

Marshall Motor Holdings

Trading update

Reaffirming FY18 outlook

Following the release of sharply lower UK new vehicle registration statistics for September, MMH has released a trading update reaffirming its outlook for FY18. At the interims the company had been cautious about the potential supply side disruption caused by the new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) from 1 September 2018. As it had already factored this in, the expectations and thus numbers remain unchanged. The share price weakness in response to the registrations decline appears unwarranted, with a strong yield providing support.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	1,899.4	25.4	26.2	5.50	5.3	3.9
12/17	2,268.9	29.1	30.8	6.40	4.6	4.6
12/18e	2,199.1	24.2	24.7	6.75	5.7	4.8
12/19e	2,267.3	24.8	25.4	6.95	5.5	5.0

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

Supply side caution was justified

At H118 results MMH noted that the new WLTP vehicle emission testing regime was likely to lead to some supply side distortion in the UK new car market in September and through the rest of 2018. The sharp decline in September registrations, which showed a 20.5% decline, suggest the concerns were justified. Normally the second highest registration month of the year due to plate changes, this was the worst September for registrations since 2011. As a result, H218 profit expectations for MMH were already cautious following a robust H118. The company continues to mitigate the softness in the new vehicle market through cost discipline as well as previous portfolio optimisation actions towards the end of 2017. Used car margins appear healthy, in part due to lower vehicle supply from part exchange and defleeting, and higher margin aftersales activities should also remain robust. As a result, management reiterated its outlook for FY18 overall. Management also reiterated the search for suitable acquisitions, facilitated by a strong balance sheet.

WLTP constraining supply

The WLTP introduction requires manufacturers to qualify many more models than under the previous system, including many derivatives of essentially the same make and model. It would appear to have created a bottleneck and a squeeze on some suppliers, with effects apparent across other major European new car markets in September. SMMT stats for example show VW registrations down 55% and Audi falling 53% in the UK last month compared to a year earlier.. The effects should progressively unwind heading into 2019, just in time for Brexit

Valuation: Recent rating decline seems unjustified

MMH's share price had softened in advance of last week's registration figure in part due to downgrades amongst its peer group, but this seems unjustified given the company's previous caution. On our maintained estimates, the shares trade at a FY19e P/E ratio of just 5.5x with an historic yield of 4.6%.

Automotive retail

11 October 2018

Price 140p
Market cap £109m

Net cash (£m) at 30 June 2018	0.9
Shares in issue	77.9m
Free float	34.9
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(12.2)	(12.4)	(18.7)
Rel (local)	(11.2)	(7.0)	(15.9)
52-week high/low		175.5p	141.0p

Business description

Marshall Motor is the seventh largest UK motor retailer, operating 101 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

FY18 results	13 March 2019
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Exhibit 1: Financial summary

	£m	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		1,899.4	2,268.9	2,199.1	2,267.3
Cost of Sales		(1,678.9)	(2,003.8)	(1,940.7)	(2,000.9)
Gross Profit		220.5	265.1	258.4	266.4
EBITDA		38.4	46.4	40.0	41.1
Operating Profit (before amort. and except.)		32.3	37.2	31.2	32.2
Intangible Amortisation		(0.3)	(0.3)	(0.4)	(0.5)
Exceptionals		(3.2)	24.1	0.9	0.0
Other		0.0	0.0	0.0	0.0
Operating Profit		28.8	60.9	31.7	31.8
Net Interest		(6.9)	(8.1)	(7.0)	(7.4)
Profit Before Tax (norm)		25.4	29.1	24.2	24.8
Profit Before Tax (FRS 3)		21.9	52.8	24.6	24.4
Tax		(4.4)	(3.8)	(5.3)	(5.2)
Profit After Tax (norm)		20.3	23.8	19.1	19.6
Profit After Tax (FRS 3)		17.5	49.0	19.3	19.2
Average Number of Shares Outstanding (m)		77.3	77.4	77.2	77.2
EPS - normalised (p)		26.2	30.8	24.7	25.4
EP		25.4	29.8	24.0	24.6
EPS - (IFRS) (p)		22.6	63.4	25.1	24.9
Dividend per share (p)		5.50	6.40	6.75	6.95
Gross Margin (%)		11.6	11.7	11.8	11.8
EBITDA Margin (%)		2.0	2.0	1.8	1.8
Operating Margin (before GW and except.) (%)		1.7	1.6	1.4	1.4
BALANCE SHEET					
Fixed Assets		326.4	266.6	283.4	290.9
Intangible Assets		122.0	121.6	121.7	121.7
Tangible Assets		204.4	145.0	161.7	169.2
Investments		0.0	0.0	0.0	0.0
Current Assets		475.2	499.1	466.2	486.6
Stocks		380.0	401.3	373.9	385.4
Debtors		71.0	64.1	61.6	63.5
Cash		0.1	4.9	2.9	8.9
Other		24.1	28.8	27.9	28.8
Current Liabilities		(584.9)	(539.3)	(508.3)	(524.1)
Creditors		(507.2)	(538.6)	(508.3)	(524.1)
Short term borrowings		(77.7)	(0.6)	0.0	0.0
Long Term Liabilities		(71.1)	(35.2)	(36.3)	(34.2)
Long term borrowings		(41.4)	(6.5)	(7.7)	(5.7)
Other long term liabilities		(29.7)	(28.7)	(28.6)	(28.5)
Net Assets		145.7	191.2	204.9	219.2
CASH FLOW					
Operating Cash Flow		98.9	60.8	35.9	36.1
Net Interest		(1.4)	(2.9)	(2.7)	(1.2)
Tax		(17.3)	(3.8)	(5.3)	(5.2)
Capex		(61.9)	(57.5)	(25.6)	(16.4)
Acquisitions/disposals		(91.4)	44.6	0.0	0.0
Financing		0.0	0.0	0.0	0.0
Dividends		(3.3)	(4.5)	(4.9)	(5.3)
Other		(15.5)	80.2	0.0	0.0
Net Cash Flow		(91.8)	116.8	(2.6)	8.0
Opening net debt/(cash)		27.2	119.0	2.2	4.8
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)		119.0	2.2	4.8	(3.2)

Source: <Insert Source or Notes>

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