

Marshall Motor Holdings

Q320 trading update

Motoring ahead in H220

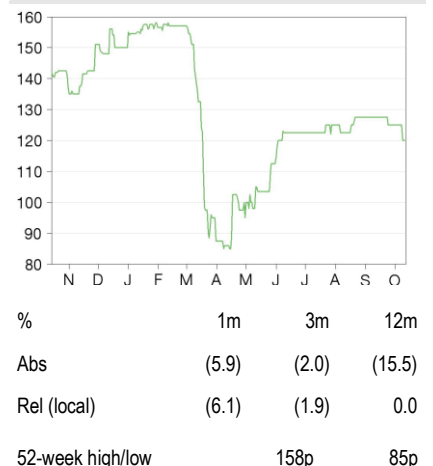
Automotive retail

13 October 2020

Price 120p
Market cap £94m

Adjusted net cash (£m) at 30 Sep 2020	31.5
Shares in issue	78.2m
Free float	35%
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

Marshall Motor is the seventh largest UK motor retailer, operating 117 franchises spread across 24 brands in 28 counties. 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

FY20 results March 2021

Analyst

Andy Chambers +44 (0)20 3681 2525
industrials@edisongroup.com
[Edison profile page](#)

Marshall Motor holdings is a research client of Edison Investment Research Limited

A trading update from Marshall Motor Holdings (MMH) confirms very strong Q320 trading performance as activity bounced back after the lockdowns. All segments outperformed, beating management expectations and leading to an increase for FY20 PBT guidance to c £15m from break-even previously. Uncertainty remains about prospects for Q420 and FY21 as potential headwinds loom. A sustained recovery may be some way off, as reflected in the undemanding FY21e P/E rating of 8.6x.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	2,186.9	24.7	26.3	8.54	4.6	7.1
12/19	2,276.1	22.1	22.9	2.85	5.2	2.4
12/20e	2,105.5	14.8	14.8	0.00	8.1	0.0
12/21e	2,240.3	13.9	13.9	6.00	8.6	5.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Exceptional Q320 trading performance

Scale combined with an experienced management team has delivered market outperformance in new and used car sales volumes once again. On a like-for-like basis, Q320 new car volumes increased 11.8% (+27.9% overall), used car sales volumes rose 14.3% (+28.6% overall) and aftersales revenues grew 8.0% (+18.0% overall). Total Q320 like-for-like revenue growth was 17.5% and 29.6% overall. In September, usually the second largest sales month of the year, like-for-like new car volumes rose 18.4% (+33.9% overall) and group revenues were 28% higher. The pricing environment was also favourable as demand was given impetus by altered transport behaviours and spending patterns by the public, as well as an element of supply constraint. In addition, the high-margin aftersales activity has a backlog of service work deferred from the national lockdown period, as well as normally scheduled activity. The management focus on cost and cash control during H120 results in much better Q320 earnings than we anticipated, with exceptional profitability in August and September. Cash flow should also benefit, and we now estimate a modest level of FY20 adjusted net debt (excluding leases) of £1.8m.

Improved FY20 prospect but uncertainty remains

Our FY20 estimates are increased to reflect the updated guidance, but we remain cautious about the buoyant demand for cars persisting through Q420 into FY21. Our FY21 estimates are unchanged. Uncertainty remains over the true underlying car demand as the second wave of the pandemic hits, with pressure on consumer confidence likely as job security becomes more of a concern. It seems plausible that Q320 has not only seen a catch-up in sales deferred from H120 but also pulled forward purchasing decisions that might have been made in FY21, with supply constraints likely to be exacerbated by Brexit as we enter 2020, deal or no deal.

Valuation: Too early for recovery ratings

With a flat year still in prospect for FY21, the rating is yet to benefit from the multiple expansion that would be expected as sustained recovery is anticipated. The FY21e P/E multiple of 8.6x remains undemanding, given an ultimate upswing in earnings seems likely, albeit potentially not before FY22.

Q3 trading highlights

MMH's performance in Q320 appears to reflect the strong demand trends noted by other major peers. MMH delivered clear outperformances in the new car market, as well as strong trading in used and aftersales segments, and potentially a best-in-class September performance with volumes and revenue data especially strong. Strong like-for-like performances in all three business segments (new, used and aftersales) were augmented by acquisitions made in late 2019. Overall Q320 sales were up almost 30% on Q319, and the revenue shortfall for the nine months to date was reduced to 7.1% compared to a decline of 24.3% at the half year.

Exhibit 1: Marshall Motor Holdings key Q320 data and SMMT UK new car registrations

	September 2020		Q320		Ytd	
	MMH	SMMT data	MMH	SMMT data	MMH	SMMT data
<u>Like-for-like year-on-year change</u>						
New retail units	19.1%	-1.1%	16.0%	4.10%	-21.1%	-28.9%
New fleet units	17.1%	-7.4%	4.7%	-4.30%	-24.6%	-26.7%
Total new units	18.4%	-4.4%	11.8%	-0.50%	-22.4%	-33.2%
Used units	15.7%		14.3%		-16.4%	
Aftersales revenues	11.5%		8.0%		-17.0%	
Total group revenues	16.3%		17.5%		15.5%	
<u>Actual year-on-year change</u>						
New retail units	38.6%		36.0%		-8.1	
New fleet units	23.9%		13.8%		-17.6	
Total new units	33.9%		27.9%		-11.5	
Used units	29.4%		28.6%		-6.0	
Aftersales revenues	21.1%		18.1%		-9.6	
Total group revenues	28.0%		29.6%		-7.1	

Source: Company reports

It is worth highlighting the apparent disjunction between the strong trading performances of automotive retailers in the key month of September, when the half-yearly registration plate change normally stimulates the second highest sales month in any year, and the SMMT (Society of Motor Manufacturers and Traders) figures for September 2020 showing the worst UK new car registrations this century. Key elements to bear in mind are:

- SMMT registration data are not sales and can distort the underlying demand picture as manufacturer pre-registrations through dealerships are included, normally pushed at the end of a month to support market share. With supply constrained at present, there are fewer pre-registrations than a year ago which depresses the SMMT data but does not impact on stronger underlying demand for product by end-users, which is reflected in higher new car sales volumes reported by retailers.
- Investment in cars seems to have benefited from changing transport patterns and improved household finances driven by factors such as lower holiday expenditure. As COVID restrictions return and unemployment potentially accelerates, the trend may be less of a factor in Q4.
- Manufacturer volume bonus thresholds are thought to have been adjusted favourably during H120, and the demand picture suggests these are being achieved.
- Supply constraints are also affecting the availability of higher-quality used and nearly new cars, as has the deferral of personal contract purchase renewals during lockdown. The result is support for residual value levels in used car markets, which are normally higher margin than new, with demand supported by the same factors as new car sales in terms of consumer transport requirements.
- Aftersales and servicing activity is normally very high-margin (c 40–50%) and cash-generating business for the retailers, and there has clearly been a strong bounce back in demand as people came out of lockdown and deferred activity is undertaken. These are on top of the

normal levels of demand often driven by finance contract requirements, which have returned to normal flows.

- Still an element of COVID-19-related reliefs – furlough ending but rate relief continues to March 2021, lowering operating costs.

It seems likely that these trends should affect all the major retailers in a similar way to varying degrees, so we should not be surprised to see most reporting significant outperformance of the apparently weak new car registrations data. Automotive retailers are having to respond to shifting purchasing behaviours. Both dealership facilities and IT systems play a major part in the sales process (touch and test for example), which requires investment levels better suited to larger dealership groups.

Continuing COVID-19 impacts, Brexit uncertainty and a likely worsening of the consumer environment as unemployment rises are likely to remain major challenges heading into 2021. However, the strong balance sheet supports targeted, value-creating M&A and opportunities may well increase if the market is slow to recover. MMH's management team has a strong M&A track record, having bought or sold 161 businesses since the CEO arrived as it has developed, optimised and grown its franchise portfolio.

Revisions to earnings estimates

We have increased our revenue expectations by 4.1% to reflect the better than expected performance across all three business segments in Q320. Our FY20 PBT estimate increases to £14.8m from a small £0.3m loss before tax previously. Our assumptions for FY21 are unchanged awaiting greater clarity on prospects as we believe market conditions will prove challenging.

Exhibit 2: MMH earnings estimates revisions						
Year to December (£m)	2020e			2021e		
	Prior	New	% change	Prior	New	% change
New Car	941.6	976.5	3.7%	1,035.8	1,035.8	0.0%
Used Car	889.7	921.1	3.5%	978.7	978.7	0.0%
Aftersales	234.9	251.2	7.0%	270.1	270.1	0.0%
Intra group	-43.3	-43.3	0.0%	-44.2	-44.2	0.0%
Group revenues	2,022.8	2,105.5	4.1%	2,240.3	2,240.3	0.0%
EBITDA	34.0	49.0	44.1%	45.1	45.1	0.0%
Underlying EBITA	12.0	27.0	125.5%	24.9	24.9	0.0%
Underlying PBT	(0.3)	14.8	N/M	13.9	13.9	0.0%
EPS - underlying continuing (p)	(0.4)	14.8	N/M	13.9	13.9	0.0%
DPS (p)	0.0	0.0	N/M	6.0	6.0	0.0%
Adjusted net debt/(cash)	17.4	1.8	-89.8%	5.2	(9.0)	N/M

Source: Edison Investment Research estimates

Exhibit 3: Financial summary

	£m	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		2,186.9	2,276.1	2,105.5	2,240.3
Cost of Sales		(1,933.6)	(2,015.3)	(1,863.8)	(1,993.9)
Gross Profit		253.2	260.8	241.7	246.4
EBITDA		52.3	52.0	49.0	45.1
Operating Profit (before amort. and except).		34.3	32.0	27.0	24.9
Intangible Amortisation		(0.3)	(0.4)	(0.4)	(0.4)
Exceptional items		(6.7)	(2.4)	(1.8)	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		27.3	29.2	24.8	24.4
Net Interest		(9.6)	(9.9)	(12.2)	(11.0)
Profit Before Tax (norm)		24.7	22.1	14.8	13.9
Profit Before Tax (FRS 3)		17.7	19.2	12.6	13.5
Tax		(4.7)	(4.1)	(2.8)	(3.0)
Profit After Tax (norm)		20.5	17.9	11.6	10.9
Profit After Tax (FRS 3)		13.1	15.2	9.8	10.5
Average Number of Shares Outstanding (m)		77.7	78.2	78.2	78.2
EPS - normalised (p)		26.3	22.9	14.8	13.9
EPS		25.5	22.2	14.3	13.5
EPS - (IFRS) (p)		16.8	19.4	12.5	13.4
Dividend per share (p)		8.54	2.85	0.00	6.00
Gross Margin (%)		11.6	11.5	11.5	11.0
EBITDA Margin (%)		2.4	2.3	2.3	2.0
Operating Margin (before GW and except.) (%)		1.6	1.4	1.3	1.1
BALANCE SHEET					
Fixed Assets		262.9	390.2	388.1	393.1
Intangible Assets		112.2	119.3	119.3	119.3
Tangible Assets		150.7	162.9	162.9	167.8
Right of use asset			108.0	106.0	106.0
Investments		0.0	0.0	0.0	0.0
Current Assets		466.3	560.5	580.9	577.2
Stocks		384.0	470.7	473.7	470.5
Debtors		71.9	79.2	82.2	76.2
Cash		1.2	0.1	15.1	20.1
Other		9.2	10.6	9.9	10.4
Current Liabilities		(502.2)	(608.4)	(606.8)	(607.6)
Creditors		(501.5)	(582.8)	(606.8)	(607.6)
Short term borrowings		(0.6)	(25.6)	0.0	0.0
Long Term Liabilities		(30.8)	(139.9)	(149.8)	(144.0)
Long term borrowings		(5.7)	(5.0)	(16.9)	(11.1)
Lease Liabilities		0.0	(108.1)	(106.1)	(106.1)
Other long-term liabilities		(25.2)	(26.8)	(26.8)	(26.8)
Net Assets		196.3	202.3	212.5	218.7
CASH FLOW					
Operating Cash Flow		39.2	43.6	52.6	42.6
Net Interest		(2.1)	(1.0)	(1.0)	(2.1)
Tax		(4.7)	(4.1)	(2.8)	(3.0)
Capex		(23.4)	(19.5)	(11.0)	(16.1)
Acquisitions/disposals		1.6	(27.4)	0.0	0.0
Financing		(1.0)	(0.9)	0.0	0.0
Dividends		(5.0)	(7.2)	0.0	(1.6)
Other		(7.6)	(9.0)	(9.0)	(9.0)
Net Cash Flow		(2.9)	(25.4)	28.8	10.8
Opening adjusted net debt/(cash)		2.2	5.1	30.6	1.8
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)		5.1	30.6	1.8	(9.0)
Net financial liabilities (including lease liabilities)			138.6	107.9	97.1

Source: Company reports. Edison Investment Research estimates

General disclaimer and copyright

This report has been commissioned by Marshall Motor Holdings and prepared and issued by Edison, in consideration of a fee payable by Marshall Motor Holdings. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia