

Turners Automotive Group Ltd

Motoring Towards Another Record Result

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Turners Automotive (TRA) has upgraded FY24 earnings guidance, reflecting a resilient core Auto Retail business and emerging tailwinds in its Finance segment as the OCR stabilises. TRA now expects net profit before tax (NPBT) of 'at least NZ\$48m', in-line with our expectations and ahead of TRA's previous guidance for NPBT to be above the NZ\$45.5m it reported in FY23. It also increased its FY24 dividend guidance by +4% from 24cps to 25cps (fully imputed). We modestly lift our FY24 NPBT estimate by +1% to NZ\$48.9m, driven by improved Auto Retail and Finance forecasts. TRA is on the threshold of achieving its medium-term strategic goal of NZ\$50m in NPBT by FY25, demonstrating the success of the company's strategy in spite of a challenging operating backdrop. However, the timing of achieving this goal is sensitive to the OCR track and market pricing has been volatile recently. Our blended spot valuation rises +17cps to NZ\$4.67, on greater confidence of TRA's performance relative to peers, lifting our valuation.

NZX Code	TRA	Financials: Mar/	23A	24E	25E	26E	Valuation (x)	23A	24E	25E	26E
Share price	NZ\$4.60	Rev (NZ\$m)	335.8	368.1	385.8	401.8	PE	12.4	11.5	10.7	9.9
Spot Valuation	NZ\$4.67 (from 4.50)	NPAT* (NZ\$m)	32.6	35.2	37.8	40.7	EV/EBIT	65.2	44.2	38.1	34.0
Risk rating	Medium	EPS* (NZc)	37.1	39.9	43.0	46.3	EV/EBITDA	32.8	25.2	22.8	20.5
Issued shares	88.1m	DPS (NZc)	23.0	25.0	27.0	29.0	Price / NTA	3.8	3.4	3.1	2.8
Market cap	NZ\$405m	Imputation (%)	100	100	100	100	Cash div yld (%)	5.0	5.4	5.9	6.3
Avg daily turnover	47.9k (NZ\$202k)	*Based on normalised profits					Gross div yld (%)	6.9	7.5	8.2	8.8

What's changed?

- **Earnings:** FY24 NPBT rises +1% on slightly stronger Auto Retail and Finance forecasts.
- **Spot valuation:** Our blended spot valuation rises +4% to NZ\$4.67, but also lifted +4% on 12 February 2024 due to changes in our WACC assumptions, a lift in peer multiples and forecasts within our dividend discount model (DDM) valuation.

Motoring towards another record result

FY24 will likely be TRA's fourth consecutive record earnings result, an impressive outcome given the heightened economic uncertainty during this period. TRA has capitalised on the consolidation of the NZ used car market, capturing increased market share and benefitting from enhanced scale and data capability. We expect TRA to be able to continue to grow earnings (+9% CAGR from FY24 to FY27), driven by the expansion of its retail network and margin expansion in Finance as interest rates fall, see Figure 2.

Extending TRA's robust dividend growth track record

In our report titled *Dividend Growers 2023: Applying the Screens* published on 9 November 2023, TRA was one of four NZX companies that passed our screening criteria to be a 'Dividend Grower'. TRA has rewarded its shareholders with a consistent and growing capital return over the last nine years, with dividends growing at a +11% CAGR since FY15, see Figure 3. At the current share price TRA offers a cash yield of 5.5%, and we forecast FY24–FY27 dividend growth totalling +28%.

A lift in interest rate expectations

The bond market is now implying minor rate hikes at the next three RBNZ policy meetings and an OCR of 5.13% by the end of this year. This starkly contrasts market expectations only three weeks ago, when the market was pricing no more rate hikes and an OCR of 4.61% by the end of the year, see Figure 4. This compares to market expectations for the first -0.25% cut in the US Fed funds rate priced in by June, but an ~80% chance of a May 2024 cut, see Figure 5.

Turners Automotive Group Ltd (TRA)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 12 Feb 2024						4.60					
52 week high / low						4.80 / 3.30					
Market capitalisation (NZ\$m)						405.1					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						5.00%					
Equity beta						1.00					
WACC						9.7%					
Terminal growth						1.5%					
Profit and Loss Account (NZ\$m)						Valuation Ratios					
	2022A	2023A	2024E	2025E	2026E		2022A	2023A	2024E	2025E	2026E
Revenue	298.5	335.8	368.1	385.8	401.8	EV/Sales (x)	2.4	2.3	2.0	1.9	1.8
Normalised EBITDA	18.8	23.1	29.7	32.4	36.1	EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Depreciation and amortisation	(10.7)	(11.5)	(12.7)	(13.0)	(14.3)	EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
Normalised EBIT	8.1	11.6	17.0	19.4	21.7	PE (x)	12.7	12.4	11.5	10.7	9.9
Net interest	35.1	33.9	31.9	33.2	34.9	Price/NTA (x)	4.8	3.8	3.4	3.1	2.8
Associate income	0	0	0	0	0	Free cash flow yield (%)	-17.5	4.5	7.2	6.3	2.8
Tax	(11.8)	(13.0)	(13.7)	(14.7)	(15.8)	Adj. free cash flow yield (%)	-13.3	15.3	11.3	10.4	7.0
Minority interests	0	0	0	0	0	Net dividend yield (%)	5.0	5.0	5.4	5.9	6.3
Normalised NPAT	31.3	32.6	35.2	37.8	40.7	Gross dividend yield (%)	6.9	6.9	7.5	8.2	8.8
Abnormals/other	0	0	0	0	0						
Reported NPAT	31.3	32.6	35.2	37.8	40.7	Capital Structure	2022A	2023A	2024E	2025E	2026E
Normalised EPS (cps)	36.3	37.1	39.9	43.0	46.3	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
DPS (cps)	23.0	23.0	25.0	27.0	29.0	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
						Net debt/ND+E (%)	61.7	60.0	58.1	56.4	55.7
						Net debt/EBITDA (x)	21.3	17.3	13.1	11.8	10.8
Growth Rates	2022A	2023A	2024E	2025E	2026E	Key Ratios	2022A	2023A	2024E	2025E	2026E
Revenue (%)	14.7	12.5	9.6	4.8	4.2	Return on assets (%)	6.5	7.7	8.7	9.1	9.2
EBITDA (%)	12.1	23.1	28.6	9.1	11.3	Return on equity (%)	12.6	12.2	12.5	12.8	13.2
EBIT (%)	51.7	44.1	46.0	14.3	12.0	Return on funds employed (%)	3.9	3.9	4.1	4.4	4.5
Normalised NPAT (%)	27.5	4.1	8.0	7.6	7.7	EBITDA margin (%)	6.3	6.9	8.1	8.4	9.0
Normalised EPS (%)	26.7	2.1	7.7	7.6	7.7	EBIT margin (%)	2.7	3.5	4.6	5.0	5.4
Ordinary DPS (%)	15.0	0.0	8.7	8.0	7.4	Capex to sales (%)	5.2	12.9	4.4	4.0	4.1
						Capex to depreciation (%)	179	439	146	129	121
Cash Flow (NZ\$m)	2022A	2023A	2024E	2025E	2026E	Imputation (%)	100	100	100	100	100
EBITDA	18.8	23.1	29.7	32.4	36.1	Pay-out ratio (%)	63	62	63	63	63
Working capital change	(83.1)	9.9	4.5	(2.5)	(19.7)	Operating Performance	2022A	2023A	2024E	2025E	2026E
Interest & tax paid	25.7	23.5	18.2	18.4	19.0	Automotive Retail					
Other	(4.2)	12.3	0	0	0	Revenue	242.5	278.2	309.8	325.2	338.5
Operating cash flow	(42.7)	68.7	52.4	48.4	35.3	Revenue growth (%)	20.7	14.7	11.4	5.0	4.1
Capital expenditure	(15.5)	(43.2)	(16.1)	(15.6)	(16.3)	Operating margin (%)	8.0	9.0	10.6	10.1	10.2
(Acquisitions)/divestments	3.4	0	0	0	0						
Other	(5.6)	(7.5)	(7.9)	(8.1)	(8.3)	Finance					
Funding available/(required)	(60.4)	18.0	28.4	24.7	10.8	Revenue	51.9	58.6	61.5	63.7	65.7
Dividends paid	(13.8)	(19.9)	(16.8)	(17.6)	(18.9)	Revenue growth (%)	8.4	13.0	5.0	3.6	3.0
Equity raised/(returned)	1.2	1.4	0	0	0	Operating margin (%)	34.7	25.5	18.2	22.4	24.0
(Increase)/decrease in net debt	(72.9)	(0.4)	11.6	7.1	(8.1)						
						Insurance					
						Revenue	40.4	43.6	46.3	47.5	48.4
						Revenue growth (%)	-3.7	7.9	6.2	2.7	1.9
						Operating margin (%)	28.7	28.9	29.8	30.2	30.3
Balance Sheet (NZ\$m)	2022A	2023A	2024E	2025E	2026E	Credit Management					
Working capital	412.3	402.5	398.0	400.4	420.2	Revenue	9.7	9.2	10.6	12.8	14.9
Fixed assets	67.6	106.0	117.6	126.8	134.7	Revenue growth (%)	-24.2	-4.6	15.4	20.0	17.0
Intangibles	164.5	163.6	162.6	162.6	162.5	Operating margin (%)	31.4	31.1	31.1	31.1	31.0
Right of use asset	23.5	22.2	21.0	20.8	21.3						
Other assets	94.4	89.8	93.5	95.1	96.6						
Total funds employed	762.2	784.1	792.7	805.7	835.3						
Net debt/(cash)	399.4	400.2	388.6	381.5	389.6						
Lease liability	25.9	27.1	22.0	21.8	22.2						
Other liabilities	84.6	84.5	85.6	86.7	87.8						
Shareholder's funds	252.4	272.3	296.6	315.8	335.6						
Minority interests	0	0	0	0	0						
Total funding sources	762.2	784.1	792.7	805.7	835.3						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

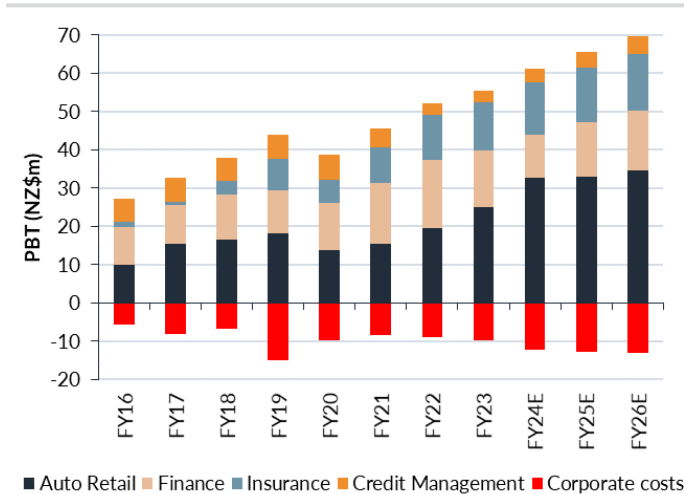
Earnings revisions

Figure 1. Earnings revisions

	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Income	424.1	428.3	+1%	447.1	449.3	+0%	465.4	467.6	+0%
Cost of goods sold	188.0	186.0	(1%)	197.2	198.9	+1%	204.8	206.6	+1%
Gross profit	241.5	242.3	+0%	250.0	250.4	+0%	260.6	261.0	+0%
Interest expense	28.0	28.3	+1%	30.3	30.3	+0%	30.9	30.9	(0%)
SG&A	106.3	106.6	+0%	106.1	106.2	+0%	109.5	109.6	+0%
Depreciation & amortisation expense	12.7	12.7	+0%	13.0	13.0	(0%)	14.3	14.3	+0%
Systems maintenance	5.4	5.4	(0%)	5.4	5.4	+1%	5.6	5.6	(1%)
Claims	22.1	22.1	+0%	22.5	22.5	+0%	22.9	22.9	(0%)
Other expenses	18.8	18.1	(3%)	20.2	20.3	+0%	21.1	21.1	(0%)
Total Expenses	375.9	379.4	+1%	394.8	396.7	+0%	409.0	411.0	+0%
Profit before taxation (PBT)	48.2	48.9	+1%	52.3	52.6	+0%	56.4	56.6	+0%
Taxation (expense)/benefit	13.5	13.7	+1%	14.6	14.7	+1%	15.8	15.8	+0%
Net profit after tax (NPAT)	34.7	35.2	+1%	37.7	37.8	+0%	40.6	40.7	+0%

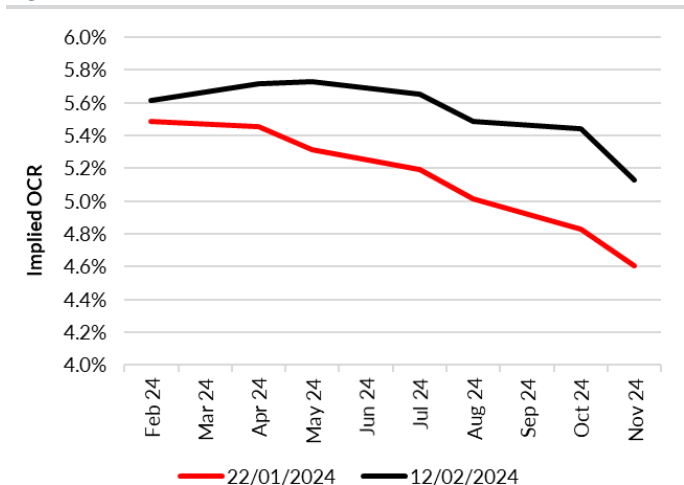
Source: Forsyth Barr analysis

Figure 2. TRA – Operating profit by segment



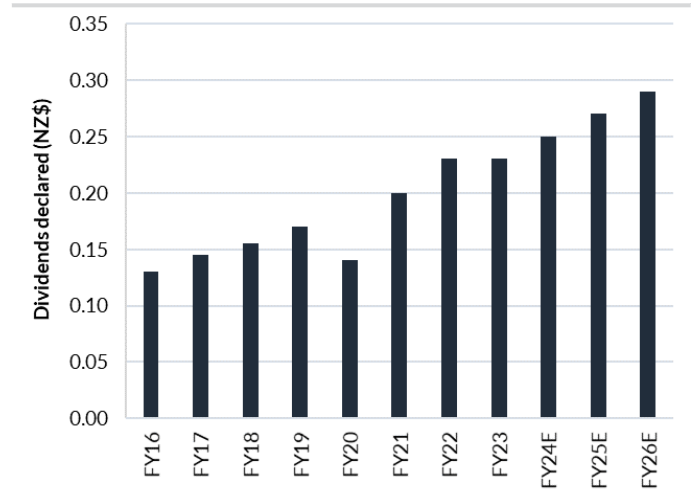
Source: Company data, Forsyth Barr analysis

Figure 4. NZ implied OCR curves



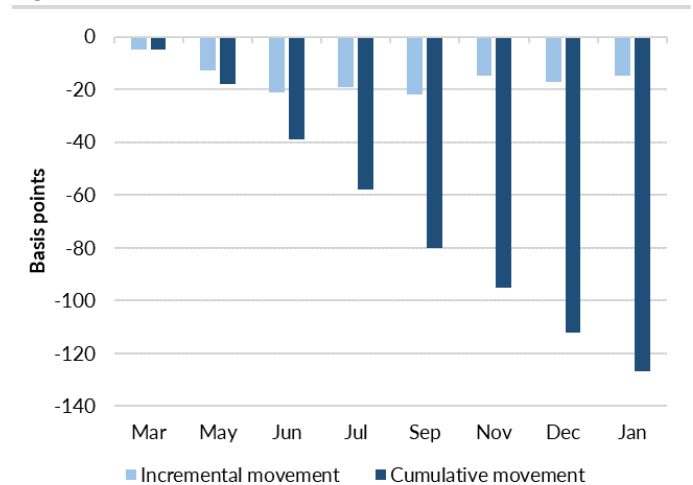
Source: Bloomberg, Forsyth Barr analysis

Figure 3. TRA – Historical and forecast dividends



Source: Company data, Forsyth Barr analysis

Figure 5. US implied Federal Funds Rate movement



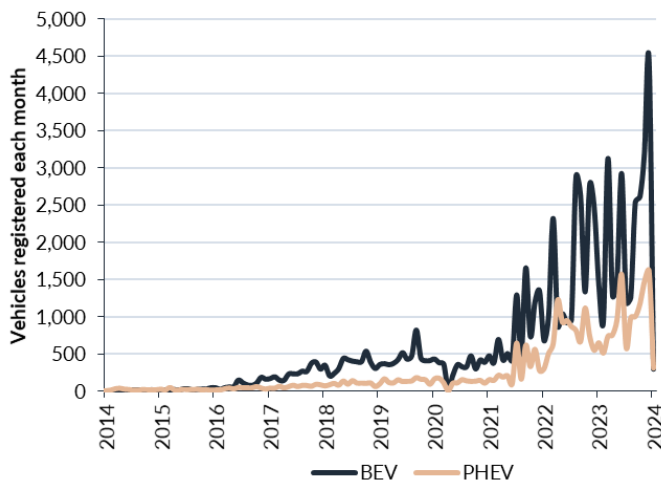
Source: Forsyth Barr analysis

Appendices

1) EV share falls post the removal of the Clean Car Discount(CCD)

On 31 December 2023 National removed the CCD, resulting in January 2024 being a soft month for EV registrations. Only 3% of light vehicles registered in the month were EVs, a stark decline from the average of 16% during 2023. Importantly, we consider TRA to be agnostic to changes in EVs, with vehicle turnover, margin and market share the key driver of earnings.

Figure 6. EV & PHEV Vehicle Registrations



Source: Ministry of Transport, Forsyth Barr analysis

Figure 7. EV percentage of monthly light vehicle registrations



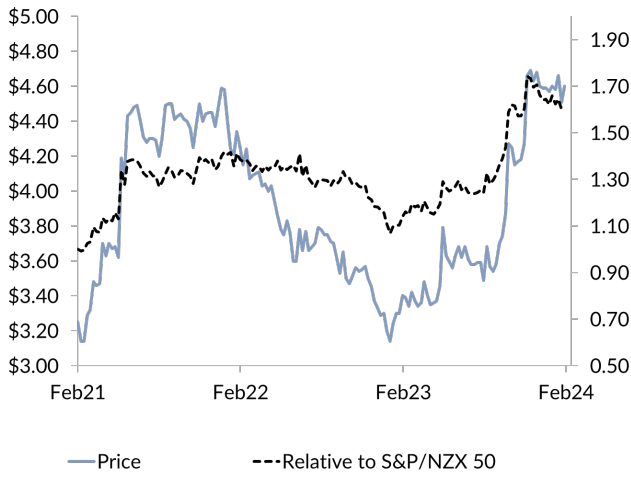
Source: Ministry of Transport Forsyth Barr analysis

2) Online vehicle auctions



In other news, three 'big names' in the NZ auto industry are reportedly taking a stake in the online vehicle platform Auction Online. Auction Online has been in the NZ market for five years and boasts a quarter of dealers as customers. We consider this a competitive response to TRA's success in recent years but suggest building a competitive brand against TRA and Trademe will be expensive.

Figure 8. Price performance



Source: Forsyth Barr analysis

Figure 9. Substantial shareholders

Shareholder	Latest Holding
Bartel Holdings	11.7%
Baker Investment Trust No 2	7.5%
Harrigens Trustee Limited	6.1%

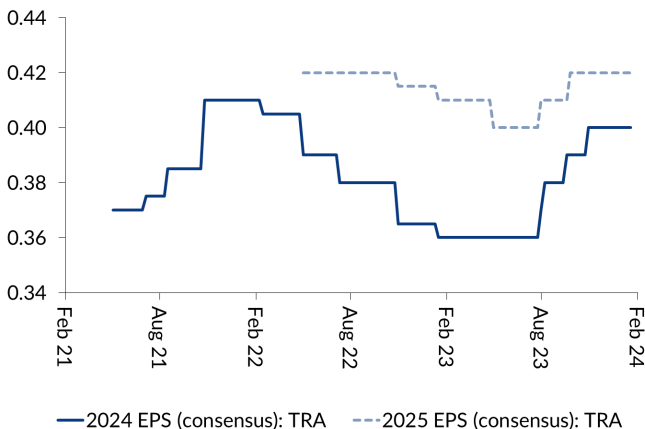
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 10. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2024E	PE 2025E	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBIT 2024E	EV/EBIT 2025E	Cash Yld 2025E	
(metrics re-weighted to reflect TRA's balance date - March)											
Turners Automotive	TRA NZ	NZ\$4.60	NZ\$405	11.5x	10.7x	25.4x	23.0x	44.5x	38.4x	5.9%	
KMD Brands *	KMD NZ	NZ\$0.65	NZ\$463	23.4x	17.4x	4.1x	3.7x	13.4x	11.2x	4.4%	
The Warehouse Group *	WHS NZ	NZ\$1.47	NZ\$510	13.0x	11.1x	4.7x	4.5x	12.9x	11.8x	6.7%	
Briscoe Group	BGP NZ	NZ\$4.58	NZ\$1,020	12.2x	12.0x	7.3x	7.2x	9.4x	9.2x	6.5%	
Michael Hill International L	MHJ NZ	A\$0.90	A\$346	n/a	12.5x	4.5x	4.3x	10.6x	9.8x	5.7%	
Eagers Automotive	APE AT	A\$14.60	A\$3,751	13.1x	13.5x	9.5x	9.3x	10.8x	10.9x	4.7%	
Autosports Group	ASG AT	A\$2.37	A\$476	6.7x	7.2x	6.3x	6.7x	8.3x	8.9x	7.7%	
Motorcycle Holdings	MTO AT	A\$1.98	A\$146	8.7x	8.8x	5.9x	6.2x	9.0x	9.0x	7.0%	
Peter Warren Automotive Hold	PWR AT	A\$2.56	A\$441	8.4x	8.8x	7.0x	6.9x	9.1x	9.2x	7.5%	
Kamux Corp	KAMUX	€5.29	€211	15.0x	10.2x	8.6x	6.5x	14.1x	9.5x	4.7%	
	FH										
America'S Car-Mart Inc	CRMT US	US\$65.82	US\$421	<0x	9.9x	19.5x	10.8x	n/a	n/a	n/a	
Idom Inc	7599 JP	¥903.00	¥96,520	8.5x	7.3x	7.1x	6.4x	7.6x	6.6x	4.1%	
				Compc Average:	12.1x	10.8x	7.7x	6.6x	10.5x	9.6x	5.9%
				TRA Relative:	-5%	-1%	231%	249%	324%	300%	-0%

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compc metrics re-weighted to reflect headline (TRA) companies fiscal year end

Figure 11. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

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