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AMA Group (AMA)

Still needs work

Recommendation
Buy (unchanged)
Price
$0.16
Target (12 months)
$0.28 (previously $0.34)

GICS Sector

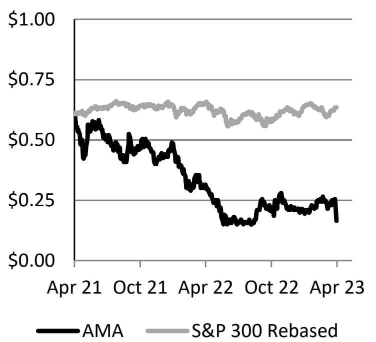
Automobiles and Components

Expected Return	
Capital growth	75.0%
Dividend yield	0.0%
Total expected return	75.0%
Company Data & Ratios	
Enterprise value	$354.4m
Market cap	$171.7m
Issued capital	1,073.1m
Free float	95%
Avg. daily val. (52wk)	$489,965
12 month price range	$0.145 - $0.32

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.25	0.21	0.30
Absolute (%)	-34.00	-19.51	-45.00
Rel market (%)	-39.16	-22.66	-43.33

Absolute Price



SOURCE: IRESS

Downgrades FY23 guidance

AMA downgraded its FY23 normalised EBITDA guidance from $70-90m to $60-68m (vs BP forecast $71m) and cited "ongoing margin compression" as the key reason which was driven by labour constraints, higher employee costs and many contracts not containing appropriate adjustment mechanisms from inflation and/or repair severity. The company added that it will "confirm or update FY24 guidance upon the earlier of finalisation of the outcome of Capital SMART repricing or at FY23 results". AMA also released its Appendix 4C for 3QFY23 and the key take-outs were: operating cash flow of $0.3m; continued upward trend in underlying cash flows over first three quarters; investing cash flow of negative $5.5m; and cash balance at 31 March of $20.5m. The company said covenant testing requirements were satisfied at 31 December and are also expected to be satisfied at 31 March.

EBITDA downgrades of 7-8%

We have downgraded our normalised EBITDA forecasts in FY23, FY24 and FY25 by 8%, 7% and 7%. We now forecast FY23 normalised EBITDA of $65m which is well within the updated $60-68m guidance range. We also now forecast FY24 normalised EBITDA of $102m which is still below the current $120-140m guidance range and so continue to believe there is downside risk to next year's guidance. We now expect a cash balance of c.$25m at 30 June 2023 and do not assume a capital raise in our forecasts though this now cannot be ruled out.

Investment view: PT down 18% to $0.28, Maintain BUY

We have updated each valuation used in the determination of our price target for the earnings changes as well as market movements and time creep. There is no change in the 3.75x multiple we apply in the EV/EBITDA valuation but we have modestly increased the WACC in the DCF from 11.3% to 11.4% due to the current macro environment and an increase in the cost of debt. The net result is an 18% decrease in our PT to $0.28 which is still a material premium to the share price so we maintain our BUY recommendation.

Earnings Forecast

Year end 30 June	2022	2023e	2024e	2025e
Total revenue (A$m)	844.7	881.3	943.8	988.8
EBITDA (normalised) (A$m)	21.8	65.0	101.5	110.9
NPAT (statutory) (A$m)	-144.5	-38.1	-2.3	13.7
EPS (diluted) (cps)	-15.1	-3.6	-0.2	1.3
EPS growth (%)	NM	NM	NM	NM
PER (x)	NM	NM	NM	12.6
Price/CF (x)	NM	18.6	2.8	2.3
EV/EBITDA (x)	19.1	5.8	3.5	3.2
Dividend (¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	NM	NM	NM	6.1%
Franking (%)	0%	0%	0%	0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forecast and Valuation Changes

EBITDA Downgrades of 7-8%

We have downgraded our normalised EBITDA forecasts in FY23, FY24 and FY25 by 8%, 7% and 7%. We now forecast FY23 normalised EBITDA of $65m which is well within the updated $60-68m guidance range. We also now forecast FY24 normalised EBITDA of $102m which is still below the current $120-140m guidance range and so continue to believe there is downside risk to next year's guidance. This is obviously largely dependent on the outcome of Capital SMART repricing for FY24 and beyond. We now expect a cash balance of c.$25m at 30 June 2023 and do not assume a capital raise in our forecasts though this now cannot be ruled out.

A summary of the changes in our key forecasts is shown below.

Figure 1 - Change in key forecasts

Year end 30 June	FY23e Old	FY23e New	FY23e Change	FY24e Old	FY24e New	FY24e Change	FY25e Old	FY25e New	FY25e Change
Total revenue (A$m)	881.3	881.3	*0.0%*	943.8	943.8	*0.0%*	988.8	988.8	*0.0%*
Normalised EBITDA (post AASB 16)	71.0	65.0	*-8.4%*	109.6	101.5	*-7.4%*	119.5	110.9	*-7.1%*
NPAT after OEI	-33.7	-38.1	*NM*	5.4	-2.3	*NM*	21.3	13.7	*-36.0%*
Diluted EPS	**-3.1c**	**-3.6c**	***NM***	**0.5c**	**-0.2c**	***NM***	**2.0c**	**1.3c**	***-36.0%***
DPS	0.0c	0.0c	*NM*	0.0c	0.0c	*NM*	0.0c	0.0c	*NM*

SOURCE: BELL POTTER SECURITIES ESTIMATES

18% Decrease in PT to $0.28

We have updated each valuation used in the determination of our price target for the earnings changes as well as market movements and time creep. There is no change in the 3.75x multiple we apply in the EV/EBITDA valuation but we have modestly increased the WACC in the DCF from 11.3% to 11.4% due to the current macro environment and an increase in the cost of debt.

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 21-Feb-23)			New (as at 17-Apr-23)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
Methodology						
EV/EBITDA	$0.23	50%	$0.12	$0.18	50%	$0.09
DCF	$0.45	50%	$0.23	$0.38	50%	$0.19
Total			**$0.34**			**$0.28**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a double digit percentage decrease in both valuations. The net result is an 18% decrease in our PT to $0.28 which is still a material premium to the share price so we maintain our BUY recommendation. Key focus now is on the outcome of Capital SMART repricing for FY24 – and beyond – and whether or not AMA maintains or downgrades its FY24 guidance. This is likely to be known in the next few months. Key downside risk is if the company needs to do a capital raising and in our view this will be partly dependent on how good or bad the outcome is on the Capital SMART repricing.

AMA Group

Company Description

AMA Group (AMA) is the largest accident repair group in Australia with approximately 127 vehicle panel repair shops. The company also has a presence in New Zealand with 5 vehicle panel repair shops. AMA sold its parts business in 1HFY21 and its remanufacturer of automatic transmissions – called Fluid Drive – in 1HFY23 so is now almost a pure play accident repair group. The only part of the company outside of panel repair is the Supply business – previously called ACM Auto parts – which is predominantly a parts recycler.

Investment Thesis

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

- **Valuation**: Our 12 month price target on AMA is $0.28. The price target is generated from a blend of two valuation methodologies we apply to the company: EV/EBITDA and DCF. The price target is a 75% premium to the current share price and the total expected return (which includes the forecast dividend yield) is the same.
- **Consolidation opportunity**: AMA is the largest accident repair group in Australia but still only has around a 13% market share in what is a very fragmented industry. AMA is well positioned to lead consolidation in the industry and has a track record of successfully integrating acquisitions. A lack of strength in the Balance Sheet at present, however, suggests this opportunity is currently on hold.
- **Headwinds starting to turn**: AMA has been facing headwinds largely driven by the lockdowns and labour shortages associated with COVID-19. These headwinds appear situational rather than structural, however, and are now starting to turn as repair volumes return to more normal levels and international borders reopen allowing foreign workers into the country again.

Key Risks

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

- **Acquisition risk**: The business model of AMA is to acquire, operate and develop complementary businesses in the automotive aftercare market. A risk is that an acquisition may not deliver to the expectations of AMA and this may negatively impact the financial performance of the company. A further risk is there may need to be a write down of goodwill or other intangibles associated with the acquisition.
- **Integration risk**: Every acquisition of AMA needs to be integrated into the group and this involves the centralising of finance and admin systems and potentially also the rationalisation of production process and brand integration. Integration is key for a successful acquisition and in some cases can be the key driver of an acquisition if cost savings or synergies are expected to be achieved. A risk, therefore, is the integration does not go well and/or the expected level of cost savings or synergies is not achieved.
- **Personnel risk**: A key strength of AMA is its experienced management team who have long standing customer relationships and a proven track record of targeted acquisitions and successful integration. A risk is that some key management leave the company and with that also goes one or more key customer relationships and lowers the overall experience level of the team which could have an adverse effect on the financial performance of the company.

AMA Group
as at 17 April 2023

Recommendation	Buy
Price	$0.16
Target (12 months)	$0.28

Table 1 - Financial summary

AMA Group (AMA)

Share price:	$0.16	Target price:	$0.28
No. of issued shares:	1,073.1m	Market cap:	$171.7m

Profit & Loss (A$m)					
Year end 30 Jun	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Revenue from operations	**916.2**	**837.8**	**876.2**	**938.9**	**984.2**
Other revenue (excl. int.)	3.1	6.9	5.1	4.8	4.5
Total revenue (excl. int.)	**919.3**	**844.7**	**881.3**	**943.8**	**988.8**
Change	*11%*	*-8%*	*4%*	*7%*	*5%*
Expenses (excl. D&A, int.)	**-813.6**	**-826.1**	**-819.8**	**-843.2**	**-877.8**
% of revenue	*-88.8%*	*-98.6%*	*-93.6%*	*-89.8%*	*-89.2%*
EBITDA (statutory)	**105.6**	**18.6**	**61.5**	**100.5**	**110.9**
Depreciation	-63.3	-61.0	-59.5	-58.0	-56.6
Amortisation	-17.9	-17.7	-16.4	-16.0	-15.6
Impairment	-102.5	-105.5	-5.0	0.0	0.0
EBIT	**-78.1**	**-165.7**	**-19.4**	**26.5**	**38.8**
Net interest (expense)/revenue	-29.9	-31.1	-36.6	-32.0	-26.4
Pre-tax profit bef. adjust.	**-108.0**	**-196.8**	**-55.9**	**-5.5**	**12.4**
Fair value adjustments	-6.0	13.7	0.7	0.0	0.0
Pre-tax profit from ops.	**-114.0**	**-183.1**	**-55.3**	**-5.5**	**12.4**
Profit from discont. ops	12.2	0.0	0.0	0.0	0.0
Pre-tax profit	**-101.8**	**-183.1**	**-55.3**	**-5.5**	**12.4**
Income tax expense	2.3	34.8	13.8	0.3	-1.2
NPAT before OEI	**-99.5**	**-148.3**	**-41.5**	**-5.2**	**11.1**
OEI	2.1	3.8	3.3	2.9	2.5
NPAT after OEI	**-97.4**	**-144.5**	**-38.1**	**-2.3**	**13.7**
Change	*NM*	*NM*	*NM*	*NM*	*NM*

Cash Flow (A$m)					
Year end 30 Jun	**2021**	**2022**	**2023e**	**2024e**	**2025e**
EBITDA	105.6	18.6	61.5	100.5	110.9
Change in working capital	-19.6	-19.5	-29.6	-7.2	-7.0
Gross cash flow	**86.0**	**-0.9**	**32.0**	**93.3**	**104.0**
Interest received	0.3	0.2	0.0	0.0	0.0
Interest paid	-27.0	-26.4	-36.6	-32.0	-26.4
Tax paid	-7.2	-1.2	13.8	0.3	-1.2
Operating cash flow	**52.1**	**-28.2**	**9.2**	**61.6**	**76.3**
Proceeds from sale of PPE/bus.	63.9	0.2	2.5	0.0	0.0
Payments for PPE	-12.5	-6.8	-10.0	-15.0	-17.5
Payments for intangibles	-0.2	-0.5	0.0	0.0	0.0
Payments for acquisitions	-17.9	-10.8	-2.5	-7.5	-12.5
Loans and other investments	0.0	0.0	0.0	0.0	0.0
Investing cash flow	**33.3**	**-18.0**	**-10.0**	**-22.5**	**-30.0**
Equity raised	0.0	95.3	0.0	0.0	0.0
Change in borrowings	-102.5	-28.5	0.0	-10.0	-20.0
Lease payments	-31.6	-32.5	-30.0	-29.0	-28.0
Dividends paid	0.0	0.0	3.3	2.9	2.5
Financing cash flows	**-134.1**	**34.2**	**-26.7**	**-36.1**	**-45.5**
Net change in cash	**-48.7**	**-11.9**	**-27.5**	**2.9**	**0.8**
Cash at start of period	112.9	64.2	52.2	24.7	27.6
Exchange rate impact	0.0	-0.1	0.0	0.0	0.0
Cash at end of period	**64.2**	**52.2**	**24.7**	**27.6**	**28.4**

Balance Sheet (A$m)					
Year end 30 Jun	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Cash	64.2	52.2	24.7	27.6	28.4
Current receivables	72.9	67.4	70.1	75.1	78.7
Inventories	32.4	39.6	52.6	61.0	68.9
Other current assets	7.6	25.3	25.3	25.3	25.3
PPE	379.6	319.9	257.8	204.9	156.8
Intangibles - Goodwill	349.2	268.4	264.6	268.4	274.6
Intangibles - Other	202.7	185.8	180.7	178.4	178.1
Other non-current assets	18.6	26.2	26.2	26.2	26.2
Total assets	**1,127.2**	**984.7**	**902.0**	**866.9**	**837.0**
Payables	119.2	102.2	87.6	93.9	98.4
Current borrowings	32.5	2.9	2.9	2.9	2.9
Current provisions	34.2	42.6	42.6	42.6	42.6
Other current liabilities	14.0	29.1	29.1	29.1	29.1
Non-current borrowings	237.7	205.1	205.1	195.1	175.1
Non-current provisions	64.1	59.9	59.9	59.9	59.9
Other non-current liabilities	47.6	33.8	33.8	33.8	33.8
Total liabilities	**876.2**	**764.9**	**720.3**	**687.6**	**644.1**
Contributed equity	424.4	536.7	536.7	536.7	536.7
Reserves	0.6	5.1	5.1	5.1	5.1
Retained earnings/(losses)	-188.3	-332.5	-370.6	-373.0	-359.3
Outside equity interest	14.2	10.4	10.4	10.4	10.4
Total shareholders' equity	**250.9**	**219.8**	**181.6**	**179.3**	**193.0**

Valuation data					
Year end 30 Jun	**2021**	**2022**	**2023e**	**2024e**	**2025e**
NPAT (A$m)	-97.4	-144.5	-38.1	-2.3	13.7
Diluted EPS (cps)	**-13.2**	**-15.1**	**-3.6**	**-0.2**	**1.3**
Change	*NM*	*NM*	*NM*	*NM*	*NM*
P/E ratio (x)	**NM**	**NM**	**NM**	**NM**	**12.6**
CFPS (cps)	7.1	-3.0	0.9	5.7	7.1
Price/CF (x)	**2.3**	**NM**	**18.6**	**2.8**	**2.3**
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Yield	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Franking	0%	0%	0%	0%	0%
EV/EBITDA (x)	**3.4**	**19.1**	**5.8**	**3.5**	**3.2**
NTA per share (cps)	-40.2	-21.9	-24.6	-24.9	-24.1
Price/NTA (x)	**NM**	**NM**	**NM**	**NM**	**NM**
Normalised EBITDA	**116.4**	**21.8**	**65.0**	**101.5**	**110.9**
EV/Normalised EBITDA (x)	**3.0**	**16.3**	**5.4**	**3.5**	**3.2**

Performance ratios					
Year end 30 Jun	**2021**	**2022**	**2023e**	**2024e**	**2025e**
EBITDA margin	**11.5%**	**2.2%**	**7.0%**	**10.7%**	**11.3%**
Return on assets	-8.8%	-15.1%	-4.6%	-0.6%	1.3%
Return on equity	**NM**	**NM**	**NM**	**NM**	**6.1%**
ROIC	NM	NM	NM	NM	NM
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Effective tax rate	-2.2%	-19.0%	-25.0%	-5.0%	-10.0%

Leverage ratios					
Year end 30 Jun	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Net debt/(cash) (A$m)	206.0	164.0	188.3	172.9	152.1
Net debt/equity	**82%**	**75%**	**104%**	**96%**	**79%**
Gearing	45%	43%	51%	49%	44%
Net debt/EBITDA (x)	2.0	8.8	3.1	1.7	1.4
Net interest cover (x)	-2.6	-5.3	-0.5	0.8	1.5

Segmentals (A$m)					
Revenue	**2021**	**2022**	**2023e**	**2024e**	**2025e**
Vehicle collision repairs	775.4	687.7	756.5	813.2	853.9
Heavy motor	54.1	53.9	63.3	66.5	68.1
Supply	86.7	96.2	91.4	96.0	100.8
Total revenue	**916.2**	**837.8**	**876.2**	**938.9**	**984.2**
Other income (excl. int.)	3.1	6.9	5.1	4.8	4.5
Total revenue and other inc.	**919.3**	**844.7**	**881.3**	**943.8**	**988.8**
EBITDA					
Vehicle collision repairs	95.7	24.4	51.1	89.5	98.2
Heavy motor	12.6	10.8	12.0	13.3	14.3
Supply	2.2	1.2	5.0	4.8	5.8
Corporate/eliminations	-4.2	-17.3	-6.6	-7.0	-7.4
Total EBITDA	**106.3**	**19.1**	**61.5**	**100.5**	**110.9**

Interims (A$m)				
Year end 30 Jun	**1HFY22**	**2HFY22**	**1HFY23**	**2HFY23e**
Revenue from operations	**416.6**	**421.2**	**423.3**	**452.9**
Other revenue	1.5	5.4	2.9	2.2
Total revenue	**418.1**	**426.6**	**426.2**	**455.1**
Change	*-4%*	*0%*	*2%*	*0%*
EBITDA (statutory)	**2.7**	**15.8**	**23.0**	**38.6**
Depreciation	-29.6	-31.4	-29.8	-29.7
Amortisation/Impairment	-25.6	-97.6	-12.8	-8.6
EBIT	**-52.5**	**-113.2**	**-19.7**	**0.3**
Net interest (expense)/revenue	-15.5	-15.6	-18.3	-18.3
Pre-tax profit bef. adjust.	**-68.0**	**-128.8**	**-37.9**	**-18.0**
Fair value adjustments	0.0	13.7	0.7	0.0
Pre-tax profit	**-68.0**	**-115.1**	**-37.3**	**-18.0**
Pre-tax profit from ops.	0.0	0.0	0.0	0.0
Profit from discont. ops	**-68.0**	**-115.1**	**-37.3**	**-18.0**
Income tax expense	20.0	14.8	10.0	3.8
NPAT before OEI	**-48.0**	**-100.3**	**-27.2**	**-14.2**
OEI	1.7	2.1	1.5	1.8
NPAT after OEI	**-46.3**	**-98.2**	**-25.8**	**-12.4**
Normalised EBITDA	**4.1**	**17.1**	**25.3**	**39.8**

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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