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# Eagers Automotive (APE)

## Eager beaver

**Recommendation**  
**Buy** (unchanged)  
**Price**  
**\$13.83**  
**Target (12 months)**  
**\$15.15** (previously \$15.00)

**GICS Sector**  
**Automobiles and Components**

**Expected Return**

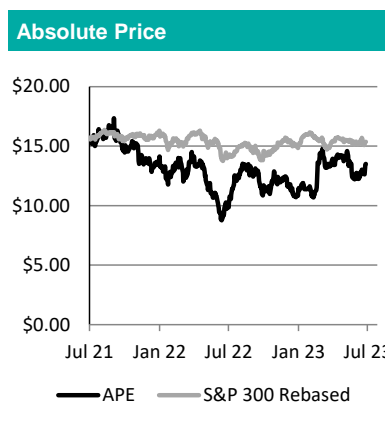
Capital growth	<b>9.5%</b>
Dividend yield	<b>5.1%</b>
Total expected return	<b>14.7%</b>

**Company Data & Ratios**

Enterprise value	<b>\$3,785m</b>
Market cap	<b>\$3,531m</b>
Issued capital	<b>255.3m</b>
Free float	<b>70%</b>
Avg. daily val. (52wk)	<b>\$6.5m</b>
12 month price range	<b>\$9.74 - \$14.87</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	12.38	13.51	9.80
Absolute (%)	8.97	-0.15	37.65
Rel market (%)	8.39	-3.58	28.63



SOURCE: IRESS

### Increases interest in BYD retail joint venture

Eagers announced it has increased its interest in EV Dealer Group Pty Ltd – the national retail joint venture for BYD – from 49% to 80% effective today. The additional 31% interest was acquired from EVDirect.com for total consideration of \$70m comprising \$50m in cash and \$20m in Eagers shares. EVDirect.com retains a 20% interest in the retail JV and also holds the exclusive distribution rights for BYD in Australia. Eagers said the increased interest strengthens its position as the exclusive retail partner for BYD and EVDirect.com in the Australian market and further demonstrates its unique positioning as a leader in the transition to new energy and low emission vehicles.

### Modest EPS upgrades

We have updated our forecasts for the increased stake in the BYD retail JV but there is no change in our underlying forecasts. Eagers already consolidates the JV – despite only originally having a 49% interest – so the only change is in the minority interest and NPAT after minorities. There is, therefore, no change in our revenue or underlying operating PBT forecasts but there is modest upgrades in our EPS forecasts of 2%, 3% and 5% in 2023, 2024 and 2025. Note we continue to forecast 2023 revenue of \$9.5bn which is consistent with the guidance of b/w \$9.5-10.0bn and believe the key swing factor in this range is the level of revenue from the BYD JV.

### Investment view: PT up 1% to \$15.15, 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. We have also updated the valuations for the recently announced stake in McMillan Shakespeare though this has no impact on our forecasts. We continue to apply flat multiples of 12.5x and 6.0x in the PE ratio and EV/EBITDA valuations and a WACC of 8.9% in the DCF. The net result is a modest 1% increase in our PT to \$15.15 which equates to a total expected return of approximately 15% so we maintain our BUY recommendation.

**Earnings Forecast**

Year end 31 December	2022	2023e	2024e	2025e
Total revenue (A\$m)	8,541.5	9,502.2	9,739.7	9,910.0
EBITDA (A\$m)	635.7	655.0	648.4	635.1
NPAT after minorities (A\$m)	308.2	291.3	281.7	266.1
EPS (diluted) (cps)	121.1	113.6	109.6	103.5
EPS growth (%)	-3%	-6%	-3%	-6%
PER (x)	11.4	12.2	12.6	13.4
Price/CF (x)	8.6	7.9	7.7	7.8
EV/EBITDA (x)	6.0	5.8	5.8	6.0
Dividend (€ps)	71.0	71.0	71.0	71.0
Yield (%)	5.1%	5.1%	5.1%	5.1%
ROE (%)	26.9%	24.1%	21.6%	19.4%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Forecast and Valuation Changes

## Modest EPS Upgrades

We have updated our forecasts for the increased stake in the BYD retail JV but there is no change in our underlying forecasts. Eagers already consolidates the JV – despite only originally having a 49% interest – so the only change is in the minority interest and NPAT after minorities. There is, therefore, no change in our revenue or underlying operating PBT forecasts but there is modest upgrades in our EPS forecasts of 2%, 3% and 5% in 2023, 2024 and 2025. Note we continue to forecast 2023 revenue of \$9.5bn which is consistent with the guidance of b/w \$9.5-10.0bn and believe the key swing factor in this range is the level of revenue from the BYD JV.

A summary of the changes in our key forecasts is shown below. There is no change in our DPS forecasts given the only modest changes in our EPS forecasts.

Figure 1 - Change in key forecasts

Year end 31 December	2023e			2024e			2025e		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (A\$m)	9,502.2	9,502.2	0.0%	9,739.7	9,739.7	0.0%	9,910.0	9,910.0	0.0%
EBITDA	655.0	655.0	0.0%	648.4	648.4	0.0%	635.1	635.1	0.0%
<b>Underlying operating PBT</b>	<b>429.4</b>	<b>429.4</b>	<b>0.0%</b>	<b>424.5</b>	<b>424.5</b>	<b>0.0%</b>	<b>412.6</b>	<b>412.6</b>	<b>0.0%</b>
NPAT after OEI	285.5	291.3	2.0%	270.0	281.7	4.3%	251.4	266.1	5.8%
<b>Diluted EPS (c)</b>	<b>111.8c</b>	<b>113.6c</b>	<b>1.6%</b>	<b>105.9c</b>	<b>109.6c</b>	<b>3.5%</b>	<b>98.6c</b>	<b>103.5c</b>	<b>5.0%</b>
DPS (c)	71.0c	71.0c	0.0%	71.0c	71.0c	0.0%	71.0c	71.0c	0.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

## 1% Increase in PT to \$15.15

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. We have also updated the valuations for the recently announced stake in McMillan Shakespeare though this has no impact on our forecasts. We continue to apply flat multiples of 12.5x and 6.0x in the PE ratio and EV/EBITDA valuations and a WACC of 8.9% 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 25-May-23)			New (as at 3-Jul-23)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
PE ratio	\$13.97	33%	\$4.66	\$14.31	33%	\$4.77
EV/EBITDA	\$14.40	33%	\$4.80	\$14.40	33%	\$4.80
DCF	\$16.64	33%	\$5.55	\$16.74	33%	\$5.58
<b>Total</b>			<b>\$15.00</b>			<b>\$15.15</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a modest increase in both the PE ratio and DCF valuations. The net result is a modest 1% increase in our PT to \$15.15 which equates to a total expected return of approximately 15% 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 \$15.15. 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 10% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 15%.
- **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 core net debt of around \$250m and a property portfolio worth around \$631m as at 31 December 2022.
- **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 20 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:	\$13.83	Target price:	\$15.15		
						No. of issued shares:	255.3m	Market cap:	\$3,531m		
<b>Profit &amp; Loss (A\$m)</b>						<b>Valuation data</b>					
<b>Year end 31 Dec</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>	<b>Year end 31 Dec</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Revenue	8,663.5	8,541.5	9,502.2	9,739.7	9,910.0	NPAT after minorities (A\$m)	317.8	308.2	291.3	281.7	266.1
Change	-1%	-1%	11%	2%	2%	<b>Diluted EPS (cps)</b>	<b>124.7</b>	<b>121.1</b>	<b>113.6</b>	<b>109.6</b>	<b>103.5</b>
Other income	58.2	55.2	27.6	26.2	24.9	Change	118%	-3%	-6%	-3%	-6%
Share of net profit of associate	1.1	1.1	0.0	0.0	0.0	P/E ratio (x)	11.1	11.4	12.2	12.6	13.4
COGS	-7,043.5	-6,900.7	-7,629.4	-7,842.3	-8,002.5	CFPS (cps)	118.8	160.1	176.1	179.1	178.3
<b>Gross profit</b>	<b>1,679.3</b>	<b>1,697.0</b>	<b>1,900.4</b>	<b>1,923.6</b>	<b>1,932.5</b>	Price/CF (x)	11.6	8.6	7.9	7.7	7.8
Gross margin	19.4%	19.9%	20.0%	19.8%	19.5%	DPS (cps)	70.9	71.0	71.0	71.0	71.0
<b>Total operating expenses</b>	<b>-1,032.8</b>	<b>-1,061.4</b>	<b>-1,245.4</b>	<b>-1,275.2</b>	<b>-1,297.4</b>	Yield	5.1%	5.1%	5.1%	5.1%	5.1%
% of revenue	-11.9%	-12.4%	-13.1%	-13.1%	-13.1%	Franking	100%	100%	100%	100%	100%
<b>EBITDA</b>	<b>646.4</b>	<b>635.7</b>	<b>655.0</b>	<b>648.4</b>	<b>635.1</b>	EV/EBITDA (x)	5.9	6.0	5.8	5.8	6.0
Depreciation	-119.0	-114.7	-126.1	-129.3	-132.5	NTA per share (cps)	121.5	151.4	175.5	218.3	255.1
Amortisation	-1.5	-1.9	-1.8	-1.7	-1.6	Price/NTA (x)	11.4	9.1	7.9	6.3	5.4
<b>EBIT</b>	<b>526.1</b>	<b>519.1</b>	<b>527.1</b>	<b>517.4</b>	<b>500.9</b>	<b>Underlying operating PBT</b>	<b>401.8</b>	<b>405.2</b>	<b>429.4</b>	<b>424.5</b>	<b>412.6</b>
Net interest expense	-69.3	-76.9	-92.7	-90.3	-85.8	<b>Performance ratios</b>					
<b>Profit before tax</b>	<b>456.8</b>	<b>442.2</b>	<b>434.4</b>	<b>427.0</b>	<b>415.1</b>	<b>Year end 31 Dec</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Income tax expense	-118.1	-117.9	-119.5	-122.8	-124.5	EBITDA margin	7.5%	7.4%	6.9%	6.7%	6.4%
<b>NPAT before minorities</b>	<b>338.7</b>	<b>324.3</b>	<b>314.9</b>	<b>304.3</b>	<b>290.5</b>	EBIT margin	6.1%	6.1%	5.5%	5.3%	5.1%
Minority interests	-12.9	-16.2	-23.6	-22.6	-24.5	Return on assets	9.1%	7.9%	7.4%	7.0%	6.6%
<b>NPAT after minorities</b>	<b>317.8</b>	<b>308.2</b>	<b>291.3</b>	<b>281.7</b>	<b>266.1</b>	<b>Return on equity</b>	<b>31.8%</b>	<b>26.9%</b>	<b>24.1%</b>	<b>21.6%</b>	<b>19.4%</b>
Growth	116%	-3%	-5%	-3%	-6%	ROIC	46.4%	38.3%	33.7%	31.2%	29.2%
<b>Cash Flow (A\$m)</b>						Payout ratio	56.6%	58.5%	62.4%	64.6%	68.4%
<b>Year end 31 Dec</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>	Effective tax rate	-25.8%	-26.7%	-27.5%	-28.8%	-30.0%
EBITDA	526.1	519.1	527.1	517.4	500.9	<b>Leverage ratios</b>					
Change in working capital	-29.5	51.7	136.7	156.0	167.5	<b>Year end 31 Dec</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
<b>Gross cash flow</b>	<b>496.6</b>	<b>570.8</b>	<b>663.7</b>	<b>673.4</b>	<b>668.4</b>	Net corporate debt (A\$m)	128.4	253.4	282.7	245.2	207.7
Receipts from insurance claims	4.8	7.1	0.0	0.0	0.0	<b>Net debt/equity</b>	<b>12%</b>	<b>21%</b>	<b>22%</b>	<b>17%</b>	<b>14%</b>
Interest paid	-79.6	-88.2	-92.7	-90.3	-85.8	Gearing	11%	17%	18%	15%	12%
Tax paid	-131.2	-96.4	-119.5	-122.8	-124.5	Net debt/EBITDA (x)	0.2	0.4	0.4	0.4	0.3
Dividends received	1.7	0.8	0.0	0.0	0.0	Net interest cover (x)	7.6	6.8	5.7	5.7	5.8
Interest received	10.4	13.4	0.0	0.0	0.0	<b>Segmentals (A\$m)</b>					
<b>Operating cash flow</b>	<b>302.7</b>	<b>407.5</b>	<b>451.6</b>	<b>460.3</b>	<b>458.1</b>	<b>Year end 31 Dec</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
Payments for acquisition of bus.	-14.4	-104.6	-50.0	0.0	0.0	<b>Revenue (A\$m)</b>					
Payments for PPE	-67.8	-197.9	-50.0	-50.0	-50.0	Car/Auto Retailing	8,438.3	8,540.6	9,501.4	9,738.9	9,909.4
Proceeds from sale of bus.	132.9	38.2	7.5	7.5	7.5	Truck Retailing	223.8	0.0	0.0	0.0	0.0
Proceeds from sale of PPE	85.3	68.9	10.0	10.0	10.0	Property	1.4	0.9	0.8	0.8	0.7
Payments for shares in corps.	1.5	-11.8	-61.8	0.0	0.0	Investments	0.0	0.0	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>137.5</b>	<b>-185.8</b>	<b>-144.3</b>	<b>-32.5</b>	<b>-32.5</b>	<b>Total revenue</b>	<b>8,663.5</b>	<b>8,541.5</b>	<b>9,502.2</b>	<b>9,739.7</b>	<b>9,910.0</b>
Proceeds from issue of shares	19.0	1.3	1.0	1.0	1.0	<b>Profit</b>					
Proceeds from borrowings	0.0	104.6	0.0	0.0	0.0	Car/Auto Retailing	460.0	479.8	508.3	499.1	483.1
Payments for shares by trust	-51.0	-0.7	0.0	0.0	0.0	Truck Retailing	6.3	0.0	0.0	0.0	0.0
Repayment of borrowings	-150.5	-16.6	0.0	-50.0	-50.0	Property	21.7	25.0	18.7	18.3	17.8
Dividends paid	-146.3	-175.3	-181.6	-182.1	-182.1	Investments	0.0	0.0	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>-451.7</b>	<b>-228.4</b>	<b>-333.6</b>	<b>-376.5</b>	<b>-378.4</b>	<b>Segment EBIT</b>	<b>488.1</b>	<b>504.8</b>	<b>527.1</b>	<b>517.4</b>	<b>500.9</b>
<b>Net change in cash</b>	<b>-11.5</b>	<b>-6.7</b>	<b>-26.3</b>	<b>51.2</b>	<b>47.2</b>	Interest expense	-79.6	-88.2	-92.7	-90.3	-85.8
Cash at start of period	209.1	197.6	190.4	164.1	215.3	<b>Segment PBT</b>	<b>408.5</b>	<b>416.6</b>	<b>434.4</b>	<b>427.0</b>	<b>415.1</b>
<b>Cash at end of period</b>	<b>197.6</b>	<b>190.4</b>	<b>164.1</b>	<b>215.3</b>	<b>262.5</b>	Share of profit of eq. acc. invest.	1.1	0.0	0.0	0.0	0.0
<b>Balance Sheet (A\$m)</b>						Business acquisition costs	-1.8	-3.0	-2.5	-2.5	-2.5
<b>Year end 31 Dec</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>	Property revaluation	-5.2	0.0	0.0	0.0	0.0
Cash	197.6	190.4	164.1	215.3	262.5	Profit on sale of property/bus.	57.0	55.0	2.5	2.5	2.5
Current receivables	229.0	275.3	285.1	292.2	297.3	Other (e.g. bus. restruct. costs)	1.0	-3.9	0.0	0.0	0.0
Inventories	874.0	1,059.3	1,092.8	1,071.4	1,040.6	Unallocated corporate expense	-3.8	-20.7	0.0	0.0	0.0
Other current assets	37.5	21.7	21.7	21.7	21.7	<b>Profit before tax</b>	<b>456.8</b>	<b>442.2</b>	<b>434.4</b>	<b>427.0</b>	<b>415.1</b>
Non-current receivables	35.7	51.5	51.5	51.5	51.5	<b>Margin</b>					
Investments	2.1	2.3	64.2	64.2	64.2	Car/Auto Retailing	5.5%	5.6%	5.4%	5.1%	4.9%
PPE	514.4	698.4	612.2	522.9	430.4	Truck Retailing	2.8%	0.0%	0.0%	0.0%	0.0%
Deferred tax assets	152.0	142.1	142.1	142.1	142.1	<b>Total EBIT margin</b>	<b>5.6%</b>	<b>5.9%</b>	<b>5.5%</b>	<b>5.3%</b>	<b>5.1%</b>
Intangibles - Goodwill	764.0	834.6	877.1	869.6	862.1	<b>Interims (A\$m)</b>					
Intangibles - Other	11.3	20.4	18.6	16.8	15.2	<b>Year end 31 Dec</b>	<b>1H2022</b>	<b>2H2022</b>	<b>1H2023e</b>	<b>2H2023e</b>	
Other non-current assets	631.7	576.2	699.1	822.0	944.9	<b>Revenue</b>	<b>4,215.4</b>	<b>4,326.1</b>	<b>4,608.6</b>	<b>4,893.6</b>	
<b>Total assets</b>	<b>3,730.9</b>	<b>4,120.2</b>	<b>4,276.4</b>	<b>4,337.7</b>	<b>4,380.3</b>	<b>EBITDA</b>	<b>340.2</b>	<b>295.5</b>	<b>311.4</b>	<b>343.7</b>	
Payables	364.3	375.7	427.6	438.3	446.0	Depreciation	-53.8	-60.9	-61.5	-64.7	
Current borrowings	696.3	939.3	939.3	939.3	939.3	Amortisation	-0.9	-1.0	-0.9	-0.9	
Current tax liabilities	0.0	16.3	16.3	16.3	16.3	Reversal of impairment	0.0	0.0	0.0	0.0	
Current provisions	101.8	104.5	104.5	104.5	104.5	<b>EBIT</b>	<b>285.4</b>	<b>233.7</b>	<b>249.0</b>	<b>278.1</b>	
Other current liabilities	180.6	181.0	181.0	181.0	181.0	Net interest expense	-38.9	-38.0	-46.3	-46.3	
Non-current borrowings	311.1	376.9	376.9	326.9	276.9	<b>Profit before tax</b>	<b>246.5</b>	<b>195.7</b>	<b>202.7</b>	<b>231.7</b>	
Non-current provisions	14.1	14.2	14.2	14.2	14.2	Income tax expense	-67.8	-50.0	-55.7	-63.7	
Other non-current liabilities	975.4	870.6	870.6	870.6	870.6	<b>NPAT before minorities</b>	<b>178.7</b>	<b>145.6</b>	<b>146.9</b>	<b>168.0</b>	
<b>Total liabilities</b>	<b>2,643.5</b>	<b>2,878.6</b>	<b>2,930.5</b>	<b>2,891.2</b>	<b>2,848.9</b>	Minority interests	-7.6	-8.6	-9.5	-14.2	
Contributed equity	1,173.1	1,154.6	1,148.1	1,148.1	1,148.1	<b>NPAT after minorities</b>	<b>171.1</b>	<b>137.1</b>	<b>137.5</b>	<b>153.8</b>	
Reserves	-618.0	-606.1	-605.1	-604.1	-603.1	<b>Underlying operating PBT</b>	<b>195.1</b>	<b>210.0</b>	<b>200.2</b>	<b>229.2</b>	
Retained earnings/(losses)	510.7	655.8	765.5	865.1	949.1						
Non-controlling interests	21.6	37.4	37.4	37.4	37.4						
<b>Total shareholders' equity</b>	<b>1,087.5</b>	<b>1,241.6</b>	<b>1,345.9</b>	<b>1,446.5</b>	<b>1,531.5</b>						

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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