

# Peter Warren Automotive Holdings Ltd

## Tight new car supply driving gross margins higher

Peter Warren Automotive Holdings Ltd (ASX:PWR) is an integrated new and used car retailing business offering a full range of sales and support, including parts, service, finance and insurance. Founded in 1958, the group listed on the ASX in April 2021 raising \$260m in a combination of a shareholder sell-down, property acquisitions, debt reduction and transaction costs. The group has a growth strategy that encompasses optimisation of its property portfolio, organic growth in the form of service expansion, and acquisition. To this point the group acquired Victorian-based Penfolds Motor Group effective December 2021 for a total consideration of \$104m (\$88m cash and \$16m scrip at \$3.02/share). The group operates 82 franchise operations, representing 28 vehicle brands under seven banners across Sydney, Northern NSW, Southern QLD and now Victoria, opening up national fulfilment opportunities. Vehicle brands are spread across volume (including Ford, Kia, Hyundai, Suzuki), prestige (including VW, Mazda, Honda and Jeep) and luxury (including Mercedes, Audi and Land Rover). Recent trading has been disrupted by COVID-related lockdowns and supply chain issues for new cars (including chip shortages) but has also resulted in improved gross margins due to favourable supply and demand economics. As a result H1 FY22 revenues were +4% on a pro-forma basis relative to H1 FY21, but EBITDA was +28% due to a 140bps increase in gross profit margin, which essentially dropped to the bottom line on good cost management.

### Business model

PWR offers a fully integrated new/used car retailing business with a full range of sales and support, including parts, service, finance and insurance. Such an offering touches the customer at each and every stage of car ownership and improves customer retention as a result. The group has a strategy of achieving organic growth from increased service offerings, supplemented with acquisitions of both property (when deemed strategic) and other dealerships. The group currently has ~\$200m in property on the balance sheet.

### Favourable supply/demand conditions improve margins

Despite significant disruptions from lockdowns, staff shortages and new car inventory shortages over H1 FY22, PWR still delivered 4% pro-forma sales growth on the PCP, benefitting from both brand, state and sales/service diversification. The shortage of new car stock and parts eased pressure on pricing and resulted in a 140bps increase in gross margin to 19.1%. With costs well controlled this increase dropped straight to the bottom line, resulting in a 28% increase in EBITDA over the PCP. In-line with a 60%-70% pay-out policy, a 9cps fully franked dividend was declared. The Penfold acquisition contributed for one month in H1 FY22 and will contribute for a full six months in H2 FY22.

### Listed operator Eagers Automotive a close peer

Eagers Automotive (ASX:APE) is an almost identical business, albeit larger (market cap \$3.4b), to PWR with a mix of new and used sales and the full range of sales and support across a wide range of brands. The group has a history of acquisition, the latest being the merger with AHG in 2019. APE has 33 car brands across 300 dealerships in Australia. Bapcor (ASX:BAP) is an automotive parts pureplay (cap \$2.3b) that may also be compared to PWR. Based on current FY23 consensus estimates PWR currently trades at a 30% PER discount to APE and 40% discount to BAP.

#### Historical pro-forma earnings and ratios (In A\$m unless otherwise stated)

Year end	Revenue	EBITDA Adj.*	NPAT Adj.*	NPAT Rep.	EPS Adj. (c)*	EPS Rep. (c)	EV/Revenue (x)^	EV/EBITDA (x)^	PER (x)^
06/19a	1,425	51.50	11.50	(0.40)	0.05	0.05	0.27	7.6	49.2
06/20a	1,526	76.00	11.70	8.90	0.07	0.05	0.26	5.1	36.1
06/21a	1,621	108.00	52.20	37.50	0.30	0.22	0.24	3.6	8.1

Source: Company data; \*EBITDA, NPAT and EPS adjusted for one-time, non-cash items ^calculated from current enterprise value and share price

## Retailing

11<sup>th</sup> March 2022

### Share Details

ASX code	PWR
Share price	\$2.46
Market capitalisation	\$422.4M
Shares on issue	171.7M
Net debt at 31-Dec-2021	\$31.9M
Free float	49.07%

### Share Performance (since listing)



### Upside Case

- Supply/demand remains tight, supporting gross margins
- Eastern seaboard acquisition opportunities
- Organic synergies with Penfold

### Downside Case

- Negative "wealth effect" for new car sales
- Existing brands lag in EV penetration
- Competitive pressures reduce gross margin

### Catalysts

- Delivery on Penfold Motors acquisition
- Easing of new car supply issues
- Industry Consolidation scale opportunities

### Comparable companies (Aust/NZ)

Eagers Automotive (ASX:APE), Bapcor (ASX:BAP)

### Board and Management

John Ingram	Non-Executive Chair
Mark Weaver	Chief Executive Officer
Paul Warren	Executive Director
Catherine West	Non-Executive Director
Niran Peiris	Non-Executive Director
Bernard Friend	Chief Financial Officer

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# FINANCIAL SERVICES GUIDE

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**Effective Date: 6<sup>th</sup> May 2021**

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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