

Marshall Motor Holdings

Resetting numbers following leasing sale

Following the recent announcement of dealer portfolio adjustments, and the completion of the strategic disposal of Marshall Leasing, we adjust our forecasts to reflect these events. As previously commented, the leasing deal eliminates MMH's gross debt and lifts the NAV to £199.5m or 258p per share. It provides financial flexibility to implement the investment programme, including M&A to help mitigate the initial dilution that is seen in FY18e. The dealership closures eliminate losses and reduce turnover by around £40m. Overall, MMH is well positioned as it enters FY18 where market conditions are expected to remain unhelpful.

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	9.9	1.9
12/16	1,899.4	25.4	26.2	5.50	6.0	3.5
12/17e	2,271.1	28.3	28.6	6.45	5.5	4.1
12/18e	2,219.0	24.5	24.8	6.90	6.3	4.4

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

Balance sheet ungeared entering 2018

Our FY17 earnings estimates remain unchanged as a result of the disposal of Marshall Leasing (MLL) and the recently announced portfolio closures. However, the balance sheet should end the year debt free as both the asset backed loans of MLL and the £42.5m cash proceeds from the deal are received. Until this strengthened financial position can be put to work for shareholders through both organic investment and new M&A opportunities, the disaggregation of MLL from the financial statements is initially earnings dilutive from FY18. Our FY18e EPS drops 15% to 24.8p from 29.2p. Revenues forecast are 3.4% or £77.6m lower at £2,219m as the MLL sales and the dealership closures are both effectively deconsolidated with similar impacts. Our FY18 Retail operating margin is modestly increased as the dealerships being closed were loss-making. MMH is also now more focused as Retail is the only operating division. We now forecast FY18e closing net cash of £10m, and expect dividend progression to be as previously forecast.

Underpinning from enhanced NAV

The deal significantly enhances the NAV and eliminates residual value risk that resides in MLL. NAV per share is now £199.5m, up 23% as a result of the deal. Backed by a strong portfolio of freehold and long leasehold property this equates to 258p per share. The SMMT forecast now indicates a further fall in new car sales in 2018, similar to the current year (c 5%). Trading progression in such conditions is always likely to remain tricky, but car manufacturers do appear to be responding favourably. MMH is positioned to take any value creating opportunities that arise.

Valuation: Still a discount to peers

Despite the unrelieved EPS dilution in FY18e MMH is still trading on a P/E of just 6.3x, a 13% discount to peers. Our fair value is now 246p up from 219p prior to the deal as the cash returns exceed the DCF for leasing.

Completion of disposal

Automotive retailers

27 November 2017

Price 156.5p
Market cap £121m

Pro forma net cash (£m) at 30 June 2017	£4.6m
Shares in issue	77.4m
Free float	34.9%
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	3.0	(0.3)	11.0
Rel (local)	4.4	(0.6)	1.3
52-week high/low	178.5p	133.5p	

Business description

Marshall Motor is the seventh largest UK motor retailer, operating 98 franchises spread across 23 brands at 84 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

Preliminary results	March 2018
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Estimates revisions

Our earnings revisions following the disposal of MLL and allowing for the closure of six locations announced last week are as follows.

Exhibit 1: Marshall Motor Holding estimate revisions						
Year to December (£m)	2017E	2017E		2018E	2018E	
	Prior	New	% change	Prior	New	% change
New Car	1,199.6	1,199.6	0.0%	1,199.6	1,154.6	-3.0%
Aftersales	855.2	855.2	0.0%	243.7	238.7	-2.0%
Used Car	234.4	234.4	0.0%	872.3	872.3	0.0%
Intra group	(55.6)	(55.6)	0.0%	(57.0)	(57.0)	0.0%
Retail sales	2,233.5	2,233.5	0.0%	2,258.6	2,218.6	-1.8%
Leasing	37.2	37.2	0.0%	37.6	0.0	-100.0%
Unallocated	0.4	0.4	0.0%	0.4	0.4	0.0%
Group revenues	2,271.1	2,271.1	0.0%	2,296.5	2,219.0	-3.4%
EBITDA	44.4	44.4	0.0%	44.9	39.6	-11.7%
Retail	41.4	41.4	0.0%	42.1	42.3	0.4%
Leasing	5.2	5.2	0.0%	5.3	0.0	-100.0%
Unallocated	(9.5)	(9.5)	0.0%	(9.7)	(9.7)	0.0%
Underlying operating profit	37.1	37.1	0.0%	37.7	32.6	-13.5%
Underlying PTP	28.3	28.3	0.0%	28.9	24.5	-15.1%
EPS - underlying continuing (p)	28.6	28.6	0.0%	29.2	24.8	-15.1%
DPS (p)	6.5	6.5	0.0%	6.9	6.9	0.0%
Net debt/(cash)	46.9	(7.1)	N/M	35.9	(10.2)	N/M
Source: Edison Investment Research						

Exhibit 2: 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	2,219.0
Cost of Sales		(1,087.5)	(1,678.9)	(2,003.1)	(1,957.1)
Gross Profit		145.3	220.5	268.0	261.8
EBITDA		22.5	38.4	44.4	39.6
Operating Profit (before amort. and except.)		18.7	32.3	37.1	32.6
Intangible Amortisation		(0.2)	(0.3)	(0.4)	(0.4)
Exceptionals		(0.5)	(3.2)	35.4	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		18.0	28.8	72.1	32.2
Net Interest		(2.9)	(6.9)	(8.8)	(8.1)
Profit Before Tax (norm)		15.8	25.4	28.3	24.5
Profit Before Tax (FRS 3)		15.1	21.9	63.3	24.1
Tax		(3.6)	(4.4)	(4.9)	(5.4)
Profit After Tax (norm)		9.4	20.2	22.1	19.1
Profit After Tax (FRS 3)		11.5	17.5	58.4	18.7
Average Number of Shares Outstanding (m)		59.4	77.2	77.2	77.2
EPS - normalised (p)		15.8	26.2	28.6	24.8
EPS - normalised and fully diluted (p)		15.3	25.5	27.9	24.1
EPS - (IFRS) (p)		19.3	22.6	75.6	24.2
Dividend per share (p)		2.98	5.50	6.45	6.90
Gross Margin (%)		11.8	11.6	11.8	11.8
EBITDA Margin (%)		1.8	2.0	2.0	1.8
Operating Margin (before GW and except.) (%)		1.5	1.7	1.6	1.5
BALANCE SHEET					
Fixed Assets		150.0	326.4	274.9	293.7
Intangible Assets		40.8	122.0	122.2	122.2
Tangible Assets		109.2	204.4	152.7	171.5
Investments		0.0	0.0	0.0	0.0
Current Assets		307.5	475.2	472.5	466.6
Stocks		240.6	380.0	374.7	366.1
Debtors		28.9	71.0	61.9	62.1
Cash		24.1	0.1	7.1	10.2
Other		13.9	24.1	28.8	28.2
Current Liabilities		(290.1)	(584.9)	(518.2)	(517.4)
Creditors		(263.4)	(507.2)	(518.2)	(517.4)
Short term borrowings		(26.7)	(77.7)	0.0	0.0
Long Term Liabilities		(37.6)	(71.1)	(29.7)	(29.6)
Long term borrowings		(24.7)	(41.4)	(0.0)	(0.0)
Other long term liabilities		(12.9)	(29.7)	(29.7)	(29.6)
Net Assets		129.9	145.7	199.5	213.3
CASH FLOW					
Operating Cash Flow		29.6	98.9	85.2	43.1
Net Interest		(1.1)	(1.4)	(2.9)	(3.8)
Tax		(3.0)	(17.3)	(4.9)	(5.4)
Capex		(39.6)	(61.9)	(66.4)	(25.8)
Acquisitions/disposals		(21.5)	(91.4)	106.7	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	0.0
Net Cash Flow		24.5	(91.8)	126.1	3.0
Opening net debt/(cash)		51.7	27.2	119.0	(7.1)
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	(7.1)	(10.2)

Source: Company reports, Edison Investment Research estimates

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