

# Marshall Motor Holdings

Growing share in tough markets

Closing update and acquisitions

Automotive retail

19 December 2019

**Price** 150p  
**Market cap** £117m

Adjusted net cash (£m) at 30 June 2019	5.8
Shares in issue	78.2m
Free float	35%
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	6.0	2.4	(3.2)
Rel (local)	2.2	(1.6)	(15.3)
52-week high/low		176p	135p

## Business description

Marshall Motor Holdings is the seventh largest UK motor retailer, operating 119 franchises spread across 24 brands at 96 locations. It is one of six UK dealership groups that represent each of the top five volume and premium brands. The group has a strong presence in eastern and southern England.

## Next events

FY19 results	10 March 2020
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Although the UK election result may provide greater certainty for car buyers, the most recent forecasts from industry bodies continue to anticipate weaker demand in 2020. While Marshall Motor Holdings (MMH) is delivering on its profit expectations for 2019, the combination of the potential further weakness in car markets and the investment being made in loss-making businesses to grow future share and profits leads us to reduce our FY20 PBT estimate by £4.1m. However, a FY20 P/E ratio of 7.7x remains undemanding and is supported by the healthy dividend yield.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17**	2,232.0	25.4	26.9	6.40	5.6	4.3
12/18	2,186.9	25.7	27.4	8.54	5.5	5.7
12/19e	2,201.9	23.2	23.0	8.54	6.5	5.7
12/20e	2,359.8	19.7	19.5	8.54	7.7	5.7

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. \*\*Restated following the sale of Leasing in FY17. IFRS 16 adopted from FY19; prior years not restated.

## Investing during market weakness

MMH is continuing its policy of adding dealerships as regional and brand in-fills to optimise its coverage due to its strong balance sheet. MMH then applies its own operational tools, including the Phoenix 2 management information system, to improve returns from the underperforming sites being acquired. The latest are seven Volkswagen (VW) sites (including one commercial vehicle franchise) and a Skoda site being acquired from Jardine Motors Group for up to £22.3m including £13.0m of inventory, adding to two Honda sites acquired from the same vendor in October. In the year to date, MMH has invested in 20 new business units that we estimate generate around £350m of sales with historic losses of c £4m. Returning these to profitability is clearly the priority, but with challenging markets it is likely to be FY22 before the benefits of these deals start to emerge.

## Trading conditions not easing yet

We estimate the new dealerships are likely to make a pre-tax loss of c £2.5m in FY20. We also assume weaker UK car market conditions persist for longer into 2020, with a consequent fall in demand for both MMH's new and used car sales, although we expect outperformance relative to the overall market decline. In aggregate, while increasing our FY20 revenue estimate by almost 5%, we reduce our PBT and EPS estimates by 17% to reflect these factors. The recent election means the UK government should be able to assert greater control over the economy, which we feel could lead to improved buyer confidence next year.

## Valuation: Dilution should progressively dissipate

Although market conditions remain challenging, we feel investing in future potential for growth during a weaker phase of the market should ultimately prove astute. The rating remains undemanding and the more than twice-covered dividend yield provides support for investors awaiting an uptick in car markets.

## Strategic acquisition of eight VW Group franchises

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For a cash consideration of up to £22.3m including £9.3m of inventory, MMH is buying six VW passenger car franchises in Aylesbury, Harlow, Letchworth, Loughton, Milton Keynes and St Albans, as well as a VW commercial vehicle franchise and bodyshop in Loughton and a Skoda passenger car franchise in Milton Keynes. Geographically these all fit with MMH's footprint being largely based in the home counties and all appear to be well invested. In 2018 the businesses being acquired had revenues of £212.8m (2017 £196.1m) and made a loss before tax of £2.8m (2017 £3.3m).

The Volkswagen franchise in Aylesbury shares a site with an Audi Approved Used business which is being retained by JMG. Completion of Aylesbury Volkswagen will be deferred pending completion of the legal process to sub-divide the site. It is expected that this process and the transfer of the Aylesbury Volkswagen business will be completed in 2020.

Following the deal, MMH will represent the Volkswagen Group UK in 53 operations across the UK, making MMH its largest partner by number of locations. The total of 14 VW passenger car retail centres will make MMH the second largest partner for the brand with the addition of Milton Keynes Skoda further consolidating MMH's position as the leading retailer for Skoda UK. With seven commercial vehicle locations, MMH also strengthens its leading position by sites for the marque.

## Other portfolio developments

In September 2019 MMH acquired two Honda dealerships from Jardine Motor Group in Reading and Newbury, strengthening its position as Honda's second largest partner in the UK with eight sites. In October MMH opened a VW Commercial Vehicle centre in Lincoln on its previously vacated Jaguar Land Rover site, which transferred to new premises. The Honda and Lincoln franchises are expected to add around £30m to sales next year and be marginally dilutive, and be earnings enhancing from FY21.

The group has also commenced a new partnership with LEVC, a Geely Automotive subsidiary and the manufacturer of electric London taxis. MMH is the largest Volvo dealership group in the UK and will represent the LEVC brand in Nottingham. The group is also in advanced negotiations to acquire the Volvo franchise in Derby which is expected to complete before the year end, taking the total number of MMH Volvo dealerships to nine.

## Earnings revisions

The acquisition is not expected to have any significant impact on current-year numbers although year end net debt is likely to be some £12m higher, reflecting the acquisition cash consideration. The EPS decline of 1.2% reflects a slight increase in the share count.

Overall, we have reduced our group FY20 PBT estimate by £4.1m, of which £2.5m reflects the losses of the businesses being acquired. Management expects the dealerships to remain dilutive in FY21 before starting to enhance earnings from FY22.

The remaining £1.6m reduction in our FY20 PBT estimate reflects anticipated weaker growth in the ongoing franchises, which has reduced our revenue expectation for those businesses by around £100m spread across new car sales, the used car activity and aftersales. It reflects the latest SMMT forecast for new car sales in 2020, which indicates a further 4.4% fall. While the recent election might improve economic confidence as the previous political impasse has been eliminated, this cannot be taken for granted.

<b>Exhibit 1: Marshall Motor Holdings earnings estimate revisions</b>						
Year to December (£m)	2019e			2020e		
	Prior	New	Change	Prior	New	Change
New car	1,068.2	1,068.2	0.0%	1,102.8	1,145.8	3.9%
Used car	929.7	929.7	0.0%	948.3	989.5	4.3%
Aftersales	249.2	249.2	0.0%	252.3	270.6	7.2%
Intra group	(45.2)	(45.2)	0.0%	(46.1)	(46.1)	0.0%
<b>Group revenues</b>	<b>2,201.9</b>	<b>2,201.9</b>	<b>0.0%</b>	<b>2,257.4</b>	<b>2,359.8</b>	<b>4.5%</b>
<b>EBITDA</b>	<b>51.3</b>	<b>51.3</b>	<b>0.0%</b>	<b>51.5</b>	<b>48.3</b>	<b>-6.2%</b>
Retail	33.2	33.2	0.0%	33.5	29.9	-10.7%
Leasing						
Unallocated						
<b>Underlying EBITA</b>	<b>33.2</b>	<b>33.2</b>	<b>0.0%</b>	<b>33.5</b>	<b>29.9</b>	<b>-10.7%</b>
<b>Underlying PBT</b>	<b>23.2</b>	<b>23.2</b>	<b>0.0%</b>	<b>23.8</b>	<b>19.7</b>	<b>-17.1%</b>
<b>EPS - underlying continuing (p)</b>	<b>23.3</b>	<b>23.0</b>	<b>-1.2%</b>	<b>23.8</b>	<b>19.5</b>	<b>-18.1%</b>
DPS (p)	8.5	8.5	0.0%	8.5	8.5	0.0%
Adjusted net debt/(cash)	2.0	13.7	570.9%	(3.9)	9.4	n.m.
Source: Edison Investment Research estimates						

**Exhibit 2: Financial summary**

	£m	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		2,232.0	2,186.9	2,201.9	2,359.8
Cost of Sales		(1,973.7)	(1,931.2)	(1,944.5)	(2,083.9)
Gross Profit		258.3	255.7	257.4	275.9
EBITDA		42.0	41.4	51.3	48.3
Operating Profit (before amort. and except.)		32.9	32.0	33.2	29.9
Intangible Amortisation		(0.2)	(0.4)	(0.3)	(0.3)
Exceptionals		(12.8)	(7.0)	0.0	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		19.8	24.7	32.9	29.6
Net Interest		(7.5)	(6.4)	(10.0)	(10.2)
Profit Before Tax (norm)		25.4	25.7	23.2	19.7
Profit Before Tax (FRS 3)		12.3	18.4	22.9	19.4
Tax		(3.1)	(4.8)	(5.2)	(4.4)
Profit After Tax (norm)		20.8	21.3	18.0	15.3
Profit After Tax (FRS 3)		9.2	13.6	17.7	15.0
Average Number of Shares Outstanding (m)		77.4	77.7	78.2	78.2
EPS - normalised (p)		26.9	27.4	23.0	19.5
EPS		26.1	26.5	22.3	18.9
EPS - (IFRS) (p)		11.9	17.5	22.6	19.2
Dividend per share (p)		6.40	8.54	8.54	8.54
Gross Margin (%)		11.6	11.7	11.7	11.7
EBITDA Margin (%)		1.9	1.9	2.3	2.0
Operating Margin (before GW and except.) (%)		1.5	1.5	1.5	1.3
<b>BALANCE SHEET</b>					
Fixed Assets		266.6	270.6	365.0	363.3
Intangible Assets		121.6	112.2	119.2	119.2
Tangible Assets		145.0	158.3	172.8	180.1
Right of use asset				73.0	64.0
Investments		0.0	0.0	0.0	0.0
Current Assets		499.1	465.7	465.7	506.0
Stocks		401.3	384.0	381.5	408.9
Debtors		71.5	71.9	72.4	77.6
Cash		4.9	1.2	2.2	9.2
Other		21.4	8.6	9.6	10.3
Current Liabilities		(539.3)	(503.8)	(505.1)	(541.3)
Creditors		(538.6)	(503.1)	(505.1)	(541.3)
Short term borrowings		(0.6)	(0.6)	0.0	0.0
Long Term Liabilities		(35.2)	(32.0)	(120.0)	(113.7)
Long term borrowings		(6.5)	(5.7)	(15.9)	(18.6)
Lease Liabilities		0.0	0.0	(79.0)	(70.0)
Other long term liabilities		(28.7)	(26.4)	(25.1)	(25.1)
Net Assets		191.2	200.4	205.7	214.3
<b>CASH FLOW</b>					
Operating Cash Flow		60.1	31.8	37.1	33.1
Net Interest		(2.9)	(2.1)	(1.0)	(1.0)
Tax		(3.1)	(4.8)	(5.2)	(4.4)
Capex		(57.5)	(23.7)	(19.5)	(16.7)
Acquisitions/disposals		44.6	1.6	(12.8)	0.0
Financing		0.0	(1.0)	0.0	0.0
Dividends		(4.5)	(5.0)	(7.2)	(6.7)
Other		80.2	0.3	0.0	0.0
Net Cash Flow		116.8	(2.9)	(8.6)	4.3
Opening adjusted net debt/(cash)		119.0	2.2	5.1	13.7
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0
Closing adjusted net debt/(cash)		2.2	5.1	13.7	9.4
Net financial liabilities (including lease liabilities)				92.7	79.4

Source: Company reports, Edison Investment Research estimates

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