

QEX Logistics

FY18 results ahead of initial targets

QEX was able to exceed all of its four key operating measures (KOM) targets for FY18, with sales turnover growing by 42% y-o-y and gross margin at 16.0% (vs initial target of 14.3%), assisted by solid demand for dairy products. The company's recently launched Australian operations performed ahead of expectations, although local competitors have already reduced prices to strengthen customer retention. FY19 targets are likely to be revised upwards by 31 May, with the sales turnover target to exceed the FY18 figure by more than 10%, according to management.

Sales driven by good demand for dairy products

QEX's sales turnover reached NZ\$31.5m in FY18 (unaudited figure), c 21% ahead of its original KOM included in the listing document (NZ\$26m). The company was able to exceed its other top-line KOM targets, with monthly volume of exported dairy products reaching 178 tonnes in FY18 (vs targeted 155 tonnes) and the number of parcels cleared monthly through customs by Ditu at 75,698 (vs a target of 66,000). QEX benefitted from strong demand during the Chinese New Year season in February (leveraging the milk powder inventory it had built up in advance), which continued into March. QEX's revenues were also assisted by better than expected performance of both its Australian operations and the Chinese subsidiary Ditu. However, the market for dairy products remains competitive while a potential shortage of infant formulas in Australia poses a short-term downside risk.

Higher margins amid favourable milk powder pricing

QEX's gross margin reached 16.0% compared to its KOM target of 14.3%, driven by particularly strong profitability in Q418 at 18.4%. This was mostly due to favourable pricing amid milk powder shortages in China following the New Year. Moreover, the company also benefitted from lower direct freight cost due to the extent it used sea freight to deliver inventories to Shanghai. Moreover, QEX plans to obtain the full International Air Transport Association licensing in Q219, which will allow the company to cooperate directly with airlines rather than through freight forwarders. It has also moved to its new premises closer to the airport, providing new revenue opportunities in warehousing services.

Valuation: Peer comparison

QEX is priced at 14.8x FY17 (end-March 2017) EV/EBITDA, with logistics companies trading on multiples of c 10.1x EV/EBITDA and 21.6x P/E on a trailing 12-month basis. However, this ratio does not reflect QEX's strong growth posted in FY18.

Company financials				
Year end	Sales turnover (target in future)	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	N/A	N/A	N/A
03/19e	28.0*	N/A	N/A	N/A

Source: QEX (historicals and forecasts). Note: *QEX will review its FY19 targets by 31 May.

General industrials

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Price NZ\$0.75
Market cap NZ\$38m

Share price performance



Share details

Code QEX
Listing NXT
Shares in issue 50.3m

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 problems.
- Majority of revenues dependent on daigou market.

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QEX Logistics coverage is provided through the NXT Research Scheme

Valuation

QEX remains a small company and has few peers. We note that AuMake (a recently listed Australian company) is approaching the daigou market differently, planning to open at least 20 specialist stores in Australia targeting Chinese consumers. It generated LTM revenues as at end-December 2017 of c A\$18m and raised A\$14m on 22 January 2018.

There are a number of other logistics companies globally, which average 10.1x next-year EV/EBITDA multiples. As can be seen, analyst coverage of these is poor for any companies with market cap of less than c US\$700m.

Exhibit 1: Comparative multiples

	Market cap (US\$m)	EV/EBITDA (x) trailing 12 months	P/E (x) trailing 12 months
Direct			
AuMake International	55	-	-
Milk and health supplements			
a2 Milk Co	6,224	25.4	60.2
Bellamy's Australia	1,547	-	-
Blackmores	1,532	28.7	31.5
Median		27.0	45.9
Logistics			
United Parcel Service	98,527	11.1x	18.3x
FedEx	66,940	10.1x	18.6x
Deutsche Post	53,904	9.8x	17.7x
Kuehne + Nagel International	18,749	14.7x	24.7x
DSV	14,980	18.6x	27.4x
Bollore	14,627	21.9x	23.0x
JB Hunt Transport Services	13,030	13.3x	30.8x
CH Robinson Worldwide	12,894	15.6x	27.3x
Expeditors International of Washington	11,304	13.8x	26.1x
Yamato Holdings	10,596	16.1x	-
Nippon Express	7,546	7.4x	18.9x
Hyundai Glovis	5,905	7.9x	11.6x
Landstar System	4,345	14.6x	23.8x
Sinotrans	3,491	4.9x	12.1x
Sankyu	3,172	7.3x	16.2x
Panalpina Welttransport Holding	3,009	15.9x	39.8x
Hitachi Transport System	2,995	9.2x	16.1x
Mainfreight	1,755	14.1x	24.2x
Forward Air	1,606	10.4x	21.8x
Hub Group	1,522	10.0x	21.6x
Kintetsu World Express	1,343	9.9x	24.8x
Echo Global Logistics	777	14.9x	-
Eddie Stobart Logistics	700	-	-
Logwin	456	5.5x	13.1x
Wincanton	399	4.9x	7.8x
Hanjin Transportation	289	13.2x	-
Sebang	240	5.8x	9.2x
K&S	160	5.8x	38.9x
South Port New Zealand	119	10.2x	18.3x
TIL Logistics Group	109	-	-
Lindsay Australia	84	6.8x	19.9x
CTI Logistics	62	8.1x	21.7x
Bremer Lagerhaus-Gesellschaft	62	-	-
Hansol Logistics Co	40	5.4x	29.9x
Mercantile Ports and Logistics	17	-	-
Median		10.1x	21.6x

Source: Edison Investment Research, Bloomberg (priced on 30 April 2018).

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