

Analyst

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Authorisation

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Eagers Automotive (APE)

More positives than negatives

Recommendation
Buy (unchanged)
Price
\$11.50
Target (12 months)
\$15.50 (previously \$17.25)

GICS Sector
Automobiles and Components

Expected Return

| | |
|-----------------------|--------------|
| Capital growth | 34.8% |
| Dividend yield | 4.1% |
| Total expected return | 38.9% |

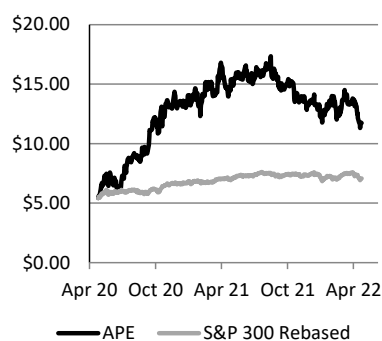
Company Data & Ratios

| | |
|------------------------|--------------------------|
| Enterprise value | \$3,083m |
| Market cap | \$2,955m |
| Issued capital | 256.9m |
| Free float | 70% |
| Avg. daily val. (52wk) | \$8.3m |
| 12 month price range | \$10.77 - \$17.50 |

Price Performance

| | (1m) | (3m) | (12m) |
|----------------|--------|-------|--------|
| Price (A\$) | 13.29 | 12.77 | 14.75 |
| Absolute (%) | -11.81 | -8.22 | -20.54 |
| Rel market (%) | -6.18 | -7.49 | -19.10 |

Absolute Price



SOURCE: IRESS

H1 guidance consistent with our forecasts

Eagers Automotive released a trading update and provided 1H2022 guidance of underlying operating PBT b/w \$183-189m which is 12-15% below the pcp on a like-for-like basis (i.e. excluding the Daimler Trucks contribution in 1H2021). The company noted that demand for new vehicles continues to materially exceed supply and as a result the new car order book has increased by >25% since 31 December 2021. It also said new car margins have remained in line with the very strong levels of 2021 but an anticipated reduction in the number of new vehicles delivered to customers in 1H2022 is driving the forecast reduction in profit versus the pcp. Eagers also added it is well positioned to deliver a strong second half performance subject to supply constraints easing.

No change in underlying forecasts

There is no change in our underlying forecasts in 2022, 2023 and 2024. We continue to forecast underlying operating PBT of \$381m in 2022 which is split \$192m/190m in H1/H2. That is, we forecast a slightly higher result than the guidance in H1 and then forecast a similar result in H2 given our view that supply constraints are unlikely to ease materially in the short term. We then continue to forecast a decline in underlying operating PBT to \$339m in 2023 and \$326m in 2024 as supply constraints ease and, as a result, margins decline. But we also note that due to the strength in the order book, there is some upside risk to at least our 2023 forecasts as the margins will remain strong for a period until the backlog of orders is mostly cleared.

Investment view: PT down 10% to \$15.50, Maintain BUY

While there is no change in our underlying forecasts we have updated each valuation used in the determination of our price target for market movements and time creep. There are no changes in the key assumptions we apply in the valuations. The net result is a 10% decrease in our PT to \$15.50 which has all been driven by a reduction in the relative valuations. At this PT the total expected return is >30% so we retain our BUY recommendation.

Earnings Forecast

| Year end 31 December | 2021 | 2022e | 2023e | 2024e |
|------------------------------|---------|---------|---------|---------|
| Total revenue (A\$m) | 8,663.5 | 8,966.9 | 9,415.1 | 9,603.2 |
| EBITDA (A\$m) | 646.5 | 629.2 | 549.2 | 536.0 |
| NPAT after minorities (A\$m) | 317.8 | 298.8 | 237.0 | 224.7 |
| EPS (diluted) (cps) | 124.7 | 115.6 | 91.6 | 86.8 |
| EPS growth (%) | 118% | -7% | -21% | -5% |
| PER (x) | 9.2 | 10.0 | 12.6 | 13.3 |
| Price/CF (x) | 9.7 | 12.6 | 11.3 | 8.5 |
| EV/EBITDA (x) | 4.8 | 5.0 | 5.7 | 5.8 |
| Dividend (€ps) | 70.9 | 47.5 | 47.5 | 47.5 |
| Yield (%) | 6.2% | 4.1% | 4.1% | 4.1% |
| ROE (%) | 31.8% | 26.3% | 19.1% | 16.7% |
| Franking (%) | 100% | 100% | 100% | 100% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings and Valuation Changes

No Change in Underlying Forecasts

There is no change in our underlying forecasts in 2022, 2023 and 2024. We continue to forecast underlying operating PBT of \$381m in 2022 which is split \$192m/190m in H1/H2. That is, we forecast a slightly higher result than the guidance in H1 and then forecast a similar result in H2 given our view that supply constraints are unlikely to ease materially in the short term. We then continue to forecast a decline in underlying operating PBT to \$339m in 2023 and \$326m in 2024 as supply constraints ease and, as a result, margins decline. But we also note that due to the strength in the order book, there is some upside risk to at least our 2023 forecasts as the margins will remain strong for a period until the backlog of orders is mostly cleared.

We have, however, changed our statutory forecasts in 2022 to now include the profit on the sale of Bill Buckle Auto Group. This, however, does not impact our underlying forecasts and nor our DPS forecasts.

Figure 1 - Change in key forecasts

| Year end 31 December | 2022e | | | 2023e | | | 2024e | | |
|---------------------------------|---------------|---------------|--------------|--------------|--------------|-------------|--------------|--------------|-------------|
| | Old | New | Change | Old | New | Change | Old | New | Change |
| Revenue (A\$m) | 8,966.9 | 8,966.9 | 0.0% | 9,415.1 | 9,415.1 | 0.0% | 9,603.2 | 9,603.2 | 0.0% |
| EBITDA | 589.2 | 629.2 | 6.8% | 549.2 | 549.2 | 0.0% | 536.0 | 536.0 | 0.0% |
| Underlying operating PBT | 381.3 | 381.3 | 0.0% | 338.9 | 338.9 | 0.0% | 326.1 | 326.1 | 0.0% |
| NPAT after OEI | 269.5 | 298.8 | 10.9% | 237.0 | 237.0 | 0.0% | 224.7 | 224.7 | 0.0% |
| Diluted EPS (c) | 104.2c | 115.6c | 10.9% | 91.6c | 91.6c | 0.0% | 86.8c | 86.8c | 0.0% |
| DPS (c) | 47.5c | 47.5c | 0.0% | 47.5c | 47.5c | 0.0% | 47.5c | 47.5c | 0.0% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

10% Decrease in PT to \$15.50

While there is no change in our underlying forecasts we have updated each valuation used in the determination of our price target for market movements and time creep. There are no changes in the key assumptions we apply in the valuations which are no premium/discount in the relative valuations and an 8.6% WACC and 3.0% terminal growth rate in the DCF.

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

Figure 2 - Change in valuations and impact on PT

| Methodology | Old (as at 30-Mar-22) | | | New (as at 18-May-22) | | |
|--------------|-----------------------|-------------|----------------|-----------------------|-------------|----------------|
| | Valuation per share | % weighting | Price target | Valuation per share | % weighting | Price target |
| PE ratio | \$15.61 | 33% | \$5.20 | \$13.41 | 33% | \$4.47 |
| EV/EBITDA | \$18.96 | 33% | \$6.32 | \$15.70 | 33% | \$5.23 |
| DCF | \$17.18 | 33% | \$5.73 | \$17.38 | 33% | \$5.79 |
| Total | | | \$17.25 | | | \$15.50 |

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a double digit percentage decrease in both relative valuations but a modest increase in the DCF. The net result is a 10% decrease in our PT to \$15.50 which is >30% premium to the share price so we retain 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 \$15.50. 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 35% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 39%.
- **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 as at 31 December 2021.
- **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.

Table 1 - Financial summary

| Eagers Automotive (APE) | | | | | | Share price: | \$11.50 | Target price: | \$15.50 | | |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | | | | | | No. of issued shares: | 256.9m | Market cap: | \$2,955m | | |
| Profit & Loss (A\$m) | | | | | | Valuation data | | | | | |
| Year end 31 Dec | 2020 | 2021 | 2022e | 2023e | 2024e | Year end 31 Dec | 2020 | 2021 | 2022e | 2023e | 2024e |
| Revenue | 8,749.7 | 8,663.5 | 8,966.9 | 9,415.1 | 9,603.2 | NPAT after minorities (A\$m) | 147.3 | 317.8 | 298.8 | 237.0 | 224.7 |
| Change | 50% | -1% | 4% | 5% | 2% | Diluted EPS (cps) | 57.3 | 124.7 | 115.6 | 91.6 | 86.8 |
| | | | | | | Change | NM | 118% | -7% | -21% | -5% |
| Other income | 48.9 | 58.2 | 29.1 | 27.7 | 26.3 | P/E ratio (x) | 20.1 | 9.2 | 10.0 | 12.6 | 13.3 |
| Share of net profit of associate | 3.8 | 1.1 | 0.0 | 0.0 | 0.0 | CFPS (cps) | 205.3 | 118.8 | 91.1 | 102.0 | 135.2 |
| | | | | | | Price/CF (x) | 5.6 | 9.7 | 12.6 | 11.3 | 8.5 |
| Total expenses | -8,267.6 | -8,076.3 | -8,366.8 | -8,893.5 | -9,093.5 | DPS (cps) | 25.0 | 70.9 | 47.5 | 47.5 | 47.5 |
| % of revenue | -94.5% | -93.2% | -93.3% | -94.5% | -94.7% | Yield | 2.2% | 6.2% | 4.1% | 4.1% | 4.1% |
| | | | | | | Franking | 100% | 100% | 100% | 100% | 100% |
| EBITDA | 534.7 | 646.5 | 629.2 | 549.2 | 536.0 | EV/EBITDA (x) | 5.8 | 4.8 | 5.0 | 5.7 | 5.8 |
| Depreciation | -164.2 | -119.0 | -126.4 | -132.7 | -136.0 | NTA per share (cps) | 54.1 | 121.5 | 144.9 | 191.2 | 232.6 |
| Amortisation | -2.1 | -1.5 | -1.4 | -1.3 | -1.3 | Price/NTA (x) | 21.3 | 9.5 | 7.9 | 6.0 | 4.9 |
| Reversal of impairment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| EBIT | 368.5 | 526.1 | 501.4 | 415.1 | 398.7 | Performance ratios | | | | | |
| Net interest expense | -88.4 | -69.3 | -77.6 | -73.7 | -70.1 | Year end 31 Dec | 2020 | 2021 | 2022e | 2023e | 2024e |
| Profit before tax | 280.1 | 456.8 | 423.8 | 341.4 | 328.6 | EBITDA margin | 6.1% | 7.5% | 7.0% | 5.8% | 5.6% |
| Income tax expense | -88.6 | -118.1 | -113.4 | -93.9 | -94.5 | EBIT margin | 4.2% | 6.1% | 5.6% | 4.4% | 4.2% |
| NPAT before minorities | 191.5 | 338.7 | 310.4 | 247.5 | 234.2 | Return on assets | 4.7% | 9.1% | 7.8% | 6.1% | 5.7% |
| Minority interests | -8.9 | -12.9 | -11.6 | -10.5 | -9.4 | Return on equity | 21.0% | 31.8% | 26.3% | 19.1% | 16.7% |
| NPAT after minorities | 147.3 | 317.8 | 298.8 | 237.0 | 224.7 | ROIC | 33.6% | 46.4% | 38.6% | 29.1% | 26.4% |
| Growth | NM | 116% | -6% | -21% | -5% | Payout ratio | 43.4% | 56.6% | 40.9% | 51.6% | 54.4% |
| | | | | | | Effective tax rate | -31.6% | -25.8% | -26.8% | -27.5% | -28.8% |
| Underlying operating PBT | 209.4 | 401.8 | 381.3 | 338.9 | 326.1 | Leverage ratios | | | | | |
| | | | | | | Year end 31 Dec | 2020 | 2021 | 2022e | 2023e | 2024e |
| Cash Flow (A\$m) | | | | | | Net corporate debt (A\$m) | 129.3 | 128.4 | 180.5 | 155.5 | 130.5 |
| Year end 31 Dec | 2020 | 2021 | 2022e | 2023e | 2024e | Net debt/equity | 14% | 12% | 15% | 12% | 9% |
| EBITDA | 368.5 | 526.1 | 501.4 | 415.1 | 398.7 | Gearing | 12% | 11% | 13% | 11% | 9% |
| Change in working capital | 329.5 | -29.5 | -75.0 | 16.4 | 116.1 | Net debt/EBITDA (x) | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 |
| Gross cash flow | 698.0 | 496.6 | 426.4 | 431.5 | 514.8 | Net interest cover (x) | 4.2 | 7.6 | 6.5 | 5.6 | 5.7 |
| Receipts from insurance claims | 4.3 | 4.8 | 0.0 | 0.0 | 0.0 | Segmentals (A\$m) | | | | | |
| Interest paid | -96.7 | -79.6 | -77.6 | -73.7 | -70.1 | Year end 31 Dec | 2020 | 2021 | 2022e | 2023e | 2024e |
| Tax paid | -84.3 | -131.2 | -113.4 | -93.9 | -94.5 | Revenue (A\$m) | | | | | |
| Dividends received | 4.6 | 1.7 | 0.0 | 0.0 | 0.0 | Car/Auto Retailing | 7,776.5 | 8,438.3 | 8,965.7 | 9,414.0 | 9,602.2 |
| Interest received | 2.0 | 10.4 | 0.0 | 0.0 | 0.0 | Truck Retailing | 971.3 | 223.8 | 0.0 | 0.0 | 0.0 |
| Operating cash flow | 527.9 | 302.7 | 235.4 | 263.9 | 350.3 | Property | | 1.4 | 1.2 | 1.1 | 1.0 |
| Payments for acquisition of bus. | -16.7 | -14.4 | -205.0 | 0.0 | 0.0 | Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payments for PPE | -42.2 | -67.8 | -75.0 | -75.0 | -75.0 | Total revenue | 8,749.7 | 8,663.5 | 8,966.9 | 9,415.1 | 9,603.2 |
| Proceeds from sale of bus. | 23.0 | 132.9 | 95.0 | 2.5 | 2.5 | Profit | | | | | |
| Proceeds from sale of PPE | 6.6 | 85.3 | 10.0 | 10.0 | 10.0 | Car/Auto Retailing | 256.8 | 460.0 | 450.5 | 404.8 | 388.9 |
| Payments for shares in corps. | 0.0 | 1.5 | 0.0 | 0.0 | 0.0 | Truck Retailing | 26.4 | 6.3 | 0.0 | 0.0 | 0.0 |
| Investing cash flow | -29.4 | 137.5 | -175.0 | -62.5 | -62.5 | Property | 11.8 | 21.7 | 10.9 | 10.3 | 9.8 |
| Proceeds from issue of shares | 8.6 | 19.0 | 1.0 | 1.0 | 1.0 | Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 108.7 | 0.0 | 50.0 | 0.0 | 0.0 | Segment EBIT | 295.0 | 488.1 | 461.4 | 415.1 | 398.7 |
| Payments for shares by trust | -31.5 | -51.0 | 0.0 | 0.0 | 0.0 | Interest expense | -88.4 | -79.6 | -77.6 | -73.7 | -70.1 |
| Repayment of borrowings | -284.5 | -150.5 | 0.0 | -50.0 | -50.0 | Segment PBT | 206.6 | 408.5 | 383.8 | 341.4 | 328.6 |
| Dividends paid | -32.0 | -146.3 | -167.1 | -122.2 | -122.3 | Share of profit of eq. acc. invest. | 3.8 | 1.1 | 0.0 | 0.0 | 0.0 |
| Financing cash flow | -390.9 | -451.7 | -127.7 | -180.8 | -180.8 | Business acquisition costs | -1.8 | -1.8 | -2.5 | -2.5 | -2.5 |
| Net change in cash | 107.6 | -11.5 | -67.3 | 19.7 | 107.0 | GST refunds / Govt stimulus | 130.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash at start of period | 101.5 | 209.1 | 197.6 | 130.4 | 150.1 | Investment revaluation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash at end of period | 209.1 | 197.6 | 130.4 | 150.1 | 257.1 | Property revaluation | -10.0 | -5.2 | 0.0 | 0.0 | 0.0 |
| | | | | | | Profit on sale of property/bus. | 17.3 | 57.0 | 42.5 | 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 | 423.8 | 341.4 | 328.6 |
| | | | | | | Margin | | | | | |
| | | | | | | Car/Auto Retailing | 3.3% | 5.5% | 5.0% | 4.3% | 4.1% |
| | | | | | | Truck Retailing | 2.7% | 2.8% | 0.0% | 0.0% | 0.0% |
| | | | | | | Total EBIT margin | 3.4% | 5.6% | 5.1% | 4.4% | 4.2% |
| | | | | | | Interims (A\$m) | | | | | |
| | | | | | | Year end 31 Dec | 1H2021 | 2H2021 | 1H2022e | 2H2022e | |
| | | | | | | Revenue | 4,699.2 | 3,964.3 | 4,393.8 | 4,573.1 | |
| | | | | | | EBITDA | 372.9 | 273.6 | 332.7 | 296.5 | |
| | | | | | | Depreciation | -64.6 | -54.4 | -61.6 | -64.8 | |
| | | | | | | Amortisation | 0.0 | 0.0 | -0.7 | -0.7 | |
| | | | | | | Reversal of impairment | 0.0 | 0.0 | 0.0 | 0.0 | |
| | | | | | | EBIT | 308.3 | 217.8 | 270.4 | 231.0 | |
| | | | | | | Net interest expense | -40.8 | -28.4 | -38.8 | -38.8 | |
| | | | | | | Profit before tax | 267.4 | 189.4 | 231.6 | 192.1 | |
| | | | | | | Income tax expense | -65.1 | -52.9 | -56.7 | -56.7 | |
| | | | | | | NPAT before minorities | 202.3 | 136.4 | 174.9 | 135.5 | |
| | | | | | | Minority interests | -7.0 | -5.9 | -5.8 | -5.8 | |
| | | | | | | NPAT after minorities | 195.3 | 122.6 | 169.1 | 129.7 | |

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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