

Marshall Motor Holdings

Delivering continued outperformance

Trading update

Automotive retailers

MMH's pre-close statement indicates that the company continued its strong performance in 2017, despite challenging market conditions that are persisting into 2018. FY17 results are expected to be ahead of previously upgraded pre- and post-tax expectations, and we have lifted our PBT estimate 2% to £28.8m. We have reduced our FY18 PBT estimate by £1m to reflect slight additional margin pressures. The disposal of the Leasing business has strengthened the balance sheet and leaves the company well placed to implement its growth strategy.

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	10.1	1.9
12/16	1,899.4	25.4	26.2	5.50	6.1	3.4
12/17e	2,271.1	28.8	29.1	6.45	5.5	4.1
12/18e	2,219.0	23.5	23.8	6.90	6.7	4.3

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

H217 performance

In H1, MMH reported a marginal 0.4% decline in like-for-like new car unit sales to retail customers versus an overall new market decrease of 4.8%. While H2 continued to see declines, falling by 9.2%, MMH maintained its market outperformance largely by virtue of its brand portfolio. Working closely with its brand partners, MMH has been able to deliver to shared objectives. Following a 5.8% reported increase in used unit sales in H1, the company also performed well in H2 supported by a disciplined stocking policy. High-margin Aftersales revenues remained stable with H2 broadly consistent with the 2.3% like-for-like increase reported in H1. We now expect a small year-end net debt position.

Outlook

The new car market has remained depressed on the retail front through the second half of 2017 and last year's boost from VED changes that supported H1 sales is not going to recur. The company highlights the Society of Motor Manufacturers and Traders' forecast for a decline of 5.4% for the UK new car market for 2018, with continued political and economic uncertainty. While we maintain our FY18 sales forecast level, we suspect the tougher trading environment is likely to trim margin expectations modestly. As a result, we have cut our PBT estimate by £1m to £23.5m (-4%), with EPS also falling 4% to 23.8p. The company completed the strategic disposal of Marshall Leasing in November, significantly reducing year-end net debt. In addition to a £120m revolving credit facility, the company is very well positioned to drive growth.

Valuation: Discount to peers

MMH is still trading on an FY18 P/E of just 6.7x, an 11% discount to UK automotive retail peers. Our fair value calculated on an FY18 basis falls 3% to 232p, reflecting the higher starting net debt compared to our previous forecast and the lower earnings contribution.

11 January 2018

Price 160p
Market cap £124m

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	(2.7)	(7.8)	18.5
Rel (local)	(7.0)	(10.3)	10.0
52-week high/low	178.5p	134.5p	

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

FY results	14 March 2018
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Exhibit 1: 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)	(2,003.8)	(1,958.2)
Gross Profit		145.3	220.5	267.3	260.7
EBITDA		22.5	38.4	44.8	38.7
Operating Profit (before amort. and except.)		18.7	32.3	37.6	31.7
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	72.6	31.3
Net Interest		(2.9)	(6.9)	(8.8)	(8.2)
Profit Before Tax (norm)		15.8	25.4	28.8	23.5
Profit Before Tax (FRS 3)		15.1	21.9	63.8	23.1
Tax		(3.6)	(4.4)	(5.0)	(5.2)
Profit After Tax (norm)		9.4	20.2	22.4	18.4
Profit After Tax (FRS 3)		11.5	17.5	58.8	17.9
Average Number of Shares Outstanding (m)		59.4	77.2	77.2	77.2
EPS - normalised (p)		15.8	26.2	29.1	23.8
EP		15.3	25.5	28.4	23.2
EPS - (IFRS) (p)		19.3	22.6	76.1	23.2
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	1.7
Operating Margin (before GW and except.) (%)		1.5	1.7	1.7	1.4
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	475.6	466.5
Stocks		240.6	380.0	374.7	366.1
Debtors		28.9	71.0	70.9	62.1
Cash		24.1	0.1	1.1	10.1
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)	(32.4)	(29.9)
Long term borrowings		(24.7)	(41.4)	(2.7)	(0.3)
Other long term liabilities		(12.9)	(29.7)	(29.7)	(29.6)
Net Assets		129.9	145.7	199.8	212.9
CASH FLOW					
Operating Cash Flow		29.6	98.9	76.5	51.2
Net Interest		(1.1)	(1.4)	(2.9)	(3.8)
Tax		(3.0)	(17.3)	(5.0)	(5.2)
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)	117.4	11.4
Opening net debt/(cash)		51.7	27.2	119.0	1.6
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	1.6	(9.8)

Source: Company reports, Edison Investment Research estimates

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