



KING'S CAPITAL

Malibu Boats – (NYSE:MBUU)

*Recommendation: **Long***

*Current Price : € **45.76***

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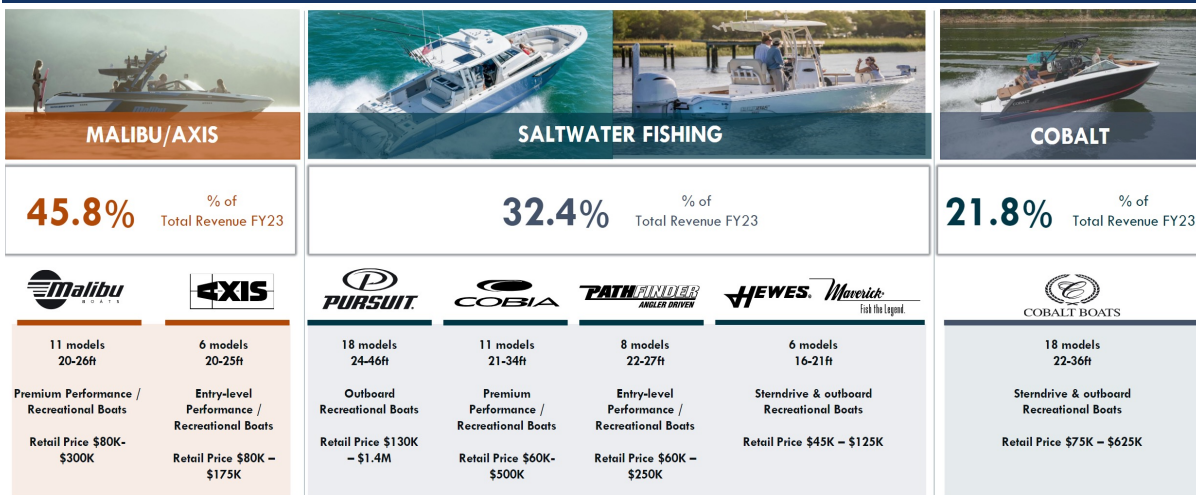
25/11/2023



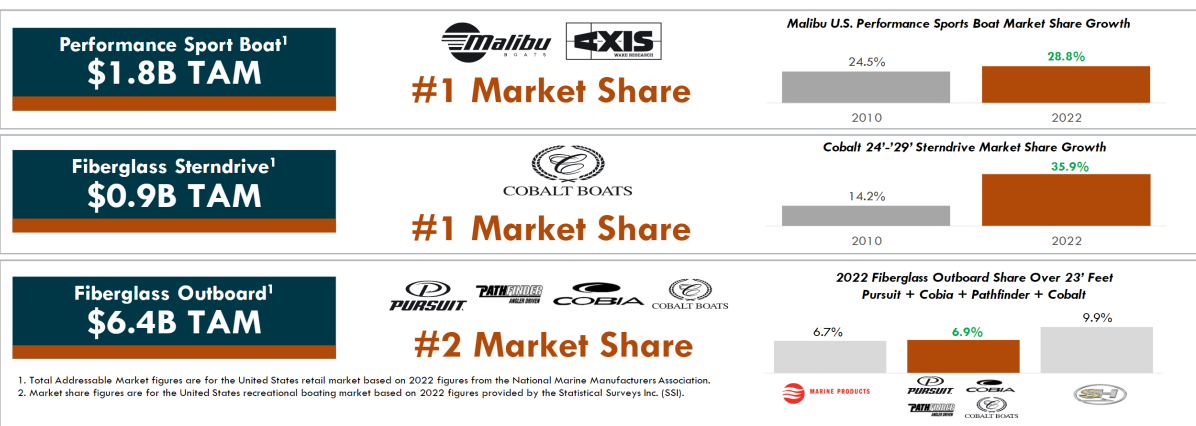
Company Overview

Malibu Boats, Inc is an award-winning and leading American recreational boat producer and distributor with an established network of over 400 dealers located throughout the world.

Product Overview



Dominant Market Share



1. Total Addressable Market figures are for the United States retail market based on 2022 figures from the National Marine Manufacturers Association.
 2. Market share figures are for the United States recreational boating market based on 2022 figures provided by the Statistical Surveys Inc. (SSI).

MBUU has incredible market positioning between their key product verticals, and have been capturing this share at a faster rate relative to competitors

Financial Overview

MBUU	Units	FY18A	FY19A	FY20A	FY21A	FY22A
Growth						
Revenue	USD 000's	497,000	684,000	653,000	926,500	1,214,900
yoy growth	%		37.6%	(4.5%)	41.9%	31.1%
Profitability						
Gross Margins	%	24.5%	24.4%	23.2%	25.6%	25.5%
EBITDA Margins	%	18.2%	18.0%	16.4%	19.6%	19.8%
Net Income Margins	%	5.6%	9.7%	9.4%	11.9%	13.0%
Solvency						
Total Debt/EBITDA	0.0x	1.2x	0.9x	0.9x	0.9x	0.5x
EBITDA/Interest Expense	0.0x	16.8x	19.1x	28.3x	73.2x	84.7x

MBUU has seen improving financial performance over the past few years, characterized by strong revenue growth, improving profitability, and better solvency

Key Strengths

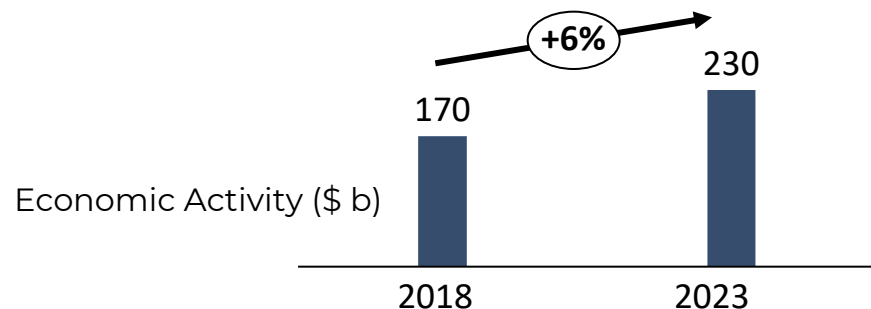
Strong Dealer Network	<ul style="list-style-type: none"> 400+ Dealer Relationships, with over 50% of dealers having stayed over 10 years
Vertical Integration	<ul style="list-style-type: none"> Boat producer that focuses on vertical integration "Vertical Integration" mentioned 26 times in FY22 AR vs 0 times in MarineProducts and MasterCraft's FY22 AR Recently built out a 100,000+ sq ft tooling plant that is part of a multi-year initiative to bring product tooling in-house Benefits: Less reliance on suppliers and less susceptible to macroeconomic shocks + greater operating leverage
Track Record of Accretive Acquisitions	<ul style="list-style-type: none"> Cobalt Boats in 2017 for \$130m - 15 models of high-end speed boats; 24-29 segment Pursuit Boats in 2018 for \$100m - Premium saltwater boats for fishing and luxury cruising Maverick Boat Group in 2021 for \$150m - Flat saltwater fishing boats



Industry Overview

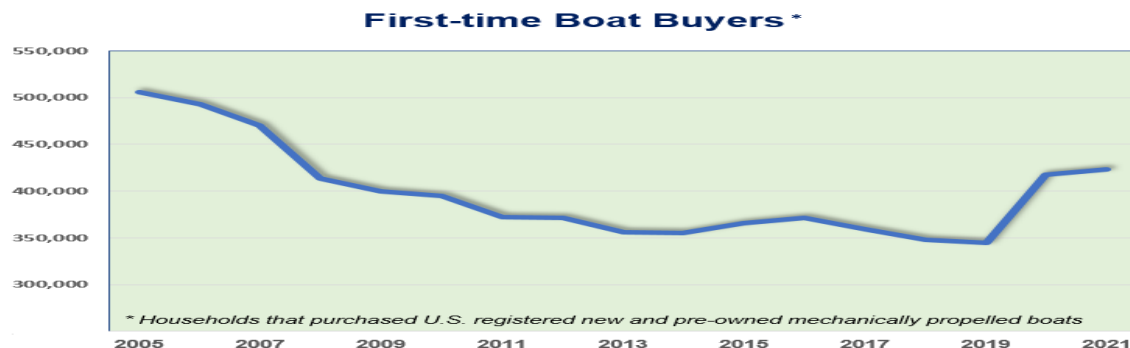
Malibu Boats, Inc., operates in the leisure and outdoor activity sector, primarily focusing on the design, manufacture, and sale of performance boats. It specializes in high-end, luxury performance boats, catering to a niche market that values craftsmanship, innovation, and a premium boating experience.

Strong Demand for Recreational Boats



- US demand for recreational boats has been strong representing a growth of 35% increase over the 5 years from 2018 to 2023
- Demand seems stable as Americans remain focused on outdoor experiences

Expanding Customer Base



First-time boat buyers trend is on the up as it exceeded 415,00 for second time in 15 years

Outdoor Recreation Market Players



MPC is a leading manufacturer of fiberglass boats under the brand names Chaparral and Robalo.

BRUNSWICK

BC is the largest player in the US recreational boating industry, producing

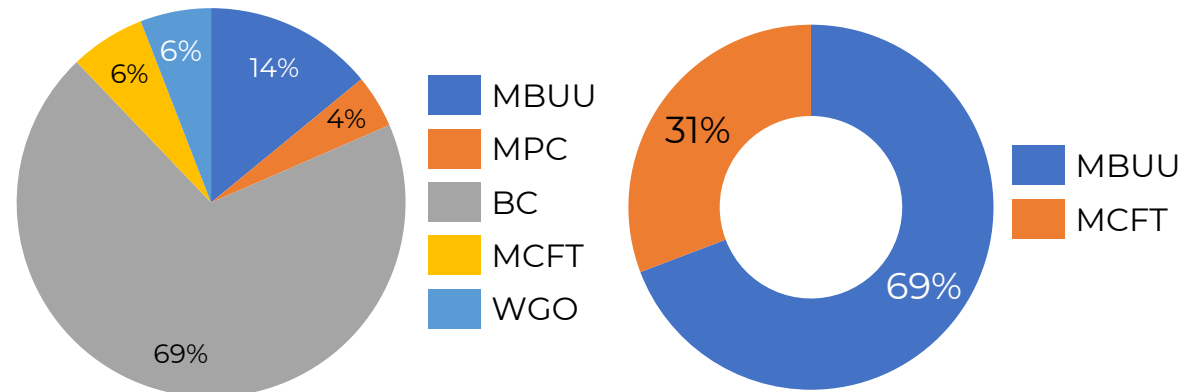
MasterCraft

MCFT manufactures and sells luxury high-performance boats

WINNEBAGO

WGO manufacturers of high-end recreational vehicles (RVs) and recreational boats

Competitor Landscape



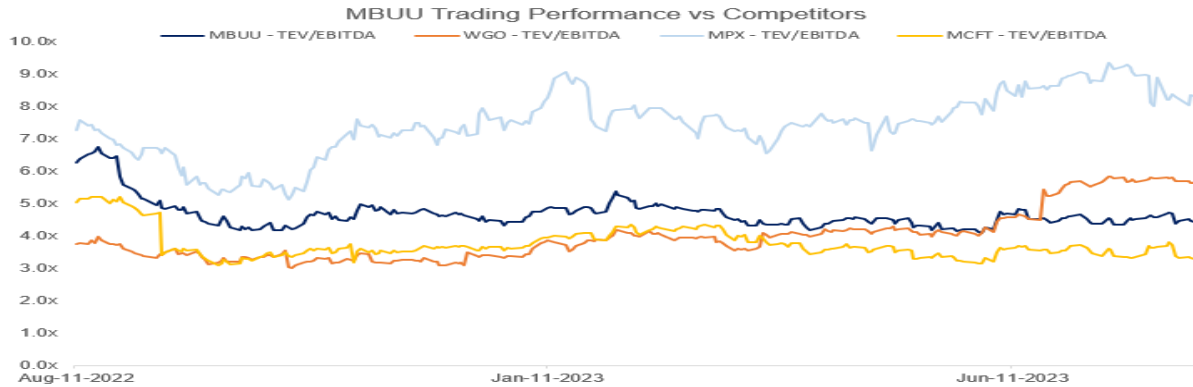
MBUU leads the pack in the luxury high-performance recreational boat market

Thesis 1: Underappreciated Countercyclicality



Market has sold off MBUU together with the rest of the boating industry despite evidence to suggest that MBUU is less affected by such macroeconomic conditions

MBUU Trading Performance vs Comps



MBUU has been sold off with the rest of the industry due to current market pessimism on the industry's short-term prospects

Reflected in MBUU's boating units sold

Boat Units Sold (#)	FY18A	FY19A	FY20A	FY21A	FY22A
MBUU	6,292	7,362	6,444	8,185	9,255
yoy change %		17.0%	(12.5%)	27.0%	13.1%
MCFT	4,755	7,344	5,292	7,197	8,217
yoy change %		54.4%	(27.9%)	36.0%	14.2%
MPX	5,340	4,825	3,689	4,165	4,331
yoy change %		(9.6%)	(23.5%)	12.9%	4.0%

"What we are generally seeing at shows the premium buyers looking to purchase and has **not really been affected by economic conditions or interest rates.**"

Jerry Springer, CEO – Q2 FY23 Earnings Call

MBUU was least affected by COVID-19 pandemic, which confirms the countercyclical nature of the business

However, MBUU has greater exposure to luxury

Luxury Market Exposure (FY22)

MBUU

% of sales from luxury segment	54.27%
ASP (USD 000's)	129.0

MCFT

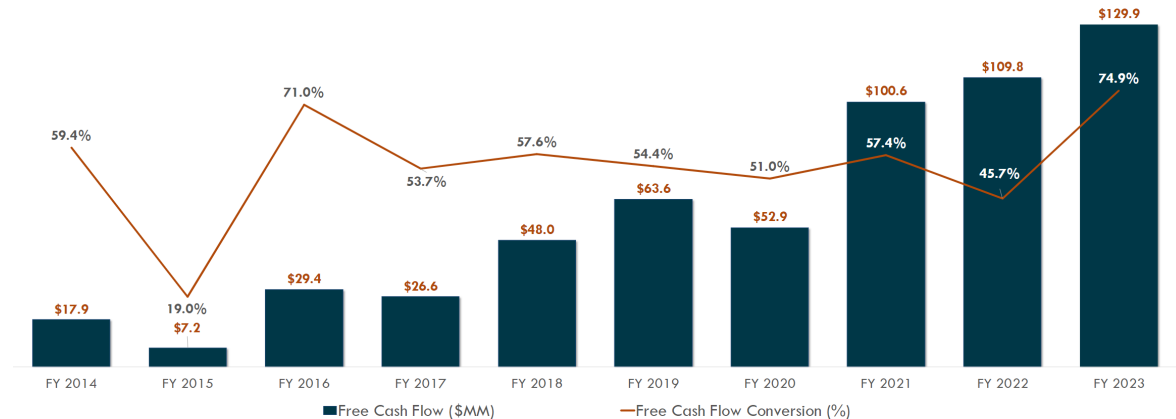
% of sales from luxury segment	4.91%
ASP (USD 000's)	86.0

MPX

% of sales from luxury segment	-
ASP (USD 000's)	77.0

MBUU's greater exposure to luxury gives them greater insulation to macroeconomic conditions such as premium buyers tend to remain resilient even in these times

Strong Cash Flow Generation regardless of cycle



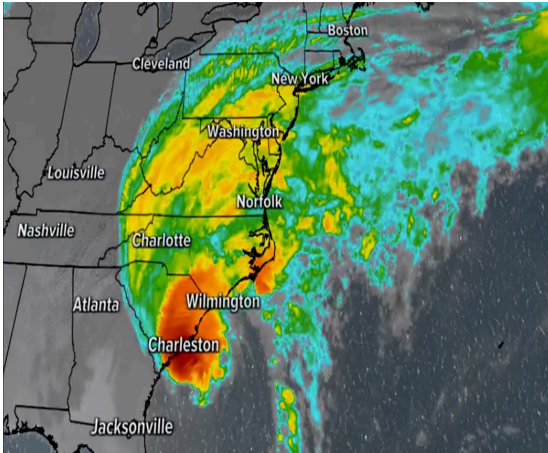
MBUU's cash flow generation has remained consistently strong regardless of market cycle

Thesis 2: Overlooked Demand Impact from Hurricane Ian



Hurricane Ian's impact across the markets has led to a drastic shift in the demand related to luxury boats.

General Overview



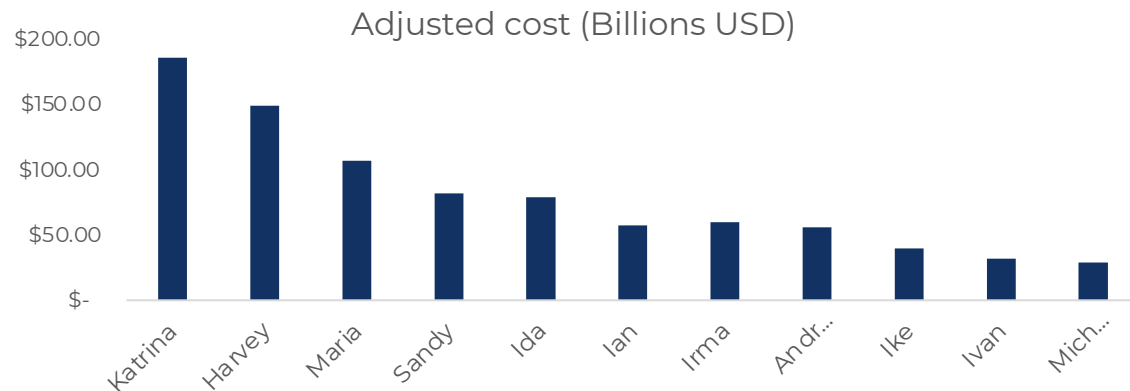
Hurricane Ian was a deadly and extremely destructive Category 5 Atlantic hurricane, which was the third-costliest weather disaster on record, the deadliest hurricane to strike the state of Florida since the 1935 Labour Day hurricane, and the strongest hurricane to make landfall in Florida since Michael in 2018. Ian caused widespread damage across western Cuba, Florida, and the Carolinas. Ian was the ninth named storm, fourth hurricane, and second major hurricane of the 2022 Atlantic hurricane season. Ian was the first Category 5 hurricane in the Atlantic since Lorenzo in 2019, and the fifth since 2016 to reach that strength before making landfall in the contiguous United States.

Material Impact

4,500+ vessels assessed for derelict status by FWC

408 Derelict vessels caused by Hurricane Ian have been removed from the water in Charlotte, Collier, Lee and Monroe counties combined as of July 25

Financial Impact



Insured damages add up to a massive \$50 billion to \$65 billion USD

Main Thesis Point

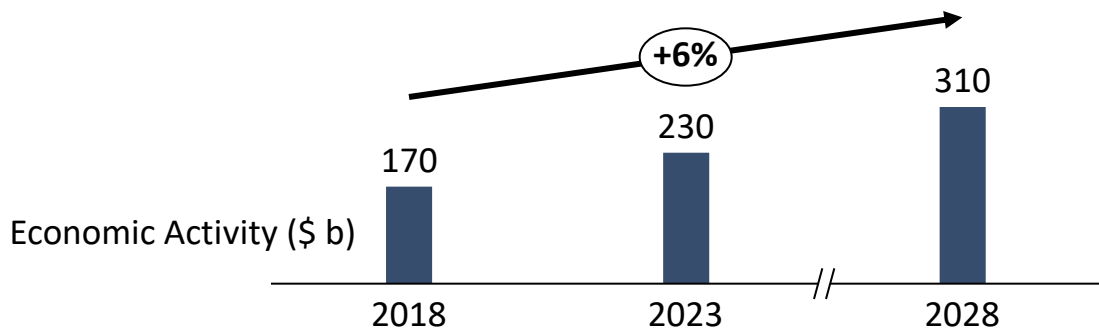
- With Hurricane Ian causing significant damage, investors have overlooked the incremental demand produced by the hurricane
- Even though there has been significant destruction both financially and materially, individuals will still wish to replace their boats
- Therefore, incrementally over time we expect demand for boats to increase, and therefore a drive to purchase from MBUU over our investment horizon



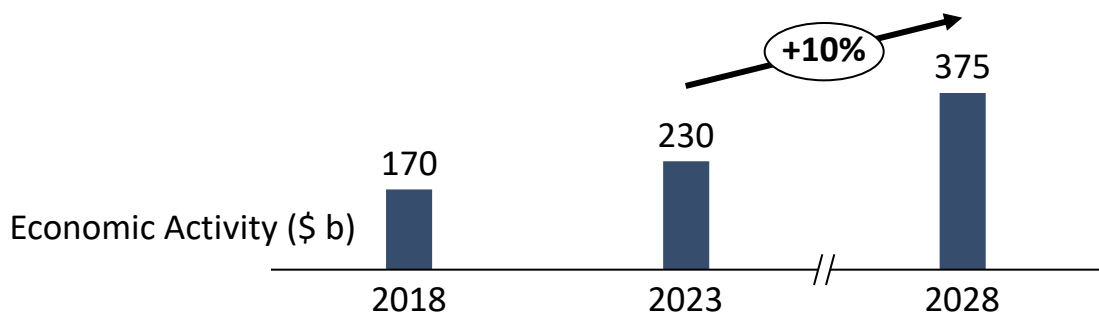
Thesis 3: Projections Yet to be Priced In

The recreational boat market is expected to experience growth driven by various factors. The expanding tourism industry and rising disposable incomes contribute to increased demand for recreational boating experiences.

Priced in Demand Trend



- The market believes the recreational boating industry will continue with its - 6% increase at least until 2028

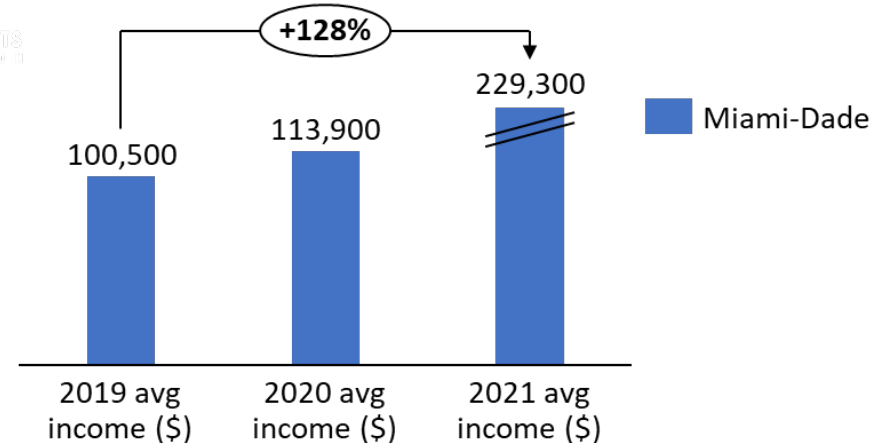


- increased wealth migration to low-income tax states with boating culture, as well as effects from hurricanes will drive demand further possibly achieving 10% CAGR

Florida Wealth Migration



MARINE PRODUCTS CORPORATION



- Florida and other low-income tax states with water access have experienced an influx of wealthy migrants, increasing the customer base for luxury recreational boats

~ 160 WALLSTREET FIRMS MOVING TO TX, NC, AND FL

INCREASING MEDIAN INCOME LEVELS

INCREASED DEMAND FOR LUXURY RECREATIONAL BOATS

Due to high-income tax and tougher recruitment in NY firms are moving away

A large percentage of these employees are well-paid with high disposable income

Recreational boating culture is significant in these states possibly driving demand further up

Valuation

Upside
34.7%

Stock Price
45.76 USD

Fair Price
61.62 USD



Discounted Cash Flow

5Y | **Growth Exit**

	Range	Selected
WACC / Discount Rate	7.1% - 9%	8.06%
Long-term Growth Rate	0% - 1%	0.50%
Fair Price	52.90 - 74.33	61.62
Upside	15.6% - 62.4%	34.7%

Revenue & Expenses Forecast						
<i>(USD in millions)</i>						
	Jun-2023	Jun-2024	Jun-2025	Jun-2026	Jun-2027	Jun-2028
		Projections				
Revenue	1,388	1,175	1,212	1,291	1,359	1,453
% Growth	14%	-15%	3%	7%	5%	7%
Cost of goods sold	(1,037)	(878)	(905)	(965)	(1,015)	(1,085)
% of Revenue	75%	75%	75%	75%	75%	75%
Selling, G&A expenses	(200)	(169)	(174)	(186)	(196)	(209)
% of Revenue	14%	14%	14%	14%	14%	14%
Research & Development	-	-	-	-	-	-
% of Revenue	0%	0%	0%	0%	0%	0%
Net interest incomes/expenses	(3)	(3)	(3)	(3)	(3)	(3)
% of Revenue	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Other incomes/expenses	(7)	(6)	(6)	(7)	(7)	(7)
% of Revenue	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
Tax expense	(34)	(27)	(28)	(30)	(32)	(34)
Tax rate	24%	23%	23%	23%	23%	23%
Net profit	108	92	95	101	107	114
% Margin	8%	8%	8%	8%	8%	8%

Weighted Average Cost of Capital

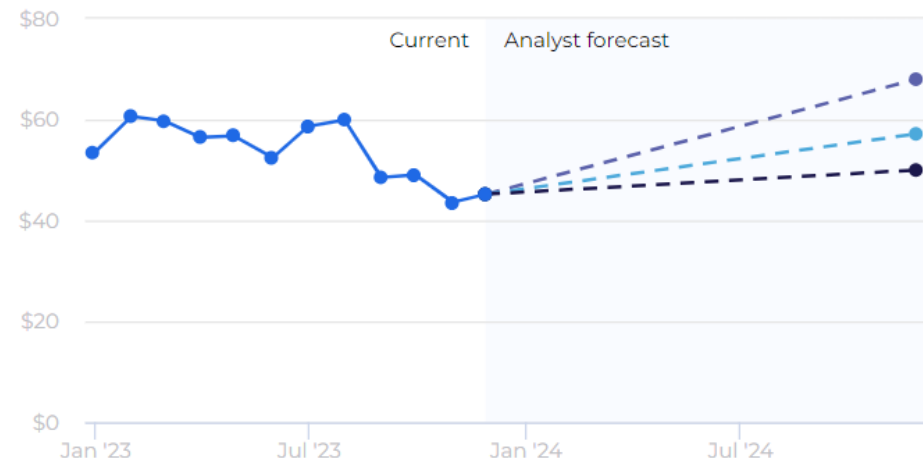
Category	Low	High
Long-term bond rate	4.17%	4.67%
Equity market risk premium	5.00%	6.00%
Adjusted beta	1.25	1.49
Additional risk adjustments	0.00%	0.50%
Cost of equity	10.44%	14.10%
Tax rate	22.88%	23.25%
Debt/Equity ratio	1.00	1.00
Cost of debt	5.00%	5.00%
After-tax WACC	7.15%	8.97%
Selected WACC	8.06%	

		Projections					
		9M/FY24	FY25	FY26	FY27	FY28	Terminal
Low	WACC	8.97%					
	Long-term growth rate	0.0%					
	Terminal value						1,064
	Present value of FCF	95	79	75	74	67	708
Enterprise value		1,099					
Equity value		1,079					
Fair price		52.90					
High	WACC	7.15%					
	Long-term growth rate	1.0%					
	Terminal value						1,569
	Present value of FCF	96	81	78	79	72	1,130
Enterprise value		1,536					
Equity value		1,516					
Fair price		74.33					

Catalysts



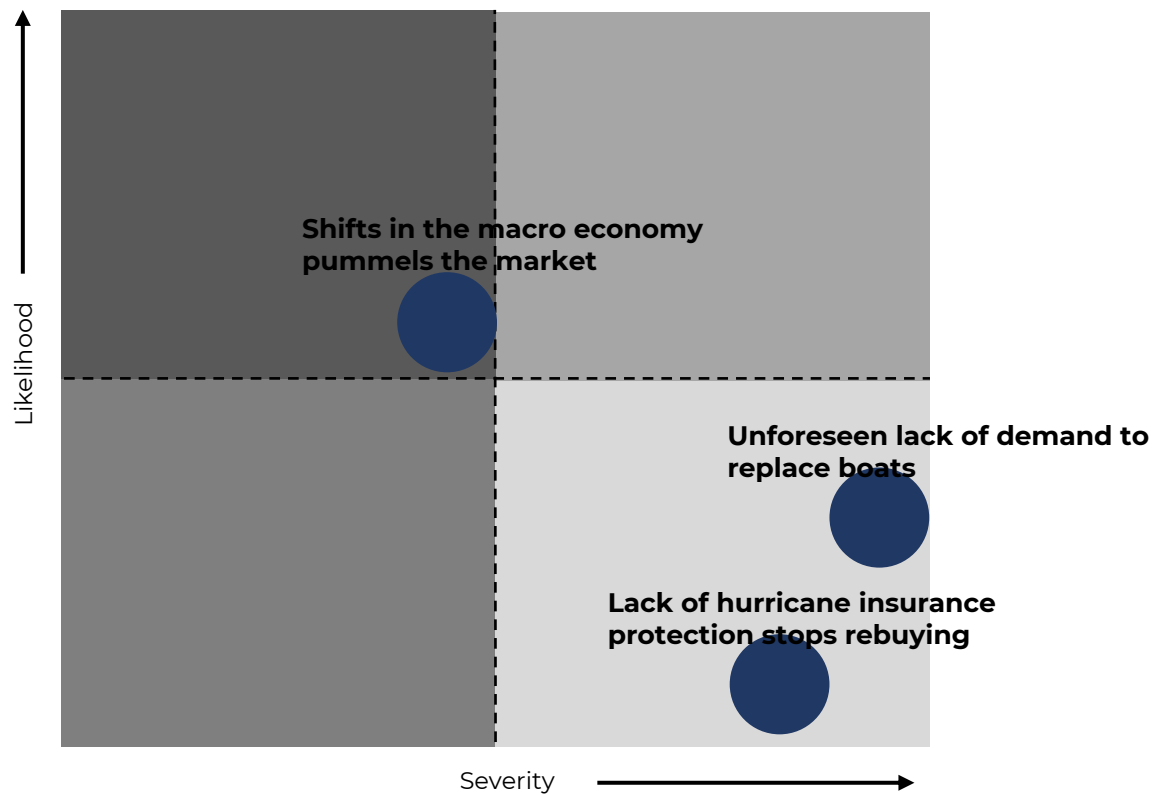
Based on 6 analysts offering 12 month price targets for Malibu Boats Inc.



Bear SP: \$50.0	Base SP: \$57.2	Bull SP: \$68.0
Bear SP: +10.6%	Base SP: +26.5%	Bull SP: +50.4%



Risk and Mitigations



Unforeseen lack of demand to replace boats

Potentially customers might be unwilling to rebuy their boats after the hurricane. As such, there is minimal demand for boats and could hit the stock quite hard.

Lack of hurricane insurance protection stops rebuying

Not all marine insurance includes hurricane coverage. There is a chance that there is a severe lack of hurricane protection purchased, leading to a lack of pay-outs for individuals who lost boats. This is not very likely though, as Florida is a hurricane prone region and buyers are key to include such protection on their purchases.

Shifts in the macro economy pummels the market

A recession coinciding with our investment timeframe could result in a lack of demand for new boats. However, luxury products tend to perform stably in recessions because their consumers have enough income to shield from a poor market outlook.