

Marshall Motor Holdings

FY19 results

Robust performance while scale grows

Automotive retail

10 March 2020

Price **143.5p**
Market cap **£112m**

Adjusted net debt (£m) at 31 December 2019 30.6

Shares in issue 78.2m

Free float 35%

Code MMH

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(8.9)	(3.0)	(9.5)
Rel (local)	13.4	16.9	5.8

52-week high/low 176p 135p

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.

Next events

AGM May 2020

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Marshall Motor Holdings (MMH) continued to perform robustly, although the FY19 PBT was slightly below our estimate as the losses of recently acquired businesses at the year end were slightly higher than we expected. We nevertheless have slightly increased our FY20 PBT estimates to reflect the higher than expected FY19 sales, partly offset by a slightly weaker margin due to both the acquisitions and still challenged markets. An FY21 P/E ratio of 6.5x remains undemanding. It is further supported by the FY19 dividend, which has been maintained and yields 6.0%.

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	5.5	6.0
12/19	2,276.1	22.1	22.9	8.54	6.3	6.0
12/20e	2,474.9	19.8	19.9	8.54	7.2	6.0
12/21e	2,527.2	22.0	22.1	8.54	6.5	6.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. Historical years restated for IFRS 16 adoption.

Disciplined outperformance of markets once again

MMH continued to invest in new dealerships during 2019 despite what proved to be another year of challenges in its markets. New and used car demand in the UK remained subdued, while in volume terms MMH outperformed the market in new retail, new fleet and used car unit sales. Some of the beneficial used segment gross margin mix seen in 2018 unwound in FY19 as new car supply improved, and was exacerbated by weaker residuals in Q219. Continued tight management of costs limited the operating expenses increase to c £4m despite cost headwinds of c £8m. While PBT fell 10.8%, that compares favourably to several peers.

FY20 estimates broadly maintained

We continue to assume UK car markets will decline further in 2020 with an organic fall in MMH's new car sales, and robust performances in the used and aftersales segments. We have increased our FY20 revenue by 4.9% to reflect the higher FY19 base, while increasing our PBT by a modest 0.7% and EPS by 2.1% to reflect the challenges of markets and cost pressures. We still estimate a profit decline largely due to the full year losses at 2019 acquisitions. The potential for Coronavirus to disrupt market activity on both the demand and supply side appears significant, but we will await further development of the issue in the UK before trying to adjust our forecasts. At best it is likely to delay any recovery in buyer confidence.

Valuation: Better positioned for market recovery

Despite performing better than many peers and an attractive yield, MMH has slid alongside the rest of the markets in the face of the Coronavirus concerns. Even if faced by a similar disruption to that seen during the 2008 financial crisis, we feel the FY21 multiple of 6.5x provides scope for multiple expansion into what we would expect to be a v-shaped recovery, with MMH starting from a robust competitive and financial position. If underlying markets hold up, the rating should improve as better returns from the recent acquisitions should enhance organic growth.

FY19 results summary

Market conditions continued to challenge automotive retailers throughout 2019, and pressures have continued into the current year. While MMH generated revenues ahead of our expectations, and up on a like-for-like basis in all segments, the slight shortfall of our £23.2m PBT estimate means the outturn was modestly below the record level set in 2018. The main reason for the slight underperformance appears to have been marginally higher losses than expected during the seasonally quiet festive trading period in the lossmaking businesses acquired towards the year end. Reported gross margin reflects this, dropping to 11.5% from 11.6% in 2018.

2018 has been restated to reflect the adoption of IFRS 16. Adjusted net debt excludes lease liabilities, which we have shown separately below. The main highlights are summarised below:

Exhibit 1: Marshall Motor Holdings FY19 key data			
Year to 31 December (£m)	2018	2019	% change
Revenue	2,186.9	2,276.1	4.1
EBITDA	52.3	52.0	-0.6
EBIT (underlying)	34.5	33.1	-4.1
Profit before tax (underlying continuing)	24.7	22.1	-10.8
EPS (p) – (underlying continuing)	26.3	22.9	-12.9
DPS (p)	8.54	8.54	0.0
Adjusted net debt	5.1	30.6	
Lease liabilities	97.7	87.6	
NAV per share (p)	248	259	4.4

Source: Marshall Motor reports. Note: *Restated following disposal of Leasing in FY17, now discontinued.

Group revenues rose 4.1% to a record £2.28bn (like-for-like up 2.2% to £2.21bn), largely reflecting the acquisitions made during the year as well as solid outperformance of the markets in all three of the main segments: new, used and aftersales. On the company defined like-for-like basis, revenues increased by 2.2%, a significant outperformance against a UK market decline of 2.4% for new cars and 0.1% for used. On a like-for-like basis, revenues growth was 0.0%, 5.3% and 3.2% for the new, used and aftersales segments, further underlining the better than market performance.

Exhibit 2: Marshall Motor Holdings revenues and gross margin analysis (like-for-like basis)			
Year to 31 December (£m)	FY18	FY19	% change
New Car	1,060.2	1,056.7	0.0%
Used Car	903.4	951.0	5.3%
Aftersales	242.3	250.1	3.2%
Intra group	(44.3)	(48.2)	8.7%
Group revenues	2,161.6	2,209.6	2.2%
Gross Profit			
New	75.4	78.0	3.4%
Used	64.4	63.3	-1.7%
Aftersales	110.4	110.8	0.4%
Internal/Other	0.3	0.3	0.0%
Group gross profit	250.4	252.3	0.8%
Gross margin			
New	7.1%	7.2%	
Used	7.1%	6.4%	
Aftersales	45.6%	42.9%	
Group	11.6%	11.4%	

Source: Marshall Motor reports

Group reported gross profit in FY19 rose 3.0% to £260.8m with stronger contributions from new car and aftersales businesses, which increased contributions by 5.8% and 2.4%, respectively, to £80.2m and £114.6m. The used car segment delivered a flat contribution of £65.5m following a strong 11.4% increase in 2018, and the more challenging residual value situation that developed in

Q219. Overall group gross margin declined modestly to 11.5%. On a like-for-like basis, group gross profit rose £1.9m to £252.3m, with margins 16bp lower at 11.4%.

Underlying PBT fell 10.8% to £22.1m, from the record £24.7m achieved in 2019, in part due to the acquisition of lossmaking dealerships throughout the year, but also due to the weaker used car performance in Q219 as residual values fell sharply.

Net debt of £30.6m was higher than we expected, largely as the result of investment for increased fleet orders prior to the year end. In total inventories for the ongoing businesses rose £35.9m in 2019 and a further £51.3m came with the 20 acquired dealerships. Nevertheless the increase in net debt was still lower than the £31.6m investment in acquiring the franchises during the year.

Once again net assets per share increased, rising 4.4% to 259p at the end of 2019, supported by 158p per share of freehold property assets (FY18: 138p per share restated). This does not take into account a c £15m (8%) external valuation uplift against book value that was undertaken in the year but has not been recognised in the accounts. The group has now invested over £100m in its dealership portfolio since the IPO in 2015.

Earnings revisions

Despite the modest earnings miss in FY19 we have increased both our revenue and profit numbers for FY20. We had previously reduced the group FY20 PBT estimate by £2.5m to reflect the losses of the businesses acquired in late 2019 and which we feel are appropriate in a full year.

Management expects the acquired dealerships to remain dilutive in FY21 before starting to enhance earnings from FY22.

Overall trading conditions remain challenging, with new car registrations down 5.8% in the first two months of 2020. The impact of Coronavirus and the latest sharp drop in the oil price have yet to fully emerge. We have increased our revenues modestly to reflect the better than expected sales achieved in 2019. While we expect a further slight drop in margin due a full year contribution from the acquired dealerships, our revised FY20 PBT is nevertheless marginally higher at £19.8m. We introduce our FY21 forecasts for the first time, when we expect losses from the 2019 acquisitions to diminish and some modest market recovery, reflecting latest SMMT forecasts for new car sales in 2021, which shows a slight 0.8% increase.

We have adjusted our net debt expectation for FY20 up to £22.7m, although we do not expect most of the year end fleet investment seen in FY19 to recur in the current year.

Exhibit 3: MMH earnings estimates revisions							
Year to December (£m)	2019e		% change	2020e		% change	2021e
	Prior	Actual		Prior	New		New
New Car	1,068.2	1,079.5	1.1%	1,145.8	1,168.6	2.0%	1,192.0
Used Car	929.7	986.7	6.1%	989.5	1,077.4	8.9%	1,098.9
Aftersales	249.2	258.1	3.6%	270.6	279.5	3.3%	287.9
Intra group	(45.2)	(48.2)	6.6%	(46.1)	(50.6)	9.7%	(51.6)
Group revenues	2,201.9	2,276.1	3.4%	2,359.8	2,474.9	4.9%	2,527.2
EBITDA	51.3	52.0	1.4%	48.3	52.9	9.5%	54.0
Underlying EBITA	33.2	32.0	-3.5%	29.9	32.5	8.7%	33.6
Underlying PBT	23.2	22.1	-4.9%	19.7	19.8	0.7%	22.0
EPS - underlying continuing (p)	23.0	22.9	-0.5%	19.5	19.9	2.1%	22.1
DPS (p)	8.5	8.5	0.0%	8.5	8.5	0.0%	8.5
Adjusted net debt / (cash)	13.7	30.6	122.6%	9.4	22.7	140.7%	13.3

Source: Marshall Motor reports, Edison Investment Research estimates

Exhibit 4: Financial summary

	£m	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		2,186.9	2,276.1	2,474.9	2,527.2
Cost of Sales		(1,933.6)	(2,015.3)	(2,200.2)	(2,246.7)
Gross Profit		253.2	260.8	274.7	280.5
EBITDA		52.3	52.0	52.9	54.0
Operating Profit (before amort. and except).		34.3	32.0	32.5	33.6
Intangible Amortisation		(0.3)	(0.4)	(0.6)	(0.7)
Exceptionals		(6.7)	(2.4)	0.0	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		27.3	29.2	31.9	32.8
Net Interest		(9.6)	(9.9)	(12.6)	(11.6)
Profit Before Tax (norm)		24.7	22.1	19.8	22.0
Profit Before Tax (FRS 3)		17.7	19.2	19.2	21.2
Tax		(4.7)	(4.1)	(4.3)	(4.7)
Profit After Tax (norm)		20.5	17.9	15.6	17.2
Profit After Tax (FRS 3)		13.1	15.2	15.0	16.5
Average Number of Shares Outstanding (m)		77.7	78.2	78.2	78.2
EPS - normalised (p)		26.3	22.9	19.9	22.1
EPS (p)		25.5	22.2	19.3	21.4
EPS - (IFRS) (p)		16.8	19.4	19.2	21.1
Dividend per share (p)		8.54	8.54	8.54	8.54
Gross Margin (%)		11.6	11.5	11.1	11.1
EBITDA Margin (%)		2.4	2.3	2.1	2.1
Operating Margin (before GW and except.) (%)		1.6	1.4	1.3	1.3
BALANCE SHEET					
Fixed Assets		262.9	390.2	397.7	404.7
Intangible Assets		112.2	119.3	119.6	119.9
Tangible Assets		150.7	162.9	170.1	176.8
Right of use asset			108.0	108.0	108.0
Investments		0.0	0.0	0.0	0.0
Current Assets		466.3	560.5	591.6	605.8
Stocks		384.0	470.7	502.4	507.9
Debtors		71.9	79.7	74.2	75.8
Cash		1.2	0.1	4.1	11.1
Other		9.2	10.0	10.8	11.0
Current Liabilities		(502.2)	(608.4)	(616.4)	(629.4)
Creditors		(501.5)	(582.8)	(616.4)	(629.4)
Short term borrowings		(0.6)	(25.6)	0.0	0.0
Long Term Liabilities		(30.8)	(139.9)	(161.7)	(159.3)
Long term borrowings		(5.7)	(5.0)	(26.8)	(24.4)
Lease Liabilities		0.0	(108.1)	(108.1)	(108.1)
Other long term liabilities		(25.2)	(26.8)	(26.8)	(26.8)
Net Assets		196.3	202.3	211.2	221.8
CASH FLOW					
Operating Cash Flow		39.2	43.6	47.7	50.9
Net Interest		(2.1)	(1.0)	(1.0)	(2.8)
Tax		(4.7)	(4.1)	(4.3)	(4.7)
Capex		(23.4)	(19.5)	(18.9)	(18.4)
Acquisitions/disposals		1.6	(27.4)	0.0	0.0
Financing		(1.0)	(0.9)	0.0	0.0
Dividends		(5.0)	(7.2)	(6.7)	(6.7)
Other		(7.6)	(9.0)	(9.0)	(9.0)
Net Cash Flow		(2.9)	(25.4)	7.9	9.4
Opening adjusted net debt/(cash)		2.2	5.1	30.6	22.7
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	22.7	13.3

Source: Company reports, Edison Investment Research estimates

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