

QEX Logistics

General industrials
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Continued business acceleration

QEX's revised sales turnover target indicates a robust business uptake and confirms the strong start in Q119 (despite weaker sales in Australia), with sales at NZ\$15.4m (up 35% vs Q418) driven by dairy products and NZ's international postage revenue. Importantly, management highlighted that the solid trend continued over the past two months. QEX's ability to secure funding through its listing in February coupled with the recent NZ\$2.5m placement, supports the company's solid growth prospects.

New FY19 sales target implies 90% y-o-y growth

QEX has made an upward revision of its FY19 sales turnover KOM target to NZ\$60m, which is now 46% higher than the prior figure of NZ\$41m (already revised from NZ\$28m in May this year). FY19 growth should be mostly driven by the New Zealand operations, as sales in Australia are limited by the strong pricing response of competitors (Q119 sales down to NZ\$0.4m from NZ\$2.0m in Q418).

Other KOM targets remain unchanged

The remaining top-line targets were so far kept in line with prior levels, with monthly volume of dairy products exported still expected at 182 tonnes (vs 241 in Q119) and the number of cleared parcels at 80,800 per month (Q119: 76,516 due to a reduction in logistics sales in Australia). Moreover, gross margin target was also reaffirmed at 14% (despite Q119 number at 12.3%), as QEX expects margin pressures to ease in Q219 thanks to a seasonal reduction in milk powder supply.

NZ\$2.5m placement successfully completed

QEX recently raised NZ\$2.5m through a placement of 2.2m shares (ie 4.14% of post-issue share count) at a price of NZ\$1.15 per share. According to the company, the placement was heavily oversubscribed and supported by a number of wholesale and retail investors. Management highlights that becoming a listed company in February also allowed QEX to increase its banking facilities.

Valuation: Peer comparison

QEX is priced at (end-March 2018) EV/EBITDA and P/E at 30.2x and 51.6x, respectively, with logistics companies trading on c 10.0x EV/EBITDA and 19.4x P/E on a trailing 12-months basis. However, QEX's ratio may decline further if the company meets its KOM targets for FY19.

Company financials

| Year end | Sales turnover (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* | 60.0 | N/A | N/A | N/A |

Source: QEX accounts. Note: *QEX's KOM target.

Price NZ\$1.17
Market cap NZ\$61m

Share price graph



Share details

Code QEX
 Listing NXT
 Shares in issue 52.5m
 Last reported net debt at 31 March 2018 NZ\$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.

Analyst

Milosz Papst +44 (0)20 3077 5700

industrials@edisongroup.com
[Edison profile page](#)

QEX Logistics coverage is provided through the NXT Research Scheme

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 a 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 10.0x LTM 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 1: Comparative multiples

| | Market cap (US\$ m) | EV/EBITDA (x) trailing 12m | P/E (x) trailing 12m |
|--|------------------------|-------------------------------|-------------------------|
| Direct | | | |
| AuMake International | 58 | - | - |
| Milk and health supplements | | | |
| a2 Milk Co | 6,240 | 28.3x | 48.3x |
| Bellamy's Australia | 939 | - | - |
| Blackmores | 2,038 | 22.5x | 37.7x |
| Median | | | |
| | | 25.4x | 43.0x |
| Logistics | | | |
| United Parcel Service | 106,227 | 11.9x | 18.7x |
| FedEx Corp | 65,474 | 10.0x | 16.3x |
| Deutsche Post | 45,270 | 8.1x | 15.6x |
| Kuehne + Nagel International | 19,623 | 14.8x | 24.8x |
| DSV | 17,624 | 17.8x | 30.0x |
| Bollere | 14,325 | 21.8x | 22.6x |
| CH Robinson Worldwide | 13,310 | 13.9x | 25.0x |
| JB Hunt Transport Services | 13,259 | 12.9x | 27.7x |
| Expeditors International of Washington | 12,800 | 14.3x | 25.2x |
| Yamato Holdings Co | 12,346 | 12.3x | - |
| Nippon Express Co | 6,343 | 8.0x | 16.2x |
| Landstar System | 4,785 | 13.4x | 23.4x |
| Hyundai Glovis Co | 4,039 | 5.8x | 9.2x |
| Agility Public Warehousing Co | 4,025 | 8.5x | 18.6x |
| Panalpina Welttransport Holding | 3,543 | 15.2x | 42.8x |
| Sankyu | 3,479 | 8.0x | 16.3x |
| Hitachi Transport System | 3,111 | 8.8x | 16.7x |
| Sinotrans | 2,574 | 5.7x | 8.8x |
| Mainfreigh | 1,891 | 13.0x | 25.6x |
| Forward Air Corp | 1,878 | 11.4x | 23.9x |
| Hub Group | 1,808 | 10.0x | 22.5x |
| Kintetsu World Express | 1,417 | 8.5x | 17.3x |
| Echo Global Logistics | 935 | 12.9x | - |
| Eddie Stobart Logistics | 673 | - | - |
| Logwin | 475 | 5.5x | 12.7x |
| Wincanton | 381 | 5.1x | 7.7x |
| Hanjin Transportation Co | 327 | 10.5x | - |
| Sebang Co | 225 | 5.7x | 7.4x |
| Marsden Maritime Holdings | 143 | 195.4x | 21.5x |
| K&S Corp | 133 | 4.5x | 11.6x |
| South Port New Zealand | 119 | 10.2x | 19.4x |
| Lindsay Australia | 87 | 6.8x | 21.2x |
| TIL Logistics Group | 81 | - | - |
| CTI Logistics | 58 | 8.1x | 21.1x |
| Bremer Lagerhaus-Gesellschaft | 54 | - | - |
| Hansol Logistics Co | 27 | 9.9x | - N/A |
| Mercantile Ports and Logistics | 11 | - | - |
| Median | | | |
| | - | 10.0x | 19.4x |

Source: Edison Investment Research, Bloomberg. Note: Prices as at 30 August 2018.

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