EDISON

Tourism Holdings

Delivering for shareholders

Half year results

General industrials

Tourism Holdings' (THL) H115 results and confirmation of FY15 NPAT guidance of more than NZ$17m show the company is making good progress on achieving its key strategic goal of restoring return on capital employed (ROCE). Following the declaration of a NZ$0.07 per share interim dividend, we have increased our dividend forecast for FY15 from NZ$0.12 per share to NZ$0.145 per share and maintained a payout ratio of between 89% and 95% for the forecast period.

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/13	224.6	7.3	3.4	4.0	51.8	2.3
06/14	226.7	19.8	9.5	11.0	18.5	6.3
06/15e	241.8	27.6	15.2	14.5	11.6	8.2
06/16e	258.4	31.2	17.9	16.0	9.8	9.1

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Operating cash flow

The first half of the financial year includes the off-season for the NZ business and a significant proportion of motorhome purchases. Comparisons with the previous corresponding period are problematical due to timing differences. In H115 net cash flows from operations before interest and tax were NZ$6.7m compared with EBITDA of NZ$26.7m. The NZ$20m difference resulted from motorhome purchases running ahead of vehicle sales and negative working capital movements. In H115 THL spent NZ$39.5m purchasing new motorhomes compared with NZ$24.8m in the previous corresponding period. Net debt of NZ$85m remains within the company's guidance range.

New Zealand – waiting for FY16

The busy season for the NZ business is January to March, which means the result is second-half loaded. This division, the largest of the three, with 2,035 motorhomes (from a company-wide fleet of 3,716) reported EBITDA of NZ$5.0m and an improved EBIT loss of NZ$1.1m. This was because fleet reductions reduced the depreciation charge, which was NZ$1.7m less than the previous corresponding period. Sales revenue was down 2.3%, 19 fewer motorhomes were sold during the half and funds employed increased by NZ$3.4m to NZ$124.1m due to fleet renewal. Management reported strong bookings for H215 and reaffirmed its target for the NZ division of reaching an acceptable return run rate (of 14%) in FY16.

Valuation: 12.5% discount to peer group

FY15 NPAT guidance was provided in December 2014 and affirmed with the announcement of H115 results. THL's strategy includes building on its core RV business by adding capital-light, bolt-on opportunities that increase the range of services offered. The fundamentals of the business remain strong and management continues to deliver on its promises. We leave our valuation of NZ$2.00, which is based on a 12.5% discount to the peer group, unchanged. We expect this discount to unwind as the company continues to restore ROCE.

25 February 2015

Price	**NZ$1.76**
Market cap	**NZ$198m**

Net debt (A$m) 31 December 2014	85
Shares in issue	112.4m
Free float	78%
Code	THL
Primary exchange	NZX
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(3.3)	(2.3)	51.3
Rel (local)	(4.7)	(7.3)	38.5
52-week high/low	NZ$1.86	NZ$1.05	

Business description

Tourism Holdings listed on the NZX in 1985. It is the largest motorhome rental operator in the world with a fleet of c 3,700 motorhomes designed to meet the needs of the free independent traveller (FIT) market.

Next events

FY15 results	August 2015

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Tourism Holdings is a research client of Edison Investment Research Limited

H115 results

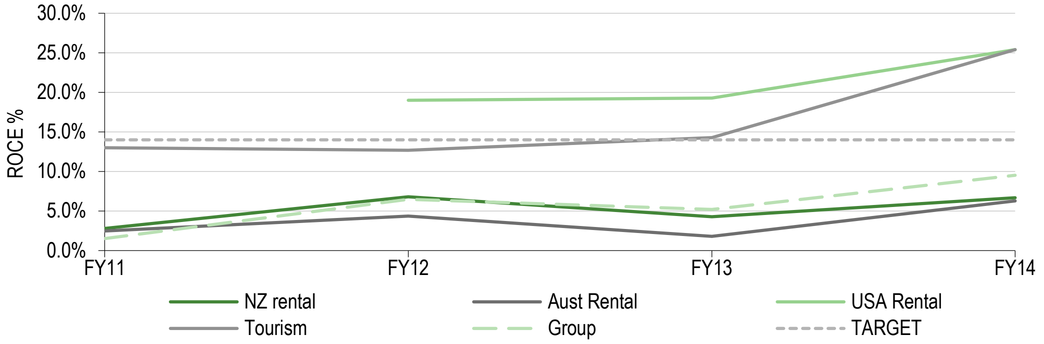
Putting the house in order

An important part of the THL re-rate story is the restoration of ROCE to an acceptable level, defined by management as 14%. This involves:

- reducing capital employed;
- improving fleet utilisation;
- focusing on profitable revenue growth;
- tightly controlling operating costs; and
- reducing the capital cost of the motorhomes by improvements in build quality, which in turn drives increases in resale value.

H115 results demonstrated that all businesses except the NZ rental business are on the way to achieving ROCE of 14% by the end of FY15. The NZ business is expected to achieve 14% ROCE in FY16 through some reduction in fleet size, increased utilisation and cost reductions. The US rental business and the NZ-based tourism businesses are both operating with ROCE in excess of the company's target range of 14%. Currency movements had a negative impact on the US division, which was 5% ahead in US dollar terms but 3% below the previous corresponding period after translation to NZ dollars. Increased visits from Asia drove 20% visitor growth in the tourism division's attractions in December 2014. The Australian business increased EBIT by 81% compared with H114 due to fleet reductions, tight cost control and a lift in the NZ$/A$ exchange rate. The table below shows ROCE per business.

Exhibit 1: ROCE per business



Source: Tourism Holdings

Manufacturing JV

The RV Manufacturing group is benefiting from procurement improvements and design improvements and has achieved the planned FY16 built cost reduction a year ahead of schedule. As well as the production of recreational vehicles, the JV has opportunities in the specialist vehicle market in both Australia and New Zealand. Further reductions in funds employed are expected in FY16 as the JV repays shareholder loans to THL.

Capex and debt

The purchase of new motorhomes is at the high end of expectations. The main reason for this is the decision to increase the US fleet to take advantage of the exit of competitor Camping World. Full year capex is expected to be between NZ$80m and NZ$85m.

Why the US business flies

The US business achieves ROCE of c 25% because of the depth of the second-hand RV market. With c 550 RVs, THL estimates the total rental market to be 6,500 RVs compared with more than 300,000 RVs sold each year. The market size allows THL to turn motorhomes over in a short time frame. The company's target is to retain motorhomes for two years. However, in the last two years demand has been very strong with almost 100% of the fleet being sold in a 12-month period. THL's motorhome design/build quality and the discounts it receives on vehicles means that motorhomes can be sold into the second-hand market at attractive prices.

Growth options

THL's expectation of achieving company-wide end of period ROCE of 14% in FY16 now looks like coming to fruition barring an unexpected external shock. This means THL can now set about achieving growth. Its strategy is to remain a world leader in the RV rental market. Its significant growth options include:

- growing its US business (currently 11% of capital employed and 5% of the RV rental market);
- the possibility of further acquisitions like the recent 49% acquisition of the 130 motorhome business in UK (Just Go);
- adding more depth in all businesses;
- further development of the Australian market, a market with two seasons, which therefore offers higher returns than the New Zealand rental market (a one-season market);
- continual improvements in motorhome design to lower the net capital cost; and
- using technology as a way of winning a greater share of customers' total holiday spend; RV rental now accounts for 40-45% of customers' total holiday spend.

NPAT guidance for FY15

NPAT guidance for FY15 of at least NZ$17m was reaffirmed by management. Our FY15 NPAT forecast remains unchanged at NZ$18m. General tourism demand remains strong, driven by a pick-up in consumer confidence in key European markets and increased tourism from Asia. China Southern has recently announced that it is increasing the direct flights from China to Auckland to 14 per week. Studies by PricewaterhouseCoopers for THL show that the most important driver of international travel and therefore demand for recreational vehicle rentals is consumer confidence. Exchange rates are not considered to be a major driver of demand.

Forecast changes for FY16 and beyond

Our forecasts show THL achieving company-wide ROCE of 14% by FY16 using year-end capital employed. We expect this to be achieved for the following reasons:

- Tourism in all markets remains strong with growth of c 4.5% in New Zealand and ~3.5% in Australia.
- The US market remains robust and the market size allows THL to reduce the capital employed in the business by turning over motorhomes within one to two years of purchase.
- Increased visitation from China, which is currently the fastest growing segment of the NZ tourist market; is particularly relevant to the tourism business and of growing importance to the rental business as Chinese visitors move from group travel to individual travel.
- Higher utilisation in the NZ business.
- More fine-tuning of the Australian business.
- Improved contribution from the manufacturing joint venture.

- Further company-wide cost control

Exhibit 2: Tourism Holdings – forecast changes

	EPS (c)			PBT (NZ$m)			EBITDA (NZ$m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2015e	15.2	15.2	0.0	26,464	27,598	4.2	63,936	64,223	4.4
2016e	18.3	17.9	(2.2)	31,812	31,244	(1.8)	67,054	67,537	0.7
2017e	20.4	19.8	(2.9)	35.434	34,467	(2.7)	69,923	69,958	0.1

Source: Edison Investment Research

Exhibit 3: Financial summary

NZ$000s	2012	2013	2014	2015e	2016e	2017e
30 June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	199,962	224,621	226,668	241,840	258,408	268,664
Cost of Sales	(41,588)	(61,644)	(58,005)	(61,030)	(66,145)	(68,997)
Gross Profit	158,374	162,977	168,663	180,810	192,263	199,668
EBITDA	44,472	55,726	61,322	64,223	67,537	69,958
Operating Profit (before amort. and except.)	1,631	14,559	25,494	31,890	35,137	38,352
Intangible Amortisation	0	0	(1,637)	0	0	0
Exceptionals	0	0	0	0	0	0
Other	0	0	0	0	0	0
Operating Profit	1,631	14,559	23,857	31,890	35,137	38,352
Net Interest	(6,993)	(7,302)	(5,694)	(4,291)	(3,893)	(3,885)
Profit Before Tax (norm)	(5,362)	7,257	19,800	27,598	31,244	34,467
Profit Before Tax (FRS 3)	(5,362)	7,257	18,163	27,598	31,244	34,467
Tax	(2,814)	(2,081)	(7,047)	(9,655)	(9,998)	(11,029)
Profit After Tax (norm)	4,530	3,808	11,116	17,943	21,246	23,437
Profit After Tax (FRS 3)	(8,176)	5,176	11,116	17,943	21,246	23,437
Average Number of Shares Outstanding (m)	98.2	106.2	110.8	112.4	112.4	112.4
EPS - normalised (c)	4.6	3.6	10.0	16.0	18.9	20.8
EPS - normalised and fully diluted (c)	4.1	3.4	9.5	15.2	17.9	19.8
EPS - (IFRS) (c)	(8.3)	4.9	10.0	16.0	18.9	20.8
Dividend per share (c)	2.0	4.0	11.0	14.5	16.0	18.0
Gross Margin (%)	79.2	72.6	74.4	74.8	74.4	74.3
EBITDA Margin (%)	22.2	24.8	27.1	26.6	26.1	26.0
Operating Margin (before GW and except.) (%)	0.8	6.5	11.2	13.2	13.6	14.3
BALANCE SHEET						
Fixed Assets	238,012	275,366	256,355	245,006	238,806	236,164
Intangible Assets	23,665	22,578	20,790	20,640	20,640	20,640
Tangible Assets	205,115	244,339	228,957	217,578	211,378	208,736
Investments	9,232	8,449	6,608	6,788	6,788	6,788
Current Assets	57,075	54,444	39,180	55,981	69,188	77,464
Stocks	26,205	20,459	17,281	8,954	9,623	10,018
Debtors	17,512	19,126	15,119	16,126	17,283	17,951
Cash	4,083	5,480	3,479	21,783	23,165	20,378
Other	9,275	9,379	3,301	9,117	19,117	29,117
Current Liabilities	(47,282)	(70,887)	(61,653)	(62,991)	(64,686)	(65,632)
Creditors	(23,589)	(39,334)	(46,121)	(37,587)	(39,282)	(40,228)
Short term borrowings	(23,693)	(31,553)	(15,532)	(25,404)	(25,404)	(25,404)
Long Term Liabilities	(83,027)	(98,875)	(73,986)	(75,428)	(75,428)	(75,428)
Long term borrowings	(75,932)	(93,574)	(66,607)	(65,687)	(65,687)	(65,687)
Other long term liabilities	(7,095)	(5,301)	(7,379)	(9,741)	(9,741)	(9,741)
Net Assets	164,778	160,048	159,896	162,568	167,880	172,567
CASH FLOW						
Operating Cash Flow	29,756	52,668	53,390	47,496	57,407	59,842
Net Interest	(6,993)	(7,301)	(6,429)	(4,291)	(3,893)	(3,885)
Tax	(979)	(3,203)	(2,996)	(8,555)	(9,998)	(11,029)
Capex	(10,678)	(2,134)	0	(9,408)	(26,200)	(28,964)
Acquisitions/disposals	(1,423)	(53,083)	27	(661)	0	0
Financing	0	0	949	513	0	0
Dividends	(1,866)	(4,021)	(7,802)	(15,741)	(15,935)	(18,750)
Net Cash Flow	7,817	(17,074)	37,139	9,352	1,382	(2,787)
Opening net debt/(cash)	98,866	95,542	119,647	78,660	69,308	67,926
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	0	(0)	0
Closing net debt/(cash)	95,542	119,647	78,660	69,308	67,926	70,713

Source: Tourism Holdings, Edison Investment Research

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