Xpediator plc

Life in the fast lane

18 October 2018

The interim results to end of June demonstrated very strong progress, with revenues and operating profits rising 61% and 133% respectively, and underlying growth of 30%. Organic operating profit was 61% ahead y-o-y. Current trading remains in-line with expectations, and demand for freight management services across all core markets is high. To underline this confidence, the interim dividend was increased 21% y-o-y to 0.42p / share.

We have adjusted our estimates modestly downwards to reflect the impact of increased security checks on Far Eastern trade. A continuation of the strong H1 revenue growth is anticipated during H2.

The key drivers of top-line growth included: strong organic progress at EshopWedrop, record demand at Pall-Ex Romania, the continued move in favour of full loads within Freight Forwarding, the new warehouse in Romania, and new customer wins.

The operating margin declined to 2.1% (H1 2017: 2.7%), which reflected a combination of the investment in support functions, the switch in favour of full-loads, new franchises within EshopWedrop, the rise in ferry crossings in Romania and the marked increase in deferred income.

Adjusted Earnings rose 34% to £1.4m and by 18% on an underlying basis. However, adjusted EPS were slightly lower (-3.6%), owing to the payment of deferred consideration for EMT (£1.1m) and the full-period effect of last year's IPO and placing in late November.

Management's confidence in the outlook for H2 is under-pinned by the combination of contributions from the two current year acquisitions, AFGL and Import Services Limited (ISL), the latter occurring in July. Additionally, there is a widening of the UK Freight Forwarding customer base; rising revenues of EshopWedrop, including the new US franchise and new countries added in Q4; growing revenues from Greece (serviced from the Group's Bulgarian operations); further strong progress at Pall-Ex Romania and new services offered by Affinity (truck leasing and insurance).

XPD has stated that it continues to seek acquisitions, sticking to its strategy of expanding both the breadth of activities and the Group's international footprint. Organic growth will continue to materialise from sourcing additional capacity to meet rising demand.

Valuation

After adjusting estimates, we believe that a share price of 90p is merited. Not only is the current share price remaining at a valuation discount to a basket of its competitors, but we also expect further accretive acquisitions that are likely to result in greater earnings momentum and subsequent increase in our fair value.

Company Data

EPIC	**AIM:XPD**
Price	54p
52 week Hi / Lo	90p / 27.5p
Market cap	£72m
ED fair value / share	90p

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 and transport services. Revenues are derived from the UK (30.7% of Group revenue), CEE and Baltic States (69.3%).

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Strong operating progress

Xpediator has issued a strong set of interim results for the six months to 30 June. Revenues increased 60.8% year-on-year (y-o-y) to £78.9m, with underlying growth amounting to 29.8%, with strong progress across all three divisions. While the bulk (90.4%) of the uplift in UK revenues were because of the four acquisitions made, the entire growth outside of the UK was organic.

Most pronounced in terms of organic growth was the progress of **EshopWedrop** in the Baltic States, emphasising the accelerating global trend in favour of home delivery of ecommerce activity, with traditional retailing less influential. H1 included a full-period of the business's new franchises in Albania and Cyprus (US to be opened in H2, with further openings in Q4 2018).

The next most significant element of organic growth was the rising revenues arising from Greece, via the Group's Bulgarian operations. The continued development of the customer base of the Freight Forwarding division, coupled with the increase in the proportion of full-load trailers resulted in strong organic growth in Romania. The 17% y-o-y growth to 45,000 pallets moved per month within the Romanian Pall-Ex franchise drove revenues within the Logistics & Warehousing division.

Other areas that have delivered top-line expansion include the improvement in fuel card sales in the West Balkans and ferry crossings in Romania (up 47% y-o-y). Both lie within the Group's Transport Services division.

The Group has made two acquisitions to date in the current year, **AFGL** and **ISL**. AFGL's purchase was only completed in June, and its contribution was therefore limited during H1. However, the business is now strongly integrated into the remainder of the Freight Forwarding division, offering sea and air freight capabilities, thus widening the range of services offered to customers. ISL was acquired in July and is a contract warehousing business in the port of Southampton, operating 40k sqm of facilities and focused on the toy, leisure and sports sectors. Both businesses have made a positive start to their life within the Group.

However, pressure from the EU regarding unpaid duties from Chinese imports into the UK resulted in a change of policy by HMRC, with increases in customs checks coming into effect during H1. This resulted in significant delays and cancellations of shipments from China, severely impacting the level of Far Eastern imports into the UK, via the Group's Benfleet division. While there are some signs of recovery, this has been slow to date. Management believes Benfleet's business has been significantly damaged and, as a result, this has led to an impairment of goodwill (+£1.8m), with XPD renegotiating the initial level of consideration paid. A refund of £2.0m is anticipated no later than December 2020 and the cancellation of the related deferred consideration (£0.6m). This has resulted in a small exceptional profit of £0.7m during H1.

Operating profits increased 26.2% y-o-y to £1.7m during H1, driven predominantly by prior year acquisitions within the Freight Forwarding division, notwithstanding the disappointment at Benfleet. The combination of Benfleet, preference for full-loads versus partial loads and the marked increase in the number of ferry bookings, resulted in the adjusted operating margin declining 59 basis points to 2.1%.

The latter was also affected by the y-o-y increase in deferred income (with the Group paid following final delivery) to £1.2m (H1 2017: £0.9m). Owing to the nature of a bias towards Q4 trading and deliveries generally required pre-Christmas, the level of deferred income is expected to be significantly lower at the year-end.

Interest payable reduced modestly to £0.2m, resulting in adjusted PBT of £1.5m (H1 2017: £1.1m), representing a 35% y-o-y improvement. The tax charge declined by 2% to 23.6%, reflecting the reduction in corporation tax rate, the exceptional costs and the non-cash finance charge. This led to adjusted earnings rising 33.7% to £1.4m. Owing to the marked increase in the number of shares following the H2 2017 IPO, coupled with the placing in November, adjusted EPS declined modestly (-3.6%) to 1.06p.

Management has demonstrated its confidence in the full-year outlook through a 21% rise in the interim dividend to 0.42p.

The Group traditionally moves into a small net debt position by the end of H1 and 2018 proved no different. Working capital increased due to the early repayment of creditors to secure related discounts. Net debt amounted to £0.8m (H1 2017: £1.8m) and compares to net cash at the previous year-end of £1.4m. We would anticipate a broadly similar pattern in H2 and estimate year-end net cash of c£2.2m, as trading unwinds post-Christmas. The acquisitions were funded by the placing in November 2017 (AFGL) and post-period end, in July 2018 (ISL).

Outlook and financials

We believe there to be several factors that should result in further strong progress during H2 at both the revenue and operating profit lines. Peak trading traditionally occurs during Q4, focused on Christmas, Cyber Friday and Black Monday, having greater importance y-o-y, as online sales account for an ever-increasing share of total retailing. As a result, the business has historically witnessed approximately **57% of revenues and 61% of operating profits generated during H2.**

In addition, strong economic and organic growth in the Baltics (EshopWedrop), West Balkans, Romania (across all three divisions) and Bulgaria (burgeoning Greek through trade), coupled with the acquisitions made either side of the June 2018 half-year, should continue to drive top-line growth. Management reiterated that H2 trading continued in a similar frame to H1, suggesting a continuation of recent strong organic growth.

In terms of estimates, we have tweaked these to reflect the problems in Benfleet's Far Eastern trade. While we anticipate a degree of recovery – indeed one customer has already begun to send containers of stock – we do not anticipate this returning to previous levels. Hence the requirement for exceptional costs.

We forecast a 35/65 % split between the H1/H2 dividend payouts and continue to see the Group pursuing a progressive dividend policy, allowing management to take advantage of corporate opportunities whilst retaining the discipline of improving pay-outs to shareholders.

Change in estimates

Yr to end Dec, £m	Old	New	Change
FY2018F revenue	175.4	177.7	1.3%
FY2019F revenue	204.0	206.9	1.4%
FY2018F EBIT	7.9	7.6	-3.7%
FY2019F EBIT	9.3	9.1	-2.6%
FY2018F EPS (p)	4.5	4.3	-4.5%
FY2019F EPS (p)	5.1	4.9	-2.8%
FY2018F DPS (p)	1.7	1.2	-27.3%
FY2019F DPS (p)	2.5	1.4	-45.7%

Source: Equity Development

Summary Profit & Loss

Year to end Dec, £m	2015A	2016A	2017A	2018F	2019F
Freight Forwarding	41.4	58.9	93.1	138.1	155.2
Logistics	5.9	10.3	18.4	33.5	45.1
Transport Services	2.8	3.5	4.9	6.1	6.6
Revenue	50.1	72.7	116.3	177.73	206.92
CoGS	-37.0	-55.6	-88.2	-136.8	-157.3
Gross profit	13.1	17.2	28.1	40.9	49.7
Gross margin (%)	26.2%	23.6%	24.2%	23.0%	24.0%
Op costs	12.2	15.3	24.8	34.0	41.4
Other operating income	0.6	0.6	0.7	0.7	0.8
Operating profit	1.5	2.5	4.0	7.6	9.1
Op margin (%)	3.1%	3.4%	3.4%	4.3%	4.4%
Net Interest	-0.3	-0.3	-0.7	-0.5	-0.5
FRS13, non-cash interest			-0.3	-0.4	-0.7
PBT (Adjusted)	1.2	2.1	3.3	7.1	8.5
Amortisn. of acqd. intangibles			-0.4	-1.2	-1.6
Exceptionals	2.1	-0.7	-0.9	-0.2	0.0
PBT (Reported)	3.3	1.5	1.7	5.3	6.2
Tax	-0.5	-0.2	-0.7	-1.0	-1.1
PAT	2.8	1.2	1.1	4.3	5.1
Profit from discontinued items	-0.2	-0.2	0.0	0.0	0.0
Minority interests	-0.3	-0.5	-0.2	-0.3	-0.3
Earnings	2.3	0.5	0.8	4.0	4.8
Ordinary Dividends	0.0	-3.6	-1.1	-1.5	-1.8
Retained Profit	2.3	-3.1	-0.3	2.6	3.0
EPS (Adjusted) (p)	2.7	1.5	3.3	4.3	4.9
DPS (p)	0.0	0.0	1.0	1.2	1.4
Ave no of shares (Full Dil) (m)	0.2	80.0	94.3	127.9	135.9

Source: Company historics, Equity Development estimates

Summary Cash Flow					
Year to end Dec, £m	**2015A**	**2016A**	**2017A**	**2018F**	**2019F**
Operating profit	1.5	2.5	4.0	7.6	9.1
Depn. & Amortn.	0.3	0.3	0.8	1.8	2.4
Working capital movement	-0.8	2.6	-1.2	-1.5	-1.0
Other	0.0	-0.2	-0.9	-1.6	-1.2
Operating cash flow	1.0	5.1	2.8	6.3	9.2
Net Interest	-0.3	-0.3	-0.4	-0.5	-0.5
Taxation	-0.5	-0.7	-0.8	-0.9	-1.1
Net capex	9.4	-0.5	-0.7	-0.6	-0.7
Operating FCF	9.6	3.6	0.9	4.3	6.9
Net (Acquisitions)/Disposals	0.0	-1.9	-5.8	-13.2	-1.1
Dividends	0.0	-3.4	-0.4	-1.2	-1.6
Share Issues	0.0	0.0	7.2	11.5	0.8
Minority payment	-0.3	-0.3	-0.3	-0.3	-0.3
Other financial	3.1	-0.8	-0.1	-0.3	-0.2
Increase Cash/(Debt)	12.4	-2.7	1.5	0.8	4.5
Opening Net Cash/(Debt)	-9.7	2.7	0.0	1.5	2.3
Closing Net Cash/(Debt)	2.7	0.0	1.5	2.3	6.9

Source: Company historics, Equity Development estimates

Movement on Net Assets					
Year to end Dec, £m	**2015A**	**2016A**	**2017A**	**2018F**	**2019F**
Opening Net Assets	7.0	8.3	3.5	14.3	29.8
Earnings	2.6	1.0	1.8	4.3	5.1
Dividends paid	0.0	-3.6	-0.5	-1.4	-1.7
Share Issues	0.0	0.0	10.0	11.5	0.8
Goodwill	0.0	0.0	0.0	0.0	0.0
Other	-1.3	-2.1	-0.5	1.1	-2.9
Closing Net Assets	8.3	3.5	14.3	29.8	31.1
Movement on Net Assets	1.2	-4.7	10.8	15.5	1.3

Source: Company historics, Equity Development estimates

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