Xpediator PLC

Strong end to 2020: profits upgraded

29 January 2021

Significantly improved guidance in today's FY20 trading update has resulted in adj PBT expectations rising for a second time within three months. The strong finish to the year was driven by the CEE businesses, toys (ISL), and Freight Forwarding - alongside cost savings.

The healthy post-COVID recovery across Freight Forwarding and Logistics & Warehousing generally offset the weaker Transport Services and fashion businesses. In line with a 20% upgrade in adj. PBT expectations, we have raised our view on fair value / share to 60p (previously 50p).

The FY20F trading update delivered a positive profits surprise, with guidance for adj. PBT lifted by 20% from £6.0m to £7.2m, reflecting a much stronger than anticipated Christmas trading period in November and December. Trading continued to be strong across several businesses: CEE, (especially Lithuania), ISL (toys) and Freight Forwarding well into the third week of December. While much of the uplift relates to Christmas sales increasingly moving online, forward deliveries ahead of Brexit (the trade deal was not signed until 30 December) were also partly responsible.

Following a FY19 where the cost base increased markedly, the new management team sought to remove unnecessary layers of cost and streamline the operations with focus on core areas that can deliver long-term growth. Approximately £0.5m of costs were permanently removed and EshopWedrop disposed of before the year-end. One acquisition was completed during October, Nidd Transport, a freight forwarder based in Ripon and servicing customers across the North of England and northern and southern Europe.

While several businesses have had a slow start to FY21, reflecting the business recorded during late December, we believe Brexit to be an opportunity for Xpediator. The Group's customs clearance resource has been improved and the current chaos at borders is likely to result in XPD attracting new customers, with an opportunity to then cross-sell additional services.

Sound value

We raise our guidance on fair value / share to 60p (previously 50p) to reflect the 20% uplift to adj. PBT projections. The shares continue to represent good value relative to its peers, with XPD shares trading at a significant discount to that group's average valuation.

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	122.3	221.9
Adj. Op. profit, £m	7.6	4.7	2.5	5.5	8.0
Operating margin	4.2%	2.9%	2.5%	4.5%	3.6%
Adj. PBT, £m	7.2	5.2	2.1	5.1	7.2
Adj. EPS, p	4.7	2.8	1.0	2.5	3.5
DPS, p	1.26	1.33	0.45	1.05	1.50
Yield	3.4%	3.6%	1.2%	2.9%	4.1%
PER, x	7.9	13.2	n/a	n/a	10.5
Net assets, £m	28.5	28.1	29.4	31.6	31.6
Net cash, £m	3.2	7.0	4.3	5.0	5.0

Source: Company Historic Data, ED estimates

Company Data

EPIC	XPD
Price (last close)	37p
52 weeks Hi/Lo	39p/13p
Market	£52m
ED Fair Value / share	60p
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.

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Strong trading update

This morning's trading update from Xpediator sends a powerful message, not just a positive profits surprise. More significantly, the business has shaken off the self-inflicted cost-related issues of FY19. Management has issued guidance that adj. PBT was significantly ahead of previously upgraded expectations, at approximately £7.2m and representing a 20% uplift from November's report. In the table below we summarise our upgrades to expectations for FY20.

Change in Estimates

	Old	New	Increase
FY2020F Revenue (£m)	221.00	221.92	0.4%
FY2020F adj PBT (£m)	6.00	7.21	20.2%
FY2020F EPS (p)	2.81	3.54	26.0%
FY2020F DPS (p)	1.35	1.50	11.1%
FY2020F Net cash (£m)	4.1	5.1	24.4%

Source: Equity Development

What has driven the strong anticipated outcome? While the company would have been aware of the direction of travel at the time of the last trading update (23 November 2020), the November management accounts would not have been available then and the strong trading endured for longer than is traditionally the case in December.

Indeed, ISL was a standout performer with the demand for toys recovering strongly, as Christmas moved increasingly online (particularly with Amazon). This is a far cry from the nadir experienced during Q2 2020 by the unit, and as a major underperformer during FY19A.

Other areas also continued to perform strongly late into the third week of December (traditionally there tends to be a strong tailing off during week two in the month), including:

- Fashion (predominantly the Braintree warehouse)
- Affinity
- Pall-Ex franchises
- Freight Forwarding

As the Brexit trade deal was not signed until 30 December, there is an element of January's revenues brought forward impacting the outcome for December. **Freight Forwarding** performed strongly as Lithuania and, the Bulgarian businesses benefitted from client wins, with the relatively newer operations in Serbia and Estonia also delivering strong progress. The driver and vehicle shortages experienced during mid-2020 resulted in cost inflation, which was passed on to customers and resulted in a portion of the top-line improvement. **Nidd** performed well post-acquisition, albeit trading in December tailed off in line with historic norms.

We have mentioned that fashion performed poorly for much of FY20 within the **Logistics & Warehousing** division. In view of the pandemic-related lockdowns and the UK High Street travails and fashion generally, this news should come as no surprise. The post-COVID-19 rebound at **Pall-Ex Romania** was dramatic, with utilisation rates at the cross-dock facility in Sibiu at record levels.

Affinity, the Group's **transport services** business, which supplies fuel cards to toll passes to customers recovered strongly post-lockdown and in-line with underlying road traffic volumes.

We have also witnessed a 'back-to-basics approach' across the Group, as unnecessary expenditure was removed (overall costs, CoGS and OpEx, increased 20.7% during FY19A) and management focused on areas of the Group which have the greatest scope to consistently deliver top and bottom-line growth.

EshopWedrop was disposed of at year end to its own management team, with the £0.3m consideration payable in equal instalments over three-years. We would not be surprised if attention were focused on other underperforming businesses within the portfolio, to see whether a return to profitability could be maintained over the long term. On this point, Regional Express has continued its recovery back to financial health.

We estimate that the adj. PBT of £7.2m is likely to translate to adj. EPS of 3.5p and representing a y-o-y uplift of 27.2%. We have also raised our dividend estimate by 11.1% to 1.5p. Dividend cover rises to 2.4x, compared to 2.1x a year ago, albeit some way below the 3.7x cover seen in FY18A. The dividend yield correspondingly rises to 4% and offers a further compelling reason to hold the shares.

Brexit

While management has confirmed that the new financial year has started slowly, the increased administrative burden placed on exporters and hauliers has resulted in delays and uncertainty. The long queues and confusion at EU borders have been painfully evident in recent weeks.

We think this represents a significant opportunity for Xpediator, particularly regarding its expertise in customs clearance/brokerage, with teams expanded in both the UK and Romania in recent months. As desperate exporters turn to specialists such as Xpediiator success at customs is likely to lead to the cross-selling of additional services.

Financials

Summary Income statement					
Year to Dec, £m	**2016A**	**2017A**	**2018A**	**2019A**	**2020F**
Freight Forwarding	58.9	93.1	136.9	159.6	169.3
Logistics	10.3	18.4	35.9	47.5	47.8
Transport Services	3.5	4.9	6.4	6.2	4.8
Revenue	72.7	116.3	179.17	213.25	221.92
CoGS	-55.6	-88.2	-137.5	-160.6	-170.9
Gross profit	17.2	28.1	41.7	52.6	51.0
Gross margin (%)	23.6%	24.2%	23.3%	24.7%	23.0%
Op costs	15.2	24.3	35.0	47.5	43.5
Other operating income	0.6	0.7	0.9	1.2	1.7
EBITA	2.544	4.438	7.599	6.271	9.236
Op margin (%)	3.5%	3.8%	4.2%	2.9%	4.2%
Associates			-0.078	-0.060	0.050
Net Interest	-0.342	-1.090	-0.322	-1.060	-0.856
PBT (Adjusted)	2.202	3.348	7.199	5.151	7.210
Non-cash deferred consideration		-0.295	-0.232	-0.294	
Amortisation of acqd. intangibles		-0.437	-1.033	-1.407	-1.221
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	4.489
Tax	-0.2	-0.7	-0.9	-0.9	-1.2
PAT	1.3	1.1	4.7	1.3	3.3
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	2.300
EPS (Adjusted) (p)	1.52	3.26	4.66	2.79	3.54
DPS (p)	0.00	0.99	1.26	1.33	1.50
Ave no of shares (FD) (m)	80.0	94.3	128.8	135.8	141.6

Source: Company historics, Equity Development estimates

No management guidance has been provided for FY21F and as a result we are holding off issuing estimates at this time. However, we are aware of the following which are likely to boost the FY21A outcome:

- Full-year contribution of Nidd Transport, purchased in October (historically delivered £11m of revenues and £0.5m EBIT in the year to April 2020
- Permanent cost reductions of £0.5m generated in FY20
- Disposal of EshopWedrop, resulting in an ongoing loss reduction of £0.35m and included within continuing operations adj. PBT in FY20

On the basis that H2 revenues of £122.3m, typically representing 55.5% of annual revenues, plus a full-year contribution of Nidd, and growth inflation of 4% suggests FY21 top-line of c. £239m.

Static operating margins of 3.6% would result in an EBIT of £8.6m. With net interest unchanged y-o-y of £0.9m, a result of £7.7m for the year could comfortably be envisaged. That said, we expect the outlook for FY21F to be clearer following the preliminary results in April.

The expectations for end FY20F net cash of £5.1m and NAV of £31.9m, equate on a per share basis to 3.6p and 22.5p, respectively.

Summary Cash Flow

Year to Dec, £m	2016A	2017A	2018A	2019A	2020F
EBITA	2.5	4.0	6.5	4.7	8.0
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	8.9
Net Interest	-0.3	-0.4	-0.3	-0.9	-0.9
Taxation	-0.7	-0.8	-1.1	-0.7	-1.1
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	6.0
Net (Acquisitions)/Disposals	-1.9	-5.8	-6.9	-0.9	-6.4
Dividends	-3.4	-0.4	-1.3	-1.5	-0.8
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	-1.9
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**	**5.0**

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	4.2
Dividends paid	-3.6	-0.5	-1.7	-0.3	-2.0
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	31.9
Movement on Net Assets	-4.7	11.0	14.0	1.2	2.2

Source: Company historic data, Equity Development estimates

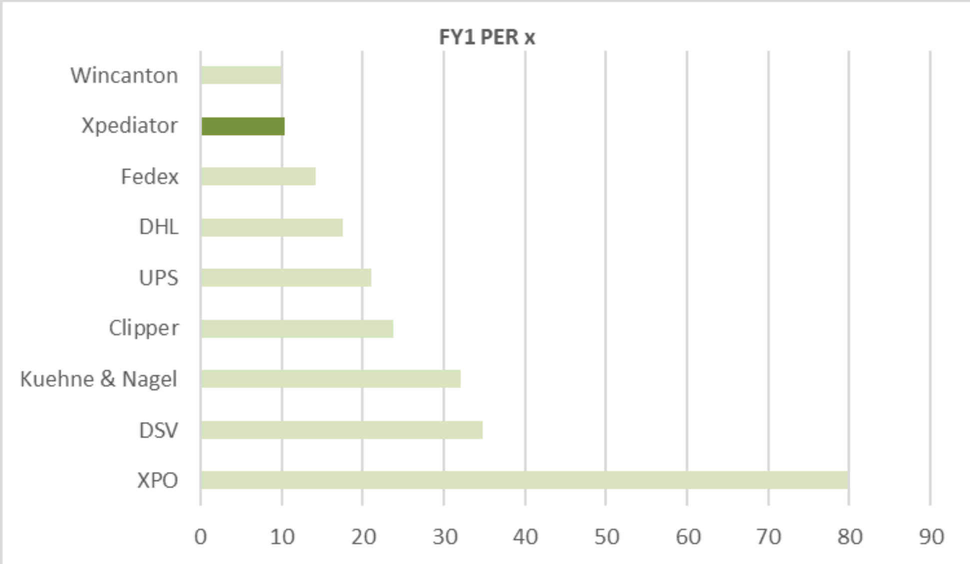
Valuation

We suggested at the last time of writing (23 November 2020, "Rapid recovery in revenues and margins"), that an EBIT of £10m was comfortably achievable within 18-24 months. The outcome for FY20 suggests that this target should be raised further and with it the rating merited by the group. On this basis, we think that fair value should also increase from 50p to 60p / share.

The peer group comparison table (below) highlights the forward year 1 PERs for the main sector participants. Xpediator's rating sits below all but one of its peers (Wincanton Plc) and on excluding valuation outliers, represents a discount of 53% to its peer group average of 22.1x FY1 PER.

Should we prove to be correct in our expectation that the outlook for profitability has indeed improved, then we believe the rating is also likely to rise as Xpediator puts increasing distance between its future and a problematic FY19.

Peer group valuation comparison



Source: ED, various sites

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