

'Significant growth' confirmed

19 February 2019

Xpediator's pre-close trading update said that revenues and profits are both in-line with market expectations. Top-line growth was significantly ahead, rising 54% y-o-y to c.£179m (c.1% ahead of ED estimate), while profits have more than doubled to c.£7.1m. The uplift to revenues has been driven by organic growth, most notably in Freight Forwarding (Baltics and Balkans), Pall-Ex Romania, and Affinity. Plus, there were benefits from the acquisition of ISL and Anglia Forwarding in 2018, and Regional Express in late 2017.

Management has suggested that the acquisition pipeline remains strong, as do the opportunities for organic growth. With approximately two-thirds of revenues generated outside of the UK, we believe that the share price has recently over-reacted to Brexit uncertainty and as a result consider it on attractive valuations currently.

FY2018F proved eventful, with two acquisitions made and strong organic progress witnessed across much of the Group. The acquisition of Anglia Freight in June and ISL in July added approximately £21m of revenues, accounting for c.18% of the y-o-y increase. The wider group has benefitted from the sea and air freight capabilities, wider customer base and service offerings added

The significant improvement in revenues in the Group's operations in the Baltic states and the Balkans, despite challenging comparatives, reflects the continued development of the customer base within the Freight Forwarding division and the rising revenues from Greece (via the Group's Bulgarian operations). The rise in the proportion of full-load trailers helped facilitate the strong organic growth in Romania.

Pall-Ex Romania performed strongly, with the rate of growth in pallets handled per month increasing to 25% from 17% y-o-y during H1. Affinity saw the number of vehicles provided with an increasing range of services increase 17% to in excess of 14,000, which again was an acceleration in the y-o-y growth rate versus H1 (+9%).

There is a comprehensive investment programme underway during FY2019F, which is likely to boost central headcount (we note the recent hire of Simon Youd as Head of M&A and Integration in January). There will be further improvement in systems and expansion of the warehousing footprint. We think this is likely to have a small short-term impact on margins in FY2019F, albeit resulting in ongoing improvement in returns as early as FY2020F onwards.

Furthermore, the update stated that the pipeline of acquisition opportunities remains strong, focused on widening the geographic (particularly CEE) and service (air and sea transportation) focus of the wider group.

We believe recent shares' weakness is overdone and overlooks two key factors: **the Group's strong expertise in facilitating customers' successful transportation of goods across borders**, and **two-thirds of its trade does not even touch the UK**.

Xpediator's shares are now at a FY2019F PER of just 10.9x and well below our valuation of 85p.

Company Data

EPIC	XPD
Price (last close)	50p
52 week Hi/Lo	87p / 33p
Market cap	£67m
ED fair value / share	85p
Net cash	£1.5m

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 trading update

Xpediator has issued a trading update ahead of moving into close period. Both organic and acquisition-led growth proved strong, with overall revenues ahead 54% y-o-y. Of this, 18% related to the two acquisitions made during FY2018F, namely ISL and Anglia Forwarding and equates to c.£21m of the uplift to the top-line. Organic growth was impressive in the Baltic and Balkan states, with profitability also encouraging in the two regions and reflects customer wins, coupled with the growing importance of Greece to the business, serviced currently from Bulgaria.

The Group's operations in Romania continued to improve strongly across all of the three divisions, with Pall-Ex witnessing 25% growth y-o-y in average monthly pallets handled for the year as a whole. This translates to an almost doubling in H2 of the y-o-y growth rate during H1 of 17%. While the y-o-y growth rate in the number of vehicles serviced during H1 at Affinity rose to c.17% for the full-year, many of the newer services tend to be at lower margins than the provision of fuel cards.

The strong progress at ISL and Anglia Forwarding highlights that both businesses have been firmly integrated into the Group's Freight Forwarding division. This view is underscored by the Group seeking to make further acquisitions within the areas of air and sea freight, as per management's comments on the acquisition pipeline.

E-fulfilment remains a small but profitable segment of the business, that continues to grow rapidly. The new EshopWedrop franchises are up and running and are rapidly growing revenues.

We note that no specific mention was made of Benfleet within the update, suggesting that trading with the Far East has remained broadly consistent. If so, then the level of exceptionals highlighted at the time of the Interim results is unlikely to alter.

Nor was there any update on the Group's discussions with the shareholders of the Slovenian logistics company, Intereuropa d.d., which leads us to presume that they are simply on-going. We would expect any auction for Intereuropa to be a competitive one, so there can be few, if any, guarantees that Xpediator will be successful in its pursuit of the operating company. However, management did state that **the pipeline for M&A remains strong**, suggesting several other targets have been identified.

Our adjustments to estimates for FY2018F and FY2019F are below. We expect to include financial estimates for the FY2020F year following the release of preliminary results in April. In terms of FY2018F, we have upgraded revenues only, reflecting guidance within the trading update. For FY2019F, we have nudged revenues modestly higher to £207.8m but have taken on board management's comments about investment in areas of the Group, which we believe includes management, IT and warehousing space. The latter highlights the rate of growth within the Logistics division, in view of the step changes made in the scale of facilities both in FY2017 and FY2018F.

Notwithstanding the modest reduction in FY2019F estimates, we continue to believe that the shares are undervalued and note the recent improved DSV bid for Panalpina Welttransport to CHF180 per share or a forward PER of 53.4x. By contrast, Xpediator's shares are trading on a FY2019F PER of 10.9x and well below both a peer group valuation and our share price valuation of 85p.

Change in Estimates

	Old	New	Change
FY2018F revenue (£m)	177.7	179.0	0.7%
FY2019F revenue (£m)	206.9	207.8	0.4%
FY2018F EBIT (£m)	7.6	7.6	0.0%
FY2019F EBIT (£m)	9.1	8.5	-5.8%
FY2018F EPS (p)	4.3	4.3	0.0%
FY2019F EPS (p)	4.9	4.6	-6.0%
FY2018F DPS (p)	1.2	1.2	0.0%
FY2019F DPS (p)	1.4	1.3	-8.7%

Source: Equity Development

Summary Profit & Loss

Year to end Dec, £m	2015A	2016A	2017A	2018F	2019F
Freight Forwarding	41.4	58.9	93.1	138.9	156.1
Logistics	5.9	10.3	18.4	34.0	45.1
Transport Services	2.8	3.5	4.9	6.1	6.6
Revenue	50.1	72.7	116.3	179.03	207.83
CoGS	-37.0	-55.6	-88.2	-138.2	-159.0
Gross profit	13.1	17.2	28.1	40.8	48.8
Gross margin (%)	26.2%	23.6%	24.2%	22.8%	23.5%
Op costs	12.2	15.3	24.8	34.0	41.1
Other operating income	0.6	0.6	0.7	0.7	0.8
Operating profit	1.5	2.5	4.0	7.6	8.5
Op margin (%)	3.1%	3.4%	3.4%	4.2%	4.1%
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	8.0
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	5.7
Tax	-0.5	-0.2	-0.7	-1.0	-1.0
PAT	2.8	1.2	1.1	4.3	4.7
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	4.4
Ordinary Dividends	0.0	-3.6	-1.1	-1.5	-1.7
Retained Profit	2.3	-3.1	-0.3	2.6	2.7
EPS (Adjusted) (p)	2.7	1.5	3.3	4.3	4.6
DPS (p)	0.0	0.0	1.0	1.2	1.3
Ave no of shares (FD) (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	8.5
Deprecn. & 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	8.7
Net Interest	-0.3	-0.3	-0.4	-0.5	-0.5
Taxation	-0.5	-0.7	-0.8	-0.9	-1.0
Net capex	9.4	-0.5	-0.7	-0.6	-0.7
Operating FCF	9.6	3.6	0.9	4.3	6.5
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	4.1
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	6.5

Source: Company historic, 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	4.7
Dividends paid	0.0	-3.6	-0.5	-1.4	-1.6
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	30.8
Movement on Net Assets	1.2	-4.7	10.8	15.5	1.0

Source: Company historic data, Equity Development estimates



Investor Access

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