

## Out with the old...

11 February 2020

**2019 proved successful on several measures, not least organic revenue growth, cash generation, the performance of the Baltic operations and the turnaround of Benfleet. That said, management is likely to be glad that a challenging year is over. It has taken swift action where required, reducing the cost base and upgrading the Board. The Group is trading in-line with revised expectations, with year-end net cash levels some way ahead of our estimates and underpinning dividend expectations.**

**The net cash growth also provides options moving forward (a 'healthy pipeline of potential acquisitions'), although the focus remains on integrating previous purchases and improving cross-selling throughout the Group. There is a strategy in place to enhance profitability markedly during 2020, with management confident in the outlook.**

The trading update demonstrated strong growth in revenues, with an additional £18m (+10.4%) generated organically, and a further £15m from acquisitions. Overall revenues of £212m was £5m ahead of our estimate, which is encouraging. Standouts amongst the strong performances were the activities in the Baltic region (Freight Forwarding in Lithuania and Estonia), the Pall-Ex Romania franchise (a 21.7% y-o-y increase in pallets handled, to 60.700 per month) and the turnaround of Benfleet Far Eastern. The 2018 acquisition of ISL and Anglia added an uplift in FY revenue of £15m y-o-y. The Group is trading in-line with revised expectations of £5m adj. PBT.

By the turn of the year, management had strategies in place to address issues. They include gaining significant customers at Regional Express and Delamode within Freight Forwarding, with the former opening new offices in China and Germany and the latter requiring a reconfiguration of its Braintree warehouse. EshopWedrop saw marketing costs increase as new customers were sought in Germany. Transport Services delivered a strong performance in the Balkans.

Under the previous CFO/CEO designate costs rose with infrastructure investment and an upgrade in the IT system, reflecting increased digitalisation of the business and the required cybersecurity. The Board has since welcomed a new CFO, now in situ, with a strong record on controlling costs and detail.

We anticipated net cash of £3.2m by the end of 2019. The outcome of £6.9m was significantly ahead, reflecting active cash collection and lower deferred consideration paid, which more than offset the increase in capex (particularly on IT). The high cash level not only underpins dividend expectations but provides options for management in terms of M&A opportunities. The short-term focus is on fully integrating past acquisitions and increasing the level of cross-selling throughout the Group.

**We think that the positive outlook and management's swift action on costs/issues underpin our 2020 estimates. Furthermore, net cash amounts to a significant 18% of the current market capitalisation.**

**The shares are trading on a 2020F PER multiple of just 8.8x and markedly below our unchanged fair value of 48p/share.**

### Company Data

EPIC	XPD
Price (last close)	28p
52 week Hi/Lo	57p/19p
Market cap	£38.4m
Net cash (Dec '19)	£6.9m
ED fair value/share	48p

### 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. The Group derives its revenues from the UK (41.8%), CEE and Baltic states (58.2%), as at June 2019.

### David O'Brien (Analyst)

0207 065 2690  
[david@equitydevelopment.co.uk](mailto:david@equitydevelopment.co.uk)

### Hannah Crowe

0207 065 2692  
[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

## Financials

Summary Profit & Loss					
Year to Dec, £m	2016A	2017A	2018A	2019F	2020F
Freight Forwarding	58.9	93.1	136.9	159.0	166.9
Logistics	10.3	18.4	35.9	46.5	48.8
Transport Services	3.5	4.9	6.4	6.5	6.8
Revenue	72.7	116.3	179.2	212.0	222.6
CoGS	-55.6	-88.2	-137.5	-164.3	-172.5
Gross profit	17.2	28.1	41.7	47.7	50.1
Gross margin (%)	23.6%	24.2%	23.3%	22.5%	22.5%
Op costs	15.2	24.3	35.0	42.8	44.8
Other operating income	0.6	0.7	0.9	0.9	0.9
EBITA	2.5	4.4	7.6	5.8	6.2
Op margin (%)	3.5%	3.8%	4.2%	2.7%	2.8%
Associates			-0.1	-0.1	0.1
Net Interest	-0.3	-0.7	-0.5	-0.3	-0.4
IFRS 16 charge		-0.3	-0.2	-1.2	-1.1
PBT (Adjusted)	2.2	4.1	7.2	5.0	5.4
Non-cash deferred consideration					
Amortisation of acq'd. intangibles		-0.4	-1.1	-1.3	-1.2
Exceptionals	-0.7	-0.9	-0.3	-0.7	0.0
PBT (Reported)	1.5	2.1	5.4	2.2	3.5
Tax	-0.2	-0.7	-0.9	-0.8	-0.9
PAT	1.3	1.5	4.5	1.4	2.6
Profit from discontinued items	-0.2	0.0	0.0	0.0	0.0
Minority interests	-0.5	-0.2	-0.3	-0.1	-0.2
Earnings	0.6	1.2	4.2	1.3	2.4
EPS (Adjusted) (p)	1.5	3.3	4.7	3.0	3.2
DPS (p)	0.0	1.0	1.3	0.8	0.9
Ave no of shares (F Dil) m	80.0	94.3	128.8	135.9	136.9

Source: Company historics, Equity Development estimates

### Summary Cash Flow

Year to Dec, £m	2016A	2017A	2018A	2019F	2020F
EBITA	2.5	4.0	6.5	4.5	4.9
Depn. & Amortn.	0.3	0.8	1.8	2.0	2.1
Working capital movement	2.6	-1.2	-3.7	1.2	-1.1
Other	-0.2	-0.9	1.5	0.0	0.0
Operating cash flow	5.1	2.8	6.2	7.7	5.9
Net Interest	-0.3	-0.4	-0.3	-0.3	-0.4
Taxation	-0.7	-0.8	-1.1	-0.8	-0.9
Net capex	-0.5	-0.7	-0.5	-1.2	-1.0
Pref. dividends			-0.1		
Operating FCF	3.6	0.9	4.2	5.4	3.6
Net (Acquisitions)/Disposals	-1.9	-5.8	-6.9	-0.9	-1.8
Dividends	-3.4	-0.4	-1.3	-1.5	-1.2
Share Issues	0.0	7.2	6.6	0.8	0.0
Minority payment	-0.3	-0.3	-0.3	-0.2	-0.1
Other financial	-0.8	-0.1	-0.6	0.0	0.0
Increase Cash/(Debt)	-2.7	1.5	1.8	3.7	0.5
Opening Net Cash/(Debt)	2.7	0.0	1.5	3.2	6.9
Closing Net Cash/(Debt)	0.0	1.5	3.2	6.9	7.4

Source: Company historic data, Equity Development estimates

### Movement on Net Assets

Year to Dec, £m	2016A	2017A	2018A	2019F	2020F
Opening Net Assets	8.3	3.5	14.5	28.5	29.7
Earnings	1.0	1.5	4.5	1.4	2.6
Dividends paid	-3.6	-0.5	-1.7	-1.0	-1.1
Share Issues	0.0	10.0	6.6	0.8	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	31.2
<b>Movement on Net Assets</b>	<b>-4.7</b>	<b>11.0</b>	<b>14.0</b>	<b>1.2</b>	<b>1.5</b>

Source: Company historic data, Equity Development estimates



## Investor Access

**Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) 0207 065 2690