Investors' Chronicle | Alpha

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Alpha small company research

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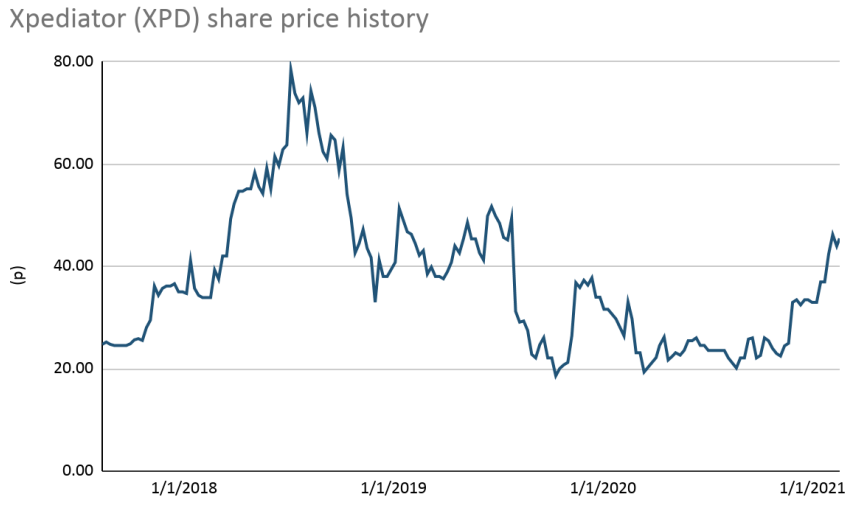
Profit from a Brexit winner

It's not often that a cash-rich company is priced on a PE ratio of 10 and offers a decent dividend yield after upgrading profit guidance, but that's the tantalising prospect on offer at Braintree-based Xpediator, a company that has been providing international freight management services for more than 30 years.

Simon Thompson's view:

One consequence of the Covid-19 pandemic is that more companies will look to protect the flow of their goods and shorten supply chains. Another consequence is that more companies will outsource their logistic services so that they have greater flexibility adjusting demand through the natural peaks and troughs of business cycles. Both themes are great news for Braintree-based **Xpediator (Aim:XPD)**, an international freight management service provider that makes its money by shipping goods between the UK and nine Central and Eastern European countries. The group is also well placed post-Brexit to benefit from greater flows of non-EU trade through the ports of Southampton and Felixstowe.



Source: FactSet

Bull points

1. Exposed to fast growing Central and Eastern European markets.
2. Structural move from high street to internet shopping driving freight growth.
3. Beneficiary of non-EU trade to the UK post-Brexit.
4. Bolt-on acquisitions are delivering organic growth.
5. Asset-light model and diverse customer base reduces risk.
6. Customers across multiple sectors and geographies.
7. Cross-selling across freight and transport services divisions.
8. Cost savings of £0.5m realised in 2020 to boost 2021 profits.
9. Non-core and loss-making business sold at end of 2020.
10. Progressive dividend policy.

Bear points

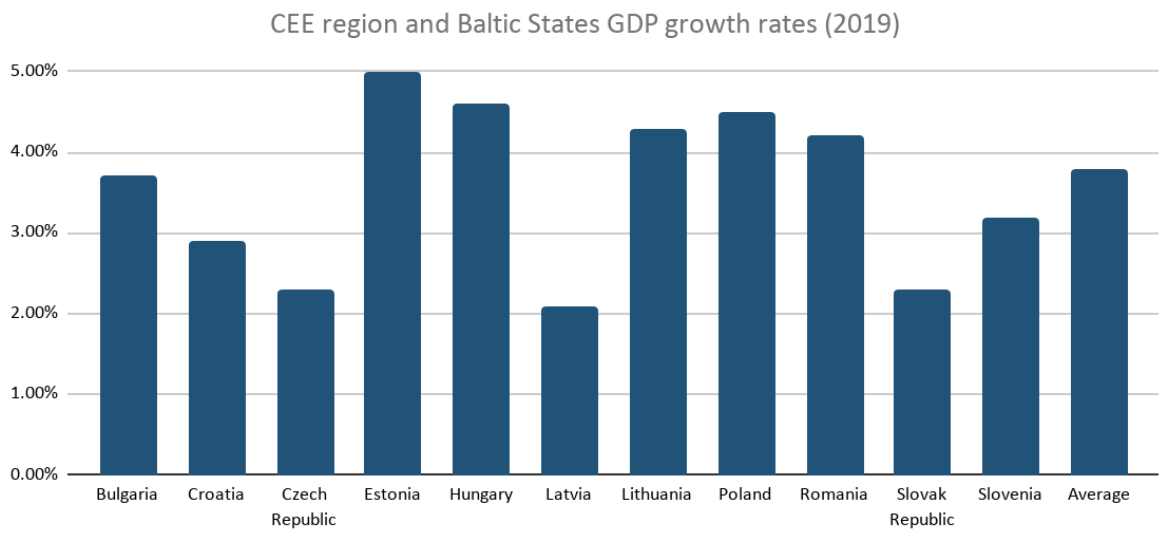
1. Profits declined in 2019, only two years after IPO.
2. Relatively new management team.
3. Covid-19 disruptions are impacting the fuel card business.

Xpediator (XPD)	
Ticker	XPD
Current price	45p
Target price	70p
Market cap	£63.7m
52 week high	49p
52 week low	13p
Net cash	£6.2m (see text)
Shares in issue	141.6m
Financial year end	31 December
Next event	2020 FY results, April 2021
Website	xpediator.com

Braintree-based **Xpediator (XPD)** has been providing international freight management services for more than 30 years, operating from 38 offices in the UK and nine Central and Eastern European (CEE) countries. The business offers more than 14,000 clients integrated freight management within the supply chain logistics and fulfilment sector in three main areas: freight forwarding, logistics & warehousing and transport services. Importantly, demand for these services is well underpinned by demand in Xpediator's key markets post Brexit – as well as benefiting from a structural tailwind as the eurozone emerges from the Covid-19 crisis.

When the Covid-19 pandemic abates, customers will be focused on supply chain reliance, and the CEE countries Xpediator services will become even more attractive as manufacturing venues. That's good news for logistic companies and Xpediator, in particular.

In the first half of 2020, Baltic States and CEE accounted for 63 per cent of Xpediator's revenue. The region has been a target for expansion throughout Xpediator's history due to its superior growth prospects, compared with the rest of Europe. In 2019, the CEE region and Baltic States posted average GDP growth of 3.8 per cent, or more than double the EU average of 1.55 per cent. It's only reasonable to expect the outperformance to continue during the recovery stage.



Source: World Bank

At the same time, it's reasonable to expect higher levels of logistics outsourcing to specialist operators such as Xpediator that can command better haulage and warehouse rates due to their scale of use. Investment in technology such as process digitalisation enables specialist operators to offer end users a better service at a lower price, too. The other benefit for customers is that outsourcing gives them the flexibility to adjust demand

through the natural peaks and troughs of business cycles, a point that the Covid-19 crisis has brought into sharp focus.

Xpediator (XPD)

Order price:	45p	**Market value:**	£ 63.7m	
Touch:	44-46p	**12-mth high/low:**	49p	13p
Dividend yield:	3.3%	**PE ratio:**	10	
Net asset value*:	20p	**Net cash^:**	£6.2m	

Year to 31 Dec	**Revenue (£m)**	**Pre-tax profit (£m)**	**Diluted adjusted earnings per share (p)**	**Dividend per share (p)**
2017	116	3.97	3.27	0.99
2018	179	7.20	4.80	1.26
2019	213	5.15	2.80	1.33
2020^	225	7.20	4.60	1.33
2021^	245	7.70	4.70	1.50
% change	**9%**	**7%**	**2%**	**13%**

SETSqx

*Includes intangibles assets of £24.6m, or 17p a share

^Cenkos Securities estimates. Pre-tax profits and adjusted EPS stated before exceptional items, amortisation of goodwill and after adjusting for changes in discount on deferred consideration. Closing net cash of £6.2m at 31 December 2020.

Source: Xpediator annual report, London Stock Exchange

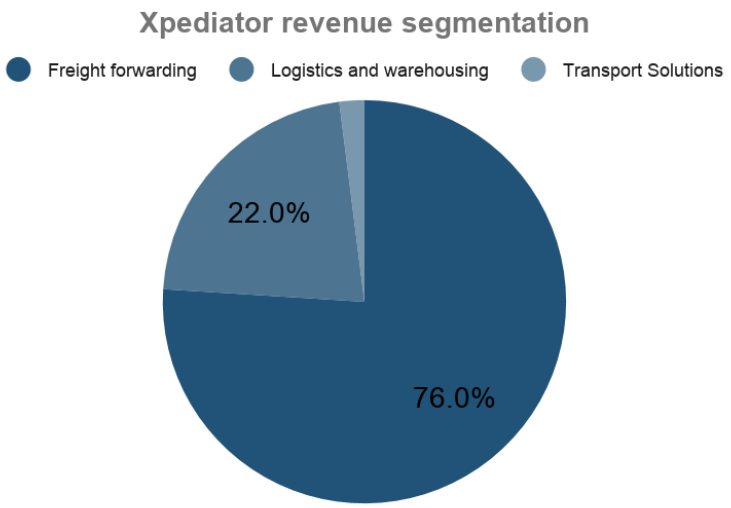
Xpediator is also a consolidator in the sector, having made six acquisitions since IPO in August 2017. The global forward freight market is very fragmented with the top 15 freight forwarders accounting for half the total market. In the UK, less than 0.5 per cent of transportation and storage companies have more than 250 employees, while over 80 per cent have fewer than four. This offers scope for the group to make further bolt-on

small acquisitions to generate economies of scale through revenue synergies, cross-selling services across a wider customer base, and cost savings.

It's worth noting that although there has been post Brexit disruption for hauliers transporting freight, this is playing into Xpediator's hands. That's because Xpediator holds both External Temporary Storage Facility and Authorised Economic Operator certification, so is in a strong position to win new customers who have struggled to deal with the post Brexit administration and compliance required to transport freight across Europe. The group can then cross-sell additional services to these new customers, too.

Furthermore, as the UK agrees more trade deals with countries outside the EU, then this will have a positive impact on demand for freight volumes at key ports handling non-EU Trade, Felixstowe and Southampton being two major ones. Xpediator has a presence at both and has an operational structure in place to capitalise on the opportunity.

Business segments



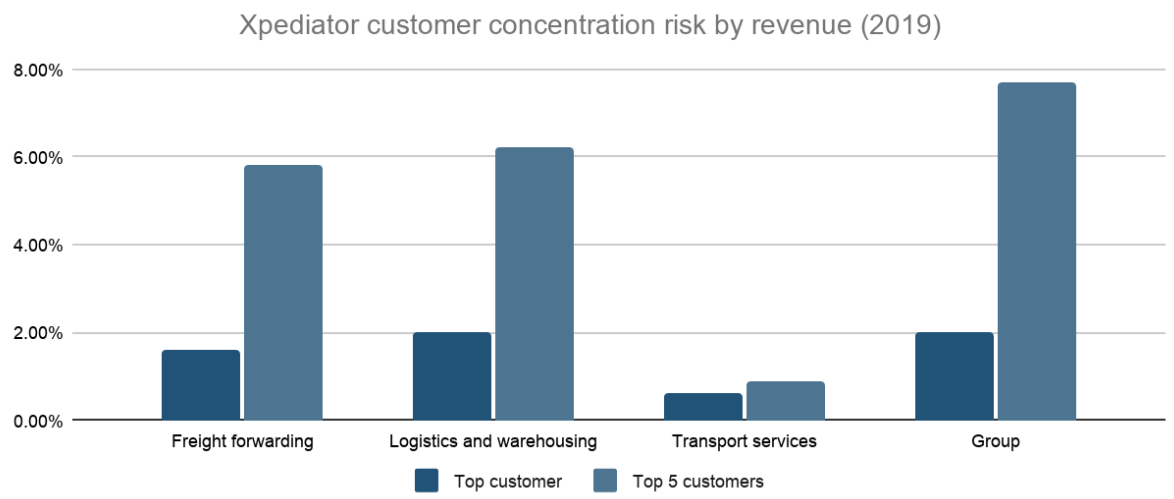
Source: company report

Freight Forwarding (76 per cent of 2020 revenue)

Xpediator operates as a broker and offers an end-to-end international freight forwarding service. It manages shipments via third-party carriers (road, sea and air) and the processing of all documentation required to transport the goods across different jurisdictions. To ease this process, Xpediator has invested in fully integrated supply chain logistics management software.

Importantly, the business is asset-light as all warehouse and haulage capacity is leased, thus reducing capital requirement. Leasing capacity de-risks the business case as Xpediator can more accurately match costs to volumes. Apart from the 19 trucks acquired as part of the EMT acquisition in March 2017 (see acquisition history section below), all 15,000 trucks utilised by Xpediator are leased haulage capacity.

In recent years, the group has expanded its capabilities in this area through the 2018 acquisition of Anglia Forwarding. This added facilities at Heathrow and Felixstowe in the UK. Supported by a large network of offices in key geographies (Romania, Lithuania, Bulgaria, Estonia, Latvia, Macedonia, Montenegro and Serbia), the group services a diversified customer base – the top five customers accounted for 5.8 per cent of group revenue in the 2019 financial year.



Source: Xpediator annual report

Reflecting opportunities in the CEE region, the freight forwarding business has seen bumper growth in recent years. It increased 17 per cent in 2019 and even managed to grow revenues by more than 6 per cent (to around £170m) in 2020 despite the Covid-19 pandemic.

Divisional operating margin of 2.1 per cent in 2019 increased to 2.55 per cent in the first half of 2020 and should have kicked on again in the second half as the benefit of £500,000 of group-wide cost savings starts to work through. These are not the only cost savings as Xpediator sold off its loss-making business-to-consumer logistics service EshopWedrop to its management at the end of last year for £0.3m, albeit this was £0.4m below the book value of the assets. It was worth doing as it freed Xpediator from £350,000 of annual operating losses from that business, the benefit of which will be seen in the group's 2021 results.

The freight forwarding division is also benefiting from the October 2020 acquisition of Ripon-based international freight forwarder and operator, Nidd Transport. Nidd's focus on western Europe complements Xpediator's focus on CEE, Italy and Germany. Not only was the £4.6m acquisition immediately earnings-enhancing – Nidd posted operating profit of £0.5m on revenue of £11m in the 2020 financial year – but Xpediator has identified opportunities to cross-sell its services to Nidd's customer base, as well as maximising carrying capacities to and from Europe.

Nidd is a founder member of Palletforce, a leading pallet network across the UK, so Xpediator is now able to offer an enhanced capability to its full range of daily UK distribution services, as well as earning additional income from Palletforce deliveries between the UK, Spain and Portugal. In addition, the group should reap synergies by linking Nidd's transport and distribution in the North with Xpediator's strengths in the Midlands and Southern regions to create a more integrated UK national service offering.

Logistics and warehousing (22 per cent of 2020 revenue)

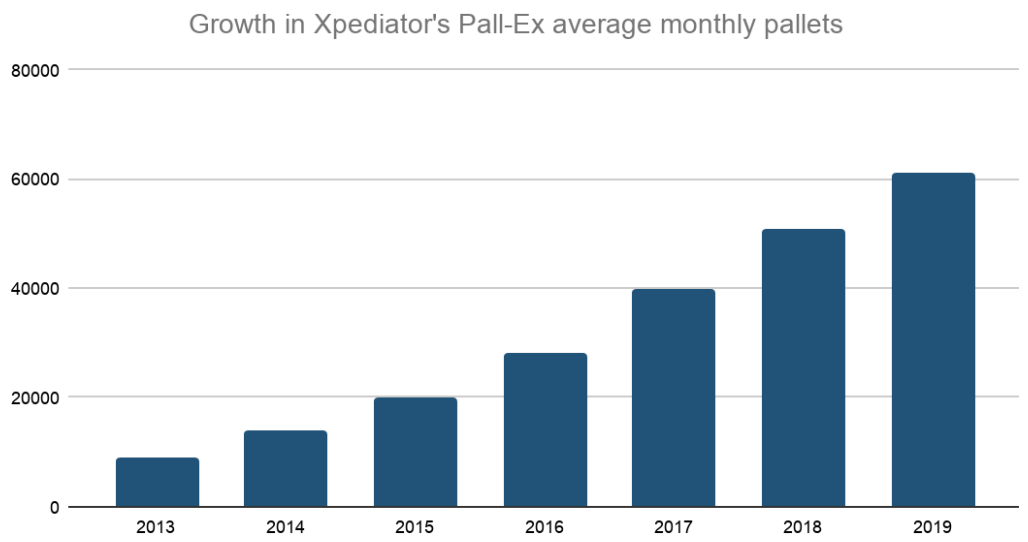
The division offers a range of services including warehousing, storage and related value adding activities (labelling, repacking, product preparation), e-commerce fulfilment, collection of domestic full truck loads and less-than-full loads, and domestic delivery of palletised freight.

Full truck loads are lower margin business (5-8 per cent gross profit margin), but are both revenue and earnings-enhancing through additional volumes, higher utilisation of leased capacity and lower administration costs. Where multiple customers utilise a whole truck load, Xpediator can generate 20 to 25 per cent gross margin, but it is higher risk.

The division has a large geographic footprint, comprising distribution hubs in the UK and Southern Europe. These hubs have over 100,000m^2 of shared user space of which 43,476m^2 is located in Romania, 40,413m^2 in Southampton and the balance is spread across Essex and London. A new 20,000 m^2 facility will open at the Port of Southampton later this year, thus providing additional capacity to capitalise on a likely post-Brexit increase in non-EU trade that is handled through the port. Leases range between five and 10 years, with the average tenure around 3.5 years.

Another driver of this division is the Pall-Ex (Romania) franchise, a fast-growing palletised freight distribution network, which can deliver goods anywhere in the country within 24 hours. Xpediator has held the 25-year master franchise in Romania since 2012 and provides the only palletised freight distribution network in Romania where its eight warehouses mainly service the following sectors: e-commerce, manufacturing, fast moving consumer goods, automotive, agriculture, technology and retail.

Divisional revenue edged up slightly to £48m in 2020, but warehousing in Romania continues to perform well and this activity more than offset reduced income from UK warehousing due to lower activity amongst retail clients. In 2019, the Romanian operation saw average monthly pallet shipments increase 22 per cent to 61,000, and volumes averaged 67,000 in the first half of last year. Expect the strong growth trajectory to continue as Xpediator capitalises on two new 25-year master licenses to operate in Moldova and Hungary, both of which were awarded in 2018.



Source: Aim admission document, Cenkos Securities, company annual reports

Both factors should have a positive impact on Xpediator's trading results in 2021, especially as the UK is unlikely to repeat last spring's lengthy three-month national lockdown. The Romanian business is trading at a higher run rate year on year, so there will be an accentuated positive impact on profits due to its operating leverage.

To put this into perspective, the logistics and warehousing business reported operating profit of £2.9m on revenue of £47.5m in 2019. The 2020 result should be at least as good given revenue edged up to £48m, but it masks a weak first half in 2020 when operating profit almost halved to £0.6m on revenue down from £22.6m to £18.7m due to the lower activity levels in the UK. In other words, this business has a weak comparable from the first half of 2020 that it should easily beat.

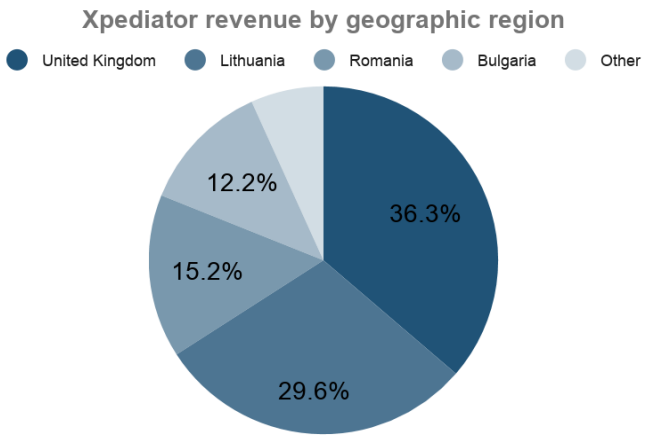
Transport Solutions (2 per cent of 2020 revenue)

Trading principally under the Affinity brand, Transport Solutions provides bundled fuel and toll cards, financial and support services for hauliers in Southern Europe. Affinity is an agent of DKV, one of the world's largest fuel card providers, and supplies the DKV fuel card across the East and West Balkan region to a database of approximately 2,000 Eastern European hauliers and 14,500 trucks. In addition, Affinity offers a "one stop shop" of transport services including: ferry bookings, insurances and more recently, VAT refund services.

As well as acting independently, Affinity's commercial model allows Xpediator to generate synergies as many of the hauliers who are customers of Affinity also supply haulage services to other group companies. This enables the group to have a good understanding of its customers and suppliers, and underpins management's ability to source transport especially when capacity is low.

During the Covid-19 pandemic, levels of transport traffic reduced in line with industrial production, CEE Governments chose to close borders which created long delays, and there was a net 13.6 per cent decline in diesel volumes throughout Europe. These factors reduced the use of Affinity's DKV fuel card and associated transport services in this period.

However, business has recovered well. Having seen monthly revenue decline 40 per cent in April 2020, the October 2020 run-rate was only 6.5 per cent below the previous year. Full-year revenue of £5m is expected to produce operating profit of £1.8m, down from £6.2m and £2.5m in 2019, but if volumes return to more normal trading levels in 2021, both revenue and profit will recover.



Source: Xpediator half-year report 2020

There is also scope for Xpediator to expand the division's services outside of Romania (the country accounts for around 84 per cent of divisional revenue) to boost the customer base, and introduce higher margin products to leverage the product offering.

Acquisition strategy

Xpediator's management team have ambitions to quadruple revenue to £1bn over the medium-term. Acquisitions will play a major part.

Since Xpediator raised £5m in a placing of shares at 24p in the August 2017 IPO, the group has made five bolt-on acquisitions as a listed entity. Including the acquisition of Becton-based Easy Managed Transport shortly before the IPO, the group has paid a total consideration of £23.8m after adjusting for cash on the balance sheets of the six businesses acquired in the past four years. Around £7.7m of the consideration was settled in shares to the vendors (at an average price of 45p) with the balance settled in cash. Targets have been acquired on an attractive average multiple of 4.3 times annual operating profit at the time of acquisition.

Potential targets need to meet specific criteria:

- Create cross-selling opportunities.
- Increase geographical footprint.
- Deliver cost and revenue synergies.
- Improve or add additional services to the existing offering.

Xpediator's acquisition history since 2017

Date	Mar-17	Oct-17	Nov-17	Jun-18	Jul-18	Oct-20
Target	Easy Managed Transport	Benfleet Forwarding	Regional Express	Anglia Forwarding	Import Services Limited	Nidd Transport
Consideration						
Number of shares	3.38m	9.22	0.63	nil	3.74	nil
Equity	£1.9m	£2.6m	£0.2m	nil	£3.0m	nil
Cash	£5.3m	£1.9m	£1.8m	£3.4m	£15.3m	£4.6m
Cash in business on completion	£2.9m	£2.9m	£0.3m	£0.7m	£7.4m	£2.0m
Total net consideration	**£4.3m**	**£1.6m**	**£1.7m**	**£2.7m**	**£10.9m**	**£2.6m**
Operating profit multiple post-deal (including cash in business)	4.3	0.8	6.6	5.2	5.6	5.2

Source: Xpediator, Cenkos Securities, London Stock Exchange

Summary of recent acquisitions

October 2020: **Nidd Transport**. This international freight forwarder and operator is a founder member of Palletforce, a leading pallet network across the UK. The acquisition enhances Xpediator's strengths in the Midlands and Southern regions to create a more integrated UK national service offering, as well as generating income from international freight to Spain and Portugal.

July 2018: **Import Services Limited**. A long-established contract logistics warehousing business with facilities located within the Port of Southampton. Focused on Third Party Logistics storage, handling and transportation, Import Services has a significant client base who service the leading consumer brands in the toy, leisure and sports sectors. The complementary acquisition added 40,000m^2 of warehousing, operational synergies and provides opportunities to cross-sell European freight forwarding.

June 2018: **Anglia Forwarding**. Founded in 1971, Anglia's dedicated air freight office at Heathrow, combined with its longstanding position as global partner to United Shipping Inc. (a worldwide association of agents), enables it to offer sea and air freight services to the US, China and Europe. The acquisition significantly increased Xpediator's access into America and China.

November 2017: **Regional Express**. Based in Hampshire, the company is an international B2B freight forwarding and courier business specialising in road, sea and air freight services across Europe, North America, South America, Africa, Asia and Australia. Regional Express also provides organising services for Amazon sellers.

October 2017: **Benfleet Forwarding**. Established in 1987, Basildon-based Benfleet is an international freight forwarding business specialising in the movement of flooring, machinery, household goods and garments. The asset-light operation covers road transport and ocean freight shipments, coordinated through offices in Dover and Felixstowe, with services extending across Southern Europe, the Far East and China.

March 2017 (pre-IPO): **Easy Managed Transport**. Becton-based EMT operates from a purpose built, rented warehouse of 3,252m^2, and operates a fleet of 19 owned vehicles in the UK and 11 sub-contracted vehicles in Europe. Its principal customers are major high street retailers to which it provides transportation, garment storage and garment processing services.

Financial performance rebounds

It's only fair to point out that after growing at break-neck speed in 2017 and 2018, buoyed in part by acquisitions, Xpediator faced some challenges during the first half of

2019 which negatively impacted its profitability. Underlying pre-tax profit declined from £7.2m to £5.2m in 2019 despite revenue rising 19 per cent to £213m.

There were two major factors behind the profit reversal:

- The group's e-commerce business was impacted by disruption caused by a tightening of "know your client rules" following the introduction of GDPR regulations to the distribution chain in Germany. Additional marketing spend was then required to stimulate the business' recovery.
- Xpediator's UK logistics warehouse in Braintree lost a major client and whilst this customer has been replaced, the warehouse required a reconfiguration.

Sensibly, the acquisition strategy was put on hold temporarily with the emphasis placed on investment in people, facilities and processes to position the business for future growth. Initiatives included the establishment of an outsourced IT department in India, the installation of enhanced group-wide cyber security systems and ongoing digitalisation of the business.

The board was restructured too (see management team below), with a new chief executive, finance director, chief commercial officer and non-executive directors all appointed. Founder and former chief executive Stephen Blyth was appointed deputy chairman, a position where the relatively new management team can benefit from his expertise. The new board also identified £500,000 of annualised cost savings, the benefits of which will be seen in the 2021 financial year results.

The fact that Xpediator resumed its acquisition activity in October 2020 was telling. Having reported a modest 5 per cent increase in operating profit of £2.1m in the first six months of 2020, Xpediator's businesses have been recovering strongly. The group has issued two bullish trading updates since late November, which has prompted analysts to introduce forecasts for the 2020 and 2021 financial year, and then materially raise them. House broker Cenkos Securities expects Xpediator to report 2020 adjusted pre-tax profit of £7.2m, up from £5.2m in 2019, and deliver underlying earnings per share (EPS) of 4.6p.

On this basis, the shares are rated on a price/earnings (PE) ratio of 10, even though Xpediator is expected to have ended 2020 with net cash of £6.2m (excluding IFR16 lease liabilities). That cash position is £0.8m higher than at the end of June 2020, even though Xpediator has since made the £4.6m earnings-accretive cash acquisition of Nidd Transport. This highlights the group's ability to generate strong operating cash flow – Cenkos expects operating cash flow of £15.5m last year to increase to £16.2m in 2021.

Xpediator's cash flow

Financial year to 31 Dec	Operating cash flow	Cash flow post capex, financing, investments and dividends	Closing net cash
2017	£2.8m	£2.1m	£1.5m
2018	£5.1m	£2.1m	£3.2m
2019	£15.8m	£2.9m	£7.0m
2020E	£15.5m	-£2.0m	£6.2m
2021E	£16.2m	£2.6m	£10.0m

...supports a progressive dividend policy

Financial year to 31 Dec	Dividend per share
2017	0.99p
2018	1.26p
2019	1.33p
2020E	1.33p
2021E	1.50p

Source: Annual reports, Cenkos Securities forecasts

It's worth noting that Xpediator's operating cash flow is almost double its 2020 forecast operating profit of £7.9m, which is stated after deducting around £9m of non-cash depreciation and amortisation charges. This means that the company can pay a healthy dividend from its bumper operating cash flow, while recycling surplus cash into bolt-on acquisitions. Analysts are pencilling in annual dividends of 1.33p and 1.5p a share for the 2020 and 2021 financial years, respectively, at a cash cost of £1.9m and £2.1m. On this basis, the shares offer an attractive dividend yield of 3 per cent.

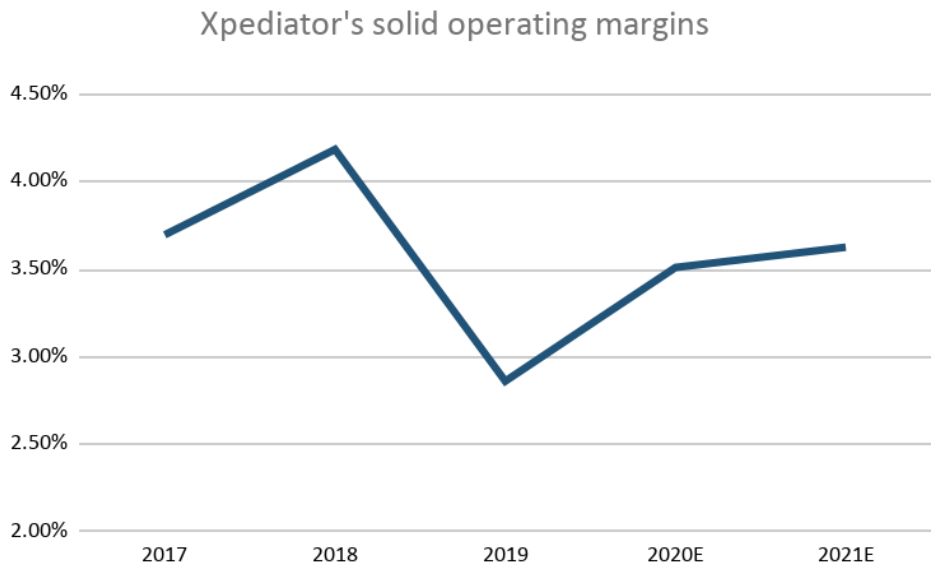
Continued...

Xpediator's solid profit margins

	2017	2018	2019	2020E	2021E
Revenue	£116m	£179m	£213m	£225m	£245m
Gross profit	£28.1m	£41.7m	£52.6m	£56.7m	£61.8m
Margin	***24.2%***	***23.3%***	***24.7%***	***25.2%***	***25.2%***
Adjusted Ebitda	£5.1m	£9.3m	£14.7m	£16.9m	£18.5m
Margin	***4.4%***	***5.2%***	***6.9%***	***7.5%***	***7.5%***
Adjusted operating profit	£4.3m	£7.5m	£6.1m	£7.9m	£8.9m
Margin	3.7%	4.2%	2.9%	3.5%	3.6%

Source: Annual reports, Cenkos Securities forecasts

Moreover, Cenkos has introduced 2021 forecasts which point to a further rise in operating profit, from £7.9m to £8.9m, based on a maintained operating margin and after factoring in 8 per cent higher revenue of £245m. Xpediator's gross margin of 25 per cent has been edging up which indicates a solid pricing environment. Cenkos' estimates still look conservative given that the £0.35m boost to profits following the disposal of EshopWedrop and £0.5m of annualised cost savings account for 85 per cent of the 2021 forecast operating profit increase. In any case, it points to another year of decent growth and that is not being priced into a PE ratio of 10.



Source: Annual reports, Cenkos Securities forecasts

Management team

The board has been led by non-executive chairman **Alex Borrelli** for the past four years. He is a qualified chartered accountant who has been active within the investment banking sector and has acted on a wide variety of corporate transactions in a senior role for over 20 years. Mr Borrelli is also non-executive chairman of Greatland Gold (GGP).

Deputy chairman **Stephen Blyth** is also a qualified chartered accountant. He set up Xpediator and led the IPO in August 2017. He stepped down as chief executive in June 2020 mainly due to health concerns.

Chief executive and qualified chartered accountant **Robert Ross** joined Xpediator in January 2020 as finance director, a role he previously held for four years at Europa Worldwide Group, a privately-owned transport and logistics business with annual revenues of £175m. He was appointed Xpediator's chief executive in October 2020.

Michael Williamson will join as group chief financial officer on 1 March 2021. He is a qualified chartered accountant with more than 20 years' experience in publicly listed and privately owned shipping, logistics and freight forwarding companies. He is moving from his current position of Global Director Finance & Controlling and Regional chief financial officer of Northern Europe for Rohlig Logistics, an international freight forwarder which has annual group revenues in excess of €900m (£783m).

Non-executive director **Rob Riddleston** joined the board in June 2018, having spent 45 years with Barclays as a senior corporate banker. He has extensive experience of the logistics sector as Head of Transport & Logistics at Barclays, and is a fellow of the Institute of Logistics and Transport.

In November 2020, Xpediator appointed two new non-executive directors, **Wim Pauwels** and **Charles McGurin**. Mr Pauwels is a well-known industry figure, having worked in multiple senior logistics roles across Europe and the US over the past 40 years. Mr McGurin is also a well-known industry figure, having worked extensively in the international supply chain sector.

The new management team certainly has the requisite experience to drive the business forward, while the M&A expertise of Mr Borrelli and Mr Ross is another bull point as Xpediator looks to deploy its cash-rich balance sheet and operational cash flow to make further bolt-on acquisitions. The board was paid a total remuneration of £587,000 in 2019, down from £686,000 the previous year, neither of which is out of kilter with profits generated by the company. Moreover, the £1.9m cash cost of the 1.33p a share 2019 dividend is more than three times higher than the board's remuneration that year, a point that highlights that shareholders are being rewarded and their interests are aligned with those of the insiders. That's important.

Shareholders

Xpediator's three largest shareholders – Cogels Investments, Shaun Godfrey and Sandu Grigore – were all previously major shareholders of Xpediator prior to the IPO. Cogels Investments is controlled by the wife and adult children of deputy chairman Stephen Blyth. The 90 per cent combined stake of these three shareholders was reduced to 71 per cent at the time of the IPO in August 2017 and they currently hold 53 per cent of the issued share capital. There is decent institutional interest, too. Investment houses Cavendish Asset Management, Berenberg and Rathbone Investment Management all hold stakes above the 3 per cent regulatory disclosure limit.

Although the top six shareholders hold almost 70 per cent of the 141.6m shares in issue, the shares can be readily traded on a bid-offer spread of 2p with market makers offering to sell in bargain sizes of up to 18,000 shares. One downside of a lower than average free float is accentuated price moves. However, this can also work in investors' favour given that Xpediator has issued two bullish trading updates in the past three months that have led to analyst upgrades, so there is positive earnings momentum. Furthermore, first half results this year have a relatively soft comparable from 2020 given the disruption to the business due to the outbreak of the Covid-19 pandemic across Europe last Spring.

Xpediator significant shareholders

Shareholder	**Percentage (%)**
Cogels Investments Limited	25.97
Shaun Godfrey	16.16
Sandu Grigore	11.15
Cavendish Asset Management	6.94
Berenberg Bank	6.20
Rathbone Investment Management	3.1
Total	**69.5**

Source: Xpediator annual report, London Stock Exchange

Peer group comparison

The listed UK logistics sector is relatively small, but Xpediator does stand out amongst its rivals. On an enterprise valuation to cash profit basis – which uses a multiple of earnings before interest, taxation, depreciation and amortisation (Ebitda), the group is by far the lowest rated on just 3.2 times 2021 forecasts. That's a third less than the rating of both **DX Group (DX)** and **Wincanton (WIN)** and two-thirds less than the rating of the much larger **Clipper Logistics (CLG)**.

Xpediator's valuation also compares favourably on a standard PE ratio, being half the rating of DX Group and Clipper Ventures. Although the shares are rated in line with Wincanton on this basis, its larger rival has net borrowings whereas Xpediator is in a net cash position so there is less financial risk with Xpediator.

It's worth noting that the 12 per cent operating profit growth embedded in analysts' 2021 estimates for Xpediator could prove conservative as there is a real possibility that volumes of business could outperform during the economic recovery. The respective EPS growth rates embedded in analysts' estimates for its three rivals are as follows: Wincanton (6 per cent); DX Group (12.5 per cent); and Clipper Ventures (18 per cent).

Peer group comparison

Company	Price (p)	Market cap (£m)	Enterprise value (£m)	Ebitda (£m)	EV/ Ebitda	EPS (p)	PE	DPS (p)	DY
Xpediator	46	65	59	19	3.2	4.6	10	1.5	3.3%
DX Group	34	195	183	36	5.0	1.6	21	0.3	0.9%
Wincanton	317	395	518	101	5.1	32.2	10	10.7	3.4%
Clipper Ventures	581	591	619	65	9.5	25.1	23	14.0	2.4%

Source: London Stock Exchange. Financial forecasts for the aforementioned financial year-ends from the following broking houses: Xpediator (Cenkos Securities – 29 January 2021); Wincanton (Peel Hunt (3 February 2021); DX Group (FinnCap - 1 February 2021); Clipper Ventures (Shore Capital - 6 January 2021).

Continued...

Target price

Having taken all the risks below into account, and the ratings anomaly with rivals, there is a strong case to be made that Xpediator should be trading on a 2021 PE ratio of closer to 15 rather than 10, especially as analysts believe net cash could surge from £6.2m to £10m by the year-end. That sum equates to 15 per cent of the group's current market capitalisation.

In fact, even if Xpediator's shares re-rate by 50 per cent to 70p by the end of 2021 then the group's enterprise valuation of £89m would still only equate to 4.8 times 2021 cash profit estimates and its cash-adjusted PE ratio of 13.5 would still be significantly below both DX Group and Clipper Logistics. As Xpediator's recovery gathers pace, there is even the possibility that the shares could exceed my 70p initial target. **Buy.**

Risk assessment

There are several risk factors to consider when making any investment decision.

- **Dependence on key suppliers**. The Transport Services Division is largely reliant on two main suppliers, DKV and Pall-Ex. Any event which leads to the sudden loss or deterioration of these relationships could materially adversely affect the group's performance prospects, results of operations and financial condition. This risk is mitigated by Xpediator's long-standing relationship with these suppliers and supported by contracts, which have been in place for almost 20 years.

- **Key market demand**. Xpediator generated 63 per cent of revenue from the CEE region in the first half of 2020 which increases geographic concentration risk. However, this is mitigated by the fact that the group services a large customer base of more than 14,000 clients and no single one accounts for more than 2 per cent of group revenue.

- **Credit risk**. Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. Xpediator is mainly exposed to credit risk from credit sales. The credit risk of new customers is assessed locally before entering contracts, credit limits and collection of debts are carefully controlled, and traded debtors regularly reviewed. In the 2019 financial year, bad debts equated to only 0.4 per cent of group revenue and debtor days fell by 10 per cent to 63.5 days, reflecting ongoing focus on managing the group's working capital effectively.

- **Fuel prices**. Volatility in oil prices could negatively impact Xpediator's financial performance. That's because although subcontractors generally absorb fuel price

fluctuations through pricing of the haulage capacity leased by the group, changes in the fuel price can impact the number of fuel cards issued and this can impact the earnings of Affinity.

- **Growth strategy.** Expansion through bolt-on acquisitions carries execution risk. However, the directors have purchased well by adhering to strict financial discipline and structuring deals so that future earn-outs are funded from operational cash flow and are based on future performance. For instance, even though Xpediator paid out deferred consideration of £3.7m in the first half of 2020 on three acquisitions – Import Services, Anglia Forwarding and Regional Express – and made the £4.6m acquisition of Nidd Transport in the final quarter of 2020, net cash only declined 10 per cent to £7m over the course of the year.

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