

Marshall Motor Holdings

Dividends to resume after repaying COVID grants

AGM trading update

Automotive retailers

20 May 2021

Price 172p
Market cap £135m

Adjusted net cash (£m) at 31 December 2020 (excluding £99.3m lease liabilities) 28.8

Shares in issue 78.2m

Free float 35%

Code MMH

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (1.7) 19.0 66.7

Rel (local) (1.0) 13.1 38.8

52-week high/low 178p 104p

Business description

Marshall Motor Holdings is the seventh largest UK motor retailer, operating 113 franchises spread across 22 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

H121 results 10 August 2021

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The AGM trading statement indicates trading in the first four months of FY21 has remained strong. After repaying all £4m of the FY21 government support, management expect FY21 underlying PBT to be not less than the £22.1m pre-pandemic of FY19. We upgrade FY21 and FY22 EPS by 15% and 7% respectively to reflect the strong recovery. The balance sheet remains well positioned to support growth investment and selective M&A. The company intends to resume dividend payments at H121 results.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	2,276	22.1	22.9	2.85	7.5	1.7
12/20	2,154	20.9	21.1	0.00	8.2	N/A
12/21e	2,297	22.2	22.3	6.00	7.7	3.5
12/22e	2,368	22.8	22.9	6.60	7.5	3.8

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

Continuing to outperform vehicle markets

Marshall Motor Holdings (MMH) continued to outperform both new and used car markets in volume terms in the first four months of 2021. New car like-for-like volumes increased 20.4% (actual +19.0%, market +16.2%) and like-for-like used car unit volumes rose 42.0% (actual +40.5%). The high margin aftersales revenues also made strong progress, rising 22.1% on like-for-like basis (actual +19.0%). The timing of lockdowns in both years distorts the comparison. Used market data for the first four months has yet to be released, but in Q121 like-for-like volumes were down 1.7% (actual -2.8%) compared to a market decline of 8.9%. The implication is a strong uplift in April as showrooms reopened and compared to the most depressed month in 2020.

Challenges remain but markets appear robust

Overall revenues in the first four months of the year are up 32.3% (like-for-like 33.3%). Given the extremely weak trading in the Q220 lockdown, we expect to see a stronger performance for H121 overall. We expect the unit car volume improvements to moderate as H221 progresses against very strong H220 comparisons and aftersales service revenues return to tracking car sales. With year-to-date trading and cashflow exceeding management expectations, MMH is voluntarily repaying c £4.0m of government support received in FY21 and is absorbing the cost headwinds as operations return to normal. Nevertheless, the strong used car market has increased management expectations for FY21 to be at least £22.1m at the underlying PBT level.

Valuation: Dividend resumption should be supportive

The stability of EPS and cash development despite the pandemic indicates management has successfully navigated the extremely difficult period, albeit with significant support in FY20. In the new normal trading environment, we believe the multiple contraction that normally occurs as markets recover should be less marked and the traditional sector discount to general retailers should diminish. With dividends to be resumed, yield should also be an additional support for investors.

Outperforming markets as lockdown ends

Unit volume growth in the first four months of the year have been positive, although due to the timing of lockdowns in both years the comparison is distorted. New car like-for-like volumes increased 20.4% (actual +19.0%, market +16.2%) and like-for-like used car unit volumes rose 42.0% (actual +40.5%). A strong outperformance in retail units sold of 11.1% more than offset a 1.3% underperformance in fleet unit sales as MMH continues to be more selective in its opportunities. Used car market data for the first four months has yet to be released but in Q121 like-for-like volumes were down just 1.7% compared to a market decline of 8.9%.

The start to the period in FY21 was more constrained as showrooms were shut down from 5 January 2021 until 12 April 2021. In 2020 a much weaker end to the period resulted from the first lockdown from late March to early June as operations were almost entirely closed down. The major difference was the availability of click-and-collect retail operations in FY21, which mitigated some of the effect of the showroom closures and was enabled by continued investment and focus on the online retailing strategy. In addition, more normal trading of the service activity resumed for the aftersales operations. Overall, MMH continued to outperform both new and used car markets in volume terms.

Exhibit 1: MMH outperformance in first four months of the year				
4m to April 21 vs 4m April 20	SMMT registrations	MMH LFL	Variance to SMMT	MMH Total
New retail units	8.4%	19.5%	11.1%	18.2%
New fleet units	23.2%	21.8%	(1.3%)	20.4%
Total new units	16.2%	20.4%	4.1%	19.0%
Used units		42.0%		40.5%
Aftersales revenue		22.1%		19.0%
Total revenue		33.3%		32.3%

Source: MMH and SMMT data

The latest available comparison data for used car markets is for Q121.

Exhibit 2: Latest used car market data				
Q121 vs Q120	SMMT registrations	MMH LFL	Variance to SMMT	MMH Total
Used units	(8.9%)	(1.7%)	7.2%	(2.8%)

Source: MMH and SMMT data

Earnings revisions

Overall revenues were up by a third on a like-for-like basis in the first four months of the year. Supply chain issues continue to affect new car supply, which is having a positive effect on used car demand, prices and margins. Aftersales should recover in line with new car demand. Q221 comparisons are against the very depressed market position in Q220 and we expect substantial increases in volumes, revenues and profit contribution across the board. However, we feel the improvements are likely to mitigate in H221 as the release of pent-up demand in H220 led to exceptionally high results.

Operating costs are distorted by furlough and non-essential retail government support, as well as business rate relief.

Due to year-to-date trading and cashflow exceeding management's expectations, MMH is voluntarily repaying c £4.0m of government support received in FY21. However, that represents a net neutral cost impact in the current year and, as workers return from furlough, costs will increase

as government support only covered 80% of salaries. The ending of rates relief later this year becomes a significant cost headwind which continues into FY22.

Nevertheless, the strong used car market has increased management's expectations for FY21 of at least £22.1m at the underlying PBT level, the pre-pandemic result from FY19. We now estimate slightly higher revenues in both FY21 and FY22 driven by the used car segment, and our EPS increase by 15% and 7% respectively. The higher profitability and continued strong working capital control also drive an improvement in cash flow despite some unwind of working capital as exceptionally high levels of stock funding return to normal.

Exhibit 3: MMH earnings estimates revisions

Year to December (£m)	2021e			2022e		
	Prior	New	% change	Prior	New	% change
New Car	1,036.0	1,032.6	-0.3%	1,086.3	1,084.2	-0.2%
Used Car	1,019.7	1,053.7	3.3%	1,040.1	1,064.2	2.3%
Aftersales	256.2	256.2	0.0%	266.5	266.5	0.0%
Intra group	-45.9	-45.9	0.0%	-46.5	-46.5	0.0%
Group revenues	2,266.0	2,296.5	1.3%	2,346.3	2,368.4	0.9%
EBITDA	50.1	52.2	4.1%	52.5	52.8	0.5%
Underlying EBITA	30.0	32.0	6.4%	32.3	32.5	0.6%
Underlying PBT	19.3	22.2	15.3%	21.2	22.8	7.4%
EPS - underlying continuing (p)	19.3	22.3	15.3%	21.3	22.9	7.4%
DPS (p)	6.0	6.0	0.0%	6.6	6.6	0.0%
Adjusted net debt / (cash), excluding lease liabilities	(16.5)	(19.3)	17.1%	(16.0)	(19.2)	19.7%

Source: Edison Investment Research estimates

Exhibit 4: Financial summary

	£m	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		2,186.9	2,276.1	2,154.4	2,296.5	2,368.4
Cost of Sales		(1,933.6)	(2,015.3)	(1,916.2)	(2,043.9)	(2,103.1)
Gross Profit		253.2	260.8	238.2	252.6	265.3
EBITDA		52.3	52.0	53.4	52.2	52.8
Operating Profit (before amort. and except).		34.3	32.0	31.1	32.0	32.5
Intangible Amortisation		(0.3)	(0.4)	(0.2)	(0.2)	(0.3)
Exceptionals		(6.7)	(2.4)	(0.6)	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		27.3	29.2	30.3	31.7	32.2
Net Interest		(9.6)	(9.9)	(10.2)	(9.8)	(9.7)
Profit Before Tax (norm)		24.7	22.1	20.9	22.2	22.8
Profit Before Tax (FRS 3)		17.7	19.2	20.1	22.0	22.5
Tax		(4.7)	(4.1)	(6.4)	(4.8)	(4.9)
Profit After Tax (norm)		20.5	17.9	16.5	17.4	17.9
Profit After Tax (FRS 3)		13.1	15.2	13.7	17.2	17.6
Average Number of Shares Outstanding (m)		77.7	78.2	78.2	78.2	78.2
EPS - normalised (p)		26.3	22.9	21.1	22.3	22.9
EPS - normalised and fully diluted (p)		25.5	22.6	20.6	21.8	22.3
EPS - (IFRS) (p)		16.8	19.4	17.5	22.0	22.5
Dividend per share (p)		8.54	2.85	0.00	6.00	6.60
Gross Margin (%)		11.6	11.5	11.1	11.0	11.2
EBITDA Margin (%)		2.4	2.3	2.5	2.3	2.2
Operating Margin (before GW and except.) (%)		1.6	1.4	1.4	1.4	1.4
BALANCE SHEET						
Fixed Assets		262.9	390.2	378.2	383.4	388.2
Intangible Assets		112.2	119.3	119.5	119.7	119.8
Tangible Assets		150.7	162.9	159.8	164.9	169.6
Right of use asset			108.0	98.8	98.8	98.8
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		466.3	560.5	464.8	531.2	560.9
Stocks		384.0	470.7	362.9	424.9	450.0
Debtors		71.9	79.2	59.6	73.5	75.8
Cash		1.2	0.1	33.8	23.8	25.8
Other		9.2	10.6	8.5	9.0	9.2
Current Liabilities		(502.2)	(608.4)	(494.1)	(552.8)	(572.4)
Creditors		(501.5)	(582.8)	(493.4)	(552.8)	(572.4)
Short term borrowings		(0.6)	(25.6)	(0.6)	0.0	0.0
Long Term Liabilities		(30.8)	(139.9)	(133.0)	(133.1)	(135.2)
Long term borrowings		(5.7)	(5.0)	(4.4)	(4.5)	(6.7)
Lease Liabilities		0.0	(108.1)	(99.3)	(99.3)	(99.3)
Other long term liabilities		(25.2)	(26.8)	(29.3)	(29.2)	(29.2)
Net Assets		196.3	202.3	215.9	228.7	241.4
CASH FLOW						
Operating Cash Flow		39.2	43.6	87.5	24.1	35.2
Net Interest		(2.1)	(1.0)	(1.0)	(1.7)	(0.5)
Tax		(4.7)	(4.1)	(6.4)	(4.8)	(4.9)
Capex		(23.4)	(19.5)	(11.7)	(16.5)	(16.1)
Acquisitions/disposals		1.6	(27.4)	(0.6)	0.0	0.0
Financing		(1.0)	(0.9)	0.0	0.0	0.0
Dividends		(5.0)	(7.2)	0.0	(1.6)	(4.8)
Other		(7.6)	(9.0)	(8.4)	(9.0)	(9.0)
Net Cash Flow		(2.9)	(25.4)	59.4	(9.5)	(0.1)
Opening adjusted net debt/(cash)		2.2	5.1	30.6	(28.8)	(19.3)
HP finance leases initiated		0.0	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	(28.8)	(19.3)	(19.2)
Net financial liabilities (including lease liabilities)			138.6	71.6	80.0	80.2

Source: Company reports, Edison Investment Research estimates

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