

# Freightways

## 1H21 Preview — Pick-Up and Delivery of Growth

**ANDY BOWLEY**

andy.bowley@forsythbarr.co.nz  
+64 4 495 8246

**SCOTT ANDERSON**

scott.anderson@forsythbarr.co.nz  
+64 4 914 2219

### OUTPERFORM

We expect Freightways (FRE) to report a very strong 1H21 result on 22 February 2021, boosted by (1) strong parcel volumes against a weak prior year comparison, (2) 'Pricing for Effort' gains for residential deliveries, (3) margin recovery in Information Management, and (4) the accretive Big Chill acquisition (first full six months). We forecast underlying NPATA (NPAT before acquisition related amortisation) of NZ\$41.7m, up +38% against the prior year. Following a dividend holiday during 2H20, we expect dividends to resume in 1H21 consistent with pre COVID-19 pay-out rates. Recent strong share price performance has lifted FRE's one year forward PE to ~23x on consensus estimates, though we continue to see scope for consensus upgrades.

NZX Code	FRE	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$10.95	NPAT* (NZ\$m)	59.5	79.5	88.6	95.1	PE	29.1	22.8	20.5	19.1
Target price	NZ\$10.50	EPS* (NZc)	37.7	48.0	53.4	57.4	EV/EBIT	25.3	19.1	17.7	16.5
Risk rating	Medium	EPS growth* (%)	-7.3	27.4	11.3	7.4	EV/EBITDA	14.8	12.5	11.9	11.4
Issued shares	165.8m	DPS (NZc)	15.0	36.0	40.1	43.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$1,815m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.4	3.3	3.7	3.9
Avg daily turnover	209.0k (NZ\$1,567k)	*Based on normalised profits					Gross div yld (%)	1.9	4.6	5.1	5.5

#### Key things to consider ahead of FRE's 1H21 result:

- **Parcel network volume growth:** Robust B2B (business-to-business) volumes will be boosted by very strong B2C (business-to-consumer) as a result of the structural step-up in ecommerce activity due to COVID-19.
- **Pricing for Effort:** FRE achieved 87c of its residential pricing initiative in FY20 and 1Q21. It has continued with further price increases in FY21 as it continues to target an overall NZ\$1.50 lift per residential parcel.
- **Big Chill:** Consolidated from 1 April 2020, Big Chill will contribute its first full six month period. A word of caution – FRE's group FY21 lease depreciation guidance does not yet include the new Big Chill facility.
- **Dividend:** We expect FRE to reinstate its dividend having taken a holiday through 2H20. We forecast an interim dividend of 18c, reflecting a first half pay-out of ~72%.

#### Conference call

The company will host a result conference call via zoom at 11am on 22 February 2021. Investors wishing to dial into the call need to register by emailing Kelli-Anne.Ball@freightways.co.nz.

**Figure 1. Summary of 1H21 forecasts (NZ\$m)**

	1H20	1H21E	Change
Sales revenue	318.9	409.7	28%
EBITDA	71.3	95.9	34%
EBITA	50.1	67.9	35%
Reported NPAT	29.2	38.2	31%
<b>Underlying NPAT(A)</b>	<b>30.3</b>	<b>41.7</b>	<b>38%</b>
Underlying EPS (cents)	18.8	25.2	34%
Interim DPS (cents)	15.0	18.0	20%

Source: Forsyth Barr analysis

**Figure 2. Segmental forecasts (NZ\$m)**

	1H20	1H21E	Change
Express Package & Business Mail	236.6	324.9	37%
Information Management	82.3	84.8	3%
<b>Total revenue</b>	<b>318.9</b>	<b>409.7</b>	<b>28%</b>
Express Package & Business Mail	49.8	71.4	43%
Information Management	23.0	27.4	19%
Corporate & Other	(1.6)	(3.0)	93%
<b>Total EBITDA</b>	<b>71.3</b>	<b>95.9</b>	<b>34%</b>

Source: Forsyth Barr analysis

## Freightways Ltd (FRE)

Priced as at 15 Feb 2021 (NZ\$) **10.95**

<b>12-month target price (NZ\$)*</b>	<b>10.50</b>
Expected share price return	-4.1%
Net dividend yield	3.5%
Estimated 12-month return	-0.6%

<b>Key WACC assumptions</b>	
Risk free rate	1.30%
Equity beta	1.00
WACC	6.1%
Terminal growth	1.0%

<b>Spot valuations (NZ\$)</b>	
1. DCF	10.45
2. Sum-of-the-parts	9.56
3. n/a	n/a

<b>DCF valuation summary (NZ\$m)</b>	
Total firm value	2,668
(Net debt)/cash	(201)
Less: Capitalised operating leases	(735)
Value of equity	1,733

<b>Profit and Loss Account (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales revenue	615.7	630.9	803.1	837.0	874.1
<b>Normalised EBITDA</b>	<b>112.2</b>	<b>144.7</b>	<b>186.9</b>	<b>197.0</b>	<b>206.7</b>
Depreciation and amortisation	(17.5)	(50.4)	(64.5)	(64.5)	(64.7)
<b>Normalised EBIT</b>	<b>97.1</b>	<b>84.7</b>	<b>122.4</b>	<b>132.5</b>	<b>141.9</b>
Net interest	(9.6)	(18.4)	(19.4)	(17.0)	(17.3)
Associate income	0	0	0	0	0
Tax	(24.1)	(18.0)	(30.9)	(34.4)	(37.0)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>63.1</b>	<b>59.5</b>	<b>79.5</b>	<b>88.6</b>	<b>95.1</b>
Abnormals/other	0.3	(12.1)	(7.5)	(7.5)	(7.5)
<b>Reported NPAT</b>	<b>63.4</b>	<b>47.4</b>	<b>72.0</b>	<b>81.1</b>	<b>87.6</b>
Normalised EPS (cps)	40.6	37.7	48.0	53.4	57.4
DPS (cps)	30.5	15.0	36.0	40.1	43.0

<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue (%)	6.0	2.5	27.3	4.2	4.4
EBITDA (%)	4.2	28.9	29.2	5.5	4.9
EBIT (%)	2.9	-12.7	44.4	8.3	7.1
Normalised NPAT (%)	2.5	-5.7	33.7	11.3	7.4
Normalised EPS (%)	2.4	-7.3	27.4	11.3	7.4
Ordinary DPS (%)	2.5	-50.8	>100	11.3	7.4

<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>EBITDA</b>	<b>112.2</b>	<b>144.7</b>	<b>186.9</b>	<b>197.0</b>	<b>206.7</b>
Working capital change	0	0	0.0	0	(0.0)
Interest & tax paid	(33.7)	(28.6)	(41.0)	(42.1)	(45.0)
Other	(2.5)	11.1	(16.8)	(16.8)	(16.8)
<b>Operating cash flow</b>	<b>76.0</b>	<b>127.2</b>	<b>129.0</b>	<b>138.1</b>	<b>144.9</b>
Capital expenditure	(23.3)	(23.6)	(23.3)	(27.6)	(28.8)
(Acquisitions)/divestments	(8.7)	(101.6)	0	0	(38.4)
Other	1.9	(24.0)	(31.0)	(31.0)	(31.0)
<b>Funding available/(required)</b>	<b>46.0</b>	<b>(22.0)</b>	<b>74.7</b>	<b>79.5</b>	<b>46.6</b>
Dividends paid	(47.0)	(47.5)	(29.8)	(66.4)	(71.4)
Equity raised/(returned)	0.7	24.1	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>(0.3)</b>	<b>(45.4)</b>	<b>44.9</b>	<b>13.0</b>	<b>(24.8)</b>

<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Working capital	23.8	18.7	22.9	23.6	24.4
Fixed assets	106.7	134.6	130.5	130.6	131.7
Intangibles	365.2	499.0	504.3	509.6	528.0
Right of use asset	0	278.1	348.1	348.1	348.1
Other assets	4.0	15.6	15.6	15.6	15.6
<b>Total funds employed</b>	<b>499.7</b>	<b>946.1</b>	<b>1,021.3</b>	<b>1,027.5</b>	<b>1,047.8</b>
Net debt/(cash)	151.4	205.0	160.1	147.1	171.8
Lease liability	0	311.1	381.1	381.1	381.1
Other liabilities	74.3	113.2	113.2	113.2	113.2
Shareholder's funds	273.9	316.7	366.8	386.0	381.5
Minority interests	0.1	0.1	0.1	0.1	0.1
<b>Total funding sources</b>	<b>499.7</b>	<b>946.1</b>	<b>1,021.3</b>	<b>1,027.5</b>	<b>1,047.8</b>

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
EV/EBITDA (x)	17.5	14.8	12.5	11.9	11.4
EV/EBIT (x)	20.3	25.3	19.1	17.7	16.5
PE (x)	27.0	29.1	22.8	20.5	19.1
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	2.9	5.7	5.8	6.1	6.4
Net dividend yield (%)	2.8	1.4	3.3	3.7	3.9
Gross dividend yield (%)	3.9	1.9	4.6	5.1	5.5

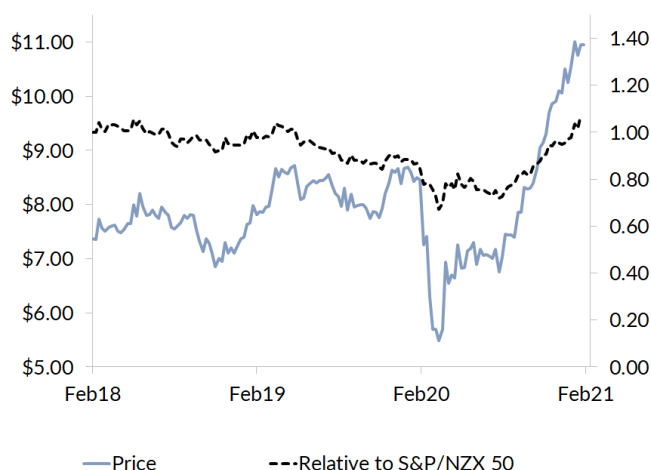
<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Interest cover EBIT (x)	10.1	4.6	6.3	7.8	8.2
Interest cover EBITDA (x)	11.7	7.9	9.6	11.6	11.9
Net debt/ND+E (%)	35.6	39.3	30.4	27.6	31.1
Net debt/EBITDA (x)	1.3	1.4	0.9	0.7	0.8

<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Return on assets (%)	16.6	8.1	10.8	11.6	12.2
Return on equity (%)	23.0	18.8	21.7	22.9	24.9
Return on funds employed (%)	12.6	12.0	18.6	18.7	18.9
EBITDA margin (%)	18.2	22.9	23.3	23.5	23.6
EBIT margin (%)	15.8	13.4	15.2	15.8	16.2
Capex to sales (%)	3.8	3.7	2.9	3.3	3.3
Capex to depreciation (%)	151	50	41	48	50
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	75	40	75	75	75

<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Revenue (NZ\$m)</b>					
Express Package & Bus. Mail	451.3	472.2	635.0	654.1	683.5
Information Mgmt	164.4	158.8	168.1	182.9	190.6
<b>Total Sales</b>	<b>615.7</b>	<b>630.9</b>	<b>803.1</b>	<b>837.0</b>	<b>874.1</b>
<b>EBITDA (NZ\$m)</b>					
Express Package & Bus. Mail	80.0	101.7	139.1	143.9	150.4
Information Mgmt	35.3	47.1	53.8	59.5	62.9
H/Office	(3.1)	(4.1)	(6.0)	(6.3)	(6.6)
<b>Total EBITDA</b>	<b>112.2</b>	<b>144.7</b>	<b>186.9</b>	<b>197.0</b>	<b>206.7</b>

<b>EBITDA margin (%)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Express Package & Business Mail	17.7	21.5	21.9	22.0	22.0
Information Mgmt	21.5	29.6	32.0	32.5	33.0
<b>Group EBITDA margin</b>	<b>18.2</b>	<b>22.9</b>	<b>23.3</b>	<b>23.5</b>	<b>23.6</b>

<b>NZDAUD</b>	<b>0.93</b>	<b>0.95</b>	<b>0.93</b>	<b>0.92</b>	<b>0.91</b>
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**Figure 3. Price performance**


Source: Forsyth Barr analysis

**Figure 4. Substantial shareholders**

Shareholder	Latest Holding
ANZ NZ Investments	6.5%

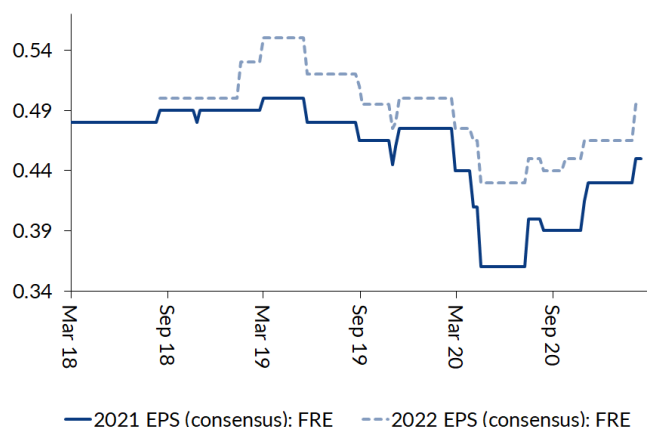
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 5. International valuation comparisons**

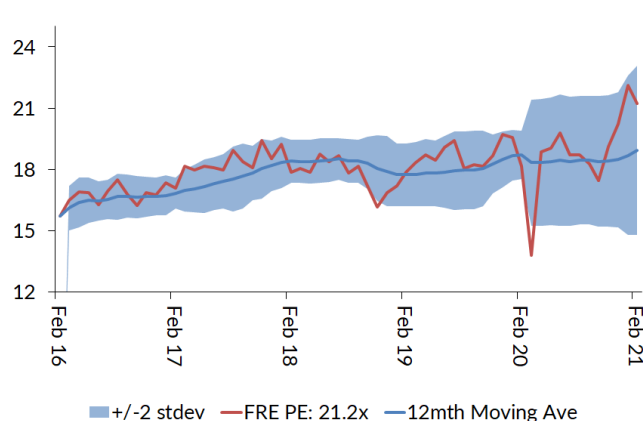
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect FRE's balance date - June)										
Freightways	FRE NZ	NZ\$10.95	NZ\$1,815	22.8x	20.5x	10.8x	10.3x	16.5x	15.2x	3.7%
MAINFREIGHT *	MFT NZ	NZ\$68.60	NZ\$6,908	37.5x	33.4x	15.3x	14.2x	25.3x	23.0x	1.2%
FEDEX CORP	FDX US	US\$257.78	US\$68,330	14.6x	13.6x	10.1x	9.3x	16.5x	14.8x	1.1%
UNITED PARCEL SERVICE-CL B	UPS US	US\$165.52	US\$143,170	>50x	17.9x	14.5x	12.9x	19.1x	16.5x	2.6%
DEUTSCHE POST AG-REG	DPW GR	€41.75	€51,731	15.9x	14.6x	7.4x	6.9x	12.9x	11.8x	3.4%
ARAMEX PJSC	ARMX UH	AED4.20	AED6,149	17.7x	13.0x	6.9x	6.5x	10.3x	9.9x	4.1%
IRON MOUNTAIN INC	IRM US	US\$34.06	US\$9,814	29.4x	24.3x	13.9x	13.0x	26.6x	23.8x	7.3%
Compco Average:				23.0x	19.5x	11.3x	10.5x	18.5x	16.6x	3.3%
FRE Relative:				-1%	5%	-5%	-2%	-11%	-8%	11%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (FRE) companies fiscal year end

**Figure 6. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 7. One year forward PE (x)**


Source: Forsyth Barr analysis

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