

Marshall Motor Holdings

Disposal

Leasing disposal augments strategic resource

Marshall Motor Holdings (MMH) has announced that it will sell its vehicle leasing activity to Bank of Ireland for £42.5m. The net proceeds equate to 33% of the market cap and will leave the company ungeared. The strengthened balance sheet provides increased financial resource with which to pursue its growth strategy in vehicle retail, both organic and acquired, which should reverse the initial dilution. On completion, the net asset value should rise by nearly 25% to around 254p per share, further underpinning the shares.

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	10.1	1.9
12/16	1,899.4	25.4	26.2	5.50	6.1	3.4
12/17e	2,271.1	28.3	28.6	6.45	5.6	4.0
12/18e	2,296.5	28.9	29.2	6.90	5.5	4.3

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

Marshall Leasing disposal

MMH has announced that it is to sell the Leasing Division to Bank of Ireland for £42.5m, representing a substantial gain over book value. Completion is subject to regulatory clearance and is expected before the year end. The leasing business should benefit from its transfer to a financially oriented parent, and lacked scale under MMH's tenure. For MMH the disposal will reduce risk and focus the business on the strategic development of the vehicle retail distribution operations in the UK.

Strategic and financial implications

The disposal represents an exit P/E of 12.1x (12m trailing), and an EV/EBITDA multiple of c 8.0x. With net assets expected to be minimal at completion following settlement of intra group obligations MMH should book a profit of just under £40m after allowing for deal costs. It is important to recognise that as the deal leaves MMH with net cash (pro forma £4.6m at the 30 June 2017 vs reported net debt of £101.1m), we fully expect the company to utilise the resource to invest in additional assets for the continuing retail businesses when suitable opportunities arise. As the division was expected to contribute approximately £5.3m to underlying FY18 EBIT of £37.7m, there is initial EPS dilution of around 17% in FY18. The disposal also considerably improves the clarity of the company, without a need to explain how the leasing debt and operations work financially, and removes the residual value risk of the business.

Valuation: Reinvestment should outweigh dilution

We have not adjusted out forecasts to reflect the disposal, but will do so when the transaction completes. The earnings dilution caused by the disposal will temporarily align the P/E rating with MMH's peers until the company starts to reinvest the proceeds and generate increasing returns. Nevertheless a relatively high dividend yield, the property supported asset base and the enhanced ability to pursue its growth strategy should provide support in the meantime.

Automotive retail

21 September 2017

Price 160p
Market cap £124m

Adjusted net debt (£m) at 30 June 2017	35.1
Shares in issue	77.4m
Free float	34.9%
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

Marshall Motor is the seventh largest UK motor retailer, operating 104 franchises spread across 24 brands at 90 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

Pre-close statement	January 2018
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Marshall Motor Holdings
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Exhibit 1: Financial summary

	£m	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
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	38.7	44.8	44.9
Operating Profit (before amort. and except.)		18.7	32.3	37.1	37.7
Intangible Amortisation		(0.2)	(0.3)	(0.4)	(0.4)
Exceptionals		(0.5)	(3.2)	0.0	0.0
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	28.5
Tax		(3.6)	(4.4)	(6.2)	(6.3)
Profit After Tax (norm)		9.4	20.2	22.0	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	28.4
EPS - (IFRS) (p)		19.3	22.6	28.1	28.6
Dividend per share (p)		3.0	5.5	6.5	6.9
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
BALANCE SHEET					
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)	(149.1)	(141.1)
Long term borrowings		(24.7)	(41.4)	(119.5)	(111.5)
Other long term liabilities		(12.9)	(29.7)	(29.7)	(29.6)
Net Assets		129.9	145.7	162.7	179.9
CASH FLOW					
Operating Cash Flow		29.6	98.9	65.7	75.4
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)	(4.5)	(5.1)
Other		8.6	(15.5)	13.0	13.0
Net Cash Flow		24.5	(91.8)	(0.4)	8.0
Opening net debt/(cash)		51.7	27.2	119.0	119.4
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	119.4	111.4

Source: Marshall Motor Holdings accounts, Edison Investment Research

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