

Marshall Motor Holdings

Continued strong performance in Q321

Q3 trading update

Automotive retailers

6 October 2021

Price **208p**
Market cap **£163m**

Adjusted net cash (£m) at 30 June 2021 (excludes £92.4m lease liabilities) 57.2

Shares in issue 78.2m

Free float 35%

Code MMH

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (19.4) (2.8) 66.4

Rel (local) (17.9) (1.6) 36.9

52-week high/low 260p 120p

Business description

Marshall Motor Holdings is the seventh largest UK motor retailer, operating 116 franchises spread across 22 brands in 29 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

FY21 results March 2022

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For Marshall Motor Holdings (MMH), the favourable mix of trading conditions for automotive retailers has continued through Q321 despite intensifying supply constraints as the global chip shortage disrupted production at car producers. Delivery lead times are extended, with strong margins for new cars and at unprecedented levels in the used car segment, leading to an excellent profit performance despite lower volumes. Management has again increased guidance for the current year profit to not less than £50m. While there is no certainty as to when trading conditions will normalise, we expect margins to moderate in FY22 as car supply improves. We have raised our FY21 EPS estimate by 25%, with no increase in FY22. A single-digit FY22e P/E multiple of just 9.1x does not look demanding as we expect markets to normalise and growth to resume in FY23.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	2,276	22.1	22.9	2.85	9.1	1.4
12/20	2,154	20.9	21.1	0.00	9.9	N/A
12/21e	2,337	50.1	50.4	13.30	4.1	6.4
12/22e	2,247	22.8	22.9	8.55	9.1	4.1

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

Outperformance in new cars continues

MMH continued to outperform challenging new car markets in Q321. The new car supply constraints caused by production cuts as the global microchip shortage bites harder were reflected in UK new car registrations. These fell 34% year-on-year in September 2021 and by 31% in Q321 versus Q320, when sales benefited from the release of pent-up demand following the end of the first national lockdown. MMH like-for-like new vehicle unit sales outperformed the market by 13% in volume terms in Q321 and by almost 12% year to date (UK market still +5.9%). The company has continued to invest in its omnichannel offering, procurement processes and technology, as well as increased marketing to optimise returns.

Exceptional used car margins achieved

The scarcity of supply led to favourable pricing and margins for new cars. The situation remains even more positive in used car markets where values continued to rise sharply through Q321, increasing by an average of 12.7%. Used car values have progressively risen by an unprecedented 26.3% in the last seven months. Margin performance in both the new and used segments has more than offset lower volumes in the period. However, the longer the supply constraints persist, the more challenging trading is likely to become and as supply eases, margins may moderate further.

Valuation: Supportive yield

While the rating looks undemanding, the FY22e yield looks very supportive as the wait for a return to more normal markets continues. We expect to see multiple expansion as a return to profitable growth is anticipated from FY23.

Earnings revisions

The exceptionally positive profit performance in FY21 is a result of distorted market conditions, which have persisted even as the pandemic has become more manageable. Management has continued to capitalise on these favourable tailwinds and expects to achieve a stable Q421 performance despite increasing new car supply shortages, which are leading to an increasingly tight used car market as contract renewal decisions are deferred due to extended new car delivery lead times, many of which extend well into 2022.

As conditions should revert to normal assuming the supply chain issues are resolved, we expect more normal market conditions to reassert themselves. While underlying demand appears to be strong, the margin reversion is likely to be significant, although when and by how much remains extremely uncertain.

As a result, the strong FY21 performance, as reflected in our increased estimates below, still appears likely to be followed by a return to more normal levels of trading and profitability in FY22, although the improved cash performance in FY21 should be retained. The balance sheet thus remains well positioned to take advantage of any value-creating investment opportunities that might arise.

Exhibit 1: Marshall Motor Holdings revisions to earnings estimates

Year to December (£m)	2021e			2022e		
	Prior	New	% change	Prior	New	% change
New Car	1,008.3	1,008.3	0.0%	978.1	978.1	0.0%
Used Car	1,107.1	1,107.1	0.0%	1,045.6	1,045.6	0.0%
Aftersales	267.1	267.1	0.0%	269.7	269.7	0.0%
Intra group	(45.9)	(45.9)	0.0%	(46.5)	(46.5)	0.0%
Group revenues	2,336.5	2,336.5	0.0%	2,246.9	2,246.9	0.0%
EBITDA	70.3	80.2	14.1%	52.2	52.2	0.0%
Underlying operating profit	49.9	59.7	19.8%	32.4	32.4	0.0%
Underlying PBT	40.2	50.1	24.8%	22.8	22.8	0.0%
EPS - underlying (p)	40.3	50.4	24.8%	22.9	22.9	0.0%
DPS (p)	13.3	13.3	0.0%	8.6	8.6	0.0%
Adjusted net debt/(cash)	(36.8)	(44.6)	21.3%	(25.4)	(33.3)	30.8%

Source: Edison Investment Research estimates

Exhibit 2: 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	2,336.5	2,246.9
Cost of Sales		(1,933.6)	(2,015.3)	(1,916.2)	(2,054.3)	(1,997.5)
Gross Profit		253.2	260.8	238.2	282.2	249.4
EBITDA		52.3	52.0	53.4	80.2	52.2
Operating Profit (before amort. and except).		34.3	32.0	31.1	59.7	32.4
Intangible Amortisation		(0.3)	(0.4)	(0.2)	(0.2)	(0.3)
Exceptionals		(6.7)	(2.4)	(0.6)	1.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		27.3	29.2	30.3	60.6	32.2
Net Interest		(9.6)	(9.9)	(10.2)	(9.6)	(9.6)
Profit Before Tax (norm)		24.7	22.1	20.9	50.1	22.8
Profit Before Tax (FRS 3)		17.7	19.2	20.1	51.0	22.5
Tax		(4.7)	(4.1)	(6.4)	(11.0)	(4.9)
Profit After Tax (norm)		20.5	17.9	16.5	39.4	17.9
Profit After Tax (FRS 3)		13.1	15.2	13.7	40.0	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	50.4	22.9
EPS - normalised and fully diluted (p)		25.5	22.6	20.6	49.4	22.5
EPS - (IFRS) (p)		16.8	19.4	17.5	51.1	22.5
Dividend per share (p)		8.54	2.85	0.00	13.30	8.55
Gross Margin (%)		11.6	11.5	11.1	12.1	11.1
EBITDA Margin (%)		2.4	2.3	2.5	3.4	2.3
Operating Margin (before GW and except.) (%)		1.6	1.4	1.4	2.6	1.4
BALANCE SHEET						
Fixed Assets		262.9	390.2	378.2	392.1	396.7
Intangible Assets		112.2	119.3	119.5	120.6	120.7
Tangible Assets		150.7	162.9	159.8	172.2	176.6
Right of use asset			108.0	98.8	99.3	99.3
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		466.3	560.5	464.8	480.9	525.5
Stocks		384.0	470.7	362.9	346.5	404.4
Debtors		71.9	79.2	59.6	79.4	76.4
Cash		1.2	0.1	33.8	45.8	35.8
Other		9.2	10.6	8.5	9.1	8.8
Current Liabilities		(502.2)	(608.4)	(494.1)	(496.5)	(533.1)
Creditors		(501.5)	(582.8)	(493.4)	(496.5)	(533.1)
Short term borrowings		(0.6)	(25.6)	(0.6)	0.0	0.0
Long Term Liabilities		(30.8)	(139.9)	(133.0)	(130.8)	(132.1)
Long term borrowings		(5.7)	(5.0)	(4.4)	(1.2)	(2.6)
Lease Liabilities		0.0	(108.1)	(99.3)	(99.7)	(99.7)
Other long-term liabilities		(25.2)	(26.8)	(29.3)	(29.9)	(29.9)
Net Assets		196.3	202.3	215.9	245.7	256.9
CASH FLOW						
Operating Cash Flow		39.2	43.6	87.5	71.4	23.9
Net Interest		(2.1)	(1.0)	(1.0)	(1.7)	(0.3)
Tax		(4.7)	(4.1)	(6.4)	(11.0)	(4.9)
Capex		(23.4)	(19.5)	(11.7)	(16.8)	(15.3)
Acquisitions/disposals		1.6	(27.4)	(0.6)	(10.2)	0.0
Financing		(1.0)	(0.9)	0.0	0.0	0.0
Dividends		(5.0)	(7.2)	0.0	(6.9)	(5.7)
Other		(7.6)	(9.0)	(8.4)	(9.0)	(9.0)
Net Cash Flow		(2.9)	(25.4)	59.4	15.8	(11.4)
Opening adjusted net debt/(cash)		2.2	5.1	30.6	(28.8)	(44.6)
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 adjusted net debt/(cash)		5.1	30.6	(28.8)	(44.6)	(33.3)
Net financial liabilities (including lease liabilities)			138.6	70.5	55.1	66.4

Source: Company reports, Edison Investment Research estimates

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