024E	2025E	2026E							
Working capital	412.3	402.5	398.4	400.7							
Fixed assets	67.6	106.0	117.5	126.6							
Intangibles	164.5	163.6	162.6	162.6							
Right of use asset	23.5	22.2	21.0	20.8							
Other assets	94.4	89.8	93.5	95.1							
Total funds employed	762.2	784.1	793.1	805.7							
Net debt/(cash)	399.4	400.2	394.3	392.2							
Lease liability	25.9	27.1	22.0	21.8							
Other liabilities	84.6	84.5	85.6	86.7							
Shareholder's funds	252.4	272.3	291.1	305.1							
Minority interests	0	0	0	0							
Total funding sources	762.2	784.1	793.1	805.7							

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

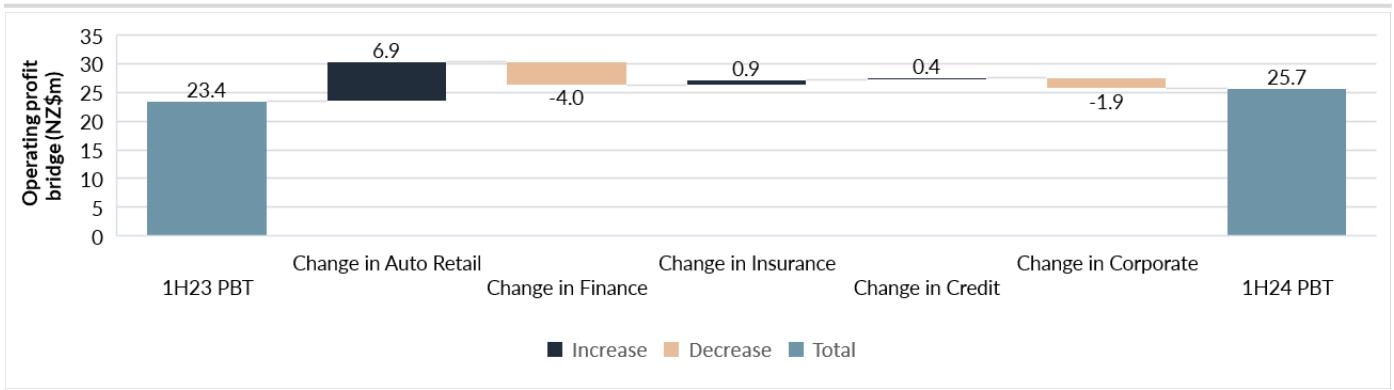
1H24 results summary

1H24 was a testament to TRA's business model and strategic foresight in a challenging market environment. Total revenue was up a robust +16% to NZ\$214.2m, reflecting TRA's expanding market presence in Auto Retail and success moving volumes into its higher margin retail channel. This flowed through to a +10% year-on-year increase in Net Profit Before Tax (NPBT), reaching NZ\$25.7m. 1H24 Net Profit After Tax (NPAT) grew by +8% to NZ\$18.5m, while Earnings Per Share (EPS) improved to 21.2 cents per share (cps), a +7% increase.

Divisional results showed:

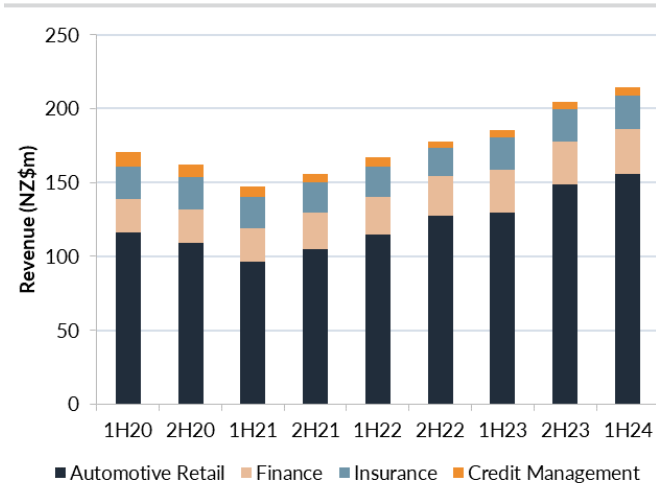
- **Auto Retail:** Achieved revenue of NZ\$156.1m, representing growth of +20%. Segment profit growth was notable, jumping +62% to NZ\$18.0m. The strong performance was underpinned by growth in car units sold, improved attachment rate of finance and insurance products, and higher sales of damaged vehicle units. Market share gains and expansion via new branches continue to enable sustainable growth.
- **Finance:** Generated revenue of NZ\$30.2m, representing modest growth of +3%. However, the division experienced a significant -44% decrease in segment profit to NZ\$5.1m as timing challenges from the interest rate cycle eroded NIM. TRA noted that NIM has since stabilised. The NZ\$2m buffer set aside at FY23 for 'economic stabilisation' remains.
- **Insurance:** Achieved revenue of NZ\$22.7m, representing growth of +5%, while the division's segment profit grew +14% to NZ\$7.1m. Improved performance was driven by: 1) market share gains, 2) claims costs inflation being offset by a reduction in claims frequency, and 3) better investment returns.
- **Credit:** Reported revenue of NZ\$5.3m, an increase of +8%. The segment profit showed a robust growth of +29%, totalling NZ\$1.8m. The performance improvement was attributed to increasing levels of debt load (+32%) as 'market wide credit metrics continue to deteriorate'. TRA expects NZ credit metrics to continue to worsen, and as such supports a rebound in TRA's credit division.

Figure 1. TRA—HY PBT bridge



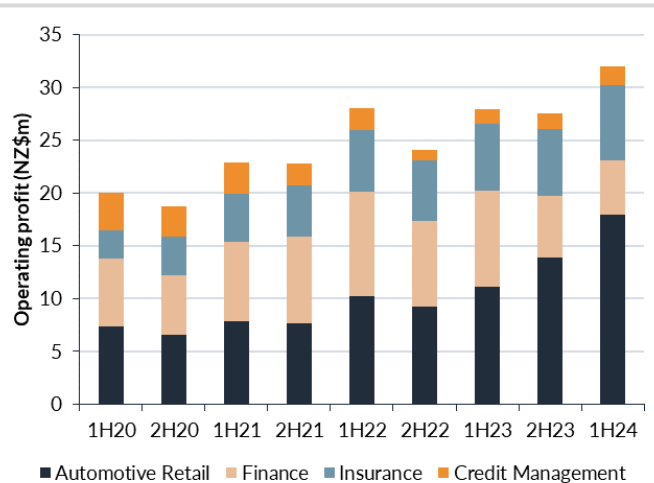
Source: Company data, Forsyth Barr analysis

Figure 2. TRA—Revenue by segment



Source: Company data, Forsyth Barr analysis

Figure 3. TRA—Operating profit by segment



Source: Company data, Forsyth Barr analysis

Figure 4. TRA—results comparison

	1H23 Actual NZ\$m	1H24 Actual NZ\$m	Change %
Total Income	185.3	214.2	+16%
Cost of goods sold	80.5	93.1	+16%
Gross profit	104.8	121.2	+16%
Interest expense	8.3	13.4	+62%
SG&A	47.0	53.6	+14%
Depreciation & amortisation expense	5.4	5.6	+5%
Systems maintenance	2.0	2.4	+17%
Claims	10.7	10.5	(2%)
Impairment of intangible brand asset	0.0	0.0	
Other expenses	8.0	10.0	+26%
Total Expenses	161.8	188.6	+17%
Profit before taxation (PBT)	23.4	25.7	+10%
Profit for the year (NPAT)	17.1	18.5	+8%

Source: Company data, Forsyth Barr analysis

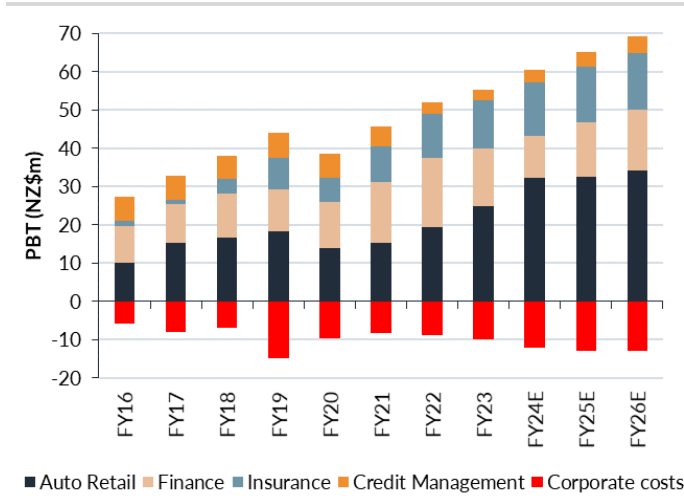
FY24 outlook and guidance

TRA reaffirmed guidance for FY24 PBT to be above the NZ\$45.5m it reported in FY23. In the context of a strong 1H24 with NZ\$25.7m in PBT, retained guidance implies a level of conservatism due to: 1) normal seasonality with 2H weaker than 1H, 2) the benefit of flood damaged cars likely contributing around NZ\$1.0m to NZ\$1.5m in 1H, and 3) timing of Easter in March 2024. Our FY24 PBT estimate of NZ\$48.2m is +6% above FY23. We expect continued resilience in 2H24, with the wider NZ used car market's recovery (volumes +6% from April to September 2023) providing additional assistance.

TRA provided a 3Q24 update. TRA's Auto Retail division has maintained solid volumes and margins in car sales, with continued strength in damaged vehicle volumes. The Finance division continues to navigate challenges, with the economic environment impacting SMEs buffers for shock events, and is expecting an increase in arrears. In contrast, claims frequency in the Insurance division is continuing to track below expectations, alongside improving investment returns. The Credit division is witnessing a slower-than-expected recovery in corporate debt load, though SME debt load is increasing rapidly.

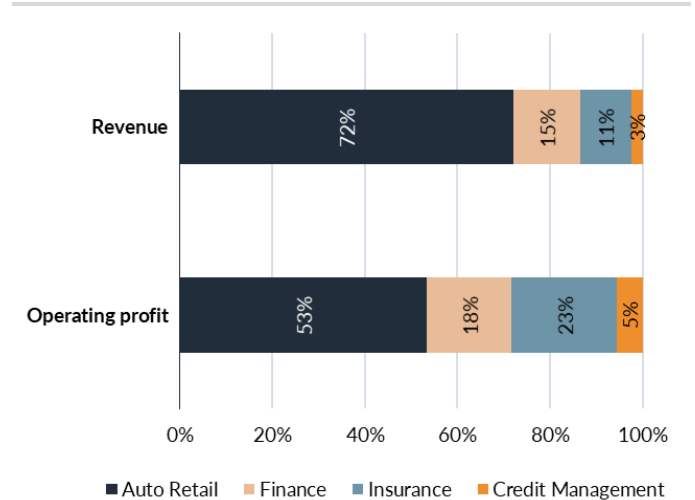
The company is on track to maintain its dividend growth trajectory with management estimating at least 24cps ($\geq +4\%$ increase) to be paid in FY24. We lift our DPS estimates for FY24 to 25cps, representing +9% growth on FY23's 23cps, both fully imputed.

Figure 5. TRA—Operating profit by segment



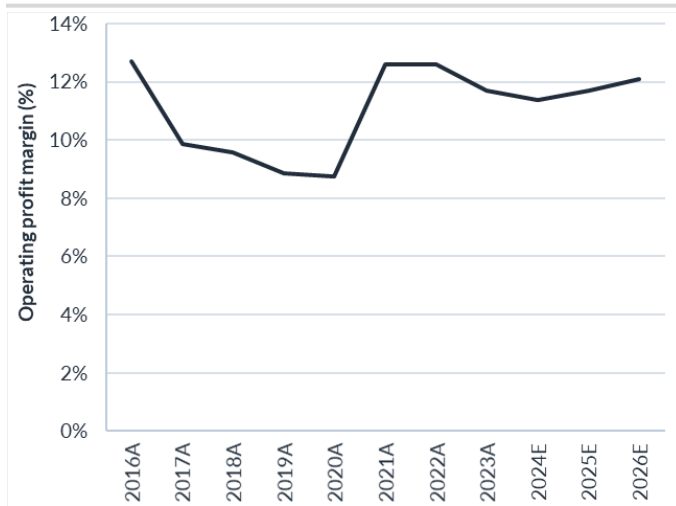
Source: Company data, Forsyth Barr analysis

Figure 6. TRA—Revenue by segment (FY24E)



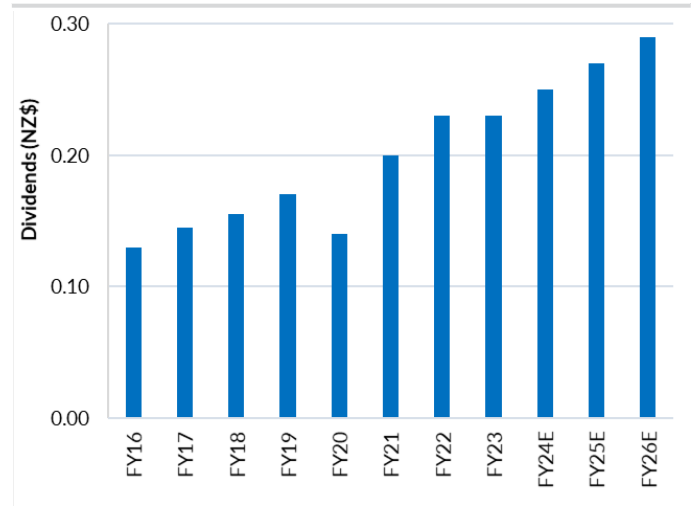
Source: Company data, Forsyth Barr analysis

Figure 7. TRA—Operating profit margin



Source: Company data, Forsyth Barr analysis

Figure 8. TRA – Historical and forecast dividends



Source: Company data, Forsyth Barr analysis

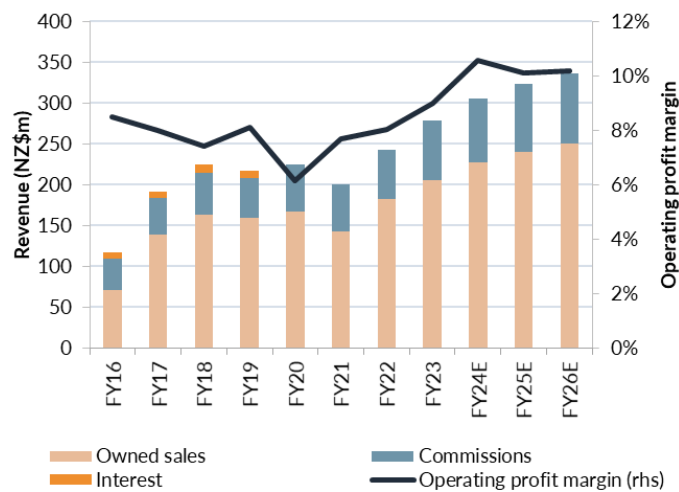
Earnings revisions

Figure 9. Earnings revisions

	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Income	429.0	424.1	(1%)	450.8	447.1	(1%)	469.1	465.4	(1%)
Cost of goods sold	188.0	182.6	(3%)	202.0	197.2	(2%)	210.9	204.8	(3%)
Gross profit	240.9	241.5	+0%	248.8	250.0	+0%	258.2	260.6	+1%
Interest expense	33.1	28.0	(16%)	33.8	30.3	(10%)	34.5	30.9	(10%)
SG&A	105.7	106.3	+1%	106.3	106.1	(0%)	110.1	109.5	(1%)
Depreciation & amortisation expense	13.0	12.7	(2%)	13.3	13.0	(2%)	13.6	14.3	+6%
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	22.5	+1%	22.6	22.9	+1%
Other expenses	13.8	18.8	+36%	16.3	20.2	+24%	17.4	21.1	+21%
Total Expenses	381.1	375.9	(1%)	399.4	394.8	(1%)	414.6	409.0	(1%)
Profit before taxation (PBT)	47.8	48.2	+1%	51.3	52.3	+2%	54.4	56.4	+4%
Net profit after tax (NPAT)	34.4	34.7	+1%	36.9	37.7	+2%	39.2	40.6	+4%

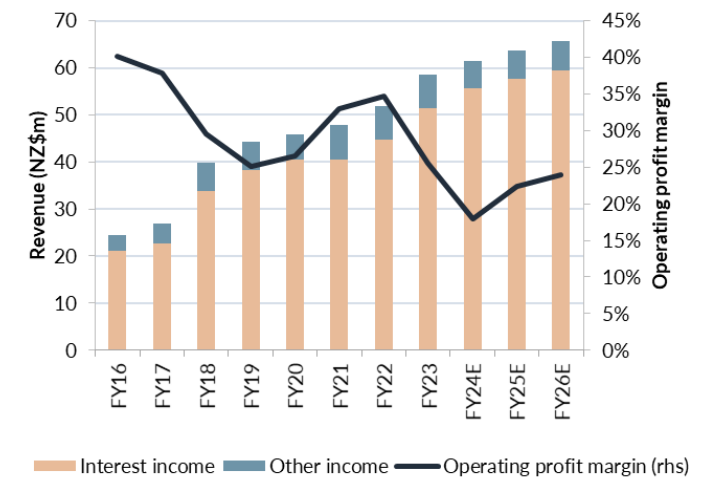
Source: Forsyth Barr analysis

Figure 10. TRA—Automotive Retail revenue & operating margin



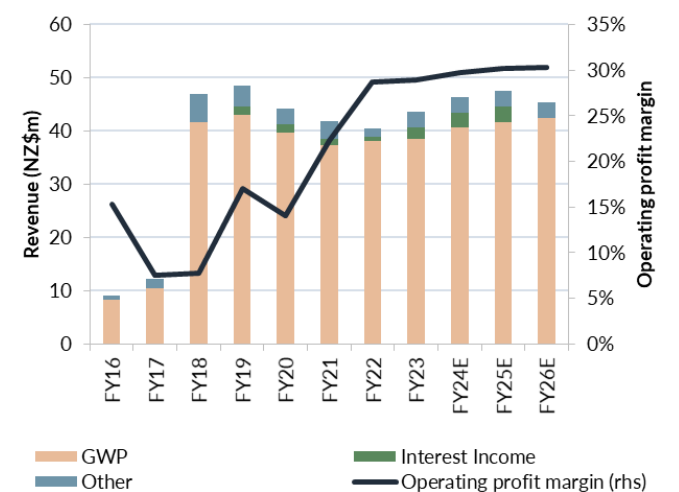
Source: company data, Forsyth Barr analysis

Figure 11. TRA—Finance revenue & operating profit margin



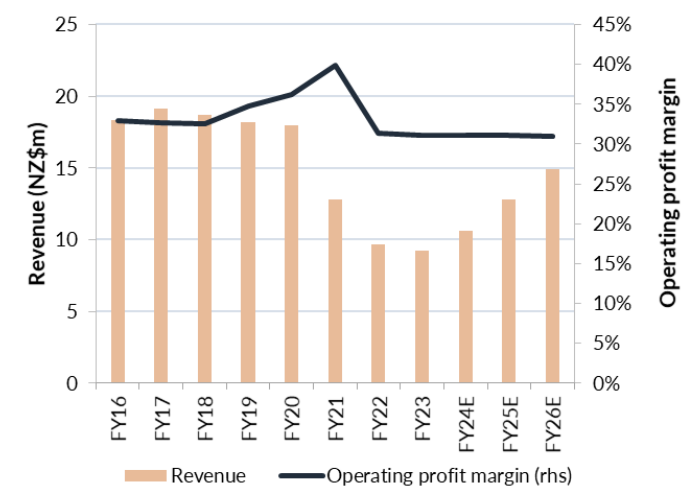
Source: company data, Forsyth Barr analysis

Figure 12. TRA—Insurance revenue & operating profit margin



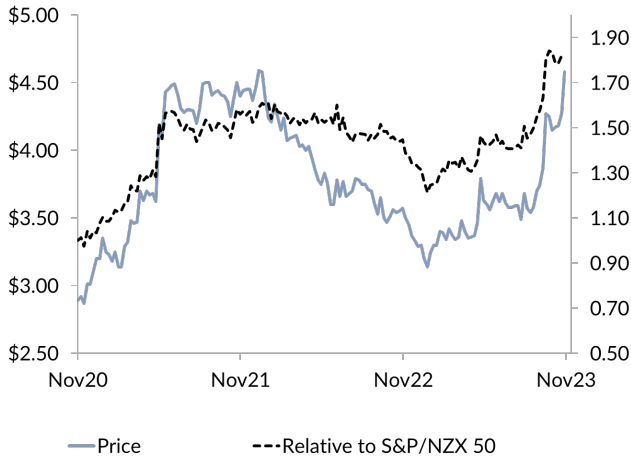
Source: company data, Forsyth Barr analysis

Figure 13. TRA—Credit revenue & operating profit margin



Source: company data, Forsyth Barr analysis

Figure 14. Price performance



Source: Forsyth Barr analysis

Figure 15. Substantial shareholders

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

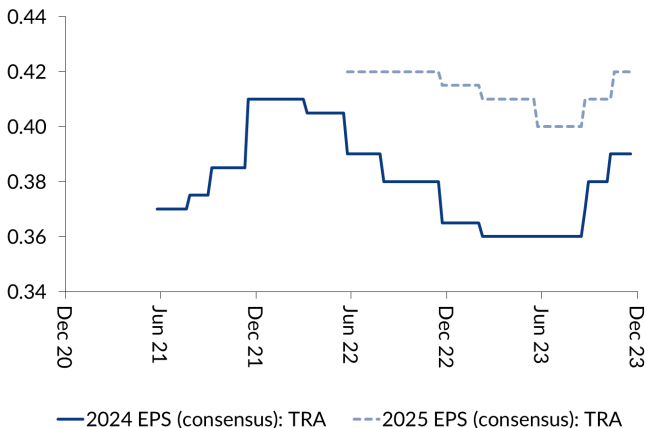
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 16. 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\$4.58	NZ\$400	11.5x	10.6x	26.1x	22.9x	46.7x	38.0x	5.9%		
KMD Brands *	KMD NZ	NZ\$0.81	NZ\$576	13.5x	10.6x	4.0x	3.6x	9.8x	8.3x	6.2%		
The Warehouse Group *	WHS NZ	NZ\$1.66	NZ\$576	14.7x	12.5x	5.0x	4.7x	13.5x	12.4x	5.9%		
Briscoe Group	BGP NZ	NZ\$4.52	NZ\$1,007	12.2x	12.1x	7.3x	7.3x	9.4x	9.3x	6.5%		
Michael Hill International L	MHJ NZ	A\$0.87	A\$335	n/a	8.6x	4.0x	3.7x	8.1x	7.4x	8.8%		
Eagers Automotive	APE AT	A\$13.90	A\$3,571	12.4x	12.7x	9.2x	9.0x	10.5x	10.5x	5.0%		
Autosports Group	ASG AT	A\$2.40	A\$482	6.8x	7.0x	6.4x	6.7x	8.4x	9.0x	8.0%		
Motorcycle Holdings	MTO AT	A\$2.09	A\$154	6.7x	6.6x	5.1x	5.3x	7.3x	7.2x	8.7%		
Peter Warren Automotive Hold	PWR AT	A\$2.34	A\$403	7.7x	8.1x	6.8x	6.8x	8.7x	8.8x	8.4%		
Kamux Corp	KAMUX	€5.36	€214	15.0x	10.2x	8.6x	6.6x	14.2x	9.6x	4.7%		
America'S Car-Mart Inc	CRMT US	US\$78.74	US\$503	19.4x	12.7x	10.6x	10.3x	43.2x	41.1x	n/a		
Idom Inc	7599 JP	¥910.00	¥97,268	8.1x	7.3x	6.2x	5.7x	7.0x	6.3x	4.1%		
Compcpo Average:				11.6x	9.9x	6.7x	6.3x	12.7x	11.8x	6.6%		
EV = Mkt cap+net debt+lease liabilities+min interests-investments				TRA Relative:		-1%	8%	292%	260%	267%	222%	-11%

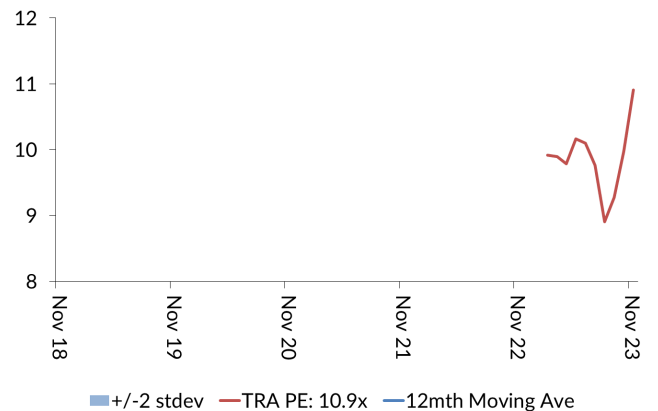
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcpo metrics re-weighted to reflect headline (TRA) companies fiscal year end

Figure 17. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 18. One year forward PE (x)



Source: Forsyth Barr analysis

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