

Marshall Motor Holdings

Trading update

Strong finish to 2018 expected

Automotive retail

14 November 2018

Marshall Motor Holdings (MMH) released a trading update, which indicates that the group's Q4 performance is now expected to be ahead of management and market expectations. Driven by stronger than anticipated used car sales with healthy margins, PBT is now expected to exceed FY17's record level for the continuing business. We are increasing our FY18e PBT and EPS by 6.4%. Brexit uncertainty remains at the forefront of FY19 prospects, and as some of the currently favourable market dynamics may wane, we leave our FY19 estimates unchanged. The P/E ratio for FY19 is an undemanding 5.8x.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	1,899.4	25.4	26.2	5.50	5.6	3.7
12/17	2,268.9	29.1	30.8	6.40	4.8	4.4
12/18e	2,207.8	25.7	26.3	6.75	5.6	4.6
12/19e	2,267.3	24.8	25.4	6.95	5.8	4.7

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

Q4 used car sales benefit from new car shortages

The disruption and volatility seen in the supply of new cars that arose from the introduction of the Worldwide Harmonised Light Vehicle Testing Procedure (WLTP) emissions regime from 1 September 2018 has had some positive consequences. With constrained supply of certain new models, buyers appear to have switched to replacing cars with nearly new models. As a result, used car sales were higher than expected with healthy margins maintaining the 37 basis point rise for the segment seen in H118. The period also compares to a weak trading period in Q417. New car shortages are also thought to be benefiting margin, albeit on lower volumes. We increase our FY18 revenue expectations for MMH by 0.4% and our EBIT by 4.8%. Our FY18e PBT increases 6.4% to £25.7m from £24.2m previously, and compares to £25.4m for the ongoing businesses in FY17. FY18e EPS also increase by 6.4%.

FY19 expectations: Uncertainty persists

The effects of the WLTP on some manufacturers are likely to persist into Q119, so no latent bounceback in demand for those new models should be expected. This could mean the positive trends currently being experienced may persist for that period, despite the ongoing disruption to diesel demand arising from muddled government policy. The impact of Brexit remains a major uncertainty, but generally not a favourable one. If used car demand recedes as the year progresses due to recovering new car sales, some adverse margin pressure may arise, compounded by ongoing cost pressures. While management has mitigated these in FY18, there is less scope for cutting costs through portfolio streamlining. We therefore take a cautious view of FY19 prospects, leaving our numbers unchanged.

Valuation: discount to peers should diminish

MMH currently trades on just 5.8x our FY19e EPS, a discount of over 20% against its immediate UK auto retailer peer group. The better than expected performance should encourage this value gap to diminish, supported by the healthy yield.

Price 147p
Market cap £114m

Net cash (£m) at 30 June 2018	0.9
Shares in issue	77.9m
Free float	34.9m
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

Marshall Motor is the seventh largest UK motor retailer, operating 100 franchises spread across 23 brands at 83 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

FY18 results	13 March 2019
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Marshall Motor Holdings
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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		1,232.8	1,899.4	2,268.9	2,207.8	2,267.3
Cost of Sales		(1,087.5)	(1,678.9)	(2,003.8)	(1,948.4)	(2,000.9)
Gross Profit		145.3	220.5	265.1	259.4	266.4
EBITDA		22.5	38.4	46.4	41.6	41.1
Operating Profit (before amort. and except.)		18.7	32.3	37.2	32.7	32.2
Intangible Amortisation		(0.2)	(0.3)	(0.3)	(0.4)	(0.5)
Exceptionals		(0.5)	(3.2)	24.1	0.9	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		18.0	28.8	60.9	33.2	31.8
Net Interest		(2.9)	(6.9)	(8.1)	(7.0)	(7.4)
Profit Before Tax (norm)		15.8	25.4	29.1	25.7	24.8
Profit Before Tax (FRS 3)		15.1	21.9	52.8	26.1	24.4
Tax		(3.6)	(4.4)	(3.8)	(5.6)	(5.2)
Profit After Tax (norm)		9.4	20.3	23.8	20.3	19.6
Profit After Tax (FRS 3)		11.5	17.5	49.0	20.6	19.2
Average Number of Shares Outstanding (m)		59.4	77.3	77.4	77.2	77.2
EPS - normalised (p)		15.8	26.2	30.8	26.3	25.4
EPS - normalised and fully diluted (p)		15.3	25.4	29.8	25.5	24.6
EPS - (IFRS) (p)		19.3	22.6	63.4	26.7	24.9
Dividend per share (p)		2.98	5.50	6.40	6.75	6.95
Gross Margin (%)		11.8	11.6	11.7	11.8	11.8
EBITDA Margin (%)		1.8	2.0	2.0	1.9	1.8
Operating Margin (before GW and except.) (%)		1.5	1.7	1.6	1.5	1.4
BALANCE SHEET						
Fixed Assets		150.0	326.4	266.6	283.5	291.0
Intangible Assets		40.8	122.0	121.6	121.7	121.7
Tangible Assets		109.2	204.4	145.0	161.8	169.3
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		307.5	475.2	499.1	468.0	486.6
Stocks		240.6	380.0	401.3	375.3	385.4
Debtors		28.9	71.0	64.1	61.8	63.5
Cash		24.1	0.1	4.9	2.9	8.9
Other		13.9	24.1	28.8	28.0	28.8
Current Liabilities		(290.1)	(584.9)	(539.3)	(510.4)	(524.1)
Creditors		(263.4)	(507.2)	(538.6)	(510.4)	(524.1)
Short term borrowings		(26.7)	(77.7)	(0.6)	0.0	0.0
Long Term Liabilities		(37.6)	(71.1)	(35.2)	(35.0)	(33.1)
Long term borrowings		(24.7)	(41.4)	(6.5)	(6.4)	(4.5)
Other long term liabilities		(12.9)	(29.7)	(28.7)	(28.6)	(28.5)
Net Assets		129.9	145.7	191.2	206.1	220.4
CASH FLOW						
Operating Cash Flow		29.6	98.9	60.8	37.7	35.9
Net Interest		(1.1)	(1.4)	(2.9)	(2.7)	(1.2)
Tax		(3.0)	(17.3)	(3.8)	(5.6)	(5.2)
Capex		(39.6)	(61.9)	(57.5)	(25.7)	(16.4)
Acquisitions/disposals		(21.5)	(91.4)	44.6	0.0	0.0
Financing		66.9	0.0	0.0	0.0	0.0
Dividends		(15.4)	(3.3)	(4.5)	(4.9)	(5.3)
Other		8.6	(15.5)	80.2	0.0	0.0
Net Cash Flow		24.5	(91.8)	116.8	(1.3)	7.8
Opening net debt/(cash)		51.7	27.2	119.0	2.2	3.5
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Closing net debt/(cash)		27.2	119.0	2.2	3.5	(4.3)

Source: Company data, Edison Investment Research

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