

# QEX Logistics

## Solid growth expected to continue in FY19

In line with earlier management expectations, QEX Logistics has made an upward revision to its FY19 KOM targets following strong preliminary FY18 numbers. The company now aims at total sales turnover growth of 30% over FY18 to NZ\$41m and gross profit at NZ\$5.74m in FY19. This implies a 14% margin, which is somewhat below the initial target of 15% and suggests that in its current rapid growth phase, QEX decided to trade off some of its margin against top-line growth.

## Most FY19 KOM targets revised upwards

Following the recent positive announcement of FY18 KOM results on 26 April, QEX has completed its revision of KOM targets for FY19. It now expects to generate sales turnover of NZ\$41m compared with the earlier target included in its listing document at NZ\$28m, implying a 46.4% upward revision. This compares with FY18 sales turnover at NZ\$31.5m (which was c 21% ahead of the initial KOM target) and suggests a c 30% y-o-y growth rate vs FY18. This is accompanied by an upward revision of the expected monthly volume of dairy products exported from 160 tonnes to 182 tonnes (up 13.8%) and the monthly number of parcels cleared from 72,000 to 80,800 (up 12.2%).

## Gross margin KOM target slightly down

QEX's gross margin target (as a percentage of the sales turnover target) was revised down slightly from 15% to 14%. This compares with 16.0% achieved in FY18 amid an exceptionally strong Q418 at 18.4%, which was assisted by favourable pricing due to the tight supply of milk powder in China. The new gross margin target is also somewhat below the initial FY18 target of 14.3% included in the listing document. However, given the higher top-line growth expectations, this still translates into a significantly higher gross profit target at NZ\$5.74m (vs NZ\$4.2m previously).

## 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 22.6x P/E on a trailing 12-month basis. However, this ratio does not reflect the strong growth QEX posted in FY18.

### 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	N/A	N/A	N/A
03/19e	41.0	N/A	N/A	N/A

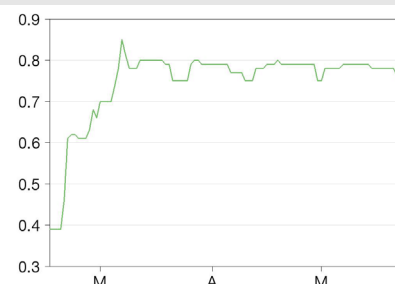
Source: QEX (historicals and forecasts)

### General industrials

28 May 2018

**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 trailing 12-month 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 a 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
<b>Direct</b>			
AuMake International	50	-	-
<b>Milk and health supplements</b>			
a2 Milk Co	5,427	25.4	52.8
Bellamy's Australia	1,397	-	-
Blackmores	1,691	28.7	34.7
<b>Median</b>		27.0	43.8
<b>Logistics</b>			
United Parcel Service	99,335	11.4	18.4
FedEx Corp	66,929	10.1	18.6
Deutsche Post	48,854	10.0	16.4
Kuehne + Nagel International	18,219	14.7	24.0
Bollere	15,761	17.5	29.9
DSV	14,932	21.8	23.7
JB Hunt Transport Services	13,677	13.3	32.3
CH Robinson Worldwide	12,849	12.4	27.0
Expeditors International of Washington	12,175	16.2	25.0
Yamato Holdings	11,670	12.3	-
Nippon Express	7,406	7.4	18.6
Hyundai Glovis	4,975	7.9	9.8
Landstar System	4,701	14.6	25.7
Sinotrans	3,615	4.9	12.6
Sankyu	3,466	7.6	17.2
Panalpina Welttransport Holding	3,067	9.2	16.5
Hitachi Transport System	3,021	15.9	40.0
Mainfreight	1,808	14.1	25.4
Forward Air Corp	1,736	10.4	23.5
Hub Group	1,660	10.0	23.5
Kintetsu World Express	1,494	8.4	24.8
Echo Global Logistics	784	14.9	-
Eddie Stobart Logistics	676	-	-
Logwin	463	5.3	9.1
Wincanton	453	5.5	13.4
Hanjin Transportation	280	11.3	-
Sebang	257	6.7	9.0
K&S Corp	160	5.8	38.9
Marsden Maritime Holdings	151	186.1	22.6
TIL Logistics Group	120	10.2	18.7
South Port New Zealand	101	-	-
Lindsay Australia	87	6.8	20.4
CTI Logistics	62	-	-
Bremer Lagerhaus-Gesellschaft	58	8.1	20.5
Hansol Logistics	41	5.4	30.6
Mercantile Ports and Logistics	16	-	-
<b>Median</b>		<b>10.1</b>	<b>22.6</b>

Source: Edison Investment Research, Bloomberg. Note: Prices as at 24 May 2018.

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