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# Marshall Motor Holdings

Automotive retail

15 March 2017

## Executing the growth strategy

**Following the acquisition of Ridgeway last May, Marshall Motor Holdings (MMH) is now the seventh largest car dealership group in the UK, having more than doubled turnover in the last 18 months. FY16 results confirmed strong underlying progress, and FY17 looks set to deliver another positive outcome, notwithstanding uncertainty over the strength of the UK market. The company maintains its ambition to become the premier car retailer in the UK, with a balance sheet that supports further expansion through both increased organic investment and M&A. It also supports the progressive dividend payment to shareholders.**

### FY16 a year of transformation

Following the acquisitions of SG Smith in November 2015 and Ridgeway in May 2016, MMH's star has rising sharply since the IPO in 2015. Now firmly established in the top 10 UK dealership groups, the company is one of the main forces in the continuing consolidation of the fragmented UK car retail market. The M&A strategy is supported by a strong underlying performance, with group like-for-like sales growing 10.7% in 2016. All three segments supported the organic growth, with new car revenues rising 13.5% like-for-like, used car sales up 8.3% and aftersales 5.7% higher. Together with the acquisitions these performances drove a 60.4% increase in underlying profit before tax to £25.4m. The dividend was increased significantly ahead of market consensus to 5.5p, covered 4.8x by underlying EPS in line with the stated distribution policy.

### Further progress expected in 2017

Given a full year enhancing contribution from Ridgeway, market consensus expectations look unduly conservative following the growth of 2016. With strong operational cash generation and adjusted net debt to EBITDA standing at just 1.4x (1.2x pro forma adjusted for a full year Ridgeway contribution), MMH is well positioned to pursue its strategy. While management appears more cautious on UK car market prospects than some peers, any outperformance of this should prove beneficial, enhanced by continuing efficiency improvements as its scale increases.

### Valuation: Undemanding rating of growth potential

An historic P/E ratio of 6.4x suggests the market is anticipating a backward step in profitability in 2017 or 2018. However, if progress is maintained then a rating in line with its peer group seems more appropriate. Indeed, if the multiple contraction experienced by the car retailers since the Brexit vote last June starts to unwind as UK economic performance is sustained, there is significant re-rating potential.

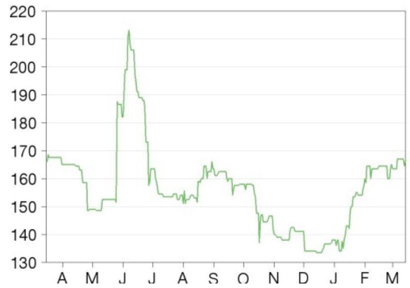
**Consensus estimates**

| Year end | Revenue (£m) | PBT (£m) | EPS (p) | DPS (p) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/15 | 1,232.8 | 15.8 | 20.5 | 2.98 | 8.1 | 1.8 |
| 12/16 | 1,899.4 | 25.4 | 26.2 | 5.50 | 6.4 | 3.3 |
| 12/17e | 2,036.0 | 26.3 | 25.6 | 6.00 | 6.5 | 3.6 |
| 12/18e | 2,099.0 | 27.0 | 26.1 | 6.35 | 6.4 | 3.8 |

Source: Marshall Motor Holdings reports, Bloomberg consensus estimates (as at 14 March 2017).

| Price | 166.5p |
|---|---|
| Market cap | £129m |

**Share price graph**




**Share details**

| | |
|---|---|
| Code | MMH |
| Listing | AIM |
| Shares in issue | 77.2m |

**Business description**

Marshall Motor is the seventh largest UK motor retailer, operating 103 franchises spread across 24 brands at 89 locations. It is the only dealership group that represents each of the top five volume and premium brands. The group has a strong regional presence in eastern and southern England.

**Bull**

- Number seven UK car retailer group.
- Ridgeway purchase in May 2016 creates value and is significantly accretive in 2017.
- Recent upgrades for UK economic outlook might suggest that pessimism over car market prospects is overdone.

**Bear**

- Still a minority float, with little immediate prospect of a change.
- Ridgeway purchase absorbed considerable M&A firepower, with further acquisitions a key part of the strategy.
- Market concerns remain for UK new car sales in 2017 despite positive start to the year.

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