Marshall Motor Holdings

Q320 trading update

Motoring ahead in H220

Automotive retail

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

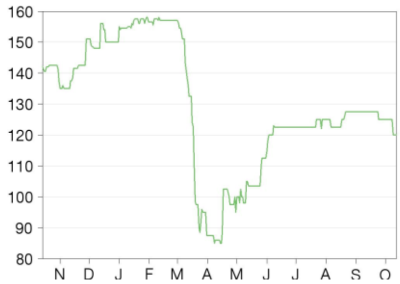
With a flat year still in prospect for FY21, the rating is yet to benefit from the multiple expansion that would be expected as sustained recovery is anticipated. The FY21e P/E multiple of 8.6x remains undemanding, given an ultimate upswing in earnings seems likely, albeit potentially not before FY22.

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



%	1m	3m	12m
Abs	(5.9)	(2.0)	(15.5)
Rel (local)	(6.1)	(1.9)	0.0
52-week high/low		158p	85p

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.

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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
Like-for-like year-on-year change						
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%**	
Actual year-on-year change						
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

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