Xpediator PLC

Back to basics is paying off

14 September 2020

The results from Xpediator for the six months to June were extraordinarily good. Revenues declined just 2.7%, with gross and operating margins modestly ahead - and this from a company with considerable exposure to the consumer. The results highlight the entrepreneurial nature of the business: new business was won and the utilisation of the Group's Transport Solutions clients to find the best routes and rates when the pandemic closed several CEE borders. The dividend was increased by 61% y-o-y which highlights confidence in the outlook.

Guidance suggests that, barring a second COVID-19 related lockdown, business should return to normal levels during H2, with an unchanged adj. PBT likely. We anticipate a resumption in growth during 2021, on a declining cost base. The shares are strongly underpinned by the NAV (June '20: 19.9p) with the trailing PER of 9.4x reflecting overstated risk, rather than the clear growth potential, in our opinion.

The interim results from Xpediator highlight the resilient and entrepreneurial nature of the business. To report only a modest decline in revenues against the backdrop of COVID-19 related lockdowns across its markets is remarkable. The focus on the cost base, with further benefits from the savings to materialise during H2, helped gross and operating margins to rise y-o-y.

The Freight Forwarding business was the star performer, with the Baltic region and Bulgaria delivering extremely healthy top-line growth. The closure of the UK high street affected the Logistics & Warehousing division, but there was a strong performance in Romania, reflecting good performances by Pall-Ex and the new Sibiu cross-dock facility. Transport Solutions suffered from a reduction in the movement of goods across the CEE region, coupled with falling fuel prices. Nevertheless, information on its clients helped to underpin the improvement in Freight Forwarding's activity levels.

The rationalisation of the cost base commenced during late Q1, removing some of the excesses of 2019, particularly at the centre, but also reflecting declining activity levels as the pandemic began to bite. One e-commerce related business was closed, with management closely monitoring those units performing below expectations. Much of the £0.5m of annualised cost savings realised to date will benefit H2.

With headroom from bank facilities, coupled with cash reserves, the group is well placed to target further acquisitions. There continues to be a healthy pipeline of opportunities in this regard.

Securing several contracts during H1 augurs well for the remainder of the year and beyond. The digital quotation system within Freight Forwarding is now operational and is likely to result in further efficiencies as well as generating new business.

The shares are too lowly rated relative to opportunities and underpinned by the NAV (19.9p). Prospects look attractive to us, a view seemingly shared by the Board given the scale of the dividend increase.

Company Data

EPIC	XPD
Price (last close)	26p
52 week Hi/Lo	42p/13p
Market cap	£37.2m
Reported NAV/share (Jun '20)	20p
Net cash (Jun '20)	£4.3m

Share Price, p

Source: ADVFN

Description

Xpediator (XPD) is an integrated freight management business. The Group has three main business areas: freight forwarding services, logistics and warehousing, plus transport services. The Group derives its revenues from the UK (36.3%), CEE and Baltic states (63.7%) as at June 2020.

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Interim results

2020 Interim results			
£m, unless otherwise stated	**H1 19A**	**H1 20A**	**Change**
FF	76.71	78.40	*2.2%*
L&W	22.55	18.75	*-16.9%*
TS	3.11	2.49	*-19.8%*
Group revenue	**102.38**	**99.64**	***-2.7%***
CoS	-77.61	-74.98	*-3.4%*
Gross profit	**24.77**	**24.66**	***-0.4%***
GP%	*24.2%*	*24.8%*	
Other operating income	0.44	0.87	*98.4%*
OpEx	-22.76	-23.04	*1.2%*
FF	1.40	2.65	*89.7%*
L&W	1.16	0.62	*-46.9%*
TS	1.26	0.89	*-29.4%*
Central costs	-1.37	-1.66	*21.2%*
Group operating profit	**2.45**	**2.49**	***1.8%***
FF%	*1.8%*	*3.4%*	
L&W%	*5.2%*	*3.3%*	
TS%	*40.6%*	*35.7%*	
Group operating margin, %	*2.4%*	*2.5%*	
Associates	-0.07	0.00	
Cash finance costs	-0.41	-0.43	
Non-cash finance costs	-0.18	-0.16	
Exceptional items	-0.71	-0.70	
Adj. PBT	**1.96**	**2.06**	***4.9%***
Taxation	-0.39	-0.47	*20.1%*
Tax %	*20.0%*	*22.9%*	
Minorities	-0.18	-0.55	*207.3%*
Adj. Earnings	**1.39**	**1.04**	***-25.4%***
Adj. EPS (p)	**1.24**	**1.03**	***-16.9%***
DPS (p)	**0.28**	**0.45**	***60.7%***
Net cash at period end	4.12	4.32	*4.9%*
Cash per share (p)	3.03	3.05	*0.8%*
NAV per share (p)	**21.65**	**19.92**	***-8.0%***

Source: Company

Xpediator has demonstrated great resilience within its results for the six months. Margins at both the gross and operating levels improved, on revenues modestly down year-on-year. Significantly, the dividend increased by 61% to 0.45p per share, highlighting the strong cash flow and management's confidence in the outlook.

The key features of the results are:

- A strong Q1 trading period, with the Baltic and CEE region performing particularly well
- April represented the nadir in trading during H1, affected by Covid-19 lockdowns in the UK and restrictions at borders across parts of the CEE region
- Trading recovered from late May, with each subsequent month improving on the last
- Freight Forwarding division delivered a y-o-y uplift in revenues, which we think to be remarkable under the circumstance and aided by a cross-fertilisation of relationships held by Transport Solutions
- Overall revenue declined by just 2.7% overall
- The gross margin of 24.8% represents the highest H1 margin since 2016 (revenues tend to be skewed towards H2)
- Operating margins rose to 2.5% (H1 2019: 2.4%)
- Management was quick to reduce the cost base, aided by furlough payments from governments
- The full scale of restructuring/redundancy benefits will be seen in H2
- Adj. EPS declined 16.9% to 1.03p, reflecting the higher number of shares, coupled with an increase in minority payments
- The dividend cover declining to a still comfortable 2.3x (H1 2019: 4.4x)
- Net cash of £4.3m (FY 2019: £7.0m), reflects strong cash flow and the payment of £3.7m of deferred consideration

The Group traded modestly above trend during January and February before the Corona virus-related disruptions. New customer relationships which commenced in H2 2019 began to gain traction during Q2. That the overall decline in activity was restricted to just 2.7% highlights the entrepreneurial nature of the business, with additional revenue streams offsetting much of the pandemic related malaise during Q2.

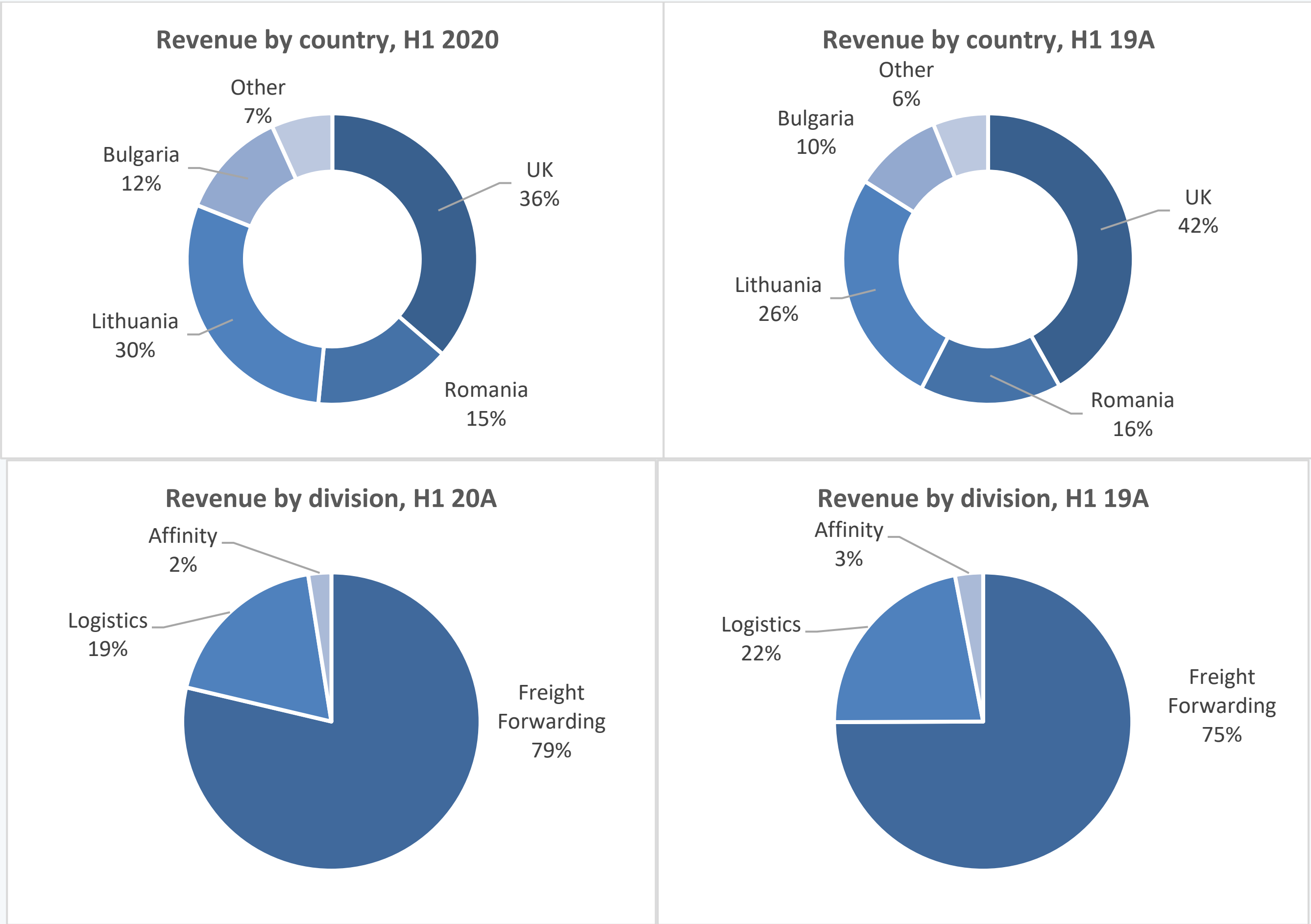
The COVID-19 pandemic impacted UK revenues most significantly, declining 22.7% to £36.2m and 36.3% of overall turnover (H1 2019: 41.9%). Revenues related to the high street were most affected given its closure for ten weeks.

Lithuania and Bulgaria performed strongly, with revenues rising 2.0% and 3.9% and accounting for 29.5% (26.4%) and 12.2% (9.9%) of Group turnover, respectively. Revenues derived from the Group’s activities in Romania fell 11.4% to £15.2m, which amounted to 15.2% (H1 2019: 15.7%) of overall activity.

We discuss the movements by division shortly and the Freight Forwarding business was the only one to grow revenues during the period, now accounting for 79% of overall sales.

A diverse customer base has clearly benefited Xpediator during the more difficult Q2 trading period. It remains the case that no one customer is currently responsible for more than 2% of revenues and therefore, reducing customer-specific risk.

Changing source of revenues, by country and by division



Source: Company

Effective cost control

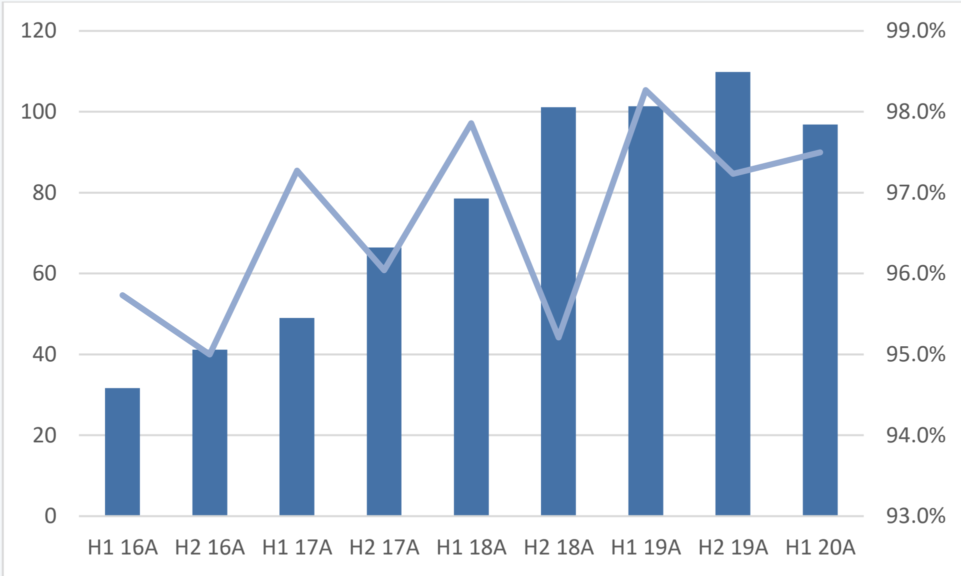
With revenues broadly steady, management needed to take firm control of costs – an area of concern during 2019. Management was swift to act in this respect, with some actions undertaken permanent and others temporary. The latter reflected the combination of help from governments under various furlough schemes and the salary sacrifices accepted by senior management. Most employees have now returned to work or in some instances continue to contribute from home.

The focus on costs commenced ahead of lockdown but gathered pace thereafter. In total, overall costs declined £4.5m or 4.5% y-o-y. The level of permanent cost reductions, representing an annualised saving of £0.5m, will be seen in H2 and into FY2021. The targeting of central costs saw the IT, M&A and finance overheads reduced, following aggressive hiring last year.

Exceptional costs of £0.7m (H1 2019: £0.7m) reflects £0.9m of redundancy and restructuring expenses, closure of the loss-making e-commerce business' Buzzbrand, and a write-down of deferred consideration for Anglia of £0.24m (H1 2019: £0.3m). The group's warehousing subsidiary focused on retail, EMT, has been restructured with a new warehouse management system introduced and followed a difficult lockdown period.

The gross margin improved, despite Freight Forwarding (typically lowest returns of the three divisions), being the only area to increase revenues. The decline in costs was more apparent within cost of sales, falling £2.6m or by 3.4% y-o-y. Operating costs declined more modestly, by just £0.15m or by 0.7% y-o-y. We highlight in the chart below that overall costs in the period were at the lowest level since H1 2018.

Overall costs at the lowest level since H1 2018A



Source: Company

Adjusted PBT rose 4.9% to £2.1m and is reported after broadly unchanged cash interest of £0.4m. The tax rate declined modestly to 20% (H1 2019: 22.9%), with minority interests more than doubling to £0.55m. The latter reflected the Group gaining operational and management control of International Cargo Centre Limited (ICC). The Group initially purchased 40% of ICC in mid-2018, with the outstanding 60% acquired at the end of April 2020.

Adjusted EPS fell 16.9%, to 1.03p and reflecting the increase in the number of shares, part of which was due to the scrip dividend for 2019, coupled with the rise in minority payments.

The dividend increased by 60.7% y-o-y and reflected several factors, not least management's confidence in the outlook for the busines. The payout signifies an improvement also on the H1 2018 level. We anticipate that the half-yearly split of dividends has returned to one-thirds/two-thirds, in favour of the full-year pay-out.

Net assets are broadly unchanged from the year-end position at £29.4m (or £28.2m excluding minority interests). The NAV per share amounted to 19.9p at the period end, providing a robust underpinning to the share price.

Focus on cash

Actions taken to conserve cash during the pandemic included:

- The government paying a proportion of staff costs (where placed on furlough)
- Voluntary pay cuts for higher earners
- Cuts to all discretionary spend

- Lower utility charges
- Temporary rent reductions and,
- Deferral of tax payments

The movement in working capital amounted to a reduction of £0.3m, with most actions undertaken last year. Debtor days (DSOs) fell to 66.1 days (H1 2019: 68.6), illustrating the scale of the improvement in the cash collection period.

Net cash of £4.3m represents 3.05p per share.

Divisional performance

Freight Forwarding

Revenue within Freight Forwarding increased 2.2% to £78.4m, with operating profit rising to £2.65m (H1 2019: £1.4m) and representing a margin of 3.4%.

The driver of the improving top-line was the Baltic states, where revenue rose 8.7% to £29.4m to become the largest constituent of divisional revenues (37.5% versus 35.2% in H1 19). Revenues increased by 19.7% in Bulgaria to £12.1m or 15.5% of divisional revenues.

The continued improvement across the two countries built on the strong H2 19, following client wins. Within the 'other' region, Estonia and Serbia drove the 11.6% uplift in revenues. The Baltic and CEE markets were generally less affected than the UK by the pandemic.

The Group's Transport Services division, Affinity, has up to date information on its fuel card/tolls/tunnel/ferry customers of which clients remained active and routes serviced. This information was passed onto Freight Forwarding who in turn, utilised the active carriers to transport goods. The tie-up with Affinity resulted in a rising proportion of full loads (the UK, Baltic region, and CEE), at attractive rates, thereby helping to improve profitability.

The pandemic was responsible for driver and vehicle shortages, resulting in supply-side inflation. The cost inflation was passed on immediately to its customer base, resulting in a maintenance of margins at the higher levels.

Included within the CEE region was Romania, reporting revenues down 19.8% lower at £5.0m. The shortfall reflected a combination of COVID-19 corresponding reductions in activity.

In the UK, Freight Forwarding saw revenues decline 7.4% to £25.8m (H1 19: £27.8m). Benfleet was significantly affected by the pandemic, owing to its strong ties to China and Italy. The subsidiary remained profitable; however, seeing a reduction of £0.2m in operating profit y-o-y. A sharp rise in refrigerated transportation activity (via Dover) and increased demand for stationery (home office/schooling) helped to restrict the overall decline in UK revenues.

Also, the move into profit within the Serbian and Estonian trade helped margins to rise. The e-commerce business, including EshopWedrop and Regional Express, reported a reduced loss of £0.2m (H1 19: £0.3m),

Logistics & Warehousing

Revenues declined 16.9% to £18.75m within the logistics & Warehousing division. Meanwhile, operating profit fell by 46.9% to £0.62m and an operating margin of 3.3% (H1 2019: 5.2%).

Pall-Ex continues to be a star performer, driving the 10.4% uplift in Romanian revenues to £8.3m. The improving top-line at both Delamode Romania and the Pall-Ex franchise led to rising utilisation rates within the relatively new cross-dock facility in Sibiu. Warehouse volumes and profitability rose 14% and 90%, respectively, when compared to H1 2019. Volumes in April declined, with levels returning to pre-COVID-19 levels by the end of May.

Pall-Ex moved an average of 67,000 pallets of freight per month during H1, an 11.7% increase over the levels experienced a year ago. Operating profit within Pall-Ex Romania business increased 47% y-o-y during H1.

The most significant decline across the Group geographically was the 30.5% drop in UK Logistics & Warehousing revenues, to £10.4m. This reduction highlights the closure of the UK high street for the ten weeks to early June, affecting not just those businesses st

oring garments (EMT's Beckton facility) but also, ISL in Southampton, where goods are re-packaged for retail. The reduction in imported toys (ISL) again proved to be a drag on the top-line during H1.

Following the loss of a customer during Q4 2019, another customer has given notice on the Braintree warehouse facility (Q4 2020). Management was not prepared to renew an uneconomic contract. That said, the marked increase in e-commerce generally helped to deliver improved performance during Q2 but remained loss-making. The facility is in the process of reorganisation, with new and more profitable customers sought.

EMT delivered a loss of £0.2m during H1, a £0.4m turnaround y-o-y. The business has been restructured, including the introduction of a new warehouse management system and should result in the subsidiary returning to profitability during H2 2020.

In addition to the lower in-bound and out-bound volumes, ISL experienced higher labour costs as a result of the need for social distancing, thereby impacting profits by £0.2m.

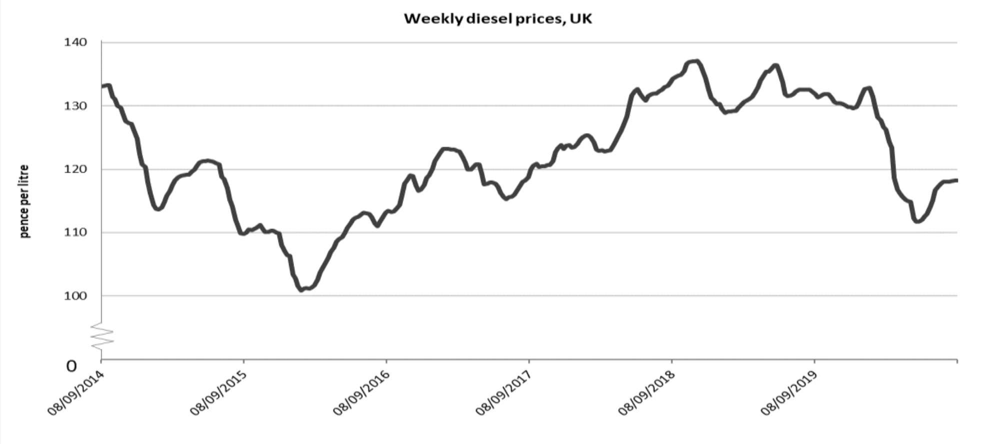
Transport Solutions

Transport Solutions, trading under the brand name **Affinity**, delivered a 19.8% fall in revenues, at £2.49m. Divisional operating profit declined 29.4% to £0.89m, representing a margin of 35.7% (H1 2019: 40.6%).

Key metrics for the Affinity business are the movement of transport and fuel prices. Those reflect the bulk of the business concentrating of fuel cards and toll/tunnel/ferry passes, with the higher activity levels and fuel prices, the more significant revenues. Not only did COVID-19 lockdowns impact the movement of transport, but also from the end of January the price of diesel has plummeted. We highlight the latter in the chart below, with weekly UK diesel pump prices a reasonable proxy for fuel prices across Europe. Since June prices have recovered approximately a third of their fall, although they remain 11.0% below the year's peak.

Compounding the double-whammy experienced by the division during H1, several borders were closed by CEE governments and, this resulted in long delays.

Weekly diesel price, UK



Source: BEIS

Gross billings, which represent the overall value of fuel and passes, rose 5.5% y-o-y during Q1, before falling by an annualised 34.9% during Q2. The scale of the decline reduced to -21.1% during June. The exit rate for July was -10.8%, representing a further move in the right direction, with normalised activity levels likely at some point in H2.

Opportunities and outlook

The ongoing strategy to digitalise the Freight Forwarding business took further steps forward during H1. The initial stage sees the roll-out of a digital quotation and booking platform, which provides competitive rates. Once booked, the customer can track all stages of the delivery process. By mid-2021 the entire customer-facing, and back-office functions should be fully automated, thereby improving efficiencies across the Freight forwarding business.

A cross-dock facility was opened in Sibiu in Romania in April 2019, covering 6,000 sqm and enables the loading/unloading of 24 trucks simultaneously. Pall-Ex franchise handled its three millionth pallet during H1. The facility is now trading close to capacity.

The Group announced in March the signature of a 20-year lease with AB Ports for a new 61,000 sqm distribution centre within Southampton's container port. The new facility doubles the Group's existing capacity within the port and is expected to be operational from late Q1 2021. Management is in the process of attracting clients to fill the site, with the current pipeline positive.

A new 8,000 sqm cross-dock facility will service the Baltic region for the Group and will be able to service 50 trucks simultaneously. The facility should open during Q4 2020.

New cross-dock facility in the Baltic region

Source: Company

Regional Express, a service supplier in the Amazon Service Provider network, has announced **a trial with Amazon Inc**. Under this trial, full trailer loads can be booked in the UK to transport customers' products into an Amazon fulfilment centre via the Amazon Transport Service (ATS) portal. Utilising the portal, Regional Express will be able to access an extensive network of delivery vehicles, at competitive rates and with GPS driver tracking.

ISL reported several contract wins during H1, including with toy companies such as Universal Games and The Little Birdy Group.

Brexit potentially represents a substantial opportunity for the business, particularly organising customers' customs clearance activity as part of the services offered by Freight Forwarding.

One should bear in mind that H2 is seasonally the stronger period, accounting for an average of 55.6% of revenues and 64.7% of profits over the last four years. The outlook statement strongly suggested that trading post-half-year is approaching more normal levels. On this basis and caveated by any second wave of COVID-19 related lockdowns, adjusted profit is expected (by management) to be at least in line with the level achieved in 2019. 2019, adj. PBT amounted to £5.15m.

One should be aware that the rationalisation experienced within the business during H1, not least in reducing central costs, will have a more significant impact in H2. One should bear in mind that there remain areas of the business which continued to underperform during H1. We think that should such trends continue; management action may well be necessary.

The Braintree site has chosen not to renew an uneconomic contract from Q4. Management is seeking replacement contracts, which may require a reconfiguration of the facility to maximise profitability. However, the volume of business through the site is likely to result in a loss during both H2 2020 and in Q1 2021.

Management stated its five-year strategy at the time of the preliminary results earlier in the year. The focus was on:

- **The digitalisation of the Freight forwarding business**
- **A greater emphasis on road freight to and from the CEE and Baltic states**
- **Achieving £1bn of revenues**

Organic growth will need to be supplemented by acquisitions if the demanding expectations are to be achieved. The pipeline of M&A opportunities remains healthy. The management team is targeting complementary service areas (particularly air and sea capabilities) and infilling gaps in the Group's presence across Europe.

The headroom in the bank facility, coupled with the net cash, should enable the management team to fund acquisitions.

Management update

Following the decision in early June to stand down from his day-to-day duties within the business, the founder and CEO of the Group Stephen Blyth, moved to the position of Non-Executive Deputy Chairman and is to be involved with the audit committee and the M&A committee. Joint CEOs were promoted to Stephen’s old position: the incumbent CFO, Robert Ross and Danor Ionescu. The process to recruit a permanent CEO is ongoing and should be completed by the year end.

The Group has appointed Nick Allen during H1 as the new Logistics Director.

A new IT Director will commence within the Group from September and will be responsible for the development of the IT function and the digitalisation of the business.

Investor Access

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