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Eagers Automotive (APE)

Stronger for longer

Recommendation
Buy (unchanged)
Price
$13.94
Target (12 months)
$17.25 (previously $17.75)

GICS Sector

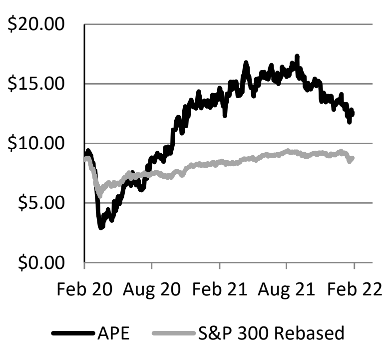
Automobiles and Components

Expected Return	
Capital growth	**23.7%**
Dividend yield	**3.4%**
Total expected return	**27.2%**
Company Data & Ratios	
Enterprise value	**$3,710m**
Market cap	**$3,582m**
Issued capital	**256.9m**
Free float	**70%**
Avg. daily val. (52wk)	**$8.7m**
12 month price range	**$11.60 - $17.67**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	13.44	14.82	13.32
Absolute (%)	-6.18	-14.91	-5.33
Rel market (%)	-1.15	-11.38	-12.66

Absolute Price



SOURCE: IRESS

Result ahead of forecast and guidance

Underlying PBT of $401.8m was ahead of our forecast of $394.6m and the guidance of $390-395m. The beat was driven by a higher PBT margin than we were forecasting (4.7% vs BP 4.4%) which was only partially offset by lower revenue than we were forecasting ($8,861m vs BP $8,974m). Operating cash flow was good but down on pcp due to the absence of JobKeeper payments ($133m) and higher tax paid ($131m vs $84m). Net corporate debt at the end of 2020 was $128.4m which was down slightly from $129.3m at the end of 2020. Positive surprise was a large increase in the final dividend to 42.5c whereas we were forecasting a flat final dividend of 25.0c.

No guidance but none expected

Eagers did not provide 2022 guidance but it is not the company's policy to do so. The company did say, however, that "despite the ongoing supply chain constraints and temporary disruption to logistics and resourcing experienced in early 2022 as a result of the Omicron outbreak, unusually strong demand continues in all regions across both Australia and New Zealand".

Negligible change in PBT forecasts

There is negligible change in our underlying PBT forecasts in 2022 and 2023. We have, however, reduced our revenue forecasts by 5% and 3% due to the ongoing supply chain constraints. This however has been offset by increases in our PBT margin forecasts which are now 4.3% and 3.6%. We continue to forecast underlying PBT of c.$375m in 2022 and c.$325m in 2023.

Investment view: PT down 3% to $17.25, Maintain BUY

We have updated each valuation used in the determination of our price target for the modest changes in our forecasts as well as market movements and time creep. We have also removed the discount previously applied in the relative valuations. The net result is a 3% decrease in our PT to $17.25 which is >15% premium to the share price so we maintain our BUY recommendation.

Earnings Forecast

Year end 31 December	2021	2022e	2023e	2024e
Total revenue (A$m)	8,663.5	8,861.4	9,171.4	9,354.7
EBITDA (A$m)	646.5	580.2	531.0	518.1
NPAT after minorities (A$m)	317.8	265.4	227.5	215.5
EPS (diluted) (cps)	124.7	102.7	87.9	83.2
EPS growth (%)	118%	-18%	-14%	-5%
PER (x)	11.2	13.6	15.9	16.8
Price/CF (x)	11.7	17.0	13.5	10.7
EV/EBITDA (x)	5.7	6.4	7.0	7.2
Dividend (¢ps)	70.9	47.5	47.5	47.5
Yield (%)	5.1%	3.4%	3.4%	3.4%
ROE (%)	31.8%	24.2%	19.0%	16.7%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings and Valuation Changes

Negligible Change in PBT Forecasts

There is negligible change in our underlying PBT forecasts in 2022 and 2023. We have, however, reduced our revenue forecasts by 5% and 3% due to the ongoing supply chain constraints. This however has been offset by increases in our PBT margin forecasts which are now 4.3% and 3.6%. We continue to forecast underlying PBT of c.$375m in 2022 and c.$325m in 2023. Note our forecasts assume no acquisitions though, with the only modest gearing, we believe there is a good chance of acquisitions this year or next.

A summary of the changes in our key forecasts is shown below. Note there are no changes in our 2022 and 2023 DPS forecasts despite the much higher than expected final dividend in 2021. That is, we see the large final dividend as more of a one-off given the strong BS and divestment of the Daimler truck business in 2021. The forecast decline in earnings also supports more conservative dividends going forward.

Figure 1 - Change in key forecasts

Year end 31 December	2021			2022e			2023e		
	Old	New	*Change*	Old	New	*Change*	Old	New	*Change*
Revenue (A$m)	8,974.1	8,663.5	*-3.5%*	9,296.9	8,861.4	*-4.7%*	9,459.4	9,171.4	*-3.0%*
EBITDA	655.3	646.5	*-1.4%*	589.4	580.2	*-1.6%*	541.0	531.0	*-1.8%*
Underlying operating PBT	**394.6**	**401.8**	***1.8%***	**376.1**	**375.7**	***-0.1%***	**328.7**	**325.7**	***-0.9%***
NPAT after OEI	320.0	317.8	*-0.7%*	262.5	265.4	*1.1%*	221.0	227.5	*2.9%*
Diluted EPS (c)	**123.8c**	**124.7c**	***0.8%***	**101.4c**	**102.7c**	***1.2%***	**85.3c**	**87.9c**	***3.0%***
DPS (c)	53.4c	70.9c	*32.8%*	47.5c	47.5c	*0.0%*	47.5c	47.5c	*0.0%*

SOURCE: BELL POTTER SECURITIES ESTIMATES

3% Decrease in PT to $17.25

We have updated each valuation used in the determination of our price target for the modest changes in our forecasts as well as market movements and time creep. We have also removed the discount previously applied in the relative valuations but there are no changes in the key assumptions we apply in the DCF which are a WACC of 8.6% and a terminal growth rate of 3.0%.

The change in each valuation and the impact on our PT calculation is shown below.

Figure 2 - Change in valuations and impact on PT

	Old (as at 17-Nov-21)			New (as at 25-Feb-22)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
Methodology						
PE ratio	$16.36	33%	$5.45	$15.93	33%	$5.31
EV/EBITDA	$21.16	33%	$7.05	$19.35	33%	$6.45
DCF	$15.72	33%	$5.24	$16.46	33%	$5.49
Total			**$17.75**			**$17.25**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a single digit percentage decrease in each relative valuation but a mid single digit percentage increase in the DCF (due to higher margin assumptions and lower capex). The net result is a 3% decrease in our PT to $17.25 which is >15% premium to the share price so we maintain our BUY recommendation.

Eagers Automotive

Company Description

Eagers Automotive is the leading automotive retailer in Australia with a c.11% share of the new vehicle sales market post the recent merger with Automotive Holdings Group. The core business is the ownership and operation of motor vehicle dealerships and the company now has 224 new car dealerships across 33 brands and 68 truck and bus dealerships across 12 brands in Australia. Eagers also has a presence in New Zealand with a c.8% share of new vehicle sales through 13 car dealerships across 6 brands.

Investment Thesis

We maintain our BUY recommendation on Eagers. Our investment thesis is based on:

- **Valuation**: Our 12 month price target on Eagers is $17.25. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is a 24% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 27%.
- **Dominant player and strong financial position**: Eagers is the dominant player in the automotive retail market in Australia with >10% market share. The company is also in a strong financial position with <$150m core net debt and a property portfolio worth around $432m.
- **Quality management and board**: Eagers has been around for over 100 years which shows longevity, good stewardship by the board and the ability to withstand market downturns. The CEO, Keith Thornton, has been with the company for 19 years and prior to being CEO was the COO from 2017.

Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Evolving market and industry conditions**: Eagers may be impacted by changes in the market for new and used automotive vehicles and related parts and servicing. Subject to the company's ability to adapt, the financial performance may be adversely impacted by factors including changes in the profitability of specific vehicle brands, changes in consumer sentiment, the availability of alternative transportation methods and growth of electric and hybrid vehicles which may reduce servicing requirements.
- **Economic conditions**: The products sold by Eagers are discretionary for nearly all customers and so the operating and financial performance of the company is sensitive to general economic and business conditions overall. A deterioration in these conditions could cause consumers to reduce their level of spending on discretionary items which may have an adverse impact on the financial performance of the company.
- **Contractual relationships with manufacturers**: The traditional automotive business model relies on the retention of existing relationships with motor vehicle manufacturers and the development of new relationships in order to grow. If Eagers is unable to maintain its existing relationships or attract new motor vehicle manufacturers then its business and operating and financial performance could be adversely impacted.

Eagers Automotive
as at 25 February 2022

Recommendation	Buy
Price	$13.94
Target (12 months)	$17.25

Table 1 - Financial summary

Eagers Automotive (APE)

Share price:	$13.94	**Target price:**	$17.25
No. of issued shares:	256.9m	**Market cap:**	$3,582m

Profit & Loss (A$m)					
Year end 31 Dec	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Revenue	**8,749.7**	**8,663.5**	**8,861.4**	**9,171.4**	**9,354.7**
Change	*50%*	*-1%*	*2%*	*3%*	*2%*
Other income	48.9	58.2	29.1	27.7	26.3
Share of net profit of associate	3.8	1.1	0.0	0.0	0.0
Total expenses	**-8,267.6**	**-8,076.3**	**-8,310.3**	**-8,668.1**	**-8,862.9**
% of revenue	*-94.5%*	*-93.2%*	*-93.8%*	*-94.5%*	*-94.7%*
EBITDA	**534.7**	**646.5**	**580.2**	**531.0**	**518.1**
Depreciation	-164.2	-119.0	-124.9	-129.6	-132.8
Amortisation	-2.1	-1.5	-1.4	-1.3	-1.3
Reversal of impairment	0.0	0.0	0.0	0.0	0.0
EBIT	**368.5**	**526.1**	**453.9**	**400.1**	**384.0**
Net interest expense	-88.4	-69.3	-75.6	-71.9	-68.3
Profit before tax	**280.1**	**456.8**	**378.2**	**328.2**	**315.7**
Income tax expense	-88.6	-118.1	-101.2	-90.3	-90.8
NPAT before minorities	**191.5**	**338.7**	**277.1**	**238.0**	**224.9**
Minority interests	-8.9	-12.9	-11.6	-10.5	-9.4
NPAT after minorities	**147.3**	**317.8**	**265.4**	**227.5**	**215.5**
Growth	*NM*	*116%*	*-16%*	*-14%*	*-5%*
Underlying continuing PBT	**209.4**	**401.8**	**375.7**	**325.7**	**313.2**

Cash Flow (A$m)					
Year end 31 Dec	**2020**	**2021**	**2022e**	**2023e**	**2024e**
EBITDA	368.5	526.1	453.9	400.1	384.0
Change in working capital	329.5	-29.5	-65.4	29.6	113.5
Gross cash flow	**698.0**	**496.6**	**388.5**	**429.7**	**497.4**
Receipts from insurance claims	4.3	4.8	0.0	0.0	0.0
Interest paid	-96.7	-79.6	-75.6	-71.9	-68.3
Tax paid	-84.3	-131.2	-101.2	-90.3	-90.8
Dividends received	4.6	1.7	0.0	0.0	0.0
Interest received	2.0	10.4	0.0	0.0	0.0
Operating cash flow	**527.9**	**302.7**	**211.7**	**267.5**	**338.4**
Payments for acquisition of bus.	-16.7	-14.4	0.0	0.0	0.0
Payments for PPE	-42.2	-67.8	-75.0	-75.0	-75.0
Proceeds from sale of bus.	23.0	132.9	2.5	2.5	2.5
Proceeds from sale of PPE	6.6	85.3	10.0	10.0	10.0
Payments for shares in corps.	0.0	1.5	0.0	0.0	0.0
Investing cash flow	**-29.4**	**137.5**	**-62.5**	**-62.5**	**-62.5**
Proceeds from issue of shares	8.6	19.0	1.0	1.0	1.0
Proceeds from borrowings	108.7	0.0	0.0	0.0	0.0
Payments for shares by trust	-31.5	-51.0	0.0	0.0	0.0
Repayment of borrowings	-284.5	-150.5	0.0	0.0	0.0
Dividends paid	-32.0	-146.3	-167.1	-122.2	-122.3
Financing cash flow	**-390.9**	**-451.7**	**-177.7**	**-131.7**	**-130.8**
Net change in cash	**107.6**	**-11.5**	**-28.5**	**73.4**	**145.2**
Cash at start of period	101.5	209.1	197.6	169.1	242.5
Cash at end of period	**209.1**	**197.6**	**169.1**	**242.5**	**387.6**

Balance Sheet (A$m)					
Year end 31 Dec	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Cash	209.1	197.6	169.1	242.5	387.6
Current receivables	268.9	229.0	310.1	343.9	350.8
Inventories	1,025.8	874.0	1,063.4	1,146.4	1,169.3
Other current assets	31.9	37.5	18.8	18.8	18.8
Non-current receivables	26.0	35.7	35.7	35.7	35.7
Invesments	1.6	2.1	2.1	2.1	2.1
PPE	494.3	514.4	454.5	389.9	322.0
Deferred tax assets	162.0	152.0	152.0	152.0	152.0
Intangibles - Goodwill	771.8	764.0	761.5	759.0	756.5
Intangibles - Other	13.8	11.3	9.9	8.6	7.3
Other non-current assets	803.5	631.7	631.7	631.7	631.7
Total assets	**4,033.7**	**3,730.9**	**3,890.5**	**4,012.2**	**4,115.6**
Payables	436.4	364.3	443.1	458.6	467.7
Current borrowings	878.1	696.3	696.3	696.3	696.3
Current tax liabilities	16.4	0.0	0.0	0.0	0.0
Current provisions	131.4	101.8	101.8	101.8	101.8
Other current liabilities	203.5	180.6	180.6	180.6	180.6
Non-current borrowings	304.5	311.1	311.1	311.1	311.1
Non-current provisions	26.5	14.1	14.1	14.1	14.1
Other non-current liabilities	1,112.3	975.4	975.4	975.4	975.4
Total liabilities	**3,109.1**	**2,643.5**	**2,722.3**	**2,737.8**	**2,747.0**
Contributed equity	1,173.1	1,173.1	1,173.1	1,173.1	1,173.1
Reserves	-580.2	-618.0	-635.6	-634.6	-633.6
Retained earnings/(losses)	317.8	510.7	609.1	714.4	807.6
Non-controlling interests	13.9	21.6	21.6	21.6	21.6
Total shareholders' equity	**924.6**	**1,087.5**	**1,168.2**	**1,274.4**	**1,368.6**

Valuation data					
Year end 31 Dec	**2020**	**2021**	**2022e**	**2023e**	**2024e**
NPAT after minorities (A$m)	147.3	317.8	265.4	227.5	215.5
Diluted EPS (cps)	**57.3**	**124.7**	**102.7**	**87.9**	**83.2**
Change	*NM*	*118%*	*-18%*	*-14%*	*-5%*
P/E ratio (x)	**24.3**	**11.2**	**13.6**	**15.9**	**16.8**
CFPS (cps)	205.3	118.8	81.9	103.4	130.6
Price/CF (x)	**6.8**	**11.7**	**17.0**	**13.5**	**10.7**
DPS (cps)	25.0	70.9	47.5	47.5	47.5
Yield	**1.8%**	**5.1%**	**3.4%**	**3.4%**	**3.4%**
Franking	100%	100%	100%	100%	100%
EV/EBITDA (x)	**6.9**	**5.7**	**6.4**	**7.0**	**7.2**
NTA per share (cps)	54.1	121.5	154.3	196.9	234.7
Price/NTA (x)	**25.8**	**11.5**	**9.0**	**7.1**	**5.9**

Performance ratios					
Year end 31 Dec	**2020**	**2021**	**2022e**	**2023e**	**2024e**
EBITDA margin	**6.1%**	**7.5%**	**6.5%**	**5.8%**	**5.5%**
EBIT margin	4.2%	6.1%	5.1%	4.4%	4.1%
Return on assets	4.7%	9.1%	7.1%	5.9%	5.5%
Return on equity	**21.0%**	**31.8%**	**24.2%**	**19.0%**	**16.7%**
ROIC	33.6%	46.4%	35.7%	29.1%	26.0%
Payout ratio	43.4%	56.6%	46.0%	53.7%	56.8%
Effective tax rate	-31.6%	-25.8%	-26.8%	-27.5%	-28.8%

Leverage ratios					
Year end 31 Dec	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Net corporate debt (A$m)	129.3	128.4	155.5	155.5	155.5
Net debt/equity	**14%**	**12%**	**14%**	**12%**	**12%**
Gearing	12%	11%	12%	11%	10%
Net debt/EBITDA (x)	0.2	0.2	0.3	0.3	0.3
Net interest cover (x)	4.2	7.6	6.0	5.6	5.6

Segmentals (A$m)					
Year end 31 Dec	**2020**	**2021**	**2022e**	**2023e**	**2024e**
Revenue (A$m)					
Car/Auto Retailing	7,776.5	8,438.3	8,860.2	9,170.3	9,353.7
Truck Retailing	971.3	223.8	0.0	0.0	0.0
Property	1.8	1.4	1.2	1.1	1.0
Investments	0.0	0.0	0.0	0.0	0.0
Total revenue	**8,749.7**	**8,663.5**	**8,861.4**	**9,171.4**	**9,354.7**
Profit					
Car/Auto Retailing	256.8	460.0	443.0	389.7	374.1
Truck Retailing	26.4	6.3	0.0	0.0	0.0
Property	11.8	21.7	10.9	10.3	9.8
Investments	0.0	0.0	0.0	0.0	0.0
Segment EBIT	**295.0**	**488.1**	**453.9**	**400.1**	**384.0**
Interest expense	-88.4	-79.6	-75.6	-71.9	-68.3
Segment PBT	**206.6**	**408.5**	**378.2**	**328.2**	**315.7**
Share of profit of eq. acc. invest.	3.8	1.1	0.0	0.0	0.0
Business acquisition costs	-1.8	-1.8	-2.5	-2.5	-2.5
GST refunds / Govt stimulus	130.6	0.0	0.0	0.0	0.0
Investment revaluation	0.0	0.0	0.0	0.0	0.0
Property revaluation	-10.0	-5.2	0.0	0.0	0.0
Profit on sale of property/bus.	17.3	57.0	2.5	2.5	2.5
Other (e.g. bus. restruct. costs)	-50.6	1.0	0.0	0.0	0.0
Unallocated corporate expense	-15.7	-3.8	0.0	0.0	0.0
Profit before tax	**280.1**	**456.8**	**378.2**	**328.2**	**315.7**
Margin					
Car/Auto Retailing	*3.3%*	*5.5%*	*5.0%*	*4.3%*	*4.0%*
Truck Retailing	*2.7%*	*2.8%*	*0.0%*	*0.0%*	*0.0%*
Total EBIT margin	***3.4%***	***5.6%***	***5.1%***	***4.4%***	***4.1%***

Interims (A$m)				
Year end 31 Dec	**1H2020**	**2H2020**	**1H2021**	**2H2021**
Revenue	**4,155.0**	**4,594.6**	**4,699.2**	**3,964.3**
EBITDA	**188.1**	**346.6**	**372.9**	**273.6**
Depreciation	-83.2	-81.0	-64.6	-54.4
Amortisation	0.0	-2.1	0.0	0.0
Reversal of impairment	0.0	0.0	0.0	0.0
EBIT	**104.9**	**263.6**	**308.3**	**217.8**
Net interest expense	-43.6	-44.8	-40.8	-28.4
Profit before tax	**61.4**	**218.7**	**267.4**	**189.4**
Income tax expense	-19.9	-68.7	-65.1	-52.9
NPAT before minorities	**41.5**	**150.0**	**202.3**	**136.4**
Minority interests	-3.5	-5.4	-7.0	-5.9
NPAT after minorities	**8.3**	**139.0**	**195.3**	**122.6**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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