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Eagers Automotive (APE)

Get big or go home

Recommendation

Hold (unchanged)

Price

\$14.58

Target (12 months)

\$15.50 (previously \$15.25)

GICS Sector

Automobiles and Components

Expected Return

Capital growth	6.3%
Dividend yield	5.0%
Total expected return	11.3%

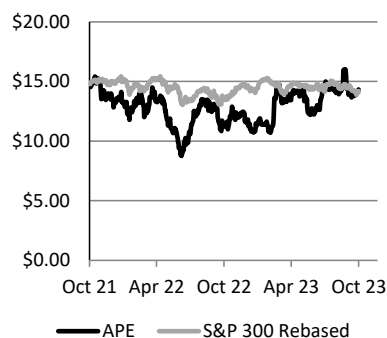
Company Data & Ratios

Enterprise value	\$3,864m
Market cap	\$3,746m
Issued capital	256.9m
Free float	70%
Avg. daily val. (52wk)	\$6.1m
12 month price range	\$10.61 - \$16.06

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	15.99	14.39	11.20
Absolute (%)	-10.44	-0.49	27.86
Rel market (%)	-5.66	3.89	24.29

Absolute Price



SOURCE: IRESS

Strategic acquisition in Victoria

Eagers announced it has entered into a non-binding agreement to acquire a portfolio of dealerships and key strategic properties located across Melbourne and the Mornington region of Victoria from a group of companies associated with Nick Politis. The total purchase price for the dealerships and three properties is \$245m comprising of \$111m in goodwill, \$100m for the properties and \$34m of net assets. The dealerships generate annual turnover of c.\$1.0bn so, after stripping out the value of the properties, the purchase price equates to approximately 0.13x sales. The return on sales for the combined dealerships was not disclosed but if we assume an industry standard margin of around 3.0% – which is below the Eagers margin of around 4.5% – then the purchase price equates to around 4.5x (which is slightly below the 5x Eagers paid for the ACT dealerships from VFM Motors last year). The acquisition is subject to customary conditions as well as shareholder approval with a General Meeting expected to be held in early 2024.

EPS accretion of 3 and 6% if acquisition proceeds

We make no change to our forecasts at this stage given the acquisition is subject to various conditions and shareholder approval. If it does proceed, however, there would be no impact on our 2023 forecasts – given the acquisition will not occur till 2024 – and EPS upgrades of approximately 3% and 6% in 2024 and 2025. Note these upgrades assume the acquisition occurs at the end of February – so 10 months contribution in 2024 – and a flat margin of 3.0% in 2024 but an improvement to 3.5% in 2025.

Investment view: PT up 2% to \$15.50, Maintain HOLD

If the acquisition proceeds then the forecast EPS accretion of 3% and 6% in 2024 and 2025 suggests there is this sort of upside to our price target all else being equal. We therefore choose to raise our PT by 2% to \$15.50 given the likelihood of the acquisition proceeding with some likely further upside of another 2-3% if and when the transaction occurs. At this updated PT the total expected return is still <15% so we maintain our HOLD recommendation.

Earnings Forecast

Year end 31 December	2022	2023e	2024e	2025e
Total revenue (A\$m)	8,541.5	9,758.3	10,246.1	10,630.3
EBITDA (A\$m)	635.7	683.9	671.2	657.2
NPAT after minorities (A\$m)	308.2	295.6	281.1	266.1
EPS (diluted) (cps)	121.1	115.2	109.2	103.4
EPS growth (%)	-3%	-5%	-5%	-5%
PER (x)	12.0	12.7	13.3	14.1
Price/CF (x)	9.1	7.9	8.6	9.7
EV/EBITDA (x)	6.1	5.6	5.8	5.9
Dividend (¢ps)	71.0	73.0	73.0	73.0
Yield (%)	4.9%	5.0%	5.0%	5.0%
ROE (%)	26.9%	24.3%	21.6%	19.5%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forecast and Valuation Changes

EPS Accretion of 3% and 6% if Acquisition Proceeds

We make no change to our forecasts at this stage given the acquisition is subject to various conditions and shareholder approval. If it does proceed, however, there would be no impact on our 2023 forecasts – given the acquisition will not occur till 2024 – and EPS upgrades of approximately 3% and 6% in 2024 and 2025. Note these upgrades assume the acquisition occurs at the end of February – so 10 months contribution in 2024 – and a flat margin of 3.0% in 2024 but an improvement to 3.5% in 2025.

The change to our forecasts if the acquisition proceeds is shown below. But we make no change at this stage until it becomes clearer that the transaction will proceed.

Figure 1 - Change in forecasts if acquisition proceeds

Year end 31 December	2023e			2024e			2025e		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (A\$m)	9,758.3	9,758.3	0.0%	10,246.1	11,075.5	8.1%	10,630.3	11,629.2	9.4%
EBITDA	683.9	683.9	0.0%	671.2	696.0	3.7%	657.2	692.3	5.3%
Underlying operating PBT	430.4	430.4	0.0%	426.2	440.4	3.3%	415.1	440.1	6.0%
NPAT after OEI	295.6	295.6	0.0%	281.1	291.2	3.6%	266.1	283.6	6.6%
Diluted EPS (c)	115.2c	115.2c	0.0%	109.2c	112.8c	3.2%	103.4c	109.5c	5.9%
DPS (c)	73.0c	73.0c	0.0%	73.0c	73.0c	0.0%	73.0c	73.0c	0.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

2% Increase in PT to \$15.50

If the acquisition proceeds then the forecast EPS accretion of 3% and 6% in 2024 and 2025 suggests there is this sort of upside to our price target all else being equal. We therefore choose to raise our PT by 2% to \$15.50 given the likelihood of the acquisition proceeding with some likely further upside of another 2-3% if and when the transaction occurs.

An approximate breakdown of our PT calculation attaching around 50% of the upside from the acquisition – though we believe the probability of it occurring is higher – is shown below.

Figure 2 - Approximate breakdown of PT calculation

Methodology	Old (as at 24-Aug-23)			New (as at 11-Oct-23)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
PE ratio	\$14.26	33%	\$4.75	\$14.55	33%	\$4.85
EV/EBITDA	\$15.03	33%	\$5.01	\$15.48	33%	\$5.16
DCF	\$16.47	33%	\$5.49	\$16.49	33%	\$5.49
Total			\$15.25			\$15.50

SOURCE: BELL POTTER SECURITIES ESTIMATES

At our updated PT of \$15.50 the total expected return is still <15% so we maintain our HOLD recommendation. Note we do forecast a stronger 2H2023 result relative to 1H2023 (e.g. underlying operating PBT of \$223.0m vs \$2017.4m) and believe the recent strong delivery data for vehicle deliveries in Q3 – especially for Toyota in August and September – supports this forecast.

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 HOLD 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 6% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 11%.
- **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 \$118m and a property portfolio worth around \$559m as at 30 June 2023.
- **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:	\$14.58	Target price:	\$15.50		
						No. of issued shares:	256.9m	Market cap:	\$3,746m		
Profit & Loss (A\$m)						Valuation data					
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Revenue	8,663.5	8,541.5	9,758.3	10,246.1	10,630.3	NPAT after minorities (A\$m)	317.8	308.2	295.6	281.1	266.1
Change	-1%	-1%	14%	5%	4%	Diluted EPS (cps)	124.7	121.1	115.2	109.2	103.4
Other income	58.2	55.2	27.6	26.2	24.9	Change	118%	-3%	-5%	-5%	-5%
Share of net profit of associate	1.1	1.1	0.0	0.0	0.0	P/E ratio (x)	11.7	12.0	12.7	13.3	14.1
COGS	-7,043.5	-6,900.7	-7,834.2	-8,248.7	-8,582.3	CFPS (cps)	118.8	160.1	184.5	169.1	149.9
Gross profit	1,679.3	1,697.0	1,951.7	2,023.6	2,072.9	Price/CF (x)	12.3	9.1	7.9	8.6	9.7
Gross margin	19.4%	19.9%	20.0%	19.8%	19.5%	DPS (cps)	70.9	71.0	73.0	73.0	73.0
Total operating expenses	-1,032.8	-1,061.4	-1,267.7	-1,352.4	-1,415.7	Yield	4.9%	4.9%	5.0%	5.0%	5.0%
% of revenue	-11.9%	-12.4%	-13.0%	-13.2%	-13.3%	Franking	100%	100%	100%	100%	100%
EBITDA	646.4	635.7	683.9	671.2	657.2	EV/EBITDA (x)	6.0	6.1	5.6	5.8	5.9
Depreciation	-119.0	-114.7	-120.4	-124.9	-128.1	NTA per share (cps)	121.5	151.4	174.6	215.0	249.6
Amortisation	-1.5	-1.9	-1.8	-1.7	-1.6	Price/NTA (x)	12.0	9.6	8.4	6.8	5.8
EBIT	526.1	519.1	561.7	544.5	527.5	Underlying operating PBT	401.8	405.2	430.4	426.2	415.1
Net interest expense	-69.3	-76.9	-121.3	-118.3	-112.4	Performance ratios					
Profit before tax	456.8	442.2	440.4	426.2	415.1	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Income tax expense	-118.1	-117.9	-121.1	-122.5	-124.5	EBITDA margin	7.5%	7.4%	7.0%	6.6%	6.2%
NPAT before minorities	338.7	324.3	319.3	303.7	290.5	EBIT margin	6.1%	6.1%	5.8%	5.3%	5.0%
Minority interests	-12.9	-16.2	-23.6	-22.6	-24.5	Return on assets	9.1%	7.9%	7.4%	6.9%	6.5%
NPAT after minorities	317.8	308.2	295.6	281.1	266.1	Return on equity	31.8%	26.9%	24.3%	21.6%	19.5%
Growth	116%	-3%	-4%	-5%	-5%	ROIC	46.4%	38.3%	37.0%	34.6%	32.2%
Cash Flow (A\$m)						Leverage ratios					
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Year end 31 Dec	2021	2022	2023e	2024e	2025e
EBITDA	526.1	519.1	561.7	544.5	527.5	Net corporate debt (A\$m)	128.4	253.4	188.5	163.5	138.5
Change in working capital	-29.5	51.7	154.1	131.6	95.1	Net debt/equity	12%	21%	14%	12%	9%
Gross cash flow	496.6	570.8	715.8	676.1	622.6	Gearing	11%	17%	13%	10%	9%
Receipts from insurance claims	4.8	7.1	0.0	0.0	0.0	Net debt/EBITDA (x)	0.2	0.4	0.3	0.2	0.2
Interest paid	-79.6	-88.2	-121.3	-118.3	-112.4	Net interest cover (x)	7.6	6.8	4.6	4.6	4.7
Tax paid	-131.2	-96.4	-121.1	-122.5	-124.5	Segmentals (A\$m)					
Dividends received	1.7	0.8	0.0	0.0	0.0	Year end 31 Dec	2021	2022	2023e	2024e	2025e
Interest received	10.4	13.4	0.0	0.0	0.0	Revenue (A\$m)					
Operating cash flow	302.7	407.5	473.4	435.2	385.7	Car/Auto Retailing	8,438.3	8,540.6	9,757.6	10,245.5	10,629.7
Payments for acquisition of bus.	-14.4	-104.6	-56.4	0.0	0.0	Truck Retailing	223.8	0.0	0.0	0.0	0.0
Payments for PPE	-67.8	-197.9	-50.0	-50.0	-50.0	Property	1.4	0.9	0.7	0.6	0.6
Proceeds from sale of bus.	132.9	38.2	7.5	7.5	7.5	Investments	0.0	0.0	0.0	0.0	0.0
Proceeds from sale of PPE	85.3	68.9	80.0	10.0	10.0	Total revenue	8,663.5	8,541.5	9,758.3	10,246.1	10,630.3
Payments for shares in corps.	1.5	-11.8	-61.8	0.0	0.0	Profit					
Investing cash flow	137.5	-185.8	-80.7	-32.5	-32.5	Car/Auto Retailing	460.0	479.8	534.2	528.9	512.9
Proceeds from issue of shares	19.0	1.3	2.5	1.0	1.0	Truck Retailing	6.3	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	104.6	0.0	0.0	0.0	Property	21.7	25.0	27.5	20.6	19.6
Payments for shares by trust	-51.0	-0.7	0.0	0.0	0.0	Investments	0.0	0.0	0.0	0.0	0.0
Repayment of borrowings	-150.5	-16.6	0.0	-50.0	-50.0	Segment EBIT	488.1	504.8	561.7	549.5	532.5
Dividends paid	-146.3	-175.3	-186.8	-187.5	-187.5	Interest expense	-79.6	-88.2	-121.3	-118.3	-112.4
Financing cash flow	-451.7	-228.4	-333.3	-381.9	-383.8	Segment PBT	408.5	416.6	440.4	431.2	420.1
Net change in cash	-11.5	-6.7	59.4	20.8	-30.6	Share of profit of eq. acc. invest.	1.1	0.0	0.0	0.0	0.0
Cash at start of period	209.1	197.6	190.4	249.8	270.6	Business acquisition costs	-1.8	-3.0	0.0	-2.5	-2.5
Cash at end of period	197.6	190.4	249.8	270.6	240.0	Property revaluation	-5.2	0.0	0.0	0.0	0.0
Balance Sheet (A\$m)						Interims (A\$m)					
Year end 31 Dec	2021	2022	2023e	2024e	2025e	Year end 31 Dec	1H2022	2H2022	1H2023	2H2023e	
Cash	197.6	190.4	249.8	270.6	240.0	Revenue	4,215.4	4,326.1	4,817.6	4,940.7	
Current receivables	229.0	275.3	292.7	307.4	318.9	EBITDA	340.2	295.5	331.5	352.4	
Inventories	874.0	1,059.3	1,122.2	1,127.1	1,169.3	Depreciation	-53.8	-60.9	-56.7	-63.8	
Other current assets	37.5	21.7	21.7	21.7	21.7	Amortisation	-0.9	-1.0	-0.9	-0.9	
Non-current receivables	35.7	51.5	51.5	51.5	51.5	Reversal of impairment	0.0	0.0	0.0	0.0	
Investments	2.1	2.3	2.3	2.3	2.3	EBIT	285.4	233.7	274.0	287.7	
PPE	514.4	698.4	548.0	463.0	375.0	Net interest expense	-38.9	-38.0	-57.9	-63.4	
Deferred tax assets	152.0	142.1	142.1	142.1	142.1	Profit before tax	246.5	195.7	216.1	224.3	
Intangibles - Goodwill	764.0	834.6	883.5	876.0	868.5	Income tax expense	-67.8	-50.0	-65.5	-55.6	
Intangibles - Other	11.3	20.4	18.6	16.8	15.2	NPAT before minorities	178.7	145.6	150.5	168.7	
Other non-current assets	631.7	576.2	760.9	883.8	1,006.7	Minority interests	-7.6	-8.6	-12.8	-10.9	
Total assets	3,730.9	4,120.2	4,341.3	4,410.3	4,459.2	NPAT after minorities	171.1	137.1	137.8	157.9	
Payables	364.3	375.7	487.9	512.3	531.5	Underlying operating PBT	195.1	210.0	207.4	223.0	
Current borrowings	696.3	939.3	939.3	939.3	939.3						
Current tax liabilities	0.0	16.3	16.3	16.3	16.3						
Current provisions	101.8	104.5	104.5	104.5	104.5						
Other current liabilities	180.6	181.0	181.0	181.0	181.0						
Non-current borrowings	311.1	376.9	376.9	326.9	276.9						
Non-current provisions	14.1	14.2	14.2	14.2	14.2						
Other non-current liabilities	975.4	870.6	870.6	870.6	870.6						
Total liabilities	2,643.5	2,878.6	2,990.9	2,965.2	2,934.4						
Contributed equity	1,173.1	1,154.6	1,152.1	1,152.1	1,152.1						
Reserves	-618.0	-606.1	-603.6	-602.6	-601.6						
Retained earnings/(losses)	510.7	655.8	764.6	858.3	936.9						
Non-controlling interests	21.6	37.4	37.4	37.4	37.4						
Total shareholders' equity	1,087.5	1,241.6	1,350.5	1,445.1	1,524.7						

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

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