

Turners Automotive Group Ltd

Switching Gears for FY28

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Turners Automotive Group's (TRA) FY24 result delivered robust growth, with an +8% increase in net profit before tax (NPBT) versus FY23. The result underscores the strength of TRA's diversified operations in a challenging market environment, with notable contributions from the Auto Retail, Insurance, and Credit Management divisions offsetting interest rate pressures in the Finance division. TRA's board increased the FY24 full-year dividend by +11% to 25.5cps, continuing its history of consistency in increasing dividend returns to shareholders. TRA remains focussed on achieving its NZ\$50m NPBT goal in FY25. However, management commented that in the short-term 'NZ's economy has deteriorated and along with it consumer confidence and demand'. TRA set a new target of NZ\$65m by FY28 in NPBT, in-line with our current estimates of NZ\$67.3m. Strategic initiatives in market expansion, retail optimisation, attachment rates of auxiliary products, and further brand investment should position it well for sustained growth. We make minor amendments to our estimates and our blended spot valuation falls -1cps to NZ\$4.66.

NZX Code	TRA	Financials: Mar/	24A	25E	26E	27E	Valuation (x)	24A	25E	26E	27E
Share price	NZ\$4.22	Rev (NZ\$m)	362.1	373.9	390.8	405.4	PE	11.3	10.1	9.0	8.5
Spot Valuation	NZ\$4.66 (from 4.67)	NPAT* (NZ\$m)	33.0	37.0	41.3	44.0	EV/EBIT	33.1	53.3	45.0	34.8
Risk rating	Medium	EPS* (NZc)	37.3	41.9	46.8	49.8	EV/EBITDA	21.0	26.4	23.4	19.8
Issued shares	88.4m	DPS (NZc)	25.5	27.0	30.0	33.0	Price / NTA	3.3	2.9	2.6	2.4
Market cap	NZ\$373m	Imputation (%)	100	100	100	100	Cash div yld (%)	6.0	6.4	7.1	7.8
Avg daily turnover	56.6k (NZ\$248k)	*Based on normalised profits					Gross div yld (%)	8.4	8.9	9.9	10.9

What's changed?

- **Earnings:** Our FY25 NPBT estimate falls -2% to NZ\$51.6m, while FY26 rises +8%, FY27 falls -3%, and FY28 is flat at NZ\$67.3m.
- **Spot valuation:** Our blended spot valuation falls -1cps to NZ\$4.66.

Resilient performance amidst economic pressure

TRA demonstrated a robust performance in FY24, achieving NPBT of \$49.1m, up +8% from FY23. Despite the challenging economic environment, marked by high interest rates and regulatory changes, the company's revenue grew by +7% to \$416m. Growth in profitability was driven by a strong performance in the Auto Retail division (where operating profits surged +27%), the Insurance division (+15%), and in Credit (+9%) as debt load recovered, partly offset by Finance (-18%).

Strategic success in Auto Retail and digital expansion

The Auto Retail division continued to be a cornerstone of TRA's success, with revenues rising +7% to NZ\$298.6m and segment profit increasing +27% to \$31.8m. TRA's focus on domestic vehicle sourcing, retail optimisation, and new branch openings in Timaru and Napier all contributed to this growth.

Positive outlook and dividend growth

TRA remains optimistic about its prospects, setting new guidance for FY28 with a forecast NPBT of \$65m (a +7% CAGR over the FY24 result). The company's new site acquisitions and expansions, continued Auto Retail optimisation via continued wholesale to retail transition, strong brand awareness, finance segment recovery as interest rates fall, and direct-to-consumer growth in insurance are driving sustainable market share gains. We see this flowing through to continued growth in TRA's dividend over time, with our DPS forecasts growing at +10% CAGR from FY24 to FY28.

Turners Automotive Group Ltd (TRA)

Market Data (NZ\$)						Spot valuation (NZ\$)					
Priced as at 21 May 2024						4.22					
52 week high / low						4.80 / 3.45					
Market capitalisation (NZ\$m)						372.9					
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						5.00%					
Equity beta						1.00					
WACC						9.7%					
Terminal growth						1.5%					
Profit and Loss Account (NZ\$m)						Valuation Ratios					
	2023A	2024A	2025E	2026E	2027E		2023A	2024A	2025E	2026E	2027E
Revenue	335.8	362.1	373.9	390.8	405.4	EV/Sales (x)	2.2	2.0	2.0	1.8	1.8
Normalised EBITDA	23.0	34.9	27.5	30.8	36.4	EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Depreciation and amortisation	(11.5)	(12.7)	(13.9)	(14.8)	(15.7)	EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
Normalised EBIT	11.5	22.1	13.7	16.0	20.7	PE (x)	11.4	11.3	10.1	9.0	8.5
Net interest	33.9	27.0	37.7	41.4	40.4	Price/NTA (x)	3.6	3.3	2.9	2.6	2.4
Associate income	0	0	0	0	0	Free cash flow yield (%)	4.4	2.0	6.9	-7.2	-1.3
Tax	(12.9)	(16.2)	(14.4)	(16.1)	(17.1)	Adj. free cash flow yield (%)	15.2	5.8	9.9	-3.7	2.3
Minority interests	0	0	0	0	0	Net dividend yield (%)	5.5	6.0	6.4	7.1	7.8
Normalised NPAT	32.5	33.0	37.0	41.3	44.0	Gross dividend yield (%)	7.6	8.4	8.9	9.9	10.9
Abnormals/other	0	0	0	0	0						
Reported NPAT	32.5	33.0	37.0	41.3	44.0	Capital Structure	2023A	2024A	2025E	2026E	2027E
Normalised EPS (cps)	37.0	37.3	41.9	46.8	49.8	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
DPS (cps)	23.0	25.5	27.0	30.0	33.0	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
						Net debt/ND+E (%)	60.1	59.5	57.8	59.4	59.6
						Net debt/EBITDA (x)	17.4	11.7	14.4	14.5	13.0
Growth Rates	2023A	2024A	2025E	2026E	2027E	Key Ratios	2023A	2024A	2025E	2026E	2027E
Revenue (%)	12.5	7.8	3.3	4.5	3.7	Return on assets (%)	7.7	8.9	9.0	9.1	9.2
EBITDA (%)	22.4	51.7	-21.0	11.8	18.2	Return on equity (%)	12.2	11.9	12.7	13.5	13.7
EBIT (%)	42.6	92.4	-38.2	17.1	29.2	Return on funds employed (%)	3.9	3.9	4.3	4.4	4.4
Normalised NPAT (%)	3.8	1.5	12.2	11.8	6.4	EBITDA margin (%)	6.8	9.6	7.4	7.9	9.0
Normalised EPS (%)	1.8	0.9	12.2	11.8	6.4	EBIT margin (%)	3.4	6.1	3.7	4.1	5.1
Ordinary DPS (%)	0.0	10.9	5.9	11.1	10.0	Capex to sales (%)	12.9	4.3	3.3	3.6	3.6
						Capex to depreciation (%)	439	140	94	100	98
Cash Flow (NZ\$m)	2023A	2024A	2025E	2026E	2027E	Imputation (%)	100	100	100	100	100
EBITDA	23.0	34.9	27.5	30.8	36.4	Pay-out ratio (%)	62	68	65	64	66
Working capital change	9.8	(11.8)	(4.4)	(64.1)	(43.7)	Operating Performance	2023A	2024A	2025E	2026E	2027E
Interest & tax paid	23.5	11.8	23.3	25.3	23.3	Automotive Retail					
Other	10.5	(5.1)	0	0	0	Revenue	278.2	298.6	313.8	326.7	339.6
Operating cash flow	66.8	29.7	46.5	(8.0)	16.0	Revenue growth (%)	14.7	7.4	5.1	4.1	4.0
Capital expenditure	(43.2)	(15.5)	(12.2)	(13.9)	(14.5)	Operating margin (%)	9.0	10.7	10.1	10.3	10.6
(Acquisitions)/divestments	0	5.5	0	0	0						
Other	(6.0)	(6.3)	(6.4)	(6.6)	(6.8)	Finance					
Funding available/(required)	17.6	13.4	27.8	(28.5)	(5.3)	Revenue	58.6	62.4	69.1	74.6	76.4
Dividends paid	(19.9)	(22.0)	(17.3)	(20.3)	(21.0)	Revenue growth (%)	13.0	6.5	10.8	7.9	2.4
Equity raised/(returned)	1.4	0.9	0	0	0	Operating margin (%)	25.5	19.6	21.5	24.0	24.5
(Increase)/decrease in net debt	(0.9)	(7.6)	10.6	(48.8)	(26.2)						
						Insurance					
						Revenue	43.6	46.1	46.0	47.0	48.1
						Revenue growth (%)	7.9	5.8	-0.3	2.3	2.3
						Operating margin (%)	28.6	31.0	30.9	31.3	31.7
Balance Sheet (NZ\$m)	2023A	2024A	2025E	2026E	2027E	Credit Management					
Working capital	402.5	414.3	418.6	482.8	526.5	Revenue	9.2	9.8	12.0	14.8	15.2
Fixed assets	106.0	113.9	125.2	133.0	140.5	Revenue growth (%)	-4.6	6.1	22.1	23.6	3.0
Intangibles	163.6	163.1	162.5	162.5	162.5	Operating margin (%)	31.1	31.9	31.9	31.0	31.5
Right of use asset	22.2	20.7	20.0	19.9	20.0						
Other assets	90.7	87.8	89.0	90.5	92.0						
Total funds employed	785.0	799.8	815.3	888.7	941.5						
Net debt/(cash)	400.2	407.8	397.2	446.0	472.2						
Lease liability	27.1	24.9	21.7	21.6	21.8						
Other liabilities	87.2	88.9	89.8	90.6	91.5						
Shareholder's funds	270.4	278.1	306.7	330.4	356.0						
Minority interests	0	0	0	0	0						
Total funding sources	785.0	799.8	815.3	888.7	941.5						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Results analysis

TRA reported FY24 revenue of NZ\$416m, representing growth of +7% against FY23. This was a record result despite the 'economy under significant pressure' as noted by management. TRA's top-line result saw positive contributions from each of TRA's core divisions. Group NPBT was NZ\$49.1m, up +8%, and NPAT was NZ\$32.3m – flat on FY23. However, the robust group performance was largely attributable to the Auto Retail business, which improved margins. Impairments in the Finance book were controlled, reflecting a disciplined approach amidst challenging economic conditions. FY24 dividends totalled 25.5cps (fully imputed), +11% on last year. Divisional results key points:

- **Auto Retail:** Volume growth and margin gains due to focus on domestic sourcing and retail optimisation, with revenue up +7% to \$299m, and segment profit up +27% to \$32m. New branches in Timaru and Napier contributed positively.
- **Finance:** Revenue grew by +6% to \$62.4m, but segment profit declined by -18% to \$12.2m due to interest rate pressures. However, net interest margins started expanding in the second half of FY24. TRA increased its 'economic overlay' provision to NZ\$2.3m, from NZ\$2.0m previously.
- **Insurance:** Revenue increased by +6% to \$46.1m, with segment profit up +15% to \$14.3m, driven by strong policy sales, better risk pricing, and improved investment returns. Claims ratios remained benign.
- **Credit Management:** Revenue rose by +6% to \$9.8m, with segment profit up +9% to \$3.1m. Increased debt load contributed to this improvement as the economic environment tightened.

Figure 1. Results analysis (NZ\$m)

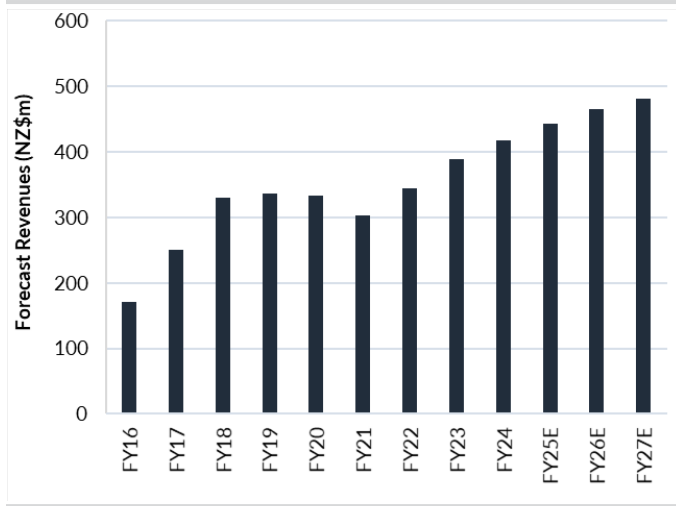
	FY23 Actual	FY24 Actual	Change
Operating Revenue	389.027	416.145	+7%
Other Income	0.608	0.823	+35%
Total Income	389.635	416.968	+7%
Cost of goods sold	173.986	177.175	+2%
Interest expense	19.933	27.842	+40%
Impairment provision expense	3.740	4.616	+23%
Subcontracted service expense	11.927	15.466	+30%
Employee benefits	60.709	66.365	+9%
Commission	12.024	11.070	(8%)
Advertising expense	4.934	5.650	+15%
Depreciation & amortisation expense	11.478	11.968	+4%
Systems maintenance	5.109	5.384	+5%
Claims	21.827	21.901	+0%
Other expenses	18.544	20.392	+10%
Total Expenses	344.211	367.829	+7%
Profit before taxation (NPBT)	45.424	49.139	+8%
Taxation (expense)/benefit	(12.941)	(16.173)	+25%
Net profit after tax (NPAT)	32.483	32.966	+1%

Source: Company, Forsyth Barr analysis

NPAT result impacted by government depreciation changes

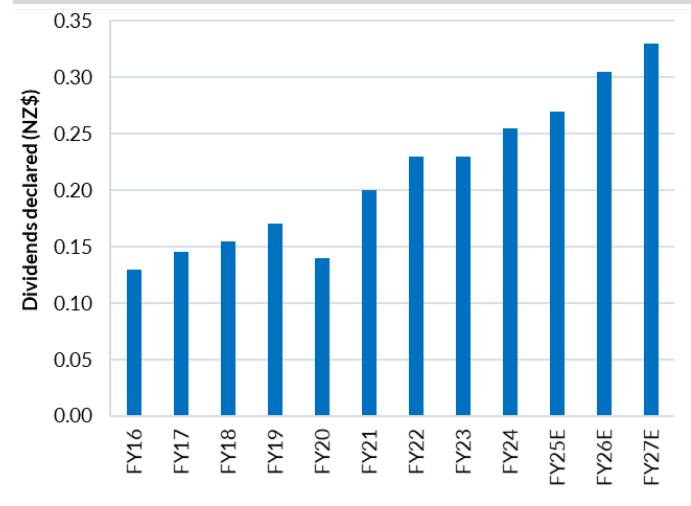
At the NPAT line the result was relatively flat, with +1.5% growth. This was held back by an estimated -NZ\$2.4m one-off charge due to the government's removal of the allowance to depreciate buildings. On 28 March 2024, the New Zealand government eliminated tax depreciation on commercial buildings with a lifespan of 50+ years. This policy change affected TRA's FY24 tax expense. Under IFRS, the removal of tax depreciation reduced the tax base of these buildings to nil, necessitating the recognition of a deferred tax asset or liability based on the difference between the carrying value and the new tax base. Consequently, the change in deferred tax had to be recognised against profit in the year of the tax change. While this policy shift results in a relatively minor ongoing increase in the tax charge for TRA, the impact was amplified this year due to the one-off increase in deferred tax and tax expense from removing the depreciation allowance over the 40 to 50-year period.

Figure 2. Historical and forecast revenues



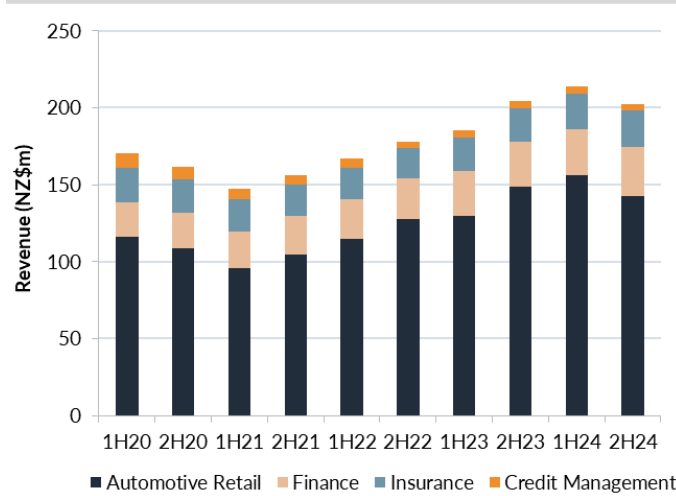
Source: Company, Forsyth Barr analysis

Figure 3. Historical and forecast dividends



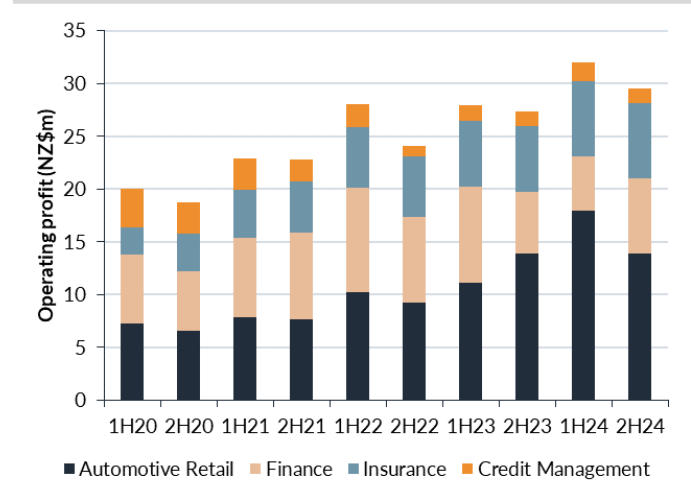
Source: Company, Forsyth Barr analysis

Figure 4. Revenue by segment half years



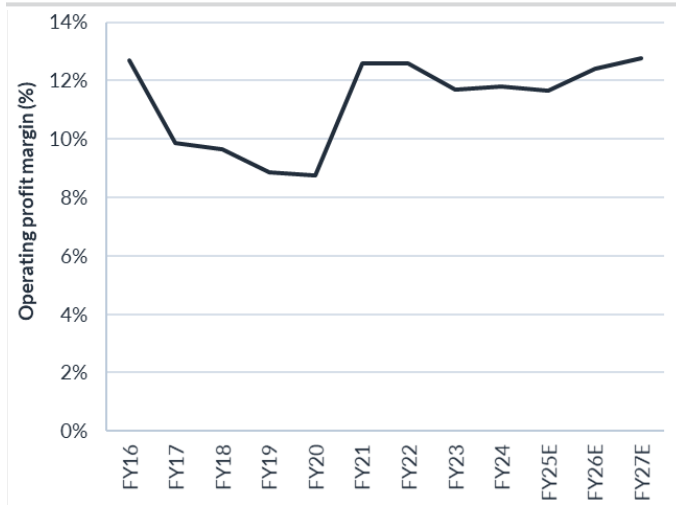
Source: Company, Forsyth Barr analysis

Figure 5. Operating profit by segment half years



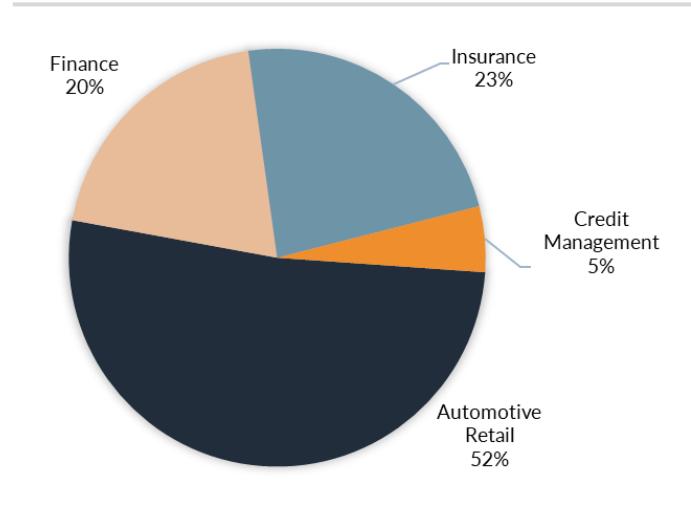
Source: Company, Forsyth Barr analysis

Figure 6. Operating profit margin



Source: Company, Forsyth Barr analysis

Figure 7. Operating profit by segment (FY24)



Source: Company, Forsyth Barr analysis

Earnings revision

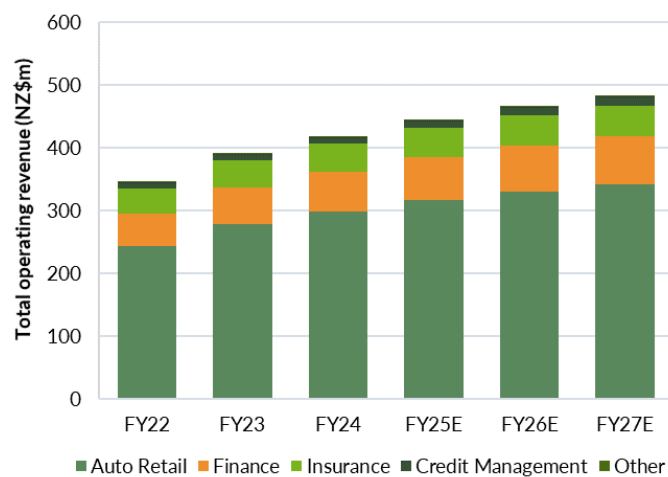
We adjust our earnings estimates to reflect ongoing weakness in the NZ economy, household spending, and the ‘higher for longer’ interest rate expectations. However, management called out that it has four conditional offers in the market for additional sites, extending its programme of site acquisition and the development of existing sites. For FY25 we now forecast revenue of NZ\$443m, down -1% from our previous estimate. This adjustment incorporates a -4% reduction in Auto Retail revenue, Insurance remains relatively flat, Finance is up by +1%, and Credit Management revenue lifts by +6% relative to our prior estimates. Overall, our FY25 NPBT of NZ\$51.6m and NPAT estimate of NZ\$37.1m have been reduced by -2%, but remain above management’s NZ\$50m guidance. Further out, we increase our FY26 estimates, predominantly due to higher-than-expected Finance segment results. Regarding TRA’s new FY28 target of NZ\$65m in NPBT, our estimate is unchanged at NZ\$67.3m.

Figure 8. Earnings revision (NZ\$m)

	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Income	449.3	443.1	(1%)	447.1	467.6	+5%	482.6	481.8	(0%)
Cost of goods sold	198.9	189.4	(5%)	197.2	206.6	+5%	214.6	204.4	(5%)
Gross profit	250.4	253.7	+1%	250.0	261.0	+4%	267.9	277.4	+4%
Interest expense	30.3	29.3	(3%)	30.3	30.9	+2%	31.8	33.6	+6%
SG&A	106.2	105.0	(1%)	106.1	109.6	+3%	110.7	112.1	+1%
Depreciation & amortisation expense	13.0	13.9	+7%	13.0	14.3	+10%	15.5	15.7	+2%
Systems maintenance	5.4	5.4	(0%)	5.4	5.6	+3%	5.7	5.7	+1%
Claims	22.5	22.3	(1%)	22.5	22.9	+2%	23.2	23.2	(0%)
Other expenses	20.3	26.2	+29%	20.2	21.1	+4%	18.0	25.7	+43%
Total Expenses	396.7	391.5	(1%)	394.8	411.0	+4%	419.5	420.5	+0%
Profit before taxation (NPBT)	52.6	51.6	(2%)	52.3	56.6	+8%	63.1	61.4	(3%)
Taxation (expense)/benefit	14.7	14.4	(2%)	14.6	15.8	+9%	17.7	17.2	(3%)
Net profit after tax (NPAT)	37.8	37.1	(2%)	37.7	40.7	+8%	45.4	44.2	(3%)

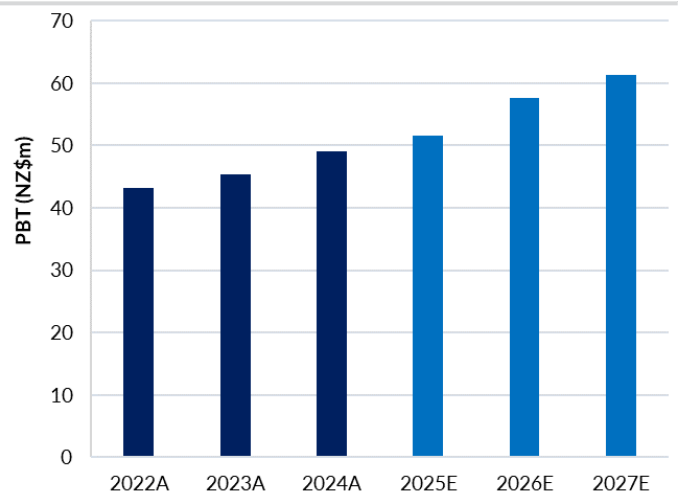
Source: Forsyth Barr analysis

Figure 9. Revenue stack by segment (NZ\$m)



Source: Company, Forsyth Barr analysis

Figure 10. Profit before tax NPBT (NZ\$m)



Source: Company, Forsyth Barr analysis

Figure 11. Operating profit by segment (NZ\$m)

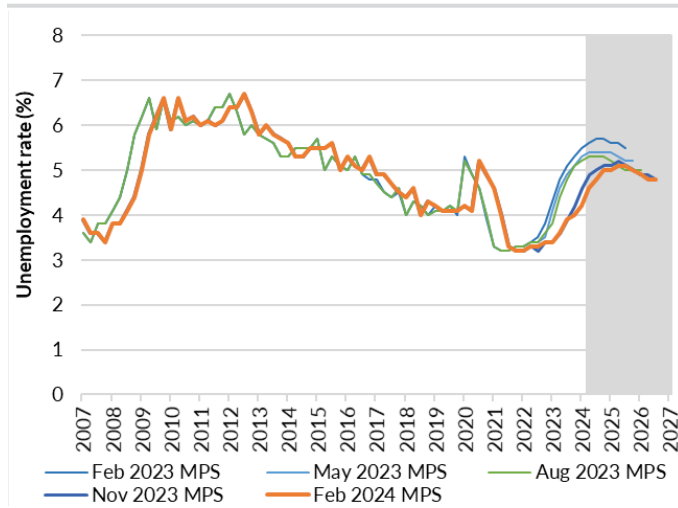
	2022	2023	2024	2025E	2026E	2027E	2028E
Auto Retail	19.4	25.0	31.8	31.9	33.9	36.3	38.4
Finance	18.0	15.0	12.2	14.9	17.9	18.7	21.6
Insurance	11.6	12.5	14.3	14.2	14.7	15.2	16.1
Credit Management	3.0	2.9	3.1	3.8	4.6	4.8	5.1
Other	(8.9)	(9.9)	(12.3)	(13.2)	(13.4)	(13.6)	(13.8)
Total	43.1	45.4	49.1	51.6	57.7	61.4	67.3

Source: Company, Forsyth Barr analysis

Appendix: A consumer under pressure

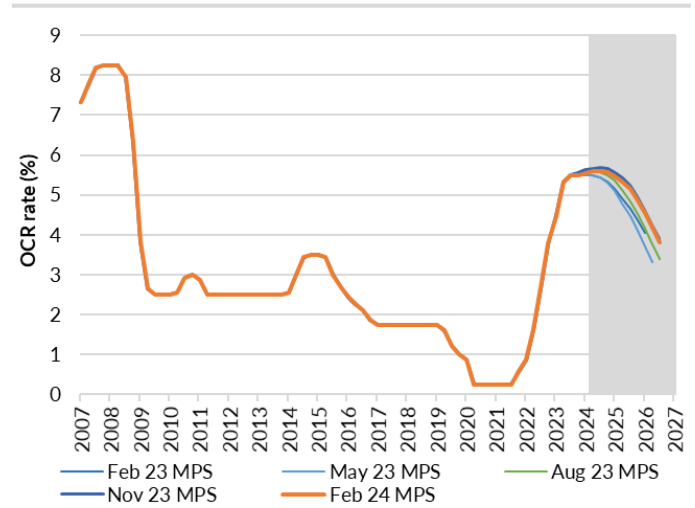
While unemployment, a variable with a high correlation with finance company arrears, has not risen as high as the RBNZ's earlier expectations (see Figure 12), households remain under considerable pressure, driven by inflationary costs and interest rates. The RBNZ has continued to hold rates higher for longer (see Figure 13), extending the timeframe that consumers and households will be under pressure. Evidence of the pressure on consumers is widespread. Data released for April 2024 saw core retail sales down -1.1% on the prior year (three-month rolling basis). There was a significant weakness in Durables (-7.5%) and Apparel (-4.8%) sales, with these electronic card spending statistics representing ~89% of total retail sales in NZ. In the context of where migration has been, these statistics point to per capita retail sales falling circa -4% in real terms. After historically high levels of migration, NZ's quarterly inflows have returned to pre-COVID levels of ~+60k per annum. Also reflecting a consumer under pressure, April saw the second month-on-month decline in NZ house prices: -0.8% in April 2024, following -1.2% in March 2024. Auckland declines are more pronounced: -1.6% in April 2024, following -1.9% in March 2024. Prices are still up year-on-year but only marginally so: NZ +2.8% and Auckland +1.9%. Property days-to-sell remain elevated, particularly in Auckland, and lifted in April, with inventory also elevated.

Figure 12. NZ unemployment (actual and RBNZ forecast)



Source: RBNZ, Forsyth Barr analysis

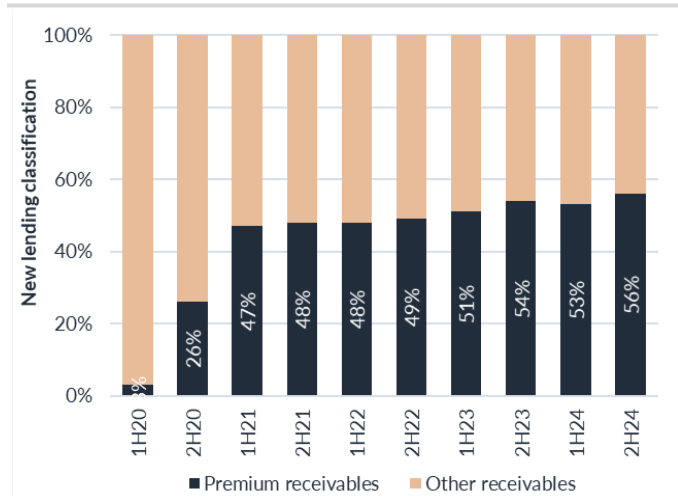
Figure 13. NZ OCR track and MPS projection



Source: RBNZ, Forsyth Barr analysis

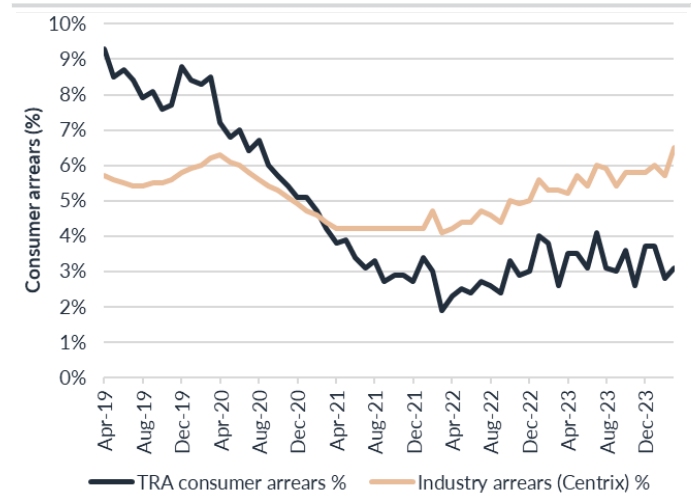
TRA has managed the down cycle well in its Finance division ('Oxford Finance'). TRA's management preemptively changed lending policies by introducing Comprehensive Credit Scores in January 2019, enabling risk-based pricing (three tiers) in August 2019. It introduced a fourth tier to the risk-based pricing model in December 2020. Over that time, various changes to credit policy have continued to drive up the book's quality to target a more 'premium' customer with higher credit scores. These policy changes have seen the percentage of the book exposed to lower-risk premium customers rise to 56% in 1H24 (see Figure 14), and led to TRA's arrears being well below industry norms (see Figure 15).

Figure 14. Premium versus other receivables



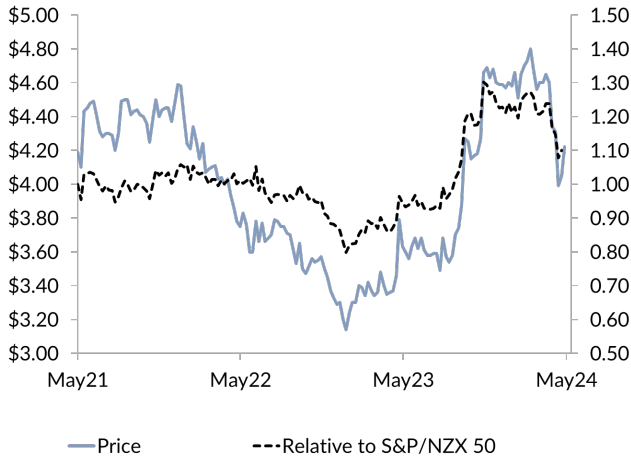
Source: Company, Centrix, Forsyth Barr analysis

Figure 15. TRA consumer arrears versus industry



Source: Company, Centrix, Forsyth Barr analysis

Figure 16. Price performance



Source: Forsyth Barr analysis

Figure 17. Substantial shareholders

Shareholder	Latest Holding
Bartel Holdings	11.7%
Baker Investment Trust No 2	7.5%
Harrigens Trustee Limited	6.1%

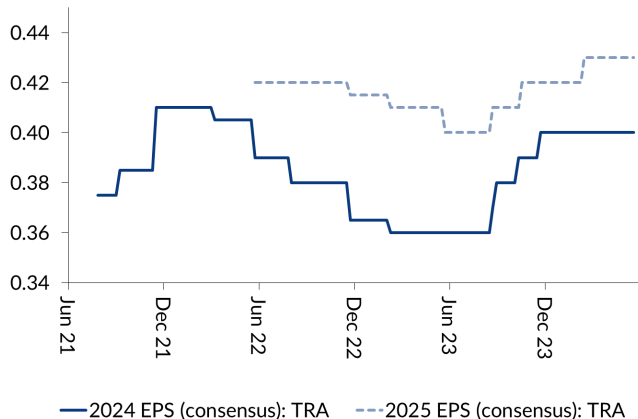
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 18. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE 2025E	PE 2026E	EV/EBITDA 2025E	EV/EBITDA 2026E	EV/EBIT 2025E	EV/EBIT 2026E	Cash Yld 2026E		
Turners Automotive	TRA NZ	NZ\$4.22	NZ\$373	10.1x	9.0x	26.4x	23.4x	53.3x	45.0x	7.1%		
KMD Brands *	KMD NZ	NZ\$0.43	NZ\$306	19.3x	7.9x	3.2x	2.7x	11.1x	7.2x	8.1%		
The Warehouse Group *	WHS NZ	NZ\$1.20	NZ\$416	11.2x	7.5x	4.3x	4.0x	12.0x	9.6x	9.7%		
Briscoe Group	BGP NZ	NZ\$4.32	NZ\$962	11.4x	10.7x	6.7x	6.2x	8.5x	8.0x	7.4%		
Michael Hill International L	MHJ NZ	A\$0.66	A\$254	n/a	7.8x	3.5x	3.1x	8.7x	6.8x	8.5%		
Eagers Automotive	APE AT	A\$12.26	A\$3,171	11.1x	11.3x	8.9x	8.8x	9.9x	10.0x	5.9%		
Autosports Group	ASG AT	A\$2.39	A\$480	7.2x	7.6x	6.9x	7.1x	9.3x	9.7x	7.7%		
Motorcycle Holdings	MTO AT	A\$1.39	A\$102	6.9x	6.3x	5.8x	5.5x	9.0x	8.4x	8.0%		
Peter Warren Automotive Hold	PWR AT	A\$2.16	A\$372	8.4x	8.3x	7.7x	7.6x	9.9x	9.9x	7.7%		
Kamux Corp	KAMUX	€5.75	€230	12.7x	9.3x	7.3x	5.9x	11.1x	8.2x	4.7%		
America'S Car-Mart Inc	CRMT US	US\$64.50	US\$412	14.1x	11.5x	13.3x	9.0x	8.3x	15.0x	n/a		
Idom Inc	7599 JP	¥1328.00	¥141,947	9.9x	8.8x	7.9x	7.0x	8.8x	7.9x	3.4%		
Compcpo Average:				11.2x	8.8x	6.8x	6.1x	9.7x	9.2x	7.1%		
EV = Mkt cap+net debt+lease liabilities+min interests-investments				TRA Relative:		-10%	2%	286%	285%	449%	392%	-0%

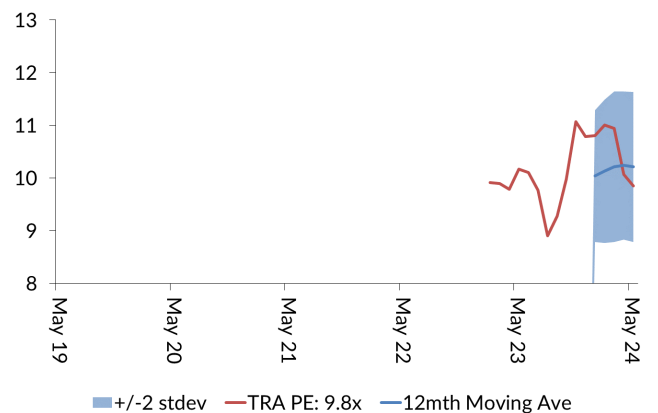
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcpo metrics re-weighted to reflect headline (TRA) companies fiscal year end

Figure 19. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 20. One year forward PE (x)



Source: Forsyth Barr analysis

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