Tourism Holdings

Provides exposure to tourism growth

Tourism statistics update

General industrials

Tourism Holdings (THL) provides exposure to the buoyant tourist markets of New Zealand (NZ) and Australia. In 2015, in-bound visitor numbers were up 9.7% in NZ and 8.2% in Australia. In both markets visitors from China showed the strongest growth. This trend continues in 2016. THL's focus will remain on innovative ways to reduce the capital costs in the business and achieve a long-term average company-wide ROCE target of 14%. Our forecasts show FY16 ROCE reaching 16.2% and improving thereafter.

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	15.0	5.6
06/16e	271.5	39.6	21.6	19.0	12.4	7.1
06/17e	275.0	41.7	23.7	21.5	11.3	8.0
06/18e	289.6	46.0	26.3	23.5	10.2	8.8

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

Visitor arrivals continue to grow in 2016

For CY15, actual visitor numbers in NZ were up 9.7% to 3.1 million, exceeding the 5% forecast by Tourism NZ. For Q1 CY16, arrivals grew by another 13% with those from China up 20%. In Australia, visitor numbers in 2015 were up 8.2% to 7.4 million, beating Tourism Australia's previous ~5% forecast. For the first two months of 2016, total visitors grew by another 12%, with 50k more from China. Visitors from Australia to NZ and vice versa remain the largest visitor group for both markets; however, the strongest growth rates in both countries came from China. Visitors from China in 2015 were up 34.4% y-o-y to 356k in NZ and up 21.9% to 610k in Australia. Chinese tourists, who are reportedly the biggest spenders of any visitor group, are a small but growing market for THL's tourism products.

Financial forecasts and strategy for growth

We have amended our forecasts to incorporate the company's upgraded guidance. THL has confirmed that its FY16 net profit after tax (NPAT) target of NZ$24m will be met or exceeded and it has brought forward its FY19 NPAT target of NZ$30m to FY18. THL's growth strategies include: 'total customer experience', the flex fleet plan and the launch of telematics; entry to the sharing economy; and acquisitions. For more on THL's strategy, see our November 2015 note, FY16 on track. The long-term fundamentals for the business remain positive, with increasing airline capacity, a growing middle class, particularly in China, and world-wide growth in the number of experience seekers.

Valuation: Gap between value and price to unwind

Our DCF valuation of NZ$3.44 (previously NZ$3.14, increased due to upgraded forecasts, adjustment to debt and new share issues) does not take into account the potential value from acquisitions, which remains part of THL's strategy. Our view is that the gap between value and share price will continue to unwind as the company delivers on its strategy, improves ROCE and attracts more yield-focused investors. Our peer average FY16e EV/EBIT multiple of 12.0x compares with THL's FY16e EV/EBIT multiple of c 8.5x and our DCF implied FY16e EV/EBIT multiple of 10.5x.

4 May 2016

Price	**NZ$2.68**
Market cap	**NZ$307m**
	NZ$1.00/A$1.05
Net debt (NZ$m) at 31 December 2015	90.4
Shares in issue	114.7m
Free float	78%
Code	THL
Primary exchange	NZX
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	0.8	15.5	48.9
Rel (local)	(0.5)	6.7	33.2
52-week high/low		NZ$2.7	NZ$1.7

Business description

Tourism Holdings listed on the NZX in 1986. It is the largest motorhome rental operator in the world with a fleet of 3,145 motorhomes designed to meet the needs of the free independent traveller (FIT) market.

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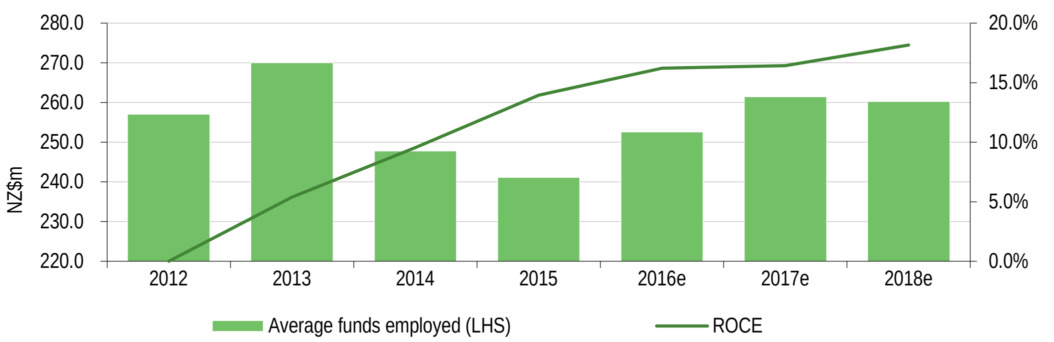
THL investment case

In our view the investment case for THL is based on these key positives:

- restoration of and continued improvement in ROCE;
- earnings certainty driven by a management team with a track record for beating guidance and expectations;
- exposure to growth in international visitors in the NZ and Australian markets;
- attraction of its tourism product to the growth markets of Asia, and in particular China; and
- ability to continue to maintain a pay-out ratio of between 75% and 90% of NPAT.

Restoration of ROCE. ROCE was destroyed by a period of market over-capacity (estimated by THL to be 25%) in the recreational vehicle market in NZ where THL has a dominant position (now ~70% of the large recreational vehicle market). THL moved to consolidate the industry with the acquisition in 2012 of Kea and United and a subsequent reduction in fleet numbers. It has now right-sized its fleet in NZ and Australia and is on a path to emulate the capital-light model employed in its US operation. While the market dynamics in NZ and Australia will not allow THL to achieve the returns it enjoys in US (where the scale of the recreational vehicle market means THL can turn the fleet over every 12-18 months, lowering the capital employed and ensuring 20%+ ROCE) action has already been taken with the 'flex fleet' initiative to reduce capital employed. Key to this are the pod/re-fit strategy, the buy-back plans and THL's plans to ship vehicles used in its European operations to NZ for use in the Southern Hemisphere high season and then for re-sale into the recreational vehicle market in NZ. Actual ROCE and our forecast performance are below.

Exhibit 1: THL's ROCE



Source: THL data, Edison Investment Research estimates

Strong historic earnings performance. Guidance has been lifted at each results period for the last two years and to date reported results have all exceeded guidance. This gives us confidence about management's conservative and realistic attitude to providing earnings guidance to the market.

Tourism growth. THL has a direct exposure to tourism growth in NZ and Australia. In 2015 both markets significantly out-performed expectations and the early indications for 2016 are that forecasts will again be exceeded. This is particularly the case for both countries with the strongest growth in visitors from China. This note focuses on visitor growth from China, where the strength of the tourism market provides us with greater confidence in our forecasts and in the company's expectations of NZ$30m NPAT by 2019 (our forecasts assume NPAT of NZ$28.5m in 2018).

Visitors from China. Growth in the number of visitors from China provides some evidence that NZ and Australia appeals to Chinese visitors, some of whom could be seeking some relief from the crowded/polluted conditions at home, among other things The flight is relatively short and the change in time zone is not as arduous as the change in time zone and flight times experienced when visiting Europe or the Americas.

Debt and dividends. THL's strategy is to keep debt within the benchmark Baa/BBB rating. At 31 December 2015 the net debt level of NZ$90.4m provided some headroom for acquisitions as well as continuing to fund dividends at an assumed pay-out ratio of between 75-90%. The current share price implies a forecast yield of 7.1% and 8.0% for FY16e and FY17e respectively, which is ahead of the forward CY2016e dividend yield of 4.3% for S&P NZX All Index and THL's peer group average FY16e dividend yield of 4.6% (at 26 April 2016).

Key downside risk

THL's business is leveraged to the inbound tourist markets, in particular those of New Zealand, Australia, UK and Germanic Europe (Germany, Netherlands and Switzerland) and its business is therefore leveraged to the tourism cycle. Management advises that the key factors influencing demand for recreational vehicle rentals in THL's key markets of New Zealand, Australia, the UK and Germanic Europe are consumer confidence, GDP growth and how customers feel about their financial position. Therefore, THL's business can be seen as leveraged to the economic cycle. In THL's view, the most significant threat to its business would be a catastrophic event such as terrorism, an airline strike or other event that dramatically reduced international air travel.

Earnings upgrade

The company announced on 29 April 2016 that it expects to meet or exceed its FY16 NPAT forecast of NZ$24m. It also made the following statements:

- Its long-term strategic goal of NPAT NZ$30m by FY19 is now expected to be achieved in FY18.
- The dividend payout ratio is expected to be maintained at the higher end of the range between 75-90% of reported NPAT.
- The results for FY17 and FY18 are expected to be buoyed by the impact on tourism numbers from the Lions Rugby Tour, which will be held in late June/July 2017.
- The peer-to-peer motor homes rental business, Mighway, has been performing in line with the company's expectations. THL will now invest in resources to scale up the business in New Zealand and will investigate expanding the business into other markets.
- THL's objective is to continue to transform the business into a more customer-focused flexible business.

Forecast changes

We have increased our forecasts in line with THL's upgraded NPAT guidance for FY16 and FY18. Details of our changes are set out below:

Exhibit 2: Forecast changes

	2016e			2017e			2018e		
(NZ$m)	Old	New	Variance	Old	New	Variance	Old	New	Variance
Revenue	270.0	271.5	0.6%	271.1	275.0	1.5%	283.3	289.6	2.2%
EBITDA	76.2	76.9	1.0%	78.4	79.9	2.0%	82.2	84.6	2.9%
PBT (normalised)	38.8	39.6	2.1%	40.1	41.7	4.0%	43.6	46.0	5.5%
NPAT (reported)	24.2	24.7	2.2%	26.1	27.2	4.1%	28.5	30.1	5.7%
EPS (c) (normalised)	21.2	21.6	2.2%	22.9	23.7	3.5%	25.1	26.3	4.8%
DPS (c)	19.0	19.0	0.0%	21.0	21.5	2.4%	23.0	23.5	2.2%

Source: Edison Investment Research. Note: Previously, our NPAT (normalised) forecasts excluded amortisation whereas we have now included them in our normalised NPAT calculation.

International visitors to NZ and Australia

Exhibit 3: International visitors to NZ and Australia

(000s)	2014	2015	% variance	2014	2015	% variance
Country	NZ	NZ	NZ	Australia	Australia	Australia
Australia/NZ	1,247.8	1,326.8	6.3%	1,241.4	1,309.9	5.5%
China, People's Republic of	264.9	355.9	34.4%	839.5	1,023.6	21.9%
United States of America	220.5	243.1	10.2%	553.0	609.9	10.3%
United Kingdom	194.4	204.0	4.9%	652.1	688.4	5.6%
Japan	81.1	87.3	7.6%	326.5	335.5	2.8%
Germany	78.9	84.5	7.1%	186.9	190.0	1.7%
Korea, Republic of	55.5	65.0	17.1%	204.1	230.1	12.7%
Canada	48.8	52.4	7.3%	137.2	141.9	3.4%
Singapore	46.8	49.6	5.8%	372.1	395.8	6.4%
India	37.4	46.0	23.0%	196.6	233.1	18.6%
Hong Kong (SAR)	31.5	36.3	15.4%	201.6	219.7	9.0%
Malaysia	31.5	34.2	8.6%	324.5	338.8	4.4%
France	30.6	33.4	9.0%	118.1	119.4	1.1%
Taiwan	24.6	31.2	27.0%	119.0	130.5	9.7%
Fiji	23.8	26.4	10.6%	30.9	31.4	1.6%
Netherlands	21.6	22.3	3.0%	47.6	46.9	-1.5%
Thailand	21.7	21.7	0.0%	75.7	77.4	2.2%
Samoa	18.8	21.2	12.8%			
Switzerland	18.0	19.1	6.2%	52.1	55.0	5.6%
New Caledonia	17.2	17.7	3.1%	42.4	49.4	16.5%
Tonga	15.3	17.6	14.9%			
South Africa	15.9	17.0	7.3%	53.4	56.9	6.6%
French Polynesia	16.3	16.9	3.6%			
Indonesia	15.3	16.2	5.8%	150.2	151.7	1.0%
Philippines	11.9	14.0	17.9%	75.2	90.6	20.5%
Sweden	13.0	13.9	7.4%	42.3	43.4	2.6%
Brazil	12.2	13.2	7.5%	44.2	45.1	2.0%
Cook Islands	10.1	10.6	4.6%			
Denmark	9.5	10.3	7.9%	24.4	25.3	3.7%
Spain	9.1	10.1	11.0%	28.5	34.5	21.1%
Visitors by region						
Oceania	1,388.1	1,473.6	6.2%	1,412.3	1,487.4	5.3%
Asia	633.8	772.3	21.9%	3,019.9	3,388.0	12.2%
Europe	440.7	463.2	5.1%	1,455.4	1,496.9	2.9%
Americas	299.8	330.2	10.2%	794.8	861.7	8.4%
Africa and the Middle East	39.3	42.9	9.4%	158.0	167.7	6.1%
Not stated	51.9	47.1	-9.2%	27.6	26.9	-2.5%
Total	2,853.5	3,129.3	9.7%	6,840.4	7,401.7	8.2%

Source: Tourism Australia, Statistics NZ

In both countries 2015 was a stellar year for both domestic and international tourism. In New Zealand the importance of tourism to the local economy is underscored by Prime Minister John Keys also taking responsibility for the Tourism portfolio. In the year to 30 June 2015 spending by international visitors increased NZ$2.4bn to reach NZ$11.7bn ranking it second in importance after dairy exports at NZ$12bn (down from NZ$16bn in 2014). The NZ Institute of Economic Research is forecasting that tourism will become the number one export earner for NZ within a year. The World Travel and Tourism Council forecasts that by 2025, tourism will contribute 13.4% of GDP (13.7% of GDP in 2014). The contribution to employment is estimated to be 17.2% by 2025 (15.5% in 2014). The director of the NZ Tourism Research Institute, Professor Simon Milne, is quoted as saying that the kind of tourism being promoted in NZ is ‘one that focuses on free and independent travel’. This is a further endorsement of the THL recreational vehicle product in NZ.

In Australia international visitors grew 8.2% y-o-y, which is almost three times faster than any annual growth rate achieved in the last 13 years. The momentum appears to be building with the July to December 2015 period up 9%, a rate last seen in 2000 when Sydney hosted the Olympics.

Domestic tourism in Australia in 2015 was up 7% compared with the annual average growth rate of 1% achieved since 2000.

Strong growth in tourist numbers has continued into 2016. In Australia total visitors for the first two months grew by 11.7% driven by a 23.8% increase in visitors from North East Asia, including China, which provided 50,000 more visitors than in 2015. In New Zealand for the first three months of 2016 arrivals grew by 13.1% with China up by 19.5% or ~22,000 on the same period in 2016.

In Australia tourism remains a significant industry. The World Travel and Tourism Council has forecast that the total contribution of tourism to the Australian economy would increase from 10.1% in 2014 to 10.5% of GDP by 2025. The contribution to employment was estimated to be 11.6% by 2025 (12.2% in 2014). Tourism forecasts published in November 2015 by Tourism Research Australia, suggested that by June 2017 the number of inbound visitors would increase to 7.9 million (7.4 million in 2015) and then to grow by 4.1% pa to 10.6 million by 2025. In the period to 2025, 29% of the growth in arrivals is expected to come from China when it is thought that 18.4% of all visitors to Australia will be Chinese. (In 2015 Chinese visitors comprised 13.8% of the total.)

Deloitte's Tourism and Market Outlook for Australia, February 2016, states that it expects tourism to grow 'at rates not witnessed for decades with the outlook strengthening despite global macroeconomic uncertainty'. Deloitte forecasts that by 2018 demand from China (estimated to grow at 9% a year for the next three years) will need an extra 10 A380 services per week and that average growth in international visitors will be 5.4% a year for the next three years.[1]

The most important markets for THL's recreational vehicle product are UK and Germanic Europe (Germany, Switzerland, the Netherlands). These markets accounted for 17.2% (311 million) of total visitors to NZ excluding those from Australia and 15.2% (925 million) of visitors to Australia excluding those from NZ. China, which is the fastest-growing market in both countries, has demonstrated a capacity to convert quickly from a guided tours market to a FIT (free independent traveller) market seeking unique experiences. The THL Waitomo Caves product is proving very attractive to Chinese tourists (both the FIT and the guided tour segment). It recently received a boost from Taiwanese singer and actor Nicky Wu and Chinese actress Lui Shishi selecting it for their pre-wedding photo shoot. Wu has 40 million fans on Chinese social media platform Weibo (operated by Tencent [HK:700]). Publicity such as this and Waitomo Caves' location (within two hours' drive of entry port, Auckland, NZ, so an easy day-trip) could attract increased numbers of visitors from China.

Importance and relevance of China tourism

Demand for THL recreational vehicles in Australia and New Zealand and its other tourist offering (Waitomo Caves and the Kiwi Experience bus) in New Zealand is mainly driven by inbound tourism. We focus on the China market, which is the second visitor group in New Zealand and Australia, and in both markets exhibits the strongest growth of any market. The China market is an important fast growing market for the Waitomo Caves attraction and a small but fast growing market for recreational vehicle rentals.

In 2015 the Chinese economy recorded its weakest GDP growth (6.9%) compared with 2014 (7.3%) and the weakest annual growth rate since 1990. It is transitioning from an export-led growth economy to a consumer-led economy so the expectation is that growth rates will continue to ease and expenditure on services and consumption will continue to strengthen. In 2015 the services sector grew by 8.3% (2.4 percentage points higher than 2014) and accounted for 50.5% of GDP whereas manufacturing and construction growth slowed to 6% (7.3% in 2014) and accounted for

[1] Tourism and Hotel Outlook, 2016/Australia, Deloitte Access Economics.

40% of GDP. The view of the IMF is that the China slowdown is essential to create safe sustainable growth, which will mean a slowdown in manufacturing and construction offset by a lift in consumption. In our view, increased consumption has the capacity to fuel more out-bound journeys and therefore could prove beneficial for tourism operators such as THL. Another important point on the Chinese market is that the incomes of those with the purchasing power to make an overseas holiday trip and visit Australia or NZ is growing faster than the growth in average incomes.

China growth forecasts are set out below:

Exhibit 4: China – GDP growth rates (%)

	2015	2016e	2017e	2018e	2019e	2020e
World Bank	6.9	6.7	6.5			
International Monetary Fund	6.9	6.3	6.0	6.1	6.3	6.3
Economic Intelligence Unit	6.9	6.5	6.0	5.6	4.9	4.7
United Nations	6.9	6.4	6.2			
OECD	6.9	6.7	6.2	5.8	5.5	5.1

Source: World Bank Global Economic Prospects 2016, IMF World Economic Outlook October 2015, EIU Economic and Commodity Forecast December 2015, United Nations LINK Global Outlook October 2015, Economic Outlook No 95 - Long term Baseline Projections 2014

With an estimated 120 million outbound travellers in 2015[2] the China market is a significant growth driver in both the NZ and Australian tourism markets. This growth is driven by increases in Chinese household income, which is now estimated to be US$5tn per year[3] without taking into account the impact of unreported income. McKinsey forecasts Chinese discretionary spending growth to exceed 7% per year between 2010 and 2020. GIK Consumer Life estimates that by 2020 more than 200 million Chinese people will be holidaying outside China and will spend an estimated US$400bn in destination markets. More than half of China's outbound travellers are less than 30 years old and two-thirds are classified as 'high income'. These millennial travellers spend more than the older cohort, are likely to seek 'once-in-a-lifetime' experiences and share their experiences on social media channels.[4] In our view this shift in visitor behaviour is likely to benefit THL, which offers unique independent travel experiences (in recreational vehicles and Kiwi Experience bus trips) and attractions (Waitomo Caves).

Tourism New Zealand predicts that total visitor arrivals from China will increase by 116% over the next seven years to reach 600,000 by 2021. Its 2015 forecast of more than 305,000 total visitor arrivals from China was exceeded by 50,000. The number of FIT tourists (the potential market for the THL recreational van product) comprised 20% of total Chinese visitors in March 2014, 27% in March 2015 and by 31 December 2015 had reached 31%. Chinese travellers now stay 8.3 days compared with 6.2 days in 2010, which again is a reflection of the move from guided tours to FIT. FIT travellers see NZ as a place to flee the pollution of the city and their hectic lives and are looking for a pure and clean escape.[5]

A Consumer Demand survey conducted by Tourism Australia found that the preferred Australian experience was wildlife and a survey conducted by Tourism New Zealand (Project Kiwi – China FIT qualitative research November-December 2015) found that Chinese FIT tourists saw NZ as pure and clean with a variety of peaceful landscapes offering pleasant weather in an opposite season and consider 'it's the last clean place in the world'.[6] The growth of Chinese visitors to both NZ and Australia is shown in Exhibit 5 below.

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2 According to China Tourism Research Institute.

3 McKinsey: One Hour China, 5 May 2015.

4 GIK Consumer Life, 2015.

6 From "xin xian" to Weibo – understanding the Chinese FIT visitor, NZ Tourism Board, 9 June 2015.

6 Consumer Demand Survey – "Project Kiwi – China FIT qualitative research Nov-Dec 2015".

Exhibit 5: Visitor arrivals NZ, Australia (000s)

	2013	2014	2015
New Zealand			
From China	228.9	264.9	355.9
Total visitors	2,717.7	2,853.5	3,129.3
% from China	8.4%	9.3%	11.4%
Growth China		15.7%	34.4%
Growth total		5.1%	9.7%
Australia			
From China	708.8	839.5	1,023.6
Total visitors	6,382.4	6,840.4	7,401.7
% from China	11.1%	123%	13.8%
Growth China		18.4%	21.9%
Growth total		7.6%	8.2%

Source: Tourism Australia, Statistics NZ

Presentation material from Tourism NZ (China Market Webinar – Chinese FIT expectations when visiting NZ) stated that Chinese FIT travellers are experienced travellers with high expectations and the expectation of both comfort and freedom. The characteristics of these travellers are defined as those that:[7]

- have experienced long haul travel and seek new and exciting places at attractive prices;
- favour unique experiences and scenery;
- look for food and culture that represents local life;
- want freedom to explore and are prepared to drive themselves; and
- expect comfort and are unwilling to endure hardship.

Many of these characteristics make a motor home (recreational self-drive) holiday an attractive proposition. With a dominant position in the large van recreational vehicle market, THL remains well placed to exploit the growing Chinese FIT market. For example, in Australia, China Is the seventh largest international source[8] for THL's recreational vehicles (RV) market with more than half these travellers aged between 25-34 years. The China FIT market is small but growing in significance in both NZ and Australia.

The following table shows actual per-household annual consumption in China for 2005, 2010 and 2013 and forecasts for 2020 and 2030 made by McKinsey. The category that is relevant for tourism expenditure is the 'recreation, education and culture' category, which is expected to grow from 13% of per household annual consumption in 2013 to 21% in 2030. This forecast was made in 2015 when GDP growth expectations were 7.1%[9] (actual GDP growth for 2015 was 6.9%).

[7] From "xin xian" to Weibo – understanding the Chinese FIT visitor, NZ Tourism Board, 9 June 2015.

[8] Sydney Morning Herald 23 March 2015 "Chinese Travellers now heading to the region".

[9] People's Bank of China.

Exhibit 6: Per-household annual consumption in China by category (%)

	2005 (%)	2010 (%)	2013 (%)	2020 (%)	2030 (%)	CAGR 2013-2030 (in US$ spent) (%)
Discretionary						
Transport & communication	10	15	17	22	20	
Recreation, education, culture	12	12	13	15	21	
Personal items	3	4	4	3	3	
Total discretionary	25	31	34	40	44	7.6
Semi-necessities						
Household utilities	10	10	9	11	11	
Household products	5	7	7	5	5	
Healthcare	7	6	7	8	8	
Apparel	8	11	10	11	13	
Total semi-necessities	30	34	33	35	37	6.5
Necessities						
Food	44	36	33	24	18	5.2

Source: McKinsey analysis, The One Hour China Consumer, May 2015

The Credit Suisse Global Wealth Report 2015 notes that China's middle class of 109 million adults outnumbered the USA middle class of 92 million adults for the first time. Credit Suisse predicts that the middle class 'will continue to expand in emerging economies overall with the lion's share of that growth to occur in Asia'. In this report, 'middle class' was defined as having wealth double the annual median income for their country.

The Tourism Australia profile for 2015 provides details of flights to Australia from China. There are 24 flights from Shanghai to Australian ports, 39 flights from Guangzhou per week, three from Chengdu, three from Beijing and two from Wuhan.

In New Zealand there have been increases in air capacity provided by the two direct carriers, China Southern Airlines and Air New Zealand with new players Air China and China Eastern establishing year round services in 2015. There are now more than 20 flights per week to Auckland from Shanghai, Guangzhou and Beijing.

Therefore, THL stands to benefit from China's rising middle class and their growing disposal income over the long run, despite the recent concerns about its near-term GDP growth. Although the Chinese FIT market is a small part of THL's revenue profile currently, the positive medium-term prospects reinforces our confidence in our forecasts and valuation for THL.

Valuation

Our DCF valuation has increased from NZ$3.14 to NZ$3.44 due to updating our net debt figure, the inclusion of the issue of ordinary shares and upgrading our forecasts to be in line with management's NPAT guidance for its longer-term NPAT target, which is now NZ$30m in FY18 rather than FY19. We have used a WACC of 10% and a terminal growth rate of 2%. The terminal value in our DCF accounts for 45% of our DCF valuation of NZ$3.44. It does not take into account potential value added from acquisitions, which remains part of THL's strategy. We believe that the gap between value and share price will continue to unwind as the company delivers on its strategy, improves ROCE and attracts more yield-focused investors.

Exhibit 7: DCF valuation

(NZ$m)		2016e	2017e	2018e	Terminal
Free cashflow		44.0	41.6	37.2	46.8
Discount		0.909	0.826	0.751	0.350
Discounted value		40.4	34.4	27.9	
Sum of PV	254.8				
Terminal value at FY24e	596.1				
Discount factor	0.350				
PV of terminal value	208.9				
PV cash flows	463.8				
Debt	69.2				
Net value for shareholders	394.5				
Number of shares on issue	114.7				
NPV (NZ$)	3.44				

Source: Edison Investment Research

Peer valuation

There is no directly comparable company in the peer group. Nonetheless, we have examined five similar companies. The peer group has an average market cap of NZ$1.5bn, which is ~5x the market cap of THL; however, all peers share are capex-heavy businesses with some tourism exposure. The average FY16e EV/EBIT multiple for the peer group is 12.0x. We believe that THL should trade at a discount to its peer group because of its lack of size and diversity. A 15% discount to the peer group FY16 EV/EBIT of 10.2x implies a market-based valuation of NZ$3.34 and a 10% discount implies a valuation of NZ$3.57 compared with our DCF of NZ$3.44.

Exhibit 8: Financial summary

NZ$000s	2014	2015	2016e	2017e	2018e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	226,668	237,264	271,452	275,016	289,570
Cost of Sales	(58,005)	(60,287)	(76,367)	(72,966)	(77,311)
Gross Profit	168,663	176,977	195,085	202,050	212,259
EBITDA	61,322	65,561	76,949	79,907	84,578
Operating Profit (before amort. and except.)	25,494	35,878	44,247	46,233	50,576
Intangible Amortisation	(1,637)	(1,583)	(1,651)	(1,673)	(1,673)
Exceptionals	0	0	0	0	0
Other	0	0	0	0	0
Operating Profit	23,857	34,295	42,596	44,561	48,903
Net Interest	(5,694)	(4,446)	(4,663)	(4,571)	(4,567)
Profit Before Tax (norm)	19,800	31,432	39,585	41,662	46,009
Profit Before Tax (FRS 3)	18,163	29,849	37,933	39,990	44,337
Tax	(7,047)	(9,750)	(13,248)	(12,797)	(14,188)
Profit After Tax (norm)	12,753	21,682	26,336	28,866	31,821
Profit After Tax (FRS 3)	11,116	20,099	24,685	27,193	30,149
Average Number of Shares Outstanding (m)	110.8	112.5	114.3	114.7	114.7
EPS - normalised (c)	10.0	17.9	21.6	23.7	26.3
EPS - normalised fully diluted (c)	9.5	17.0	20.6	22.6	25.0
EPS - (IFRS) (c)	10.0	17.9	21.6	23.7	26.3
Dividend per share (c)	11.0	15.0	19.0	21.5	23.5
Gross Margin (%)	74.4	74.6	71.9	73.5	73.3
EBITDA Margin (%)	27.1	27.6	28.3	29.1	29.2
Operating Margin (before GW and except.) (%)	11.2	15.1	16.3	16.8	17.5
BALANCE SHEET					
Fixed Assets	256,355	274,227	275,175	277,036	274,550
Intangible Assets	20,790	20,753	20,072	18,399	16,726
Tangible Assets	228,957	244,412	248,540	252,074	251,260
Investments	6,608	9,062	6,563	6,563	6,563
Current Assets	39,180	44,054	46,540	59,321	66,431
Stocks	17,281	15,996	9,806	9,836	10,335
Debtors	15,119	17,820	18,139	18,377	19,356
Cash	3,479	6,526	10,275	12,787	18,420
Other	3,301	3,712	8,321	18,321	18,321
Current Liabilities	(61,653)	(59,884)	(37,343)	(49,463)	(50,903)
Creditors	(46,121)	(56,005)	(37,343)	(49,463)	(50,903)
Short term borrowings	(15,532)	(3,879)	0	0	0
Long Term Liabilities	(73,986)	(83,986)	(109,043)	(109,043)	(109,043)
Long term borrowings	(66,607)	(71,884)	(96,393)	(96,393)	(96,393)
Other long term liabilities	(7,379)	(12,102)	(12,650)	(12,650)	(12,650)
Net Assets	159,896	174,411	175,329	177,852	181,035
CASH FLOW					
Operating Cash Flow	53,390	33,420	62,946	86,758	94,542
Net Interest	(6,429)	(4,546)	(4,663)	(4,571)	(4,567)
Tax	(2,996)	(4,695)	(13,600)	(12,797)	(14,188)
Capex	0	(3,369)	(45,336)	(42,208)	(43,189)
Acquisitions/disposals	27	6,576	2,239	0	0
Financing	949	756	1,417	0	0
Dividends	(7,802)	(14,655)	(20,589)	(24,671)	(26,965)
Net Cash Flow	37,139	13,487	(17,587)	2,511	5,633
Opening net debt/(cash)	119,647	78,660	69,237	86,118	83,606
HP finance leases initiated	0	0	0	0	0
Other	0	(4,064)	706	0	0
Closing net debt/(cash)	78,660	69,237	86,118	83,606	77,973

Source: Tourism Holdings accounts, Edison Investment Research. Note: Previously, our NPAT (normalised) forecasts did not add back amortisation whereas we have now made this adjustment to our normalised NPAT calculation.

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