Marshall Motor Holdings

H121 results

Record performance delivered in H121

Automotive retail

The strong used car market has enabled Marshall Motor Holdings (MMH) to deliver an exceptional H121 performance that should drive record FY21 underlying PBT of not less than £40m as indicated last week. However, the uncertainty surrounding the market outlook continues. Vehicle supply issues are likely to result in lower volumes for both new and used cars in H221 and H122 affecting dealership profitability. We have upgraded FY21 to reflect guidance but our FY22 estimates are unchanged with a more normal level of profit. The resumption of dividends is welcome with an exceptional FY21 payment to reflect the strong current year financial performance.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	2,276	22.1	22.9	2.85	10.9	1.1
12/20	2,154	20.9	21.1	0.00	11.9	N/A
12/21e	2,337	40.2	40.3	13.30	6.2	5.3
12/22e	2,247	22.8	22.9	8.55	10.9	3.4

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

Outperformance in an exceptional market

Market conditions were exceptionally favourable during H121, with MMH outperforming both new and used car segments once more. Record underlying PBT of £38.4m (H120 loss £11.8m) was more than double the £15.2m achieved in H119. Against a weak H120, l-f-l new unit sales rose 46.1% (market +39.2%), used unit sales increased by 51.7% (market +31.1%) and aftersales by 34.8%. Second-hand prices also increased at unprecedented rates, especially in Q221, driving H121 used car gross margin up 246bp to a best-ever 8.6% including a £2.8m (45bp) stock provision release. Group gross margin was up 117bp at 11.8%, also a record level with both new and aftersales increasing margins. The balance sheet remains robust with £57.2m of adjusted net cash (excluding lease liabilities) at H121 after continuing to invest £17.2m in both organic and acquired growth, including the addition of two new businesses.

Supply constraints expected to prove disruptive

The supply shortages caused primarily by the global chip shortage are increasing in severity, with production affected at many manufacturers. To date, the availability of stock has helped to offset the shortfall. However, inventory levels of new and used cars are now low, with extended lead times on new cars further reducing vehicle returns from financial agreements, which restricts quality used car availability. While demand remains strong, the inability to complete sales will hurt the top line in both segments and reduce dealership profits in H221, and most probably in H122. Nevertheless, MMH remains well placed to pursue its growths strategy.

Valuation: Dividends a welcome return

The exceptional interim dividend payment of 8.86p provides attractive immediate income and should lead to a FY21 yield of 5.3%. The dividend should be restored to a level with 2.5–3.5x cover in FY22, still a healthy level of yield support. The recent share price rise represents a significant multiple expansion for FY22, although a P/E of 10.9x may not look demanding if growth resumes in FY23.

12 August 2021

Price	**250p**
Market cap	**£196m**

Adjusted net cash (£m) at 30 June 2021 (excludes £92.4m lease liabilities)	57.2
Shares in issue	78.2m
Free float	35%
Code	MMH
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	10.6	47.1	104.1
Rel (local)	8.7	40.7	69.2
52-week high/low		250p	120p

Business description

Marshall Motor Holdings is the seventh largest UK motor retailer, operating 116 franchises spread across 22 brands in 29 counties. 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.

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H121 record driven by used car performance

H121 has seen positive supply and demand dynamics across both new and used cars despite the third national lockdown, which was only lifted in early April. Compared to H120, which saw the UK new car market fall 48.5% below H119, the availability in H121 of click and collect and extended use of remote and online communications allowed a more consistent level of trading during the showroom closures in Q121. However, the shortage of semiconductor chips led to disruption in the supply of new vehicles from manufacturers and increasing demand for quality used cars as an alternative. As stocks had been held in part due to Brexit concerns, these became available in a very positive pricing environment, which saw an unprecedented 14.7% increase in used car values in Q221 as stock levels fell.

MMH outperformed the market in both the retail and fleet new car segments, as well as in the used segment. The favourable market dynamics and tight operational control led to a record level of first-half profitability and very strong cash flows. The key financial highlights are shown in Exhibit 1 below, with comparison provided to H119, which we feel is more meaningful than compared to the heavily pandemic-affected H120.

Exhibit 1: MMH H121 key financials

Six months to 30 June (£m)	H119	H120	H121	% change	
				vs H120	*vs H119*
Revenues	1,183.3	895.3	1,334.1	*49.0%*	*12.8%*
EBITDA	30.0	4.7	53.8	*1049.0%*	*79.2%*
EBIT (underlying)	20.2	(6.4)	42.9	*N/M*	*112.8%*
Profit before tax (underlying)	15.2	(11.8)	38.4	*N/M*	*153.7%*
EPS (p) - ongoing underlying	15.0	(14.8)	38.8	*N/M*	*158.4%*
DPS (p)	2.85	0.00	8.86	*N/M*	*210.9%*
NAV per share (p)	257	244	306	*+25.4%*	*+19.1%*

Source: Company reports

Although showrooms were closed during Q121, MMH's H121 like-for-like new car unit sales rose 46.1%, with retail volumes rising 36.0% and fleet by 64.5% (against market increases of 30.6% and 47.3% respectively). Used car like-for-like unit sales were up 51.7% compared to a 31.1% rise in used car transactions, and 1.6% ahead of FY19 levels while the market was 6.6% down. Aftersales like-for-like revenues also rose by 34.6%, as operations remained open throughout the period compared to H120 when only 62 operations remained open for essential servicing during the first lockdown.

Adjusting for portfolio changes, like-for-like group revenues increased by 49.9% to £1,315.3m. On a like-for-like basis, new car revenues rose 47.4% to £604.8m with total new car revenue of £610.5m (H120: £417.4m, H119: £569.1m). Used car like-for-like revenues were £607.3m, up 56.3%, with total revenue for H121 of £618.8m (H120: £395.6m, H119: £509.6m). Total aftersales revenues were £132.2m (H120: £100.3m, H119: £129.5m), a 34.8% like-for-like improvement. Aftersales revenues were just 2.0% above the H119 level, reflecting the continued impact of the pandemic.

Group gross profit margins were a record 11.8% (H120: 10.6%, H119: 11.4%), driven by the strong used car performance but also supported by increases in the new car and aftersales segments. Used car gross profit margins of 8.6% benefited from the sharp Q221 appreciation of used car prices and the release of £2.8m of stock provisions, which reflected trading conditions. New car gross margin increased by 85bp to 6.9% (H120: 6.0%, H119: 7.7%), in part reflecting the improved achievement of manufacturer volume bonuses compared to the depressed levels of the prior year, although these were still well below historical levels. Aftersales business improved H121 gross margin by 171bp to 46.8% (H120: 45.0%, H119: 44.6%).

At the full year, the company changed its presentation of the impact of COVID to be included in underlying costs to reflect the longer than anticipated effects. As a result, interim results for H120 have been restated to the same basis, with £2.8m being transferred from non-underlying to underlying. On the adjusted basis, underlying operating expenses increased by 13% to £114.5m (H120: £101.6m, H119: £114.9m), still below the H119 level despite adding £16.0m from acquired businesses. There was also a further benefit from business rates relief of £4.7m (H120: £2.3m), with a further £2.0m expected in H221. As previously indicated, management is repaying all £4.0m of furlough grants received in H121, and MMH's enhanced expenditure actions continued to suppress costs. Staff costs will increase in H221 as the company implemented a wage increase backdated to 1 May 2021 to employees who were also paid a thank you bonus in June.

Exhibit 2: MMH gross margin analysis

Year to Dec	2019			2020			2021e			*Year-on\ -year change*		
(£m)	**H119**	**H219e**	**FY19**	**H120**	**H220**	**FY20**	**H121**	**H221e**	**FY21e**	***H121***	***H221e***	***FY21e***
Revenues												
New Car	569.1	510.4	1,079.5	417.4	570.7	988.1	610.5	397.8	1,008.3	*46%*	*(30%)*	*2%*
Used Car	509.6	477.1	986.7	395.6	575.6	971.1	618.8	488.3	1,107.1	*56%*	*(15%)*	*14%*
Aftersales	129.5	128.6	258.1	100.3	140.3	240.6	132.2	134.9	267.1	*32%*	*(4%)*	*11%*
Intra group	(25.0)	(23.2)	(48.2)	(17.9)	(27.5)	(45.4)	(27.3)	(18.6)	(45.9)	*52%*	*(32%)*	*1%*
Total group revenue	**1,183.3**	**1,092.9**	**2,276.1**	**895.3**	**1,259.1**	**2,154.4**	**1,334.1**	**1,002.4**	**2,336.5**	***49%***	***(20%)***	***8%***
Gross profit												
New	43.6	36.6	80.1	25.2	39.9	65.1	42.1	23.1	65.2	*67%*	*(42%)*	*0%*
Used	33.5	32.0	65.5	24.3	39.4	63.7	53.2	30.3	83.5	*119%*	*(23%)*	*31%*
Aftersales	57.8	56.8	114.6	45.2	63.4	108.6	61.8	59.8	121.5	*37%*	*(6%)*	*12%*
Retail	134.8	125.3	260.2	94.7	142.7	237.4	157.1	113.1	270.2	*66%*	*(21%)*	*14%*
Internal/Other	0.2	0.4	0.6	0.5	0.3	0.8	0.3	0.3	0.6	*(45%)*	*2%*	*(27%)*
Group gross profit	**135.0**	**125.8**	**260.8**	**95.2**	**143.0**	**238.2**	**157.4**	**113.4**	**270.8**	***65%***	***(21%)***	***14%***
Gross profit margin												
New	*7.7%*	*7.2%*	*7.4%*	*6.0%*	*7.0%*	*6.6%*	*6.9%*	*5.8%*	*6.5%*			
Used	*6.6%*	*6.7%*	*6.6%*	*6.1%*	*6.8%*	*6.6%*	*8.6%*	*6.2%*	*7.5%*			
Aftersales	*44.6%*	*44.2%*	*44.4%*	*45.0%*	*45.2%*	*45.1%*	*46.8%*	*44.3%*	*45.5%*			
Group	***11.4%***	***11.5%***	***11.5%***	***10.6%***	***11.4%***	***11.1%***	***11.8%***	***11.3%***	***11.6%***			

Source: Company reports, Edison Investment Research estimates

The group made an underlying operating profit of £42.9m (H120 restated operating loss of £6.4m, H119 operating profit: £20.2m). Finance costs fell slightly to £4.5m (H119: 5.3m) due to lower stock levels with no drawdown of the revolving credit facility (RCF). Adjusting out exceptional one-off benefits of £11.8m from used car margin levels, the £2.8m stock provision release, rates relief of £4.7m and abnormally low stock levels of £2.0m, management estimates underlying PBT for H121 of £17.2m (reported underlying PBT £38.4m).

The group finished H121 with adjusted net funds (excluding leases) of £57.2m compared to net cash of £28.8m at the start of the year. We expect some of the benefit of the low inventory levels to unwind in H221. Since the half year, the company has by choice reduced its RCF by £10m to £110m, which still expires in January 2023, with covenants returning to the pre-waiver basis earlier than anticipated. Management believes the revised level is more than adequate to support its strategic investment for growth. In H121, the RCF was undrawn and remains so.

MMH remains very well positioned to pursue its growth strategy, identifying the brands where it wishes to strengthen and seeking opportunities to act as a consolidator able to improve returns on investment. The investment levels remained significant in H121, with £9.8m of capex. It included a freehold site in Beckenham bought for £4.7m that will be used to consolidate three local Audi sites, as well as £1.8m for a freehold body shop in Cambridge and completion of refurbishment work at Volvo Derby and Ford Commercial vehicles in King's Lynn. The freehold property base of £139.6m was up £15.7m on the prior year, largely due to acquisitions and site investments.

The company also acquired three new franchises in H121 through the acquisitions of Jaguar Land Rover (JLR) in Cheltenham and Gloucester (two brands, one site) in May and Nissan Leicester in

June. Both are currently loss-making, which management is confident can be improved, but both are strategically enhancing. MMH now has 16 JLR sites (seven Jaguar, nine Land Rover), making it a key brand partner for each of the marques.

Further new opportunities should continue to present themselves as the trend continues to fewer, larger dealership groups as investment requirements increase. MMH remains well positioned to participate in further consolidation.

It should also be noted that MMH is intent on strengthening its position in van markets, which have been far more resilient than cars during the pandemic, driven by package delivery needs.

Management has restarted dividends and is paying an exceptional 8.86p for H121, reflecting the strong trading and cash performance. The FY21 split is expected to be the reverse of normal policy, with half of the interim amount expected to be paid as a final dividend at the year end. Management expects to restore the previous progressive policy from FY22, with the normal one-third interim/two-thirds final split with cover of between 2.5x and 3.5x.

Outlook

Management guidance is for a more difficult H221, with volumes of both new and used car units sold expected to decline as supply shortages worsen. In July 2021, UK new car registrations were the lowest for the month since 1998, primarily attributed to the supply shortages and possible 'pingdemic' disruption to purchasing decisions.

It remains hard to assess what the normalised rate of UK vehicle sales would be at present, especially as unemployment rates may worsen as the furlough scheme ends. However, the economic prognosis for the UK has been improving and factors such as disposable income appear to be more supportive. The latest SMMT forecast from July 2021 indicates total FY22 UK new car registrations of 2.1m, a 15.4% increase, but supply-side issues could persist and disrupt that.

Exhibit 3: Marshall Motor Holdings revisions to earnings estimates

Year to December (£m)	2021e			2022e		
	Prior	New	*% change*	Prior	New	*% change*
New Car	1,008.3	1,008.3	0.0%	1,059.7	978.1	-7.7%
Used Car	1,078.0	1,107.1	2.7%	1,088.7	1,045.6	-4.0%
Aftersales	256.2	267.1	4.2%	266.5	269.7	1.2%
Intra group	(45.9)	(45.9)	0.0%	(46.5)	(46.5)	0.0%
Group revenues	**2,296.6**	**2,336.5**	**1.7%**	**2,368.4**	**2,246.9**	**-5.1%**
EBITDA	**56.0**	**70.3**	**25.6%**	**52.8**	**52.2**	**-1.1%**
Underlying operating profit	**35.7**	**49.9**	**39.6%**	**32.5**	**32.4**	**-0.1%**
Underlying PBT	**26.1**	**40.2**	**53.9%**	**22.8**	**22.8**	**0.0%**
EPS - underlying (p)	**26.2**	**40.3**	**53.9%**	**22.9**	**22.9**	**0.0%**
DPS (p)	6.0	13.3	121.7%	6.6	8.6	29.5%
Adjusted net debt/(cash)	(22.4)	(36.8)	64.4%	(22.3)	(25.4)	14.2%

Source: Edison Investment Research estimates

Management notes these uncertainties and states that a range of outcomes is possible for the current year and beyond. Current FY21 guidance is for underlying PBT of not less than £40m and our revised estimates now reflect that. We have taken a more cautious view of volumes for FY22. In addition, at some point it should be expected that the used car pricing levels will moderate as supply starts to normalise, although exactly when that will be is difficult to predict. We do not expect the current level of used car margins to be sustained in FY22 as availability of stock improves, and expect used car margins to return to more normal levels next year. FY22 will also face additional cost headwinds, with a full year impact of the wage increases and absence of business rates relief. Nevertheless, we believe profitability will be around pre-pandemic historical levels of £20–25m.

Exhibit 4: Financial summary

£m	2018	2019	2020	2021e	2022e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	2,186.9	2,276.1	2,154.4	2,336.5	2,246.9
Cost of Sales	(1,933.6)	(2,015.3)	(1,916.2)	(2,065.7)	(1,997.5)
Gross Profit	253.2	260.8	238.2	270.8	249.4
EBITDA	52.3	52.0	53.4	70.3	52.2
Operating Profit (before amort. and except).	34.3	32.0	31.1	49.9	32.4
Intangible Amortisation	(0.3)	(0.4)	(0.2)	(0.2)	(0.3)
Exceptionals	(6.7)	(2.4)	(0.6)	1.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating Profit	27.3	29.2	30.3	50.7	32.2
Net Interest	(9.6)	(9.9)	(10.2)	(9.7)	(9.6)
Profit Before Tax (norm)	24.7	22.1	20.9	40.2	22.8
Profit Before Tax (FRS 3)	17.7	19.2	20.1	41.0	22.5
Tax	(4.7)	(4.1)	(6.4)	(8.9)	(4.9)
Profit After Tax (norm)	20.5	17.9	16.5	31.5	17.9
Profit After Tax (FRS 3)	13.1	15.2	13.7	32.1	17.6
Average Number of Shares Outstanding (m)	77.7	78.2	78.2	78.2	78.2
EPS - normalised (p)	26.3	22.9	21.1	40.3	22.9
EPS - normalised and fully diluted (p)	25.5	22.6	20.6	39.4	22.4
EPS - (IFRS) (p)	16.8	19.4	17.5	41.1	22.5
Dividend per share (p)	8.54	2.85	0.00	13.30	8.55
Gross Margin (%)	11.6	11.5	11.1	11.6	11.1
EBITDA Margin (%)	2.4	2.3	2.5	3.0	2.3
Operating Margin (before GW and except.) (%)	1.6	1.4	1.4	2.1	1.4
BALANCE SHEET					
Fixed Assets	262.9	390.2	378.2	392.1	396.7
Intangible Assets	112.2	119.3	119.5	120.6	120.7
Tangible Assets	150.7	162.9	159.8	172.2	176.6
Right of use asset		108.0	98.8	99.3	99.3
Investments	0.0	0.0	0.0	0.0	0.0
Current Assets	466.3	560.5	464.8	474.9	519.5
Stocks	384.0	470.7	362.9	346.5	404.4
Debtors	71.9	79.2	59.6	79.4	76.4
Cash	1.2	0.1	33.8	39.8	29.8
Other	9.2	10.6	8.5	9.1	8.8
Current Liabilities	(502.2)	(608.4)	(494.1)	(496.5)	(533.1)
Creditors	(501.5)	(582.8)	(493.4)	(496.5)	(533.1)
Short term borrowings	(0.6)	(25.6)	(0.6)	0.0	0.0
Long Term Liabilities	(30.8)	(139.9)	(133.0)	(132.6)	(134.0)
Long term borrowings	(5.7)	(5.0)	(4.4)	(3.0)	(4.4)
Lease Liabilities	0.0	(108.1)	(99.3)	(99.7)	(99.7)
Other long term liabilities	(25.2)	(26.8)	(29.3)	(29.9)	(29.9)
Net Assets	196.3	202.3	215.9	237.9	249.1
CASH FLOW					
Operating Cash Flow	39.2	43.6	87.5	61.4	24.0
Net Interest	(2.1)	(1.0)	(1.0)	(1.7)	(0.4)
Tax	(4.7)	(4.1)	(6.4)	(8.9)	(4.9)
Capex	(23.4)	(19.5)	(11.7)	(16.8)	(15.3)
Acquisitions/disposals	1.6	(27.4)	(0.6)	(10.2)	0.0
Financing	(1.0)	(0.9)	0.0	0.0	0.0
Dividends	(5.0)	(7.2)	0.0	(6.9)	(5.7)
Other	(7.6)	(9.0)	(8.4)	(9.0)	(9.0)
Net Cash Flow	(2.9)	(25.4)	59.4	8.0	(11.4)
Opening adjusted net debt/(cash)	2.2	5.1	30.6	(28.8)	(36.8)
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Closing adjusted net debt/(cash)	5.1	30.6	(28.8)	(36.8)	(25.4)
Net financial liabilities (including lease liabilities)		138.6	70.5	62.9	74.3

Source: Company reports, Edison Investment Research estimates

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