

QEX Logistics

Fuelling further business expansion

QEX continues to expand its business across New Zealand, Australia and China, with group sales up c 42% y-o-y in FY18 and the FY19 key operating milestone (KOM) target set at NZ\$41m, implying c 30% y-o-y growth. The scope of future earnings improvement will depend on QEX's ability to address pricing pressures (FY18 gross margin down to 16.1% from 17.3% in FY17) and to manage working capital and cash flow effectively as the business grows. Shares currently trade at a FY18 (year ended March-2018) EV/EBITDA ratio of 14.7x.

Top-line growth remains strong

In line with its earlier announcement, QEX reported sales of NZ\$31.5m, up 41.8% y-o-y. Sales of milk powder increased by 49% y-o-y to NZ\$11.8m amid favourable demand trends and shortage of milk powder during the Chinese New Year season, whereas revenue from parcel delivery, logistics and customs service improved by 31.2% y-o-y to NZ\$19.7m, with lower international parcel revenues in New Zealand offset by Australia and China. QEX's recently launched Australian operations contributed NZ\$2.4m to the top-line. Future revenues may be supported by the JV which is currently being established by QEX to distribute Munchkin Grass Fed Infant Formula and Munchkin Accessory products.

Some pressure on margins

QEX's gross margin declined by c 120 bps to 16.1%, with margin on milk powder sale at 9.4% vs 10.3% in FY17. This may be the result of pricing pressures in the New Zealand international parcel business, coupled with high level of pricing sensitivity of dairy product customers. During the recent FY19 Key Operating Milestone (KOM) targets review, QEX's gross margin target was revised slightly down from 15% to 14%. Nevertheless, gross profit increased by 31.7% y-o-y to NZ\$5.1m and adjusted EBITDA rose by 8.0% to NZ\$2.8m.

Valuation: Peer comparison

QEX is priced at 14.7x FY18 (end-March 2018) EV/EBITDA, with logistics companies trading on consensus multiples of c 10.1x EV/EBITDA and 22.8x P/E on a trailing 12-month basis. However, QEX's ratio may decline further if the company meets its KOM targets for FY19.

Company financials					
Year end	Sales turnover (target in future) (NZ\$m)	PBT (NZ\$m)	Cash (NZ\$m)	Cash from operations (NZ\$m)	
03/16	18.1	0.6	0.3	0.9	
03/17	22.2	2.6	0.1	0.4	
03/18*	31.5	1.8	1.8	(3.2)	
03/19e**	41.0	N/A	N/A	N/A	

Source: QEX accounts, Note: *Preliminary numbers. **QEX's KOM target.

General industrials

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Price **NZ\$0.80**
Market cap **NZ\$40m**

Share price graph



Share details

Code	QEX
Listing	NXT
Shares in issue	50.3m
Last reported net debt at 31 March 2018	€0.6m

Business description

QEX is a logistics company that facilitates direct trade between New Zealand/Australia and China, aiming to be a one-stop-shop for Australasian entities looking to export products to China.

Bull

- Fast growth into a large market.
- Strong board.
- Diversified relationships.

Bear

- Acquisitions made could be dilutive.
- Rapid growth may present management with problems.
- Majority of revenues dependent on daigou market.

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QEX Logistics coverage is provided through the NXT Research Scheme

Financials: High growth/high cash consumption

QEX reported a basic EPS of NZ\$2.9 cents in FY18 (period ended March 2018), which is 38.3% below the number achieved in FY17. The decline was largely a function of one-off items in FY18, including initial NXT listing expenses at NZ\$0.6m and costs related to the employee share option scheme of c NZ\$0.1m, as well as a one-time gain on the acquisition of the Shanghai Ditu subsidiary at NZ\$47,879 in FY17.

In contrast, revenues increased considerably by 41.8% y-o-y to NZ\$31.5m (and were c 21% higher than QEX's original KOM target), driven by strong demand for dairy products during the Chinese New Year season in February and the better-than-expected performance of the Australian operations (QEX's sales in Australia were NZ\$2.4m vs none in FY17) and Chinese Ditu. Milk powder sales were up 49.0% y-o-y to NZ\$19.7m in FY18, although gross margin in this segment declined to 9.4% from 10.3% in FY17. QEX has again signalled that the market for dairy products remains very competitive amid high customer sensitivity to product price, availability and freshness. QEX also sees competitive pricing pressures in New Zealand resulting in lower international parcel revenues, which was offset by new logistics revenues from Australian and Chinese clients. As a result of the above, overall gross margin was down to 16.1% from 17.3% in FY17.

QEX's administrative and employee costs were up to NZ\$3.0m from NZ\$1.3m in FY17 due to the above-mentioned listing costs, higher employee expenses (both from headcount increase in New Zealand and consolidation of Shanghai Ditu), as well as costs related to the new company premises. Consequently, adjusted EBITDA rose moderately by 8.0% y-o-y to NZ\$2.8m.

Exhibit 1: FY18 financial highlights

€'000s	FY18	FY17	y-o-y change
Revenue	31,525	22,234	41.8%
Revenue from parcel delivery, logistics and customs clearance	11,832	9,021	31.2%
Sales of milk powder	19,693	13,213	49.0%
Cost of sales	(26,459)	(18,389)	43.9%
Gross profit	5,066	3,845	31.7%
Adj. gross margin	16.1%	17.3%	-122 bp
Administrative expenses	(1,544)	(557)	177.3%
Employee benefits expenses	(1,470)	(725)	102.7%
Gain on acquisition of subsidiary	0	48	N/M
EBITDA	2,052	2,611	-21.4%
Adj. EBITDA*	2,768	2,563	8.0%
Adj. EBITDA margin (%)	8.8%	11.5%	-275 bp
Depreciation	(86)	(65)	32.8%
Interest received	23	55	-58.0%
Finance costs	(143)	(9)	N/M
PBT	1,846	2,592	-28.8%
Income tax expense	(656)	(716)	-8.4%
Effective tax rate (%)	35.5%	27.6%	792bp
Net income	1,190	1,876	-36.6%
EPS (basic, NZ\$ cents)	2.90	4.70	-38.3%
EPS (diluted, NZ\$ cents)	2.70	4.70	-42.6%

Source: QEX accounts. Note: *EBITDA adjustments include initial listing related costs (NZ\$579,317 in FY18), share option costs (NZ\$136,324 in FY18) and gain on acquisition of subsidiary (NZ\$47,879 in FY17).

Despite the solid top-line momentum, QEX recorded negative cash flow from operations of -NZ\$3.2m (vs NZ\$0.4m in FY17) which is, apart from an increase in net interest paid and income taxes payments, largely a function of payments to suppliers and employees exceeding receipts from customers. The company's rampant growth translated into considerable net working capital build-up from NZ\$1.2m in FY17 to NZ\$5.2m, with inventory and accounts payable growth outpacing group sales/COGS, while accounts payable grew broadly in line with the cost of sales. This was more than offset by new borrowings (NZ\$1.6m, with net debt to adjusted EBITDA at a relatively low 0.2x in FY18), by proceeds from share issuance (NZ\$2.6m) and the repayment of a loan granted to

a shareholder (NZ\$1.5m). However, it will be crucial for QEX to reconcile strong business growth with effective cash flow management in the current year.

Future results may be supported by the joint venture (ANZ Brand House) QEX is establishing with two other shareholders for the distribution of Munchkin Grass Fed Infant Formula and Munchkin Accessory products. Apart from a share in ANZ's profits, QEX may also benefit from providing logistics services to the JV and access to Munchkin infant formula for QEX's customers.

Valuation

QEX remains a small company with few peers. We note that AuMake (a recently listed Australian company) is approaching the daigou market differently, with plans to open at least 20 specialist stores in Australia targeting Chinese clients and at least 10 stores in China. It had trailing 12-month sales as at end-2017 of c A\$18m and raised A\$14m in January 2018. There are a number of other logistics companies globally, which average 10.1x next-year's EV/EBITDA. As can be seen, analyst coverage of these is poor for any companies with a market cap of less than c US\$700m.

Exhibit 2: Comparative multiples

	Market cap (US\$m)	EV/EBITDA (x) trailing 12-months	P/E (x) trailing 12-months
Direct			
AuMake International Ltd	53	-	-
Milk and health supplements			
a2 Milk Co Ltd	5,488	25.4x	53.9x
Bellamy's Australia Ltd	1,519	-	-
Blackmores Ltd	1,989	28.7x	40.7x
Median		27.0x	47.3x
Logistics			
United Parcel Service	100,550	11.4x	18.7x
FedEx Corp	67,627	10.1x	18.8x
Deutsche Post	47,709	10.0x	16.1x
Kuehne + Nagel International	18,205	14.7x	23.9x
DSV	15,715	17.5x	29.9x
Bolloré	14,479	21.8x	23.1x
JB Hunt Transport Services	14,203	13.3x	33.6x
Expeditors International of Washington	13,167	12.4x	27.7x
CH Robinson Worldwide	12,452	16.2x	25.6x
Yamato Holdings	11,802	12.3x	-
Nippon Express	7,507	7.4x	18.7x
Landstar System	4,848	14.6x	26.5x
Hyundai Glovis	4,677	7.9x	9.2x
Sankyu	3,582	7.6x	17.7x
Sinotrans	3,430	4.9x	12.0x
Hitachi Transport System	3,013	9.2x	16.1x
Panalpina Welttransport Holdin	2,996	15.9x	39.4x
Mainfreight	1,870	14.1x	26.0x
Forward Air Corp	1,785	10.4x	24.2x
Hub Group	1,773	10.0x	25.1x
Kintetsu World Express	1,467	8.4x	24.2x
Echo Global Logistics	790	14.9x	-
Eddie Stobart Logistics	672	-	-
Wincanton	461	5.1x	9.1x
Logwin	455	5.5x	13.5x
Hanjin Transportation	272	11.3x	-
Sebang	252	6.7x	8.9x
K&S Corp	164	5.8x	39.7x
Marsden Maritime Holdings	155	186.1x	22.8x
South Port New Zealand	123	10.2x	19.0x
TIL Logistics Group	100	-	-
Lindsay Australia	85	6.8x	19.9x
Bremer Lagerhaus-Gesellschaft	60	-	-
CTI Logistics	58	8.1x	20.5x
Hansol Logistics	41	5.4x	30.5x
Mercantile Ports and Logistics	14	-	-
Median		10.1x	22.8x

Source: Edison Investment Research, Bloomberg. Note: Prices as at 31 May 2018.

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