

# Marshall Motor Holdings

Trading ahead of expectations

**Marshall Motor Holdings (MMH) released a pre-close interim trading statement indicating that strong trading performance has continued in the current year, despite several potential pitfalls. As a result, we are raising our estimates for the current year and expect continued progress in FY18. The better-than-expected development leaves our fair value estimate unchanged at 214p, progress towards which should become apparent as the delivery of the growth strategy continues despite market concerns.**

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 12/15    | 1,232.8      | 15.8      | 15.8     | 2.98    | 8.6     | 2.2       |
| 12/16    | 1,899.4      | 25.4      | 26.2     | 5.50    | 5.2     | 4.1       |
| 12/17e   | 2,271.1      | 28.3      | 28.6     | 5.80    | 4.7     | 4.3       |
| 12/18e   | 2,296.5      | 28.9      | 29.2     | 6.00    | 4.6     | 4.4       |

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

## Strong Retail performance

The Retail division has had a strong H1, allowing for the additional five months' consolidation of Ridgeway. The improvement stems from better-than-expected like-for-like new car sales, where private retail sales at MMH held up against the 4.2% decline in the UK market through May. Lower-margin new car fleet sales were softer. Used car sales showed good growth, although there was some margin pressure. More importantly, high-margin aftersales revenues continued to grow. The small Leasing segment saw reduced vehicle disposal revenues, which fed through to profits. The outlook for H217 remains cautious. Economic factors, diesel demonization, negative press around the use of personal contract plans and Brexit fears are all adversely affecting sentiment. We feel the underlying economic picture remains robust at present but will see how car sales develop in H2.

## Increasing FY17e EPS by 7%

We have increased our forecast modestly reflecting the positive developments. The additional contribution from Ridgeway and healthier used car sales had largely been expected, but the strength in the Retail segment more than offset lower vehicle disposals in the much smaller Leasing business. We thus increase group revenues by around £8m for the current year. The positive margin gain in new cars together with the higher aftersales activity has led us to increase margins for the overall Retail segment. We increase our FY17e EPS by 7% from 26.8p to 28.6p and FY18e EPS by 6% from 27.5p to 29.2p. Adjusted net debt is also forecast to be some £1m better than when we initiated due to the modest portfolio adjustments.

## Valuation: Progress should alleviate concerns

The market continues to worry about a downturn in the UK car market, but MMH seems to be executing well on its growth strategy nevertheless. The 20% decline in the shares since we initiated in mid May looks unwarranted given today's news. Our fair value estimate of 214p remains unchanged since we initiated, due to the better than expected trading so far this year and a lower average peer FY18e P/E.

Pre-close interim statement

Automotive retail

4 July 2017

**Price** **135.50p**  
**Market cap** **£105m**

Adjusted net debt (£m) at 31 December 2016 54.5

Shares in issue 77.4m

Free float 34.9%

Code MMH

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (10.6) (20.3) (17.1)

Rel (local) (8.0) (20.5) (27.2)

52-week high/low 178.5p 133.5p

### Business description

Marshall Motor is the seventh largest UK motor retailer, operating 103 franchises spread across 24 brands at 89 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

Interim results 15 August 2017

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research client of Edison  
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**Exhibit 1: Financial summary**

|  | £m | 2015      | 2016      | 2017e     | 2018e     |
|--|----|-----------|-----------|-----------|-----------|
| Year end 31 December                         |    | IFRS      | IFRS      | IFRS      | IFRS      |
| <b>PROFIT &amp; LOSS</b>                     |    |           |           |           |           |
| Revenue                                      |    | 1,232.8   | 1,899.4   | 2,271.1   | 2,296.5   |
| Cost of Sales                                |    | (1,087.5) | (1,678.9) | (2,003.1) | (2,025.5) |
| Gross Profit                                 |    | 145.3     | 220.5     | 268.0     | 271.0     |
| EBITDA                                       |    | 22.8      | 38.6      | 44.7      | 44.9      |
| Operating Profit (before amort. and except.) |    | 18.7      | 32.3      | 37.1      | 37.7      |
| Intangible Amortisation                      |    | (0.2)     | (0.3)     | (0.3)     | (0.4)     |
| Exceptionals                                 |    | (0.5)     | (3.3)     | (0.1)     | (0.1)     |
| Other  |    | 0.0       | 0.0       | 0.0       | 0.0       |
| Operating Profit                             |    | 18.0      | 28.8      | 36.7      | 37.3      |
| Net Interest                                 |    | (2.9)     | (6.9)     | (8.9)     | (8.8)     |
| Profit Before Tax (norm)                     |    | 15.8      | 25.4      | 28.3      | 28.9      |
| Profit Before Tax (FRS 3)                    |    | 15.1      | 21.9      | 27.9      | 28.4      |
| Tax  |    | (3.6)     | (4.4)     | (6.2)     | (6.3)     |
| Profit After Tax (norm)                      |    | 9.4       | 20.2      | 22.1      | 22.5      |
| Profit After Tax (FRS 3)                     |    | 11.5      | 17.5      | 21.7      | 22.1      |
| Average Number of Shares Outstanding (m)     |    | 59.4      | 77.2      | 77.2      | 77.2      |
| EPS - normalised (p)                         |    | 15.8      | 26.2      | 28.6      | 29.2      |
| EPS - normalised and fully diluted (p)       |    | 15.3      | 25.5      | 27.9      | 28.5      |
| EPS - (IFRS) (p)                             |    | 19.3      | 22.6      | 28.1      | 28.6      |
| Dividend per share (p)                       |    | 3.0       | 5.5       | 5.8       | 6.0       |
| Gross Margin (%)                             |    | 11.8      | 11.6      | 11.8      | 11.8      |
| EBITDA Margin (%)                            |    | 1.8       | 2.0       | 2.0       | 2.0       |
| Operating Margin (before GW and except.) (%) |    | 1.5       | 1.7       | 1.6       | 1.6       |
| <b>BALANCE SHEET</b>                         |    |           |           |           |           |
| Fixed Assets                                 |    | 150.0     | 326.4     | 353.7     | 380.3     |
| Intangible Assets                            |    | 40.8      | 122.0     | 122.2     | 122.2     |
| Tangible Assets                              |    | 109.2     | 204.4     | 231.6     | 258.1     |
| Investments                                  |    | 0.0       | 0.0       | 0.0       | 0.0       |
| Current Assets                               |    | 307.5     | 475.2     | 483.1     | 476.1     |
| Stocks                                       |    | 240.6     | 380.0     | 386.1     | 382.6     |
| Debtors                                      |    | 28.9      | 71.0      | 68.1      | 64.3      |
| Cash   |    | 24.1      | 0.1       | 0.1       | 0.1       |
| Other  |    | 13.9      | 24.1      | 28.8      | 29.1      |
| Current Liabilities                          |    | (290.1)   | (584.9)   | (525.0)   | (535.5)   |
| Creditors                                    |    | (263.4)   | (507.2)   | (525.0)   | (535.5)   |
| Short term borrowings                        |    | (26.7)    | (77.7)    | 0.0       | 0.0       |
| Long Term Liabilities                        |    | (37.6)    | (71.1)    | (148.7)   | (139.9)   |
| Long term borrowings                         |    | (24.7)    | (41.4)    | (119.0)   | (110.3)   |
| Other long term liabilities                  |    | (12.9)    | (29.7)    | (29.7)    | (29.6)    |
| Net Assets                                   |    | 129.9     | 145.7     | 163.2     | 181.1     |
| <b>CASH FLOW</b>                             |    |           |           |           |           |
| Operating Cash Flow                          |    | 29.6      | 98.9      | 65.9      | 75.5      |
| Net Interest                                 |    | (1.1)     | (1.4)     | (2.9)     | (3.8)     |
| Tax  |    | (3.0)     | (17.3)    | (6.2)     | (6.3)     |
| Capex  |    | (39.6)    | (61.9)    | (66.4)    | (65.1)    |
| Acquisitions/disposals                       |    | (21.5)    | (91.4)    | 1.0       | 0.0       |
| Financing                                    |    | 66.9      | 0.0       | 0.0       | 0.0       |
| Dividends                                    |    | (15.4)    | (3.3)     | (4.3)     | (4.6)     |
| Other  |    | 8.6       | (15.5)    | 13.0      | 13.0      |
| Net Cash Flow                                |    | 24.5      | (91.8)    | 0.1       | 8.7       |
| Opening net debt/(cash)                      |    | 51.7      | 27.2      | 119.0     | 118.9     |
| HP finance leases initiated                  |    | 0.0       | 0.0       | 0.0       | 0.0       |
| Other  |    | 0.0       | 0.0       | 0.0       | (0.0)     |
| Closing net debt/(cash)                      |    | 27.2      | 119.0     | 118.9     | 110.2     |

Source: Marshall Motor Holdings reports, Edison Investment Research estimates

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