

Marshall Motor Holdings

Trading update

Strong used car market drives record results

Automotive retailers

25 June 2021

Price **191p**
Market cap **£150m**

Adjusted net cash (£m) at 30 December 2020 (excluding £99.3m lease liabilities) 28.8

Shares in issue 78.2m

Free float 35%

Code MMH

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 3.2 18.3 55.9

Rel (local) 2.5 11.7 30.6

52-week high/low 195p 120p

Business description

Marshall Motor Holdings is the seventh largest UK motor retailer, operating 113 franchises spread across 22 brands in 28 counties. It is one of six UK dealership groups that represent each of the top five volume and premium brands. The group has a strong presence in eastern and southern England.

Next events

H121 results 10 August 2021

Analyst

Andy Chambers +44 (0)20 3681 2525

industrials@edisongroup.com

[Edison profile page](#)

Marshall Motor Holdings is a research client of Edison Investment Research Limited

Marshall Motor Holdings' (MMH) management has provided another positive trading update following on from the AGM statement in May. The market demand for new and used cars remains strong and the supply of new and high-quality used cars is constrained. In combination, the effect is to boost used car wholesale prices and margins to exceptional levels. We upgrade our FY21 adjusted PBT by 18% to a record £26.1m. However, supply constraints appear to be intensifying in the new car market and may persist into FY22, which is likely to face cost headwinds and reduced used car prices. As a result, our FY22 estimate remains unchanged. With the balance sheet strengthened further, the FY22e P/E multiple of 8.3x is undemanding as dividends resume in FY21.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	2,276	22.1	22.9	2.85	8.3	1.5
12/20	2,154	20.9	21.1	0.00	9.1	0.0
12/21e	2,297	26.1	26.2	6.00	7.3	3.1
12/22e	2,368	22.8	22.9	6.60	8.3	3.5

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

Favourable supply and demand dynamics in H121

The strength of trading in the first four months of the year noted at the AGM has continued in Q221 and management now expects an exceptionally strong H121 performance. Demand for both new and used cars has remained high, with MMH continuing to outperform the UK markets in both segments. New car supply has been increasingly constrained by component supply issues, with a knock-on effect on the availability of high-quality used cars where supply has also tightened. As a result, used car prices have been favourable, rising sharply during the period. While the dynamic has shifted the revenue mix from new to used, the used margins are much higher, which drove the stronger trading, with management now expecting adjusted PBT to reach a record level in FY21. The improved profitability also drops through to higher FY21 net cash balances and should support the return to dividend payments at the half year results on 10 August 2021.

Potential headwinds for H221 and FY22

The new car supply shortages appear increasingly likely to intensify in H221 and may persist into FY22, which could have an adverse impact on dealership performances. In addition, some costs such as business rates that have been deferred during the pandemic will resume, acting as a significant headwind next year. We expect the strong used car environment to moderate in H221, initially as used car availability affects volumes, but then as prices drop as supply improves.

Valuation: Rating remains undemanding

The astonishing performance in H220 has continued in H121 despite the disruption to markets, with a return to more normal trading patterns likely in FY22. We expect the undemanding rating to fall further as MMH returns to growth from FY23, potentially supported by acquisition opportunities that may arise.

Earnings revisions

We have altered the mix of new and used car sales due to the anticipated supply shortages in new and the improved pricing in used, which has a beneficial impact on margins in FY21. As we expect used car pricing to moderate as H221 develops, and costs deferred during the pandemic to resume, we currently expect FY22 performance to be more subdued and our estimates are essentially unchanged. Our revised estimates are shown below, with the marginal increase in FY22 adjusted PBT driven by a slightly lower interest charge due to the improved FY21 cash flow.

Exhibit 1: Marshall Motor Holdings earnings revisions

£m	2021e			2022e		
	Prior	New	% change	Prior	New	% change
New Car	1,032.6	1,008.3	-2.3%	1,084.2	1,059.7	-2.3%
Used Car	1,053.7	1,078.0	2.3%	1,064.2	1,088.7	2.3%
Aftersales	256.2	256.2	0.0%	266.5	266.5	0.0%
Intra group	(45.9)	(45.9)	0.0%	(46.5)	(46.5)	0.0%
Group revenues	2,296.5	2,296.6	0.0%	2,368.4	2,368.4	0.0%
EBITDA	52.2	56.0	7.2%	52.8	52.8	0.0%
Underlying EBITA	32.0	35.7	11.7%	32.5	32.5	0.0%
Underlying PBT	22.2	26.1	17.6%	22.8	22.8	0.2%
EPS - underlying continuing (p)	22.3	26.2	17.6%	22.9	22.9	0.2%
DPS (p)	6.0	6.0	0.0%	6.6	6.6	0.0%
Adjusted net debt/(cash)	(19.3)	(22.4)	15.8%	(19.2)	(22.3)	16.2%

Source: Edison Investment Research

Exhibit 2: Financial summary

	£m	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		2,186.9	2,276.1	2,154.4	2,296.6	2,368.4
Cost of Sales		(1,933.6)	(2,015.3)	(1,916.2)	(2,044.0)	(2,103.1)
Gross Profit		253.2	260.8	238.2	252.6	265.3
EBITDA		52.3	52.0	53.4	56.0	52.8
Operating Profit (before amort. and except).		34.3	32.0	31.1	35.7	32.5
Intangible Amortisation		(0.3)	(0.4)	(0.2)	(0.2)	(0.3)
Exceptionals		(6.7)	(2.4)	(0.6)	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		27.3	29.2	30.3	35.5	32.2
Net Interest		(9.6)	(9.9)	(10.2)	(9.6)	(9.6)
Profit Before Tax (norm)		24.7	22.1	20.9	26.1	22.8
Profit Before Tax (FRS 3)		17.7	19.2	20.1	25.9	22.5
Tax		(4.7)	(4.1)	(6.4)	(5.6)	(4.9)
Profit After Tax (norm)		20.5	17.9	16.5	20.5	17.9
Profit After Tax (FRS 3)		13.1	15.2	13.7	20.3	17.6
Average Number of Shares Outstanding (m)		77.7	78.2	78.2	78.2	78.2
EPS - normalised (p)		26.3	22.9	21.1	26.2	22.9
EPS		25.5	22.6	20.6	25.6	22.4
EPS - (IFRS) (p)		16.8	19.4	17.5	25.9	22.6
Dividend per share (p)		8.54	2.85	0.00	6.00	6.60
Gross Margin (%)		11.6	11.5	11.1	11.0	11.2
EBITDA Margin (%)		2.4	2.3	2.5	2.4	2.2
Operating Margin (before GW and except.) (%)		1.6	1.4	1.4	1.6	1.4
BALANCE SHEET						
Fixed Assets		262.9	390.2	378.2	383.4	388.2
Intangible Assets		112.2	119.3	119.5	119.7	119.8
Tangible Assets		150.7	162.9	159.8	164.9	169.6
Right of use asset			108.0	98.8	98.8	98.8
Investments		0.0	0.0	0.0	0.0	0.0
Current Assets		466.3	560.5	464.8	531.2	564.9
Stocks		384.0	470.7	362.9	424.9	450.0
Debtors		71.9	79.2	59.6	73.5	75.8
Cash		1.2	0.1	33.8	23.8	29.8
Other		9.2	10.6	8.5	9.0	9.2
Current Liabilities		(502.2)	(608.4)	(494.1)	(552.8)	(572.4)
Creditors		(501.5)	(582.8)	(493.4)	(552.8)	(572.4)
Short term borrowings		(0.6)	(25.6)	(0.6)	0.0	0.0
Long Term Liabilities		(30.8)	(139.9)	(133.0)	(130.1)	(136.1)
Long term borrowings		(5.7)	(5.0)	(4.4)	(1.5)	(7.6)
Lease Liabilities		0.0	(108.1)	(99.3)	(99.3)	(99.3)
Other long-term liabilities		(25.2)	(26.8)	(29.3)	(29.2)	(29.2)
Net Assets		196.3	202.3	215.9	231.7	244.5
CASH FLOW						
Operating Cash Flow		39.2	43.6	87.5	28.0	35.1
Net Interest		(2.1)	(1.0)	(1.0)	(1.7)	(0.3)
Tax		(4.7)	(4.1)	(6.4)	(5.6)	(4.9)
Capex		(23.4)	(19.5)	(11.7)	(16.5)	(16.1)
Acquisitions/disposals		1.6	(27.4)	(0.6)	0.0	0.0
Financing		(1.0)	(0.9)	0.0	0.0	0.0
Dividends		(5.0)	(7.2)	0.0	(1.6)	(4.8)
Other		(7.6)	(9.0)	(8.4)	(9.0)	(9.0)
Net Cash Flow		(2.9)	(25.4)	59.4	(6.4)	(0.1)
Opening adjusted net debt/(cash)		2.2	5.1	30.6	(28.8)	(22.4)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Closing adjusted net debt/(cash)		5.1	30.6	(28.8)	(22.4)	(22.3)
Net financial liabilities (including lease liabilities)			138.6	70.5	77.0	77.1

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Marshall Motor Holdings and prepared and issued by Edison, in consideration of a fee payable by Marshall Motor Holdings. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia