

BUY: Still riding the clutch

We retain a BUY rating with a revised 12-month target of \$3.89 p/sh. MTO recently guided to FY18 EBITDA in the range of \$19-21M. We understand new bike sales have improved sequentially in 4Q18, but not to the extent implied by our previous forecasts. We lower EPS 8-10%. Looking ahead, we see attractive earnings growth potential, given recent acquisition activity and associated opportunities (eg. used bike sales in MCA). We also see scope for re-rating in the MTO share price, given the implied FY19 PER at 11.1x. The key drivers are: (a) getting the dealerships back into the position of outperforming the broader new bike sales market, and (b) the success of Harley's MY19 range, to be released later in 2018.

Key points

Trading update. MTO recently provided guidance for FY18 EBITDA in the range of \$19-21M (pcp: \$14.6M). This compares to consensus at \$21.9M and our previous forecast at \$21.5M (after adjusting for bailment finance). Management comments included: "we remain optimistic that sales volumes will recover over the next 18 months, with recent industry-wide sales numbers suggesting the cyclical downturn is moderating".

Wilson's' view. We understand new bike sales have improved sequentially in 4Q18, but not to the extent implied by our previous forecasts. The resetting of Harley incentive targets has helped to soften the impact on earnings. FY18 has proven a difficult year: F&I impact, significant acquisition activity stretching management resources, and underperformance of the key Harley brand. MTO has addressed F&I (eg. Allied Credit JV) and the long track record of successful acquisitions suggests performance across the enlarged group will improve as integrations are completed. Of particular note are the opportunities in Cassons, including increased share of accessories sales across MTO dealerships and used bike sales through MCA stores. The launch of Harley's MY19 range later in 2018 will be critical to reasserting its presence in the Australian market.

Forecasts. EPS down 8-10%. Sales down 5-7%, primarily due to reassessment of eliminations between CPL and dealerships, with dealership SSSg also lowered moderately. EBITDA down 7-9%, driven by sales mix, with Harley sales continuing to lag the broader road bike segment.

Valuation. Our revised 12-month target price of \$3.89 p/share is based on an FY19 adj. EV/EBITDA of 9.5x (implied PER of 13.6x).

Risks and catalysts

Risks. Retail conditions particularly QLD, OEM relationships, regulatory reform in the provision of F&I products, changes to competitive landscape. **Catalysts.** Acquisition activity, new vehicle sales growth.

Recommendation

12-mth target price (AUD)	\$3.89
Share price @ 22-Jun-18 (AUD)	\$3.19
Forecast 12-mth capital return	22.1%
Forecast 12-mth dividend yield	4.7%
12-mth total shareholder return	26.7%

Market cap	\$197m
Enterprise value	\$262m
Shares on issue	62m
Sold short	0.4%
ASX 300 weight	n/a
Median turnover/day	\$0.2m

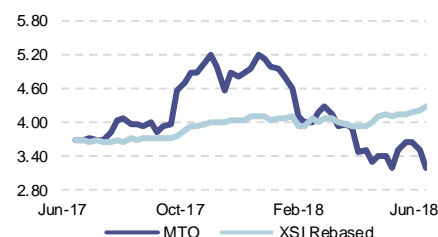
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12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	-4.2	-34.7	-16.7
Rel return (%)	-7.9	-38.4	-32.5

Earnings forecasts

Year-end June (AUD)	FY16A	FY17A	FY18F	FY19F	FY20F
NPAT rep (\$m)	5.7	9.3	9.8	16.2	18.3
NPAT norm (\$m)	8.1	9.3	12.3	17.7	19.8
Consensus NPAT (\$m)			12.0	17.3	19.1
EPS norm (cps)		24.5	23.8	28.7	32.1
EPS growth (%)			-2.7	20.5	11.9
P/E norm (x)		13.0	13.4	11.1	9.9
EV/EBITDA (x)	19.7	17.6	12.8	8.9	8.1
FCF yield (%)	3.9	3.9	5.2	9.8	10.5
DPS (cps)	0.0	15.0	10.9	15.7	17.8
Dividend yield (%)	0.0	4.7	3.4	4.9	5.6
Franking (%)	0	100	100	100	100

Source: Company data, Wilsons estimates, S&P Capital IQ

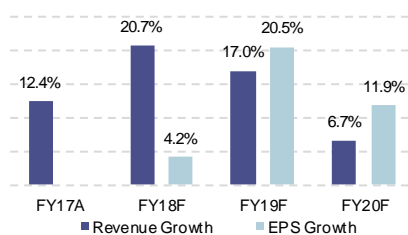
Key changes

		16-Apr	After	Var %
NPAT:	FY18F	13.3	12.3	-7.6%
norm	FY19F	19.6	17.7	-10.0%
(\$m)	FY20F	21.5	19.8	-7.9%
EPS:	FY18F	25.7	23.8	-7.6%
norm	FY19F	31.8	28.7	-10.0%
(cps)	FY20F	34.8	32.1	-7.9%
DPS:	FY18F	11.9	10.9	-8.3%
(cps)	FY19F	17.6	15.7	-10.8%
	FY20F	19.4	17.8	-8.4%
Price target:		4.29	3.89	-9.2%
Rating:		BUY	BUY	

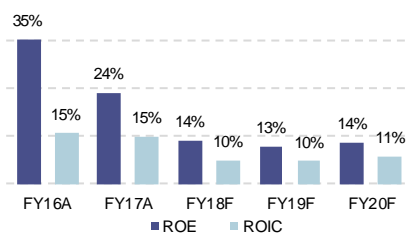
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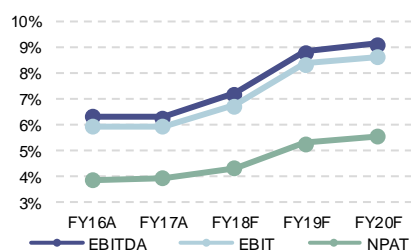
Growth rates



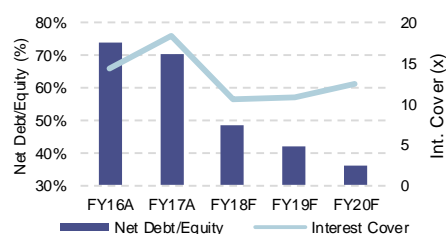
Returns



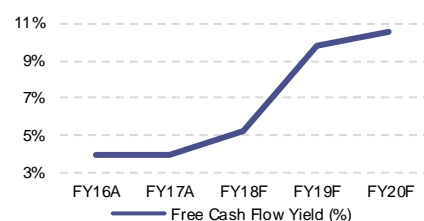
Margin trends



Solvency



Free cash flow yield



Interims (\$m)

	1H17A	2H17A	1H18A	2H18E
Sales revenue	120.7	114.6	140.1	143.8
EBITDA	8.7	6.2	9.3	11.2
EBIT	8.3	5.7	8.7	10.5
Net profit	5.6	3.7	5.7	6.7
Norm EPS	14.7	9.8	13.5	10.8
EBIT/sales (%)	6.9	5.0	6.2	7.3
Dividend (c)	0.0	15.0	7.5	3.4
Franking (%)	0.0	100.0	100.0	100.0
Payout ratio (%)	0.0	153.2	55.5	31.9
Adj payout (%)	0.0	54.4	>500	34.4

Key assumptions

	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue growth (%)	20.8	12.4	20.7	17.0	6.7
EBIT growth (%)	64.8	12.6	37.3	44.2	10.5
NPAT growth (%)	78.0	14.6	32.8	43.5	11.9
EPS growth (%)			-2.7	20.5	11.9
ROA (%)	15.9	15.4	8.3	11.6	12.4
ROE (%)	23.0	22.0	9.2	12.5	13.3

EBITDA (%)	6.4	6.3	7.2	8.9	9.2
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Financial ratios

	FY16A	FY17A	FY18F	FY19F	FY20F
PE (x)		13.0	13.4	11.1	9.9
EV/EBITDA (x)	19.7	17.6	12.8	8.9	8.1
Dividend yield (%)	0.0	4.7	3.4	4.9	5.6
FCF yield (%)	3.9	3.9	5.2	9.8	10.5
Payout ratio (%)	◆	61.3	46.0	54.9	55.5
Adj payout (%)	180.6	36.8	60.5	45.7	50.3

Profit and loss (\$m)

	FY16A	FY17A	FY18F	FY19F	FY20F
Sales revenue	209.3	235.3	283.9	332.1	354.2
EBITDA	13.3	14.9	20.5	29.5	32.5
Depn & amort	0.8	0.8	1.2	1.7	1.8
EBIT	12.5	14.0	19.3	27.8	30.7
Net interest expense	0.9	0.8	1.8	2.6	2.5
Tax	3.5	4.0	5.2	7.6	8.5
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	8.1	9.3	12.3	17.7	19.8
Abns/exts/signif	-2.4	0.0	-2.5	-1.5	-1.5
Reported net profit	5.7	9.3	9.8	16.2	18.3

Cash flow (\$m)

	FY16A	FY17A	FY18F	FY19F	FY20F
EBITDA	13.3	14.9	20.5	29.5	32.5
Interest & tax	-4.3	-4.2	-6.0	-8.0	-10.4
Working cap/other	-0.7	-2.2	-2.7	-0.3	0.6
Operating cash flow	8.3	8.5	11.8	21.2	22.7
Maintenance capex	-0.6	-0.7	-1.5	-1.8	-2.0
Free cash flow	7.7	7.7	10.3	19.4	20.7
Dividends paid	-13.9	-2.8	-6.2	-8.9	-10.4
Growth capex	0.0	0.0	0.0	0.0	0.0
Invest/disposals	0.0	-4.6	-128.1	-4.8	-4.8
Oth investing/finance flows	0.6	0.0	0.0	0.0	0.0
Cash flow pre-financing	-5.6	0.3	-124.0	5.7	5.5
Funded by equity	16.0	0.0	88.2	0.0	0.0
Funded by debt	-8.1	0.0	40.0	-5.0	-5.0
Funded by cash	-2.3	-0.3	-4.2	-0.7	-0.5

Balance sheet summary (\$m)

	FY16A	FY17A	FY18F	FY19F	FY20F
Cash	4.2	4.5	8.8	9.4	9.9
Current receivables	1.5	2.9	8.5	10.0	10.6
Current inventories	37.0	45.2	82.3	86.3	90.3
Net PPE	7.0	7.5	8.1	8.6	9.2
Intangibles/capitalised	28.5	31.1	123.3	125.4	127.2
Total assets	78.3	91.4	231.4	240.1	247.7
Current payables	6.7	9.0	15.1	16.0	17.0
Total debt	30.2	34.1	74.1	69.1	64.1
Total liabilities	43.1	49.2	97.5	98.9	98.6
Shareholder equity	35.2	42.1	133.9	141.2	149.1
Total funds employed	65.4	76.2	208.0	210.3	213.2



Earnings outlook

Changes to our forecasts

A summary of the changes to our forecasts is provided in the table below.

Earnings revisions				
Year-end June (AUD)		FY18e	FY19e	FY20e
Sales - old	\$M	299.7	357.3	379.8
Sales - new	\$M	283.9	332.1	354.2
- % chg	%	(5%)	(7%)	(7%)
EBITDA (normalised) - old	\$M	22.0	32.3	34.9
EBITDA (normalised) - new	\$M	20.5	29.5	32.5
- % chg	%	(7%)	(9%)	(7%)
NPAT (normalised) - old	\$M	13.3	19.6	21.5
NPAT (normalised) - new	\$M	12.3	17.7	19.8
- % chg	%	(8%)	(10%)	(8%)
NPAT (reported) - old	\$M	10.8	18.1	20.0
NPAT (reported) - new	\$M	9.8	16.2	18.3
- % chg	%	(9%)	(11%)	(8%)
EPS (normalised) - old	\$M	25.7	31.8	34.8
EPS (normalised) - new	\$M	23.8	28.7	32.1
- % chg	%	(8%)	(10%)	(8%)
DPS - old	\$M	11.9	17.6	19.4
DPS - new	\$M	10.9	15.7	17.8
- % chg	%	(8%)	(11%)	(8%)

Source: Wilsons

We lower EPS by 8-10%, driven by:

- Sales down 5-7%, primarily due to reassessment of eliminations between CPL and dealerships, with dealership SSSg also lowered moderately.
- EBITDA down 7-9%, driven by sales mix, with Harley sales continuing to lag the broader road bike segment.

We also lower our dividend forecasts by 8-11%.



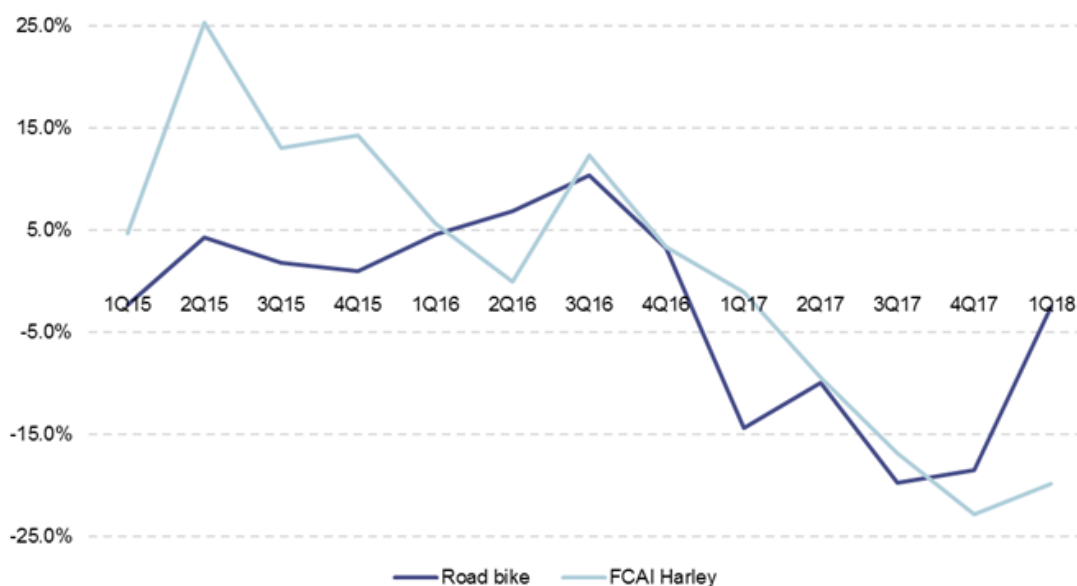
Revised forecasts

A summary of our revised forecasts is provided in the table below.

Earnings summary											
Year-end June (AUD)		FY15	FY16	1H17	2H17	FY17	1H18	2H18e	FY18e	FY19e	FY20e
Sales	\$M	173.3	209.3	120.7	114.6	235.3	140.1	143.8	283.9	332.1	354.2
- growth	%	n/a	20.8%	14.9%	10.0%	12.4%	16.1%	25.5%	20.7%	17.0%	6.7%
Dealerships	\$M	8.3	13.3	8.7	6.2	14.9	6.8	3.5	10.3	11.1	13.3
Cassons	\$M	0.0	0.0	0.0	0.0	0.0	2.5	7.7	10.2	18.4	19.2
EBITDA	\$M	8.3	13.3	8.7	6.2	14.9	9.3	11.2	20.5	29.5	32.5
- growth	%	n/a	60.4%	21.1%	1.3%	12.0%	6.7%	81.2%	37.7%	43.7%	10.4%
- margin	%	4.8%	6.4%	7.2%	5.4%	6.3%	6.6%	7.8%	7.2%	8.9%	9.2%
Depreciation & Amortisation	\$M	0.7	0.8	0.4	0.5	0.8	0.5	0.7	1.2	1.7	1.8
- growth	%	n/a	14.0%	(1.2%)	6.6%	2.8%	37.1%	51.9%	45.0%	35.0%	8.0%
EBIT (normalised)	\$M	7.6	12.5	8.3	5.7	14.0	8.7	10.5	19.3	27.8	30.7
- growth	%	n/a	64.8%	22.5%	0.9%	12.6%	5.3%	83.5%	37.3%	44.2%	10.5%
- margin	%	4.4%	6.0%	6.9%	5.0%	6.0%	6.2%	7.3%	6.8%	8.4%	8.7%
Bailment interest	\$M	0.5	0.4	0.1	0.3	0.4	0.1	0.4	0.5	0.6	0.7
Corporate net interest	\$M	0.5	0.4	0.2	0.2	0.4	0.7	0.6	1.3	2.0	1.8
Total net interest expense	\$M	1.0	0.9	0.3	0.4	0.8	0.8	1.0	1.8	2.6	2.5
Group PBT (normalised)	\$M	6.6	11.6	8.0	5.3	13.3	8.0	9.5	17.5	25.3	28.3
- growth	%	n/a	75.8%	24.4%	2.4%	14.6%	(0.1%)	78.8%	31.5%	44.6%	11.9%
- margin	%	3.8%	5.5%	6.6%	4.6%	5.6%	5.7%	6.6%	6.2%	7.6%	8.0%
Group NPAT (normalised)	\$M	4.6	8.1	5.6	3.7	9.3	5.7	6.7	12.3	17.7	19.8
- growth	%	n/a	78.0%	26.5%	0.4%	14.6%	1.8%	79.2%	32.8%	43.5%	11.9%
- margin	%	2.6%	3.9%	4.6%	3.2%	3.9%	4.0%	4.6%	4.3%	5.3%	5.6%
Group NPAT (reported)	\$M	3.7	5.7	5.6	3.7	9.3	4.2	5.6	9.8	16.2	18.3

Source: MTO & Wilsons. Note: EBITDA excludes bailment finance.

Figure 1: Australian new motorcycle quarterly sales growth (YoY)



Source: FCAI



MotorCycle Holdings (MTO)

Business description

MotorCycle Holdings Limited (MTO) is Australia's largest motorcycle dealership operator, representing 8 of the top 10 selling motorcycle brands in Australia and all top 10 selling brands in the used segment. MTO operates 41 franchises across 24 locations in Queensland, New South Wales, the Australian Capital Territory and Victoria. MTO also owns an accessories wholesaler/retailer, Cassons.

Investment thesis

MTO recently guided to FY18 EBITDA in the range of \$19-21M. We understand new bike sales have improved sequentially in 4Q18, but not to the extent implied by our previous forecasts. We lower EPS 8-10%. Looking ahead, we see attractive earnings growth potential, given recent acquisition activity and associated opportunities (eg. used bike sales in MCA). We also see scope for re-rating in the MTO share price, given the implied FY19 PER at 11.1x. The key drivers are: (a) getting the dealerships back into the position of outperforming the broader new bike sales market, and (b) the success of Harley's MY19 range, to be released later in 2018.

Revenue drivers

- New motorcycle sales growth
- Industry consolidation
- Growth potential in accessories sales

Margin drivers

- Sales mix
- OEM incentive payments
- Efficiency of scale

Key issues/catalysts

- Acquisition profile
- New motorcycle sales growth

Risk to view

- Retail condition
- Regulatory reform in the provision of F&I products
- Market concentration in QLD

Balance sheet

- 1H18 corporate net debt: \$41.7M

Board

- David Foster – Chairman
- David Ahmet – MD & CEO
- Rob Cassen – Executive Director
- Warren Bee – Independent Non-Executive Director
- Rick Dennis – Independent Non-Executive Director

Management

- David Ahmet – MD & CEO
- Chris Chenoweth – General Manager and Group Bike Sales
- Bob Donovan – Chief Financial Officer
- Mike Cooksley – Group Finance and Insurance
- Russell Lemon – Group Service
- Shane Musgrove – Group Parts and Accessories

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