Xpediator Plc

Rapid recovery in revenues and margins

23 November 2020

Xpediator has delivered a healthy trading update, breaking several revenue records during H2 2020. Furthermore, the outlook for FY21 remains promising, reflecting recovery to more normal levels in Transport Services, a full-year impact of the Nidd acquisition, the turnaround of underperforming businesses, and new ventures. The £6m PBT forecast for FY20 highlights an improving margin, albeit this represents a shortfall from FY18. In our opinion management actions, plus recovering markets, can take the Group to peak margins over the next 18-24 months: delivering a marked increase in profitability.

Robert Ross, CEO, states that *'For Xpediator, 2020 has demonstrated the strength of being a diversified business….and we are moving forward into 2021 with confidence.'* We concur and consider fair value for the shares to be nearly twice the current price, supported by an attractive yield and net assets/cash.

Today's update highlights management's progress since the nadir in operating margins in H2 2019. Group revenues of c.£221.0m for FY20 suggests record revenues are set to be delivered within Freight Forwarding and Logistics & Warehousing: an overall uplift of 3.6% y-o-y. Strong performance was seen in Pall-Ex Romania, Lithuania and Bulgaria, with the less mature businesses in Serbia and Estonia also performing well as they mature. E-commerce remains an issue, although we understand that losses continue to fall. Affinity, the transport solutions division, continues to trade below the prior-year levels, albeit the shortfall is now down to a single-digit percentage (from -40% y-o-y in April).

Operating margins are on the rise, aided by cost-cutting at the centre and the start of a reorganisation of several underperforming businesses. More normalised volumes at the Group's highest-margin business, Affinity, will further improve margins. FY21 will see a full-year contribution from the October 2020 acquisition of Nidd. While exceptional costs highlight redundancies and a reorganisation of the property portfolio, we believe there is more to be done on this score. On this basis, **we think that operating margins can move from the FY20 expectation of 3.6% to the previous peak of 4.2% relatively quickly.** Applying that peak margin to a 7% increase in revenues results in an EBITA of £10m, which we believe to be achievable within 18-24 months.

As profits improve, it seems reasonable to apply a 75bp increase in the FY20 PER, suggesting a fair value of 50p / share, nearly twice the current level. We think this is eminently achievable and reflects well on the new management team's willingness to grow the top-line and turnaround underperforming businesses, whilst simultaneously maintaining a sensible cost base.

Key Financials

Y/e end Dec 31	FY 18A	FY 19A	H1 20A	H1 20E	FY 20E
Revenue, £m	179.2	213.2	99.6	122.9	221.0
Adj. Op. profit, £m	7.6	4.7	2.5	4.4	6.9
Operating margin, %	3.6%	2.2%	2.5%	3.5%	3.1%
Adj. PBT, £m	7.2	5.2	2.1	3.9	6.0
Adj. EPS, p	4.7	2.8	1.0	2.4	2.8
DPS, p	1.26	1.33	0.45	0.90	1.35
Yield	4.8%	5.1%	1.7%	3.5%	5.2%
PER, x	5.6	9.3	n/a	n/a	9.3
Net assets, £m	28.5	28.1	29.4	31.1	31.1
Net cash, £m	3.2	7.0	4.3	4.1	4.1

Source: Company Historic Data, ED estimates

Company Data

EPIC	XPD
Price (last close)	26p
52 weeks Hi/Lo	42p/13p
Market cap	£36.8m
ED Fair Value/share	50p
Net cash (Jun '20)	£4.3m
Reported NAV/share (Jun '20)	20p

Share Price, p

Source: ADVFN

Description

Xpediator (XPD) is an integrated freight management business. The Group has three main business areas: freight forwarding services, logistics and warehousing, plus transport services.

The Group derives its revenues from the UK (36.3%), CEE and Baltic states (63.7%) - as at June 2020.

David O'Brien (Analyst)
0207 065 2690
david@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

Strong H2 recovery

The trading update highlights the rapid progress made by the new management team in ameliorating the impact of the pandemic, growing H2 revenues and improving profitability. While the COVID-19 related disruptions have been moderately severe across two divisions, we anticipate FY20 revenues will increase to record levels. The latter is still the case whether including or excluding the impact of the October acquisition of Nidd transport Ltd ("Nidd") within the Freight Forwarding division.

We estimate that revenues will amount to £221m for the full-year, representing growth of 3.6% in absolute terms and, on stripping out our estimate for the contribution of Nidd, a like-for-like rise of 2.4% y-o-y. Nidd, the groupage freight forwarder based in Ripon, delivered £11.0m of revenues in its final year of private ownership and was purchased by Xpediator in early October. Xpediator says that Nidd is performing modestly ahead of its expectations.

Freight Forwarding

This is the largest of the Group's divisions and is on course to deliver **record revenues** of £168.5m, representing an uplift of 5.6% y-o-y. Despite the disruption caused by the COVID-19 related lockdowns across many of the territories in which the Group operates in, H1 revenues improved by 2.2%, highlighting a robust first quarter. In H2, turnover rose 8.7% y-o-y or by 5.5% on a like-for-like basis excluding the impact of Nidd. Both existing (Lithuania and Bulgaria and reflecting client wins over the last 12 months) and relatively newer markets (Serbia and Estonia) performed strongly, driving the record top-line performance within Freight Forwarding.

The division has benefitted from its ability to flex costs in line with business levels, hiring vehicles and drivers as and when required.

E-commerce was mixed, with EshopWedrop reducing the level of losses, while Regional Express continues to demonstrate strong growth and a continuation of its recovery back to health.

The FY20E top line is likely to include an element of cost inflation, reflecting driver and vehicle shortages during and after the pandemic. Typically, the inflation is automatically passed on to customers.

Logistics & Warehousing

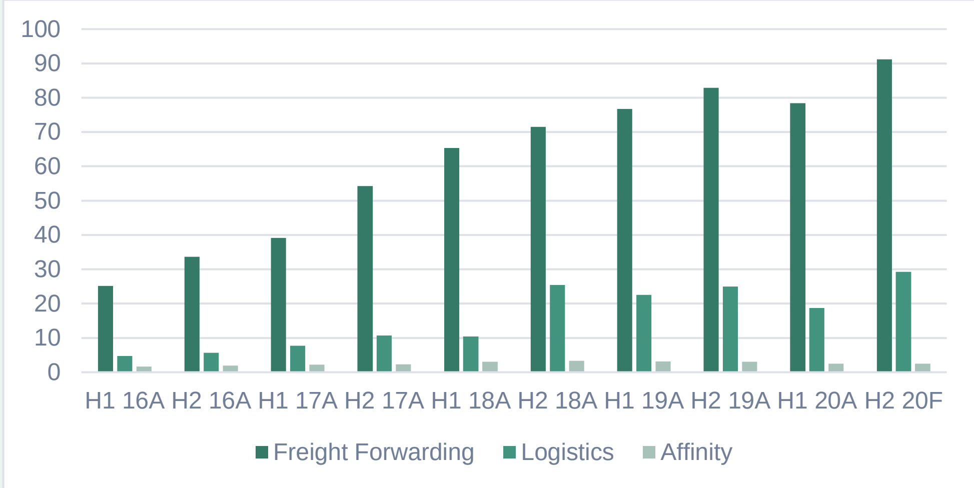
The division saw a relatively strong recovery in revenues during H2, rising 16.1% to **a record £29.0m** and resulting in an expected £47.7m overall for the year (+0.4% y-o-y). Not surprisingly, the performance of Pall-Ex Romania continues to move from strength to strength with utilisation rates within the new cross-dock facility further strengthened. In the UK, which saw severe disruption during H1, has dramatically improved in relative terms as many of its retail customers have geared up for what is usually the busiest shopping season, Christmas. ISL has been a stand-out performer, following a problematic Q2 as demand for toys has recovered strongly, particularly with Amazon. The performance of the sub-division is encouraging given ISL being the chief underperformer during FY19A.

Affinity

The Group's smallest division by revenues, the fuel card to toll pass business, is on course to deliver a top line of £4.8m. The shortfall amounts to a revenue decline of 22.0% y-o-y. The anticipated £4.8m outcome spans a nadir of a 40% y-o-y decline in revenues during April to just 6.5% a shortfall in October.

The decline reflects a combination of restrictions on the movement of transport, border closures and the plummeting diesel price. Using UK levels as a proxy, the average pump value of diesel in 2020 has declined 9.2% y-o-y, with current levels some 14.2% below the mid-2019 peak.

Half-yearly revenue by Division, £m



Source: Company reports and trading updates, ED analysis

An adjusted PBT estimate of at least £6m represents an 18% y-o-y increase over FY19, albeit still some 16.7% below the peak levels of FY18 (£7.2m). The y-o-y growth highlights the decline in overall costs as a percentage of revenues to 97.1% (FY19A: 97.8%), aided by management's goal of reducing central costs and turning around underperforming businesses. FY20 has witnessed a focus on removing headcount and duplicated/underutilised property costs. The new facilities coming onstream during early FY21 in Southampton and in the Baltic region should enable management to further rationalise its property portfolio.

The level of exceptional costs amounted to £0.7m during H1, reflecting:

- Redundancy and restructuring expenses, including adding a new warehouse management system
- Closure of the loss-making Buzzbrand, e-commerce business
- A write-down of the deferred consideration for Anglia

We anticipate exceptionals rising to £1.5m for the full year, including deal costs relating to Nidd.

Peak operating margins of 4.2% occurred in FY18. Should management continue to remove cost from the business and return it to peak margins then, on FY20 revenue levels**, adj. EBIT would be £1.4m or 16.8% higher**,

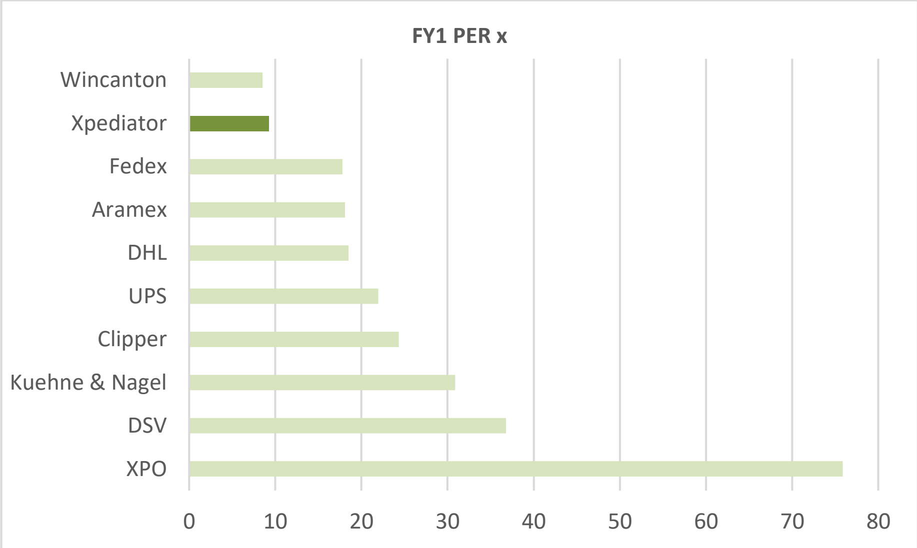
It is also not difficult to see record H2 revenues in two divisions (Freight Forwarding and Logistics & Warehousing) jump further: as the full-year impact of Nidd is included; sales lost to the pandemic are recovered and; underperforming businesses are turned around. One should bear in mind that not only were revenues impacted, but the margin within the Transport Services division was also markedly lower y-o-y. Assuming rising revenue levels, combined with peak margins, we think an EBITA of £10m is comfortably achievable within the next 18-24 months.

As profits recover, a modest expansion of the rating from 9.25x currently to 10x PER on the expected £10m EBIT seems justifiable to us, which suggests a fair value of 50p/share. We believe this to be a reasonable target initially, fuelled by rising investor confidence as the recovery in its underperforming businesses and markets unfolds.

The peer group comparison chart below highlights the forward year one PERs for the sector. Xpediator rating ranks below all but one of its peers at 9.25, representing a chunky 65% discount to the group average of 26.7x FY1 PER.

Finally, one should not forget the strong dividend record of Xpediator. We anticipate FY20 resulting in the third consecutive year of dividend growth since IPO. Should the Group meet our estimates, this suggests a dividend yield of 5.2% offering another compelling reason to hold the shares, even putting the likely recovery in profitability to one side.

Peer group valuation comparison



Source: Reuters, ED analysis

Brexit?

Management remains of the opinion that **Brexit is likely to be beneficial to the Group**, as it has built a level of expertise, via its customs brokerage teams based in the UK and Romania, that would enable it to deal with the likely rise in border controls.

Summary Income statement					
Year to Dec, £m	**2016A**	**2017A**	**2018A**	**2019A**	**2020F**
Freight Forwarding	58.9	93.1	136.9	159.6	168.5
Logistics	10.3	18.4	35.9	47.5	47.7
Transport Services	3.5	4.9	6.4	6.2	4.8
Revenues	**72.7**	**116.3**	**179.17**	**213.25**	**221.0**
CoGS	-55.6	-88.2	-137.5	-160.6	-170.9
Gross profit	17.2	28.1	41.7	52.6	50.1
Gross margin (%)	23.6%	24.2%	23.3%	24.7%	22.7%
Op costs	15.2	24.3	35.0	47.5	43.7
Other operating income	0.6	0.7	0.9	1.2	1.7
EBITA	2.544	4.438	7.599	6.271	8.080
Op margin (%)	3.5%	3.8%	4.2411%	2.9%	3.7%
Associates			-0.078	-0.060	0.050
Net Interest	-0.342	-1.090	-0.322	-1.060	-0.906
PBT (Pre-Amortn.)	2.202	3.348	7.199	5.151	6.000
Non-cash deferred consideration		-0.295	-0.232	-0.294	
Amortisation of acqd. intangibles		-0.437	-1.033	-1.407	-1.224
IFRS16 interest adjustment				-0.419	
Exceptionals	-0.654	-0.912	-0.318	-0.856	-1.500
PBT (Reported)	**1.548**	**1.704**	**5.616**	**2.175**	**4.500**
Tax	-0.2	-0.7	-0.9	-0.9	-1.0
PAT	1.3	1.1	4.7	1.3	3.5
Profit from discontinued items	-0.2	0.0	0.0	0.0	0.0
Minority interests	-0.5	-0.2	-0.3	-0.5	-1.0
Earnings	0.639	0.808	4.421	0.810	2.500
EPS (Adjusted) (p)	**1.52**	**3.26**	**4.66**	**2.79**	**2.81**
DPS (p)	**0.00**	**0.99**	**1.26**	**1.33**	**1.35**
Ave no of shares (FDil) (m)	80.0	94.3	128.8	135.8	141.6

Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec, £m	2016A	2017A	2018A	2019A	2020F
EBITA	2.5	4.0	6.5	4.7	6.8
Depn. & Amortn.	0.3	0.8	1.8	2.6	2.1
Working capital movement	2.6	-1.2	-3.7	2.6	-1.2
Other	-0.2	-0.9	1.5	0.2	0.0
Operating cash flow	5.1	2.8	6.2	10.1	7.7
Net Interest	-0.3	-0.4	-0.3	-0.9	-0.9
Taxation	-0.7	-0.8	-1.1	-0.7	-0.9
Net capex	-0.5	-0.7	-0.5	-1.8	-1.0
Pref. dividends			-0.1		
Operating FCF	3.6	0.9	4.2	6.6	4.9
Net (Acquisitions)/Disposals	-1.9	-5.8	-6.9	-0.9	-6.4
Dividends	-3.4	-0.4	-1.3	-1.5	-0.6
Share Issues	0.0	7.2	6.6	0.2	0.0
Minority payment	-0.3	-0.3	-0.3	-0.2	-0.7
Other financial	-0.8	-0.1	-0.6	-0.5	0.0
Increase Cash/(Debt)	-2.7	1.5	1.8	3.7	-2.9
Opening Net Cash/(Debt)	**2.7**	**0.0**	**1.5**	**3.2**	**7.0**
Closing Net Cash/(Debt)	**0.0**	**1.5**	**3.2**	**7.0**	**4.1**

Source: Company historics, Equity Development estimates

Movement on Net Assets

Year to Dec, £m	2016A	2017A	2018A	2019A	2020F
Opening Net Assets	8.3	3.5	14.5	28.5	29.7
Earnings	1.0	1.5	4.5	1.3	3.1
Dividends paid	-3.6	-0.5	-1.7	-0.3	-1.8
Share Issues	0.0	10.0	6.6	0.2	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other	-2.1		4.6		
Closing net assets	**3.5**	**14.5**	**28.5**	**29.7**	**31.1**
Movement on Net Assets	-4.7	11.0	14.0	1.2	1.4

Source: Company historic data, Equity Development estimates

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD

Contact: info@equitydevelopment.co.uk | 020 7065 2690