BELL POTTER

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Eagers Automotive (APE)

Shifting into gear

Recommendation
Buy (Hold)
Price
$14.75
Target (12 months)
$17.50 (previously $16.50)

GICS Sector

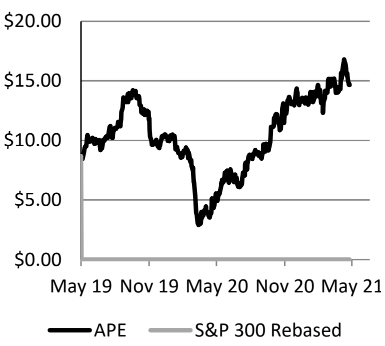
Automobiles and Components

Expected Return	
Capital growth	**18.6%**
Dividend yield	**2.9%**
Total expected return	**21.5%**
Company Data & Ratios	
Enterprise value	**$3,919m**
Market cap	**$3,790m**
Issued capital	**256.9m**
Free float	**72%**
Avg. daily val. (52wk)	**$9.1m**
12 month price range	**$4.77 - $17.665**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	14.02	13.32	4.65
Absolute (%)	4.42	9.91	214.84
Rel market (%)	0.89	2.95	179.48

Absolute Price



SOURCE: IRESS

Further upgrades in forecasts

We upgraded our forecasts for Eagers following the Q1 trading update in mid April but have further reviewed our forecasts following an investor presentation released to the ASX in late April and another strong month for new vehicle sales in April which was released in early May. The net result is we have further upgraded our EPS forecasts in 2021, 2022 and 2023 by 16%, 7% and 7% which has been driven by further increases in our margin forecasts and, to a lesser extent, modest increases in our revenue forecasts. We now forecast underlying continuing PBT in 2021 of c.$375m – versus our previous forecast of c.$320m – which assumes stronger Q2 and Q3 results than previously forecast but still assumes some tapering of conditions in Q4. Our understanding is consensus for underlying continuing PBT in 2021 is around $330m – before our upgrade – so we are now well ahead of that.

Investment view: PT up 6% to $17.50, Upgrade to 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 are no changes in the key assumptions we apply which are a 15% discount in the relative valuations and an 8.8% WACC and 3.0% terminal growth rate in the DCF. The net result is an 8% increase in our PT to $17.50 which is a 19% premium to the current share price so we upgrade our recommendation to BUY.

H1 guidance could be provided at AGM next week

Eagers is holding its AGM next week and the company could provide 1H2021 guidance which we believe could be a potential catalyst for the stock. We forecast underlying continuing PBT in 1H2021 of $204.1m which is up significantly on the $40.3m in 1H2020. If H1 guidance is not provided next week then we would expect a Q2/H1 trading update later in the half (i.e. around mid June) or in July when the result is known. Note Eagers said underlying continuing PBT in 1Q2021 was c.$98m so our 1H2021 forecast of c.$204m assumes a 2Q2021 result of c.$106m which doesn't seem much of a stretch given Q2 tends to be the strongest quarter for sales.

Earnings Forecast

Year end 31 December	2020	2021e	2022e	2023e
Total revenue (A$m)	8,749.7	9,114.5	8,925.0	9,081.1
EBITDA (A$m)	534.7	668.6	562.4	550.2
NPAT after minorities (A$m)	147.3	280.4	206.1	198.2
EPS (diluted) (cps)	57.3	108.4	79.6	76.5
EPS growth (%)	NM	89%	-27%	-4%
PER (x)	25.8	13.6	18.5	19.3
Price/CF (x)	7.2	10.0	11.2	11.1
EV/EBITDA (x)	7.3	6.0	7.1	7.2
Dividend (¢ps)	25.0	42.5	44.5	48.5
Yield (%)	1.7%	2.9%	3.0%	3.3%
ROE (%)	21.0%	26.6%	18.1%	16.3%
Franking (%)	100%	100%	100%	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings and Valuation Changes

Further Upgrades in Forecasts

We upgraded our forecasts for Eagers following the Q1 trading update in mid April but have further reviewed our forecasts following an investor presentation released to the ASX in late April and another strong month for new vehicle sales in April which was released in early May. The net result is we have further upgraded our EPS forecasts in 2021, 2022 and 2023 by 16%, 7% and 7% which has been driven by further increases in our margin forecasts and, to a lesser extent, modest increases in our revenue forecasts. We now forecast underlying continuing PBT in 2021 of c.$375m – versus our previous forecast of c.$320m – which assumes stronger Q2 and Q3 results than previously forecast but still assumes some tapering of conditions in Q4.

A summary of the changes in our key forecasts is shown below. Note we have also increased our dividend forecasts on the back of the earnings upgrades. Our DPS forecasts in 2021, 2022 and 2023 now equate to payout ratios of 39%, 56% and 63%.

Figure 1 - Change in key forecasts

Year end 31 December	2021e			2022e			2023e		
	Old	New	*Change*	Old	New	*Change*	Old	New	*Change*
Revenue (A$m)	8,881.2	9,114.5	*2.6%*	8,729.7	8,925.0	*2.2%*	8,925.9	9,081.1	*1.7%*
EBITDA	614.0	668.6	*8.9%*	543.1	562.4	*3.5%*	532.9	550.2	*3.3%*
Underlying continuing PBT	**320.0**	**374.5**	***17.0%***	**278.0**	**297.2**	***6.9%***	**267.5**	**284.9**	***6.5%***
NPAT after OEI	242.2	280.4	*15.8%*	192.6	206.1	*7.0%*	186.0	198.2	*6.5%*
Diluted EPS (c)	**93.7c**	**108.4c**	***15.8%***	**74.4c**	**79.6c**	***7.0%***	**71.8c**	**76.5c**	***6.5%***
DPS (c)	40.0c	42.5c	*6.3%*	42.0c	44.5c	*6.0%*	46.0c	48.5c	*5.4%*

SOURCE: BELL POTTER SECURITIES ESTIMATES

6% Increase in PT to $17.50

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 are no changes in the key assumptions we apply which are a 15% discount in the relative valuations and an 8.8% 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 forecasts and impact on PT

	Old (as at 16-Apr-21)			New (as at 11-May-21)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
Methodology						
PE ratio	$18.56	33%	$6.19	$19.80	33%	$6.60
EV/EBITDA	$16.68	33%	$5.56	$18.11	33%	$6.04
DCF	$14.25	33%	$4.75	$14.59	33%	$4.86
Total			**$16.50**			**$17.50**

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a mid to high single digit percentage increase in the relative valuations and a more modest low single digit percentage increase in the DCF. The net result is an 8% increase in our PT to $17.50 which is a 19% premium to the current share price so we upgrade our recommendation to BUY.

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 upgrade our recommendation on Eagers from HOLD to BUY. Our investment thesis is based on:

- **Valuation**: Our 12 month price target on Eagers is $17.50. 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 19% premium to the current share price and the total expected return (which includes the forecast dividend yield) is 22%.
- **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 negligible core net debt and a property portfolio worth around $356m.
- **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 18 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.

Eagers Automotive

as at 11 May 2021

Recommendation	Buy
Price	$14.75
Target (12 months)	$17.50

Table 1 - Financial summary

Eagers Automotive (APE)

Share price:	$14.75	**Target price:**	$17.50
No. of issued shares:	256.9m	**Market cap:**	$3,790m

Profit & Loss (A$m)

Year end 31 Dec	2019	2020	2021e	2022e	2023e
Revenue	5,817.0	8,749.7	9,114.5	8,925.0	9,081.1
Change	*41%*	*50%*	*4%*	*-2%*	*2%*
Other income	125.6	48.9	46.5	44.1	41.9
Share of net profit of associate	0.4	3.8	0.0	0.0	0.0
Total expenses	-5,845.5	-8,267.6	-8,492.4	-8,406.8	-8,572.7
% of revenue	*-100.5%*	*-94.5%*	*-93.2%*	*-94.2%*	*-94.4%*
EBITDA	97.5	534.7	668.6	562.4	550.2
Depreciation	-95.2	-166.3	-170.4	-174.7	-179.0
Amortisation	0.0	0.0	0.0	0.0	0.0
Reversal of impairment	0.0	0.0	0.0	0.0	0.0
EBIT	2.3	368.5	498.2	387.7	371.2
Net interest expense	-65.6	-88.4	-86.2	-82.9	-78.8
Profit before tax	-63.3	280.1	412.0	304.7	292.4
Income tax expense	-17.2	-88.6	-123.6	-91.4	-87.7
NPAT before minorities	-80.5	191.5	288.4	213.3	204.7
Minority interests	-2.8	-8.9	-8.0	-7.2	-6.5
NPAT after minorities	-131.9	147.3	280.4	206.1	198.2
Growth	*NM*	*NM*	*90%*	*-26%*	*-4%*
Underlying continuing PBT	100.4	209.4	374.5	297.2	284.9

Cash Flow (A$m)

Year end 31 Dec	2019	2020	2021e	2022e	2023e
EBITDA	2.3	368.5	498.2	387.7	371.2
Change in working capital	272.2	329.5	94.5	127.2	139.2
Gross cash flow	274.4	698.0	592.6	514.8	510.4
Receipts from insurance claims	5.3	4.3	0.0	0.0	0.0
Interest paid	-73.6	-96.7	-86.2	-82.9	-78.8
Tax paid	-36.9	-84.3	-123.6	-91.4	-87.7
Dividends received	0.1	4.6	0.0	0.0	0.0
Interest received	1.4	2.0	0.0	0.0	0.0
Operating cash flow	170.8	527.9	382.8	340.5	343.9
Payments for acquisition of bus.	63.9	-16.7	-25.0	-25.0	-25.0
Payments for PPE	-72.7	-42.2	-100.0	-100.0	-100.0
Proceeds from sale of bus.	64.4	23.0	110.0	2.5	2.5
Proceeds from sale of PPE	177.7	6.6	10.0	10.0	10.0
Payments for shares in corps.	0.0	0.0	0.0	0.0	0.0
Investing cash flow	233.3	-29.4	-5.0	-112.5	-112.5
Proceeds from issue of shares	4.9	8.6	1.0	1.0	1.0
Proceeds from borrowings	65.8	108.7	0.0	0.0	0.0
Payments for shares by trust	-2.6	-31.5	0.0	0.0	0.0
Repayment of borrowings	-247.0	-284.5	-50.0	-50.0	-50.0
Dividends paid	-78.4	-32.0	-109.2	-111.9	-119.8
Financing cash flow	-321.4	-390.9	-166.3	-168.1	-175.3
Net change in cash	82.7	107.6	211.6	59.8	56.1
Cash at start of period	18.9	101.5	209.1	420.7	480.5
Cash at end of period	101.5	209.1	420.7	480.5	536.6

Balance Sheet (A$m)

Year end 31 Dec	2019	2020	2021e	2022e	2023e
Cash	94.2	209.1	420.7	480.5	536.6
Current receivables	309.5	268.9	296.2	312.4	340.5
Inventories	1,458.9	1,025.8	1,093.7	1,115.6	1,135.1
Other current assets	518.2	31.9	31.9	31.9	31.9
Non-current receivables	30.9	26.0	26.0	26.0	26.0
Invesments	16.8	1.6	1.6	1.6	1.6
PPE	456.1	494.3	413.9	329.2	240.1
Deferred tax assets	176.5	162.0	162.0	162.0	162.0
Intangibles - Goodwill	757.3	771.8	686.8	709.3	731.8
Intangibles - Other	15.9	13.8	13.8	13.8	13.8
Other non-current assets	1,010.9	803.5	803.5	803.5	803.5
Total assets	4,858.1	4,033.7	4,175.1	4,210.8	4,248.0
Payables	377.4	436.4	455.7	446.3	454.1
Current borrowings	1,310.2	878.1	878.1	878.1	878.1
Current tax liabilities	25.2	16.4	16.4	16.4	16.4
Current provisions	126.1	131.4	131.4	131.4	131.4
Other current liabilities	706.9	203.5	203.5	203.5	203.5
Non-current borrowings	381.9	304.5	254.5	204.5	154.5
Non-current provisions	50.1	26.5	26.5	26.5	26.5
Other non-current liabilities	1,058.5	1,112.3	1,112.3	1,112.3	1,112.3
Total liabilities	4,036.3	3,109.1	3,078.4	3,019.0	2,976.8
Contributed equity	1,173.1	1,173.1	1,173.1	1,173.1	1,173.1
Reserves	-560.1	-580.2	-579.2	-578.2	-577.2
Retained earnings/(losses)	199.5	317.8	489.0	583.1	661.6
Non-controlling interests	9.4	13.9	13.9	13.9	13.9
Total shareholders' equity	821.8	924.6	1,096.7	1,191.9	1,271.3

Valuation data

Year end 31 Dec	2019	2020	2021e	2022e	2023e
NPAT after minorities (A$m)	-131.9	147.3	280.4	206.1	198.2
Diluted EPS (cps)	-61.6	57.3	108.4	79.6	76.5
Change	*NM*	*NM*	*89%*	*-27%*	*-4%*
P/E ratio (x)	NM	25.8	13.6	18.5	19.3
CFPS (cps)	79.8	205.3	148.1	131.6	132.7
Price/CF (x)	18.5	7.2	10.0	11.2	11.1
DPS (cps)	25.3	25.0	42.5	44.5	48.5
Yield	1.7%	1.7%	2.9%	3.0%	3.3%
Franking	100%	100%	100%	100%	100%
EV/EBITDA (x)	42.1	7.3	6.0	7.1	7.2
NTA per share (cps)	18.9	54.1	154.0	182.1	204.0
Price/NTA (x)	77.9	27.3	9.6	8.1	7.2

Performance ratios

Year end 31 Dec	2019	2020	2021e	2022e	2023e
EBITDA margin	1.7%	6.1%	7.3%	6.3%	6.1%
EBIT margin	0.0%	4.2%	5.5%	4.3%	4.1%
Return on assets	-1.7%	4.7%	6.9%	5.1%	4.8%
Return on equity	-9.9%	21.0%	26.6%	18.1%	16.3%
ROIC	NM	33.6%	42.6%	29.0%	26.5%
Payout ratio	-40.4%	43.4%	39.0%	55.6%	63.0%
Effective tax rate	27.1%	-31.6%	-30.0%	-30.0%	-30.0%

Leverage ratios

Year end 31 Dec	2019	2020	2021e	2022e	2023e
Net corporate debt (A$m)	315.8	129.3	190.9	194.3	146.8
Net debt/equity	39%	14%	18%	16%	12%
Gearing	28%	12%	15%	14%	10%
Net debt/EBITDA (x)	3.2	0.2	0.3	0.3	0.3
Net interest cover (x)	0.0	4.2	5.8	4.7	4.7

Segmentals (A$m)

Year end 31 Dec	2019	2020	2021e	2022e	2023e
Revenue (A$m)					
Car/Auto Retailing	5,225.0	7,776.5	8,748.6	8,923.6	9,079.7
Truck Retailing	590.8	971.3	364.2	0.0	0.0
Property	1.1	1.8	1.6	1.5	1.3
Investments	0.2	0.0	0.0	0.0	0.0
Total revenue	5,817.0	8,749.7	9,114.5	8,925.0	9,081.1
Profit					
Car/Auto Retailing	138.6	256.8	448.4	379.3	363.2
Truck Retailing	10.3	26.4	10.9	0.0	0.0
Property	15.9	11.8	8.9	8.4	8.0
Investments	0.2	0.0	0.0	0.0	0.0
Segment EBIT	164.9	295.0	468.2	387.7	371.2
Interest expense	-65.6	-88.4	-86.2	-82.9	-78.8
Segment PBT	99.4	206.6	382.0	304.7	292.4
Share of profit of eq. acc. invest.	0.3	3.8	0.0	0.0	0.0
Business acquisition costs	-12.5	-1.8	-2.5	-2.5	-2.5
GST refunds / Govt stimulus	0.0	130.6	0.0	0.0	0.0
Investment revaluation	65.1	0.0	0.0	0.0	0.0
Property revaluation	0.0	-10.0	0.0	0.0	0.0
Profit on sale of property/bus.	37.7	17.3	35.0	2.5	2.5
Other (e.g. bus. restruct. costs)	-231.4	-50.6	-2.5	0.0	0.0
Unallocated corporate expense	-21.9	-15.7	0.0	0.0	0.0
Profit before tax	-63.3	280.1	412.0	304.7	292.4
Margin					
Car/Auto Retailing	*2.7%*	*3.3%*	*5.1%*	*4.3%*	*4.0%*
Truck Retailing	*1.7%*	*2.7%*	*3.0%*	*0.0%*	*0.0%*
Total EBIT margin	*2.8%*	*3.4%*	*5.1%*	*4.3%*	*4.1%*

Interims (A$m)

Year end 31 Dec	1H2020	2H2020	1H2021e	2H2021e
Revenue	4,155.0	4,594.6	4,739.0	4,375.5
EBITDA	188.1	346.6	368.8	299.8
Depreciation	-83.2	-83.1	-85.2	-85.2
Amortisation	0.0	0.0	0.0	0.0
Reversal of impairment	0.0	0.0	0.0	0.0
EBIT	104.9	263.6	283.6	214.6
Net interest expense	-43.6	-44.8	-42.7	-43.5
Profit before tax	61.4	218.7	241.0	171.0
Income tax expense	-19.9	-68.7	-72.3	-51.3
NPAT before minorities	41.5	150.0	168.7	119.7
Minority interests	-3.5	-5.4	-4.0	-4.0
NPAT after minorities	8.3	139.0	164.7	115.7

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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