

# Tourism Holdings

FY16 results

ROCE exceeds 14% long-term target

Travel &amp; leisure

5 September 2016

**Price** **NZ\$3.20**
**Market cap** **NZ\$370m**

A\$0.96/US\$0.73/NZ\$

Net cash (NZ\$m) as at 30 June 2016 79.0

Shares in issue 115.7m

Free float 84%

Code THL

Primary exchange NZX

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	8.5	10.3	65.0
Rel (local)	7.2	4.4	29.5

52-week high/low NZ\$3.2 NZ\$2.0

## Business description

Tourism Holdings listed on the NZX in 1986. It is the largest motorhome rental operator in the world with a fleet of 3,761 motorhomes designed to meet the needs of the free independent traveller (FIT) market.

## Next events

AGM 18 October 2016

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Tourism Holdings' (THL's) FY16 NPAT of NZ\$24.4m was in line with company guidance, 21% ahead of FY15 and 1.3% below our forecasts. The company grew EPS by 20.5% and has restored ROCE to 15.1% (FY15: 12.9%), which compares with its targeted long-term average of 14%. The dividend of 19 cents per share (50% imputed) is a 26.7% increase on FY15. THL has not given specific guidance for FY17 and, in line with previous years, further guidance will be provided at the Annual Meeting on 18 October 2016. The company confirmed that it will continue to work towards delivering NPAT of NZ\$30m in FY18.

Year end	Revenue (NZ\$m)	PBT* (NZ\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/15	237.3	31.4	17.9	15.0	17.9	4.7
06/16	278.9	38.1	21.4	19.0	15.0	5.9
06/17e	298.5	41.9	23.6	21.5	13.6	6.7
06/18e	313.6	46.2	26.2	23.5	12.3	7.4

Note: \*PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

## Key drivers remain positive

Inbound tourism in NZ (up 11% in the year to 30 June 2016) and Australia (up 10% to 30 June 2016) remains strong and NZ expects to benefit from the impact of the Lions tour, which starts in June 2017 and will provide a boost to off-season bookings in FY17 and FY18. THL reported that July 2016 had produced positive trading results and that summer bookings remained strong. The impact of Brexit on UK bookings is unknown at this stage and will continue to be monitored.

## Deeper customer relationships to drive yield

The engagement with the customer is moving from an 'equipment hire' mentality to engagement with the customer throughout the journey. This will provide THL with opportunities to 'clip the ticket' and to increase spend per customer. ROCE is expected to be sustained at the targeted long-term average of 14% through maintenance of the company's build-buy/rent/sell model and a range of initiatives including flex fleet (vans kept for six to 18 months) and Mighway (a sharing platform akin to Airbnb).

## Valuation: DCF valuation is NZ\$3.72

THL has established a track record of delivering on guidance and expectations while putting in place a growth strategy designed to maintain a long run return on capital employed of 14%. It is committed to a payout ratio of 75-90% of reported NPAT and our forecasts show an expected yield for FY17 of 6.8%. In addition, THL offers growth at a reasonable price with a PEG ratio of 1x. In light of the FY16 results, we have rolled forward and updated our DCF model to reflect our slightly revised forecasts. We have also reduced our terminal capex assumption to reflect reduced stay in business capex as a result of the flex fleet and other initiatives designed to reduce capital required. Our updated DCF valuation of NZ\$3.72 (from NZ\$3.44) implies c 16% upside to the current price. We expect this gap to continue to close as management continues to deliver.

## FY16 results highlights – all boxes ticked

The key highlights of the FY16 results include:

- NPAT of NZ\$24.4m in line with guidance of more than NZ\$24m provided in May 2016.
- Revenue growth of ~18% while increasing EBIT (up 21%) and NPAT (up 21%) and adding 2.2pp to ROCE (15.1%).
- Positive currency translation in the US business added NZ\$2.1m to EBIT; without the positive impact from currency, the EBIT increase in FY16 would have been 13% instead of 20%.
- EBIT margin of 13.9% compared with 13.7% (FY15) and 10.1% (FY14).
- Rentals NZ EBIT up 26% on FY15 due to the strength of the inbound tourism market and a number of initiatives including flex fleet (which resulted in an increase in peak fleet of 8% and a reduction in year-end fleet of 3%), the impact of two Recreational Vehicle (RV) Supercentres and selling RV accessories online.
- Strong cost containment in the Australian business (up 1%) saw EBIT in Australian dollars up 10% (11% in NZ dollars) in spite of challenging market conditions.
- EBIT in the US division was up 16% in US dollar terms and because THL has been able to maintain fleet turnover within 18 months ROCE remains very strong at 27.7%.
- The US EBIT margin fell from 18.1% in FY15 to 17.7% due to additional costs incurred to support fleet growth (increased by 85 RVs to 698 at 30 June 2016); management expects that EBIT margins will continue to be slightly lower in the future due to a step change in overhead costs incurred to manage increased activity levels.
- Inbound visitors to NZ grew by 11% in the year to 30 June 2016 but revenue from the Waitomo Caves attraction and Kiwi Experience grew by 21% and EBIT grew 30% on FY15. Visitors from Asia and in particular China are a major driver of increased visitor numbers and the Waitomo Caves remain a popular attraction for tourists.
- Costs increased by NZ\$3.0m to NZ\$5.9m due to planned expenditure on the Mighway start-up and the costs of developing the TCEX initiative and the integration of the GeoZone business.
- The RV manufacturing JV produced a net profit before tax share of NZ\$1.7m, which was flat on FY15.
- The share of NPAT from the UK-based Just Go business was NZ\$0.3m; the UK fleet increased by 15% for the 2016 summer season and management report positive trends in demand.

### Exhibit 1: FY16 versus FY15

NZ\$m	2016	2015	Variance
<b>Revenue</b>			
NZ	103.8	89.9	15.4%
Australia	68.3	66.1	3.3%
US	70.2	50.7	38.5%
Tourism	36.3	29.9	21.4%
<b>Total*</b>	<b>278.6</b>	<b>236.6</b>	<b>17.7%</b>
<b>EBIT</b>			
NZ	15.4	12.2	26.2%
Australia	6.8	6.1	11.5%
US	12.4	8.9	39.3%
Tourism	10	7.7	29.9%
Group support costs	(5.9)	(2.8)	110.7%
<b>Total</b>	<b>38.7</b>	<b>32.1</b>	<b>20.6%</b>

Source: Tourism Holdings. Note: \*Revenue excludes interest income.

## Outlook

As was the case in 2015, the company did not provide specific guidance but promised an update at its Annual Meeting, to be held on 18 October 2016. It confirmed that it was on track to meet its target of NPAT of NZ\$30m by 30 June 2018 and noted the positive outlook for inbound tourism in all markets and the impact that may flow from the Lions tour, scheduled to start in June 2017 and expected to boost business during the off-season in NZ.

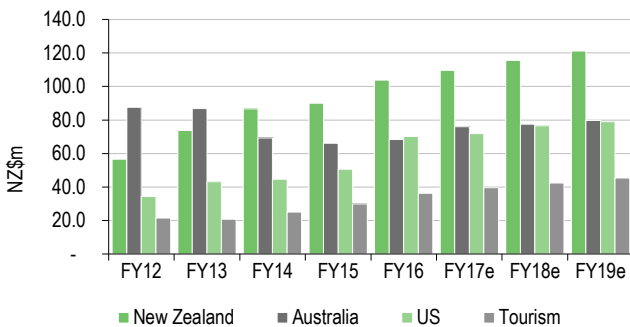
Management confirmed that a key focus for the business was to sustain dividends over the longer term and noted that the FY16 dividend of NZ\$0.19/share was at the upper end of the dividend distribution policy of 75-90% of reported NPAT.

Net debt at 30 June 2016 of NZ\$79m (up NZ\$10m from FY15) was within the Moody's Baa target range and debt facilities with Westpac and ANZ were renewed during the year, with maturities of three to five years for the term debt and 18 months for the revolving working capital facility. Net debt to EBITDA remains at less than 2x EBITDA.

The graphs below illustrate:

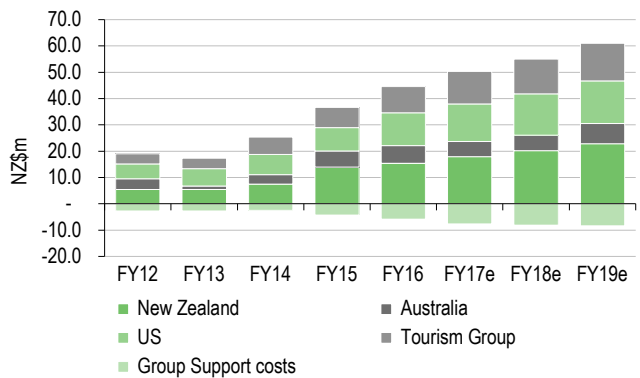
- Revenue per division from FY12 to FY19e;
- EBIT per region from FY12 to FY19e;
- Net debt and interest cover from FY14 to FY19e; and
- Cash conversion from FY14 to FY19e.

**Exhibit 2: Revenue per division FY12-19e**



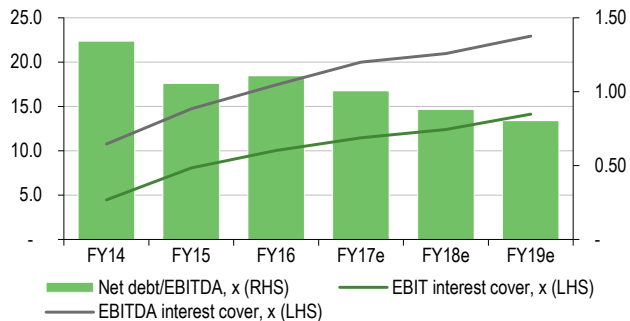
Source: THL data, Edison Investment Research

**Exhibit 3: EBIT contribution by region FY12-19e**



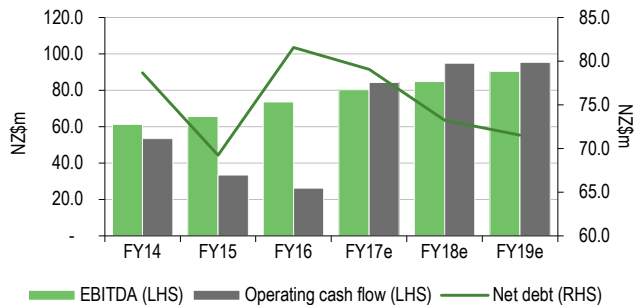
Source: THL data, Edison Investment Research

**Exhibit 4: Net debt and interest cover FY14-19e**



Source: THL data, Edison Investment Research

**Exhibit 5: Cash conversion FY14-19e**



Source: THL data, Edison Investment Research

## Forecasts

We have adjusted our forecasts to include the expectation of strong top-line growth offset by increased costs as THL continues to invest in new fleet initiatives such as Mighway and in deepening the level of customer engagement. The impact on NPAT and EPS is marginal. Our earnings adjustments are set out in Exhibit 6 and we have included FY19e for the first time.

**Exhibit 6: Earnings adjustments FY17e and FY18e and new FY19e forecasts**

NZ\$000s	FY17e			FY18e			FY19e
	New	Old	Variance	New	Old	Variance	New
Revenue	298,484	275,016	8.5%	313,644	289,570	8.3%	326,790
EBITDA	80,255	79,907	0.4%	84,862	84,578	0.3%	90,484
EBIT	45,923	46,233	-0.7%	50,234	50,576	-0.7%	55,809
NPAT	27,354	27,193	0.6%	30,259	30,149	0.4%	34,120
EPS (cents/share)	23.6	23.7	-0.2%	26.2	26.3	-0.6%	29.5
DPS (cents/share)	21.5	21.5	0.0%	23.5	23.5	0.0%	25.5
EBITDA margin	26.9%	29.1%	-2.2%	27.1%	29.2%	-2.2%	27.7%
EBIT margin	15.4%	16.8%	-1.4%	16.0%	17.5%	-1.4%	17.1%

Source: Edison Investment Research

## Return on capital employed exceeds 14% target

When THL began its journey to restore return on capital employed, it set a target of a long-term average of 14% for the company and for all divisions.

At 30 June 2016 the target had been exceeded (15.1%). However, two divisions – Rentals NZ and Rentals Australia – were still sub 14%, with the Australian division still challenged by a softening local economy. Exhibit 7 sets out the ROCE performance by division in FY16 versus FY15.

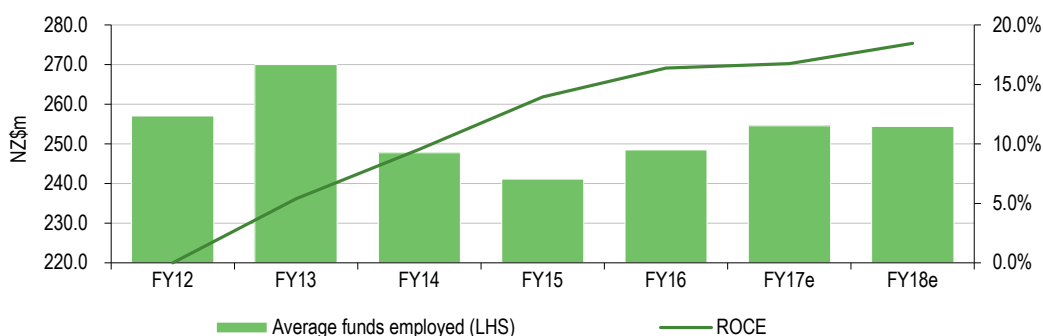
**Exhibit 7: ROCE by division**

	FY16 (%)	FY15 (%)	Variance (pp)
Rentals NZ	13.0	10.6	2.4
Rentals AU	11.6	10.8	0.8
Rentals USA	27.7	23.5	4.2
Rentals total	15.6	13.0	2.6
Tourism group	37.1	30.7	6.4
Operating divisions	17.9	14.9	3.0
Group	15.1	12.9	2.2

Source: Company data

Exhibit 8 highlights the improvement in overall ROCE from FY12 to FY16 and includes our forecast for continued improvement in FY17e and FY18e.

**Exhibit 8: ROCE and average capital employed from FY12-18e**



Source: Company data, Edison Investment Research

## Valuation

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Our updated DCF valuation has increased to NZ\$3.72/share (from NZ\$3.44), mainly due to rolling forward our model by one year, updating our slightly revised forecasts and reducing our terminal capex assumption to reflect reduced stay in business capex as a result of the flex fleet and other initiatives designed to reduce capital required. Note that for each additional NZ\$1m of capital expenditure in the terminal year, our DCF decreases by NZ\$0.05 per share.

The updated DCF valuation of NZ\$3.72/share implies c 16% upside from the current share price. We expect that this gap will continue to close as management puts more 'runs on the board'. In our view, its performance to date of lifting ROCE from 5.2% in FY13 to 15.1% in FY16 and its earnings growth profile highlight the attractiveness of THL's shares. There is no company directly comparable with THL. We note that the NZX All-Share is currently trading on a P/E of c 20.6x and dividend yield of c 3.75%.

### Exhibit 9: DCF valuation (in NZ\$m)

Sum of PV of FCF	251.6
PV of terminal value	258.2
Implied enterprise value	509.8
Net debt (FY16)	79.0
Implied equity value	430.8
Number of shares in issue (m)	115.7
Equity value per share (NZ\$)	3.72

Source: Edison Investment Research

**Exhibit 10: Financial summary**

	NZ\$000s	2014	2015	2016	2017e	2018e	2019e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		226,668	237,264	278,933	298,484	313,644	326,790
Cost of Sales		(58,005)	(60,287)	(79,241)	(86,176)	(91,037)	(94,323)
Gross Profit		168,663	176,977	199,692	212,308	222,606	232,467
EBITDA		61,322	65,561	73,599	80,255	84,862	90,484
Operating Profit (before amort. and except.)		25,494	35,878	42,316	45,923	50,234	55,809
Intangible Amortisation		(1,637)	(1,583)	(1,629)	(1,687)	(1,687)	(1,687)
Exceptionals		0	0	0	0	0	0
Other		0	0	0	0	0	0
Operating Profit		23,857	34,295	40,687	44,236	48,547	54,122
Net Interest		(5,694)	(4,446)	(4,218)	(4,009)	(4,048)	(3,946)
Profit Before Tax (norm)		19,800	31,432	38,098	41,913	46,186	51,863
Profit Before Tax (FRS 3)		18,163	29,849	36,469	40,227	44,499	50,176
Tax		(7,047)	(9,750)	(12,093)	(12,872)	(14,240)	(16,056)
Profit After Tax (norm)		12,753	21,682	26,005	29,041	31,946	35,807
Profit After Tax (FRS 3)		11,116	20,099	24,376	27,354	30,259	34,120
Average Number of Shares Outstanding (m)		110.8	112.5	114.1	115.7	115.7	115.7
EPS - normalised (c)		10.0	17.9	21.4	23.6	26.2	29.5
EPS - normalised fully diluted (c)		9.5	17.0	20.5	22.7	25.1	28.3
EPS - (IFRS) (c)		10.0	17.9	21.4	23.6	26.2	29.5
Dividend per share (c)		11.0	15.0	19.0	21.5	23.5	25.5
Gross Margin (%)		74.4	74.6	71.6	71.1	71.0	71.1
EBITDA Margin (%)		27.1	27.6	26.4	26.9	27.1	27.7
Operating Margin (before GW and except.) (%)		11.2	15.1	15.2	15.4	16.0	17.1
<b>BALANCE SHEET</b>							
Fixed Assets		256,355	274,227	280,539	282,131	279,421	282,149
Intangible Assets		20,790	20,753	21,087	19,400	17,713	16,026
Tangible Assets		228,957	244,412	253,483	256,762	255,739	260,154
Investments		6,608	9,062	5,969	5,969	5,969	5,969
Current Assets		39,180	44,054	53,296	46,490	53,882	56,861
Stocks		17,281	15,996	21,752	11,002	11,534	11,913
Debtors		15,119	17,820	25,943	19,955	20,974	21,862
Cash		3,479	6,526	3,020	2,952	8,793	10,505
Other		3,301	3,712	2,581	12,581	12,581	12,581
Current Liabilities		(61,653)	(59,884)	(62,280)	(54,588)	(56,199)	(57,288)
Creditors		(46,121)	(56,005)	(61,905)	(54,213)	(55,824)	(56,913)
Short term borrowings		(15,532)	(3,879)	(375)	(375)	(375)	(375)
Long Term Liabilities		(73,986)	(83,986)	(97,281)	(97,281)	(97,281)	(97,281)
Long term borrowings		(66,607)	(71,884)	(81,650)	(81,650)	(81,650)	(81,650)
Other long term liabilities		(7,379)	(12,102)	(15,631)	(15,631)	(15,631)	(15,631)
Net Assets		159,896	174,411	174,274	176,753	179,823	184,440
<b>CASH FLOW</b>							
Operating Cash Flow		53,390	33,420	26,186	84,301	94,922	95,306
Net Interest		(6,429)	(4,546)	(4,218)	(4,009)	(4,048)	(3,946)
Tax		(2,996)	(4,695)	(9,449)	(12,872)	(14,240)	(16,056)
Capex		0	(3,369)	(10,605)	(42,612)	(43,605)	(44,089)
Acquisitions/disposals		27	6,576	3,267	0	0	0
Financing		949	756	2,209	0	0	0
Dividends		(7,802)	(14,655)	(19,439)	(24,875)	(27,189)	(29,503)
Net Cash Flow		37,139	13,487	(12,049)	(68)	5,841	1,712
Opening net debt/(cash)		119,647	78,660	69,237	79,005	79,073	73,232
HP finance leases initiated		0	0	0	0	0	0
Other		0	(4,064)	2,281	0	0	0
Closing net debt/(cash)		78,660	69,237	79,005	79,073	73,232	71,520

Source: Tourism Holdings accounts, Edison Investment Research

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