

## Update Vertu Motors: Supply constraints outstrip demand declines

<b>Company:</b>	Vertu Motors (VTU LN)	<b>Market Cap:</b>	£168mio
<b>Industry:</b>	Car dealership	<b>Net current assets:</b>	£50mio
<b>Country:</b>	UK	<b>Revenue:</b>	£3,600mio
<b>Date:</b>	10 <sup>th</sup> May 2022	<b>Net Income:</b>	£60mio (1.67%)
<b>Dividend:</b>	3.4% (8.5% incl. share buybacks)	<b>Free Cash Flow:</b>	£45mio (1.25%)
<b>Entry:</b>	£229mio	<b>Target market cap:</b>	£340mio

### Automotive demand is slowing amidst record prices and change in behaviour...

Having lost nearly 25% with my position in Vertu Motors, I continued to question my logic. The current valuation based on tangible market cap is now equal to that of 2019 – despite record profits and tight supply that contributes to higher margins. Vertu Motors is set to earn at least £75mio profit before tax, has a net cash position and is now valued at below £170mio market cap. All competitors have reported record Q1 22 earnings and provided a positive outlook. While used car prices have declined by 2% each month over the last two months, prices are still over 20% higher y-o-y. And although the US Manheim Used Car Value Index declined for the third month in a row, the non-seasonally-adjusted price change was up 2.9% in April, similar to what happened in March<sup>1</sup>. US retail used car sales in volume declined 13% m-o-m and were down 21% y-o-y, however, this is all at higher prices and due to limited supply.

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<sup>1</sup> <https://publish.manheim.com/en/services/consulting/used-vehicle-value-index.html>

### Vertu Motors Valuation History

Vertu Motors in £ mio	HY 13	HY 14	HY 15	HY 16	HY 17	HY 18	HY 19	HY 20	HY 21	HY 22
Revenue	628	809	1,084	1,236	1,455	1,445	1,560	1,647	1,119	1,924
Gross Profit	71	93	115	131	153	159	167	173	130	223
Operating Profit	5	9	13	17	20	25	19	20	10	55
PBT	5	9	13	16	19	24	17	17	5	52
Net current assets	8	17	15	-2	-33	-3	-7	-15	-9	34
Equity	102	159	174	191	238	265	273	275	266	315
Operating cash flow	7	30	14	34	23	-2	21	28	80	77
Investing cash flow	-7	-44	-9	-16	-61	6	-43	-9	-7	-7
Financing cash flow	3	39	-3	1	27	0	27	-13	-10	-24
Tangible net asset per share	40	45	36	38	36	45	46	46	47	62
Net assets per share	51	60	51	56	60	70	73	75	72	88

Vertu Motors in mio	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of shares	199	264	339	341	395	379	373	369	369	358
21st April market cap	78	156	186	205	197	178	131	74	170	168
Tangible market cap	80	119	123	130	142	171	172	170	172	220
Discount to tangible market cap	0.97	1.31	1.52	1.57	1.39	1.04	0.76	0.43	0.99	0.76

based on  
9<sup>th</sup> May  
market cap

Source: Vertu Motors

### **...Automotive supply will remain below demand**

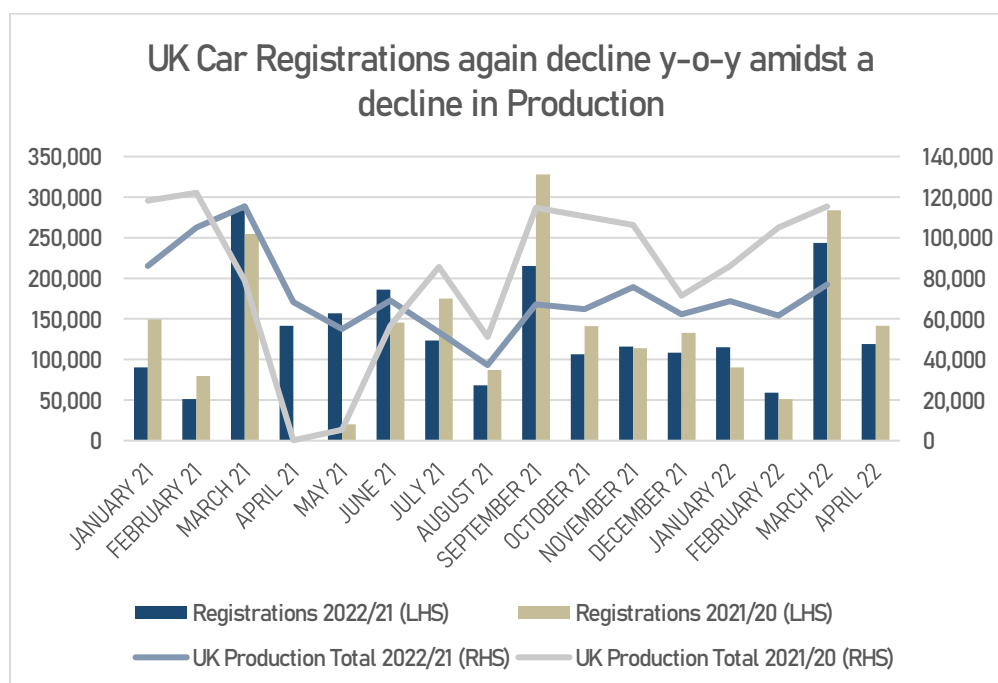
While the Ukraine war has caused a shortage of wiring harnesses, the real problem remains semiconductor shortages. All recent comments from the largest automotive semiconductor suppliers have indicated the same: Demand continues to outstrip supply. The order backlog at Infineon has now swelled to nearly 3x their annual revenues and 75% of this backlog is due for this year with 50% of that from the automobile sector. In fact, if you were to order a new car today, you would have a waiting time of 6-12 months. Hence, even if there are cancellations due to “double ordering” amidst the shortages, the automotive market is so short in supply that in any circumstances supply will remain tight. STMicro notes that the backlogs in the automotive sector are 18 months now. This is partly due to OEMs selling premium ICE and X-EV cars due to the strong demand and higher margins, which require up to 4-5x more chips than usual. Aston Martin, for instance, sold out of their limited number of only 333 V12 Vantage models before

they were even launched this March!<sup>2</sup> Volkswagen has sold out of EVs for Europe and the US until 2023<sup>3</sup>. The lockdowns in China have now worsened the situation with Texas Instruments cutting their shipments by 10% for Q2 due to China's factory shutdowns. IHS has recently cut its Global Light Vehicle Production again to 80.6mio (90mio pre-pandemic), with another 0.5mio decline in car production in Europe to 16.5mio for 2022 vs. over 20mio cars in 2019. This means, demand would need to fall by around 20% compared to pre-pandemic levels and the market would still be balanced (on top of having record low inventories).

### Largest Automotive Semi-Conductors by numbers

Chip supplier	Automotive market share	Order backlog in bn	Revenue forecast 2022 in bn
Infineon	12.7%	€ 37	€ 13
NXP	11.8%	\$ 34	\$ 13
Renesas	8.4%	¥ 1,300	¥ 1,300
Texas Instruments	8.1%	\$ 27	\$ 18
STMicro	7.5%	\$ 22	\$ 15

Source: Infineon, NXP, Renesas, Texas Instruments and STMicro



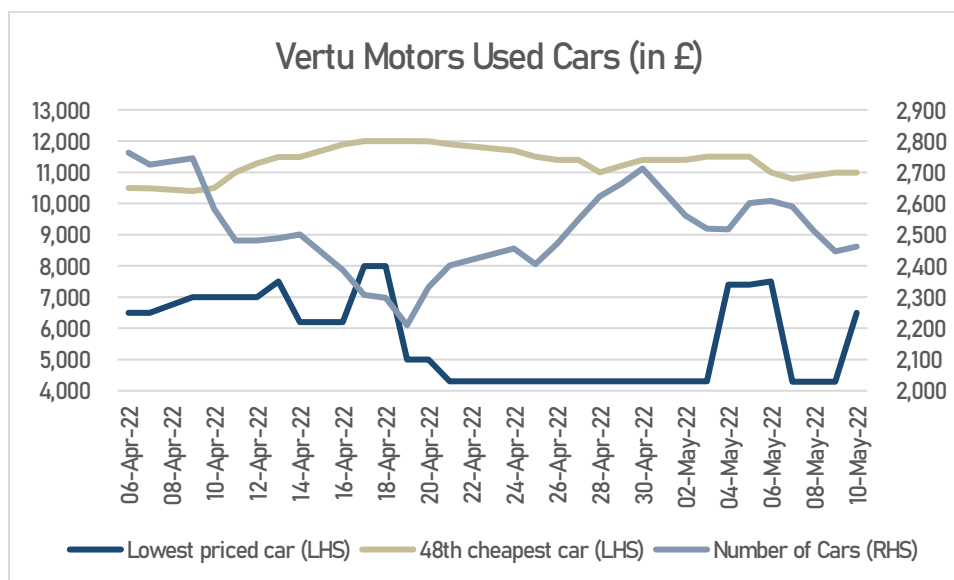
Source: SMMT

<sup>2</sup> <https://www.londonstockexchange.com/news-article/AML/1st-quarter-results/15436305>

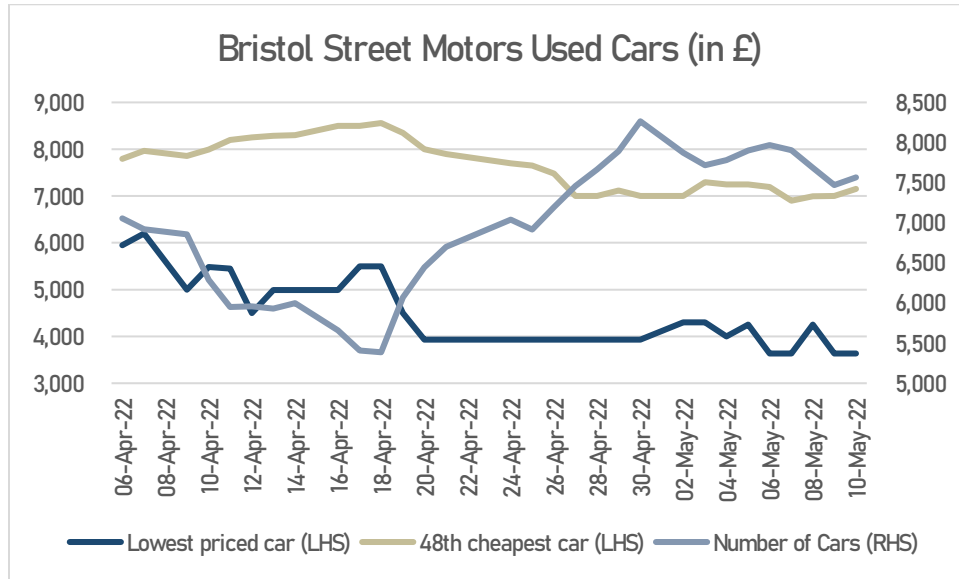
<sup>3</sup> <https://thedriven.io/2022/05/09/volkswagen-has-sold-out-of-evs-for-europe-and-us-until-2023/>

## Low spec compact cars display reduced demand

With results to be revealed this Wednesday, I have been monitoring the number and prices of used cars sold at Vertu Motors and their subsidiary Bristol Street Motors. And while I monitored some price drops at Bristol Street Motors, supply remains very tight, especially at Vertu Motors, which sells more premium cars. The quality of the used cars at Bristol Street Motors is also in some cases not quite so good with as much as 100k miles down, which is a result of the tight supply but also a decline in prices. At the same time, between 9<sup>th</sup> April and 18<sup>th</sup> April, Vertu Motors/Bristol Street Motors had a 0% APR offer, which lured in additional demand and is reflected in declining stock and rising prices during this period. However, I have heard that some of these cars came back to the market afterwards, as not everyone passed the credit checks. In one extreme example, I have seen a VW UP model decline in price of nearly 20% over the month. Although I expect lower demand for cars due to behavioural changes with international travel returning, this also means higher rental car demand, and the car rental firms might face pressures to go back into the used car market to satisfy this demand, since the new car market is already fully sold for this year... The US CPI for March already suggested an increase of +11.7% m-o-m in car rental prices. In case I'm wrong and demand slows much faster than the reduced supply, the results this Wednesday can shed more light on this and the return of the share buyback (suspended over 1 month quiet period) could offer an exit opportunity over the next few weeks.



Source: Vertu Motors



Source: Bristol Street Motors



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