

# Mainfreight

## FY20 — Doing the Right Thing

**ANDY BOWLEY**

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

**SCOTT ANDERSON**

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

### OUTPERFORM

Mainfreight (MFT) reported a strong FY20 result and, notwithstanding COVID-19 challenges, is cautiously optimistic about the near-term outlook. Underlying NPAT grew by +11% against the prior year with further impressive margin expansion as constant currency revenue slowed to +4%. Trading for the first seven weeks of FY21 has been severely impacted by restrictions on business and consumer activity globally. While group revenue is up (+6%; flat on a constant currency basis), profit before tax has fallen sharply but is improving. We expect FY21 profitability to be modestly lower than FY20, though MFT's ability to win market share will help to mitigate the full cyclical pressures on its operations. It is trading broadly in line with its global peers, but its superior growth qualities lead us to retain an OUTPERFORM rating.

| NZX Code           | MFT                | Financials: Mar/             | 20A   | 21E   | 22E   | 23E   | Valuation (x)     | 20A  | 21E  | 22E  | 23E  |
|--------------------|--------------------|------------------------------|-------|-------|-------|-------|-------------------|------|------|------|------|
| Share price        | NZ\$39.99          | NPAT* (NZ\$m)                | 156.1 | 124.0 | 166.4 | 206.3 | EV/EBITDA         | 14.8 | 11.2 | 9.5  | 8.4  |
| Target price       | NZ\$40.00          | EPS* (NZc)                   | 155.0 | 123.2 | 165.2 | 204.9 | EV/EBIT           | 18.7 | 21.0 | 16.1 | 13.4 |
| Risk rating        | Medium             | EPS growth* (%)              | 10.6  | -20.5 | 34.1  | 24.0  | PE                | 25.8 | 32.5 | 24.2 | 19.5 |
| Issued shares      | 100.7m             | DPS (NZc)                    | 59.0  | 59.0  | 66.1  | 82.0  | Price / NTA       | 5.9  | 5.5  | 4.3  | 3.4  |
| Market cap         | NZ\$4,027m         | Imputation (%)               | 100   | 100   | 100   | 100   | Cash div yld (%)  | 1.5  | 1.5  | 1.7  | 2.0  |
| Avg daily turnover | 77.9k (NZ\$2,926k) | *Based on normalised profits |       |       |       |       | Gross div yld (%) | 2.0  | 2.0  | 2.3  | 2.8  |

### What's changed?

- **Earnings:** Underlying upgrades to near-term NPAT/EPS forecasts masked by introduction of IFRS 16 (lease accounting)
- **Target price:** Lifted to NZ\$40.00 from NZ\$37.50

### Robust growth

Group EBITDA advanced +9% (constant currency) in FY20 driven by Transport (+9%), which accounts for ~60% of profits. This was supported by a very strong performance from the much smaller warehousing division, with its EBITDA up +35%. Return on capital in warehousing has historically been low, but initiatives to lift efficiencies and productivity leave us more amenable to further investment. In contrast, Air & Ocean (A&O) had a difficult 2H20 with EBITDA down -18% as COVID-19 and import tariffs impacted volume ex-China. We expect A&O to continue to be a key drag through 1H21.

### FY21 outlook

Most company management teams appear to have little more insight as to the near-term outlook than we do. The level of uncertainty may have improved in recent weeks, though it remains high. MFT is no different. Management is "cautiously optimistic" about FY21, but is wary that the recent up tick in activity levels reflects pent-up demand/supply chain restocking, rather than sustainable volume. We suspect underlying activity has improved as outlined by various economic data points but is being boosted by supply chain inventory changes.

### Moral high ground

MFT's relative balance sheet health is highlighted by the Board's willingness to pay a final dividend on par with the prior year. The dividend decision was made easier by the company repaying its NZ\$11m wage subsidy claim to the New Zealand government. The company has deferred NZ\$120m of capex but still plans to spend NZ\$80m in FY21. It has ample debt funding headroom.

## Mainfreight Ltd (MFT)

Priced as at 27 May 2020 (NZ\$)

**39.99**

|                                      |              |
|--------------------------------------|--------------|
| <b>12-month target price (NZ\$)*</b> | <b>40.00</b> |
| Expected share price return          | 0.0%         |
| Net dividend yield                   | 1.5%         |
| Estimated 12-month return            | 1.5%         |

|                               |       |
|-------------------------------|-------|
| <b>Spot valuations (NZ\$)</b> |       |
| 1. DCF                        | 37.26 |
| 2. PE relative                | 36.88 |
| 3. n/a                        | n/a   |

|                             |       |
|-----------------------------|-------|
| <b>Key WACC assumptions</b> |       |
| Risk free rate              | 2.00% |
| Equity beta                 | 0.94  |
| WACC                        | 8.1%  |
| Terminal growth             | 2.0%  |

|                                      |         |
|--------------------------------------|---------|
| <b>DCF valuation summary (NZ\$m)</b> |         |
| Total firm value                     | 5,940   |
| (Net debt)/cash                      | (158)   |
| Less: Capitalised operating leases   | (2,029) |
| Value of equity                      | 3,752   |

|  |              |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|
| <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                          | 2,954.1      | 3,095.4      | 3,306.5      | 3,558.6      | 3,899.7      |
| <b>Normalised EBITDA</b>               | <b>257.0</b> | <b>281.0</b> | <b>371.9</b> | <b>434.3</b> | <b>492.7</b> |
| Depreciation and amortisation          | (53.1)       | (57.9)       | (174.3)      | (177.2)      | (185.5)      |
| <b>Normalised EBIT</b>                 | <b>203.9</b> | <b>223.2</b> | <b>197.6</b> | <b>257.1</b> | <b>307.2</b> |
| Net interest                           | (6.9)        | (5.7)        | (22.5)       | (18.7)       | (12.7)       |
| Associate income                       | 0            | 0            | 0            | 0            | 0            |
| Tax                                    | (53.0)       | (29.4)       | (49.4)       | (66.3)       | (82.2)       |
| Minority interests                     | 0            | 0            | 0            | 0            | 0            |
| <b>Normalised NPAT</b>                 | <b>141.1</b> | <b>156.1</b> | <b>124.0</b> | <b>166.4</b> | <b>206.3</b> |
| Abnormals/other                        | 3.5          | (11.2)       | 0            | 0            | 0            |
| <b>Reported NPAT</b>                   | <b>137.6</b> | <b>167.3</b> | <b>124.0</b> | <b>166.4</b> | <b>206.3</b> |
| Normalised EPS (cps)                   | 140.1        | 155.0        | 123.2        | 165.2        | 204.9        |
| DPS (cps)                              | 56.0         | 59.0         | 59.0         | 66.1         | 82.0         |

|                          |              |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Valuation Ratios</b>  | <b>2019A</b> | <b>2020A</b> | <b>2021E</b> | <b>2022E</b> | <b>2023E</b> |
| EV/EBITDA (x)            | 16.3         | 14.8         | 11.2         | 9.5          | 8.4          |
| EV/EBIT (x)              | 20.5         | 18.7         | 21.0         | 16.1         | 13.4         |
| PE (x)                   | 28.5         | 25.8         | 32.5         | 24.2         | 19.5         |
| Price/NTA (x)            | 7.1          | 5.9          | 5.5          | 4.3          | 3.4          |
| Free cash flow yield (%) | 2.3          | 1.0          | 5.3          | 6.0          | 6.7          |
| Net dividend yield (%)   | 1.4          | 1.5          | 1.5          | 1.7          | 2.0          |
| Gross dividend yield (%) | 1.9          | 2.0          | 2.0          | 2.3          | 2.8          |

|                           |              |              |              |              |              |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Capital Structure</b>  | <b>2019A</b> | <b>2020A</b> | <b>2021E</b> | <b>2022E</b> | <b>2023E</b> |
| Interest cover EBIT (x)   | 29.7         | 39.4         | 8.8          | 13.7         | 24.1         |
| Interest cover EBITDA (x) | 37.4         | 49.6         | 16.5         | 23.2         | 38.7         |
| Net debt/ND+E (%)         | 12.8         | 13.6         | 9.1          | -6.4         | -21.7        |
| Net debt/EBITDA (x)       | 0.5          | 0.5          | 0.3          | n/a          | n/a          |

|                     |              |              |              |              |              |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Growth Rates</b> | <b>2019A</b> | <b>2020A</b> | <b>2021E</b> | <b>2022E</b> | <b>2023E</b> |
| Revenue (%)         | 12.8         | 4.8          | 6.8          | 7.6          | 9.6          |
| EBITDA (%)          | 19.3         | 9.3          | 32.4         | 16.8         | 13.5         |
| EBIT (%)            | 21.7         | 9.4          | -11.4        | 30.1         | 19.5         |
| Normalised NPAT (%) | 25.7         | 10.6         | -20.5        | 34.1         | 24.0         |
| Normalised EPS (%)  | 25.7         | 10.6         | -20.5        | 34.1         | 24.0         |
| Ordinary DPS (%)    | 24.4         | 5.4          | 0.0          | 12.0         | 24.0         |

|                              |              |              |              |              |              |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Key Ratios</b>            | <b>2019A</b> | <b>2020A</b> | <b>2021E</b> | <b>2022E</b> | <b>2023E</b> |
| Return on assets (%)         | 13.6         | 9.7          | 8.4          | 10.5         | 11.9         |
| Return on equity (%)         | 16.8         | 16.2         | 12.0         | 13.2         | 13.7         |
| Return on funds employed (%) | 8.5          | 9.0          | 11.9         | 13.1         | 13.9         |
| EBITDA margin (%)            | 8.7          | 9.1          | 11.2         | 12.2         | 12.6         |
| EBIT margin (%)              | 6.9          | 7.2          | 6.0          | 7.2          | 7.9          |
| Capex to sales (%)           | 3.5          | 5.2          | 2.4          | 2.8          | 3.1          |
| Capex to depreciation (%)    | 194          | 277          | 46           | 56           | 65           |
| Imputation (%)               | 100          | 100          | 100          | 100          | 100          |
| Pay-out ratio (%)            | 40           | 38           | 48           | 40           | 40           |

|  |              |               |              |              |              |
|--|--------------|---------------|--------------|--------------|--------------|
| <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>257.0</b> | <b>281.0</b>  | <b>371.9</b> | <b>434.3</b> | <b>492.7</b> |
| Working capital change                 | 0            | 17.0          | 17.3         | 18.2         | 19.1         |
| Interest & tax paid                    | (61.4)       | (68.1)        | (72.0)       | (85.1)       | (95.0)       |
| Other                                  | 1.7          | (29.8)        | (24.3)       | (25.2)       | (26.1)       |
| <b>Operating cash flow</b>             | <b>197.4</b> | <b>200.2</b>  | <b>293.0</b> | <b>342.2</b> | <b>390.7</b> |
| Capital expenditure                    | (103.3)      | (160.0)       | (80.0)       | (100.0)      | (120.0)      |
| (Acquisitions)/divestments             | 14.0         | 5.0           | 5.0          | 5.0          | 5.0          |
| Other                                  | 0.1          | 0             | (105.7)      | (111.0)      | (116.5)      |
| <b>Funding available/(required)</b>    | <b>108.3</b> | <b>45.1</b>   | <b>112.3</b> | <b>136.2</b> | <b>159.2</b> |
| Dividends paid                         | (48.3)       | (59.4)        | (59.4)       | (66.5)       | (82.5)       |
| Equity raised/(returned)               | 0            | 0             | 0            | 0            | 0            |
| <b>(Increase)/decrease in net debt</b> | <b>59.9</b>  | <b>(14.3)</b> | <b>52.9</b>  | <b>180.7</b> | <b>193.2</b> |

|                              |              |              |              |              |              |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Operating Performance</b> | <b>2019A</b> | <b>2020A</b> | <b>2021E</b> | <b>2022E</b> | <b>2023E</b> |
| <b>Revenue (NZ\$m)</b>       |              |              |              |              |              |
| New Zealand                  | 719          | 753          | 705          | 787          | 846          |
| Australia                    | 761          | 797          | 881          | 960          | 1,082        |
| USA                          | 725          | 762          | 878          | 915          | 969          |
| Asia                         | 109          | 95           | 130          | 141          | 152          |
| Europe                       | 640          | 689          | 712          | 756          | 851          |
| <b>Total</b>                 | <b>2,954</b> | <b>3,095</b> | <b>3,307</b> | <b>3,559</b> | <b>3,900</b> |

|                              |                |                |                |                |                |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Balance Sheet (NZ\$m)</b> | <b>2019A</b>   | <b>2020A</b>   | <b>2021E</b>   | <b>2022E</b>   | <b>2023E</b>   |
| Working capital              | 74.5           | 81.3           | 97.0           | 104.4          | 114.5          |
| Fixed assets                 | 666.6          | 776.6          | 774.2          | 790.5          | 824.3          |
| Intangibles                  | 270.0          | 284.7          | 299.7          | 314.7          | 329.7          |
| Right of use asset           | 0              | 615.3          | 646.0          | 678.3          | 712.2          |
| Other assets                 | 61.7           | 91.1           | 88.3           | 88.3           | 88.3           |
| <b>Total funds employed</b>  | <b>1,072.8</b> | <b>1,848.9</b> | <b>1,905.2</b> | <b>1,976.3</b> | <b>2,069.0</b> |
| Net debt/(cash)              | 123.5          | 151.6          | 104.5          | (76.1)         | (269.3)        |
| Lease liability              | 0              | 626.9          | 658.2          | 691.1          | 725.7          |
| Other liabilities            | 111.0          | 104.1          | 104.5          | 104.5          | 104.5          |
| Shareholder's funds          | 838.3          | 966.3          | 1,038.0        | 1,256.8        | 1,508.1        |
| Minority interests           | 0              | 0              | 0              | 0              | 0              |
| <b>Total funding sources</b> | <b>1,072.8</b> | <b>1,848.9</b> | <b>1,905.2</b> | <b>1,976.3</b> | <b>2,069.0</b> |

|                       |              |              |              |              |              |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| <b>EBITDA (NZ\$m)</b> |              |              |              |              |              |
| New Zealand           | 110.6        | 115.9        | 115.5        | 139.4        | 153.2        |
| Australia             | 59.3         | 65.0         | 118.8        | 131.3        | 151.1        |
| USA                   | 38.3         | 43.3         | 47.8         | 55.7         | 64.5         |
| Asia                  | 9.3          | 6.0          | 12.9         | 14.8         | 16.7         |
| Europe                | 39.6         | 50.8         | 76.9         | 93.0         | 107.2        |
| <b>Total</b>          | <b>257.0</b> | <b>281.0</b> | <b>371.9</b> | <b>434.3</b> | <b>492.7</b> |
| NZDAUD                | 0.92         | 0.95         | 0.96         | 0.95         | 0.90         |
| NZDUSD                | 0.68         | 0.65         | 0.59         | 0.62         | 0.65         |
| NZDEUR                | 0.59         | 0.58         | 0.56         | 0.57         | 0.55         |

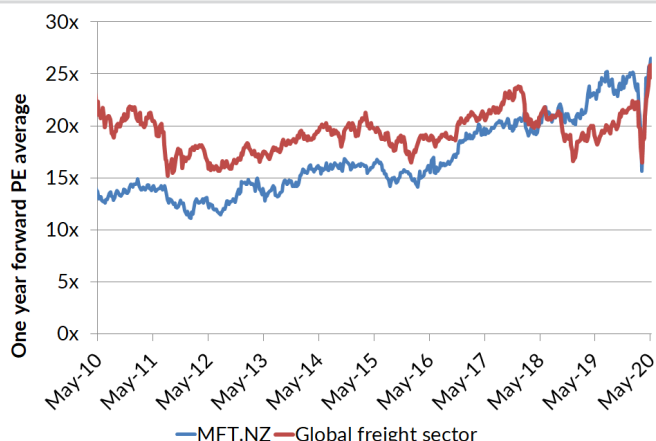
NOTE: IFRS 16 implemented from FY21

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

## High quality opportunity; OUTPERFORM

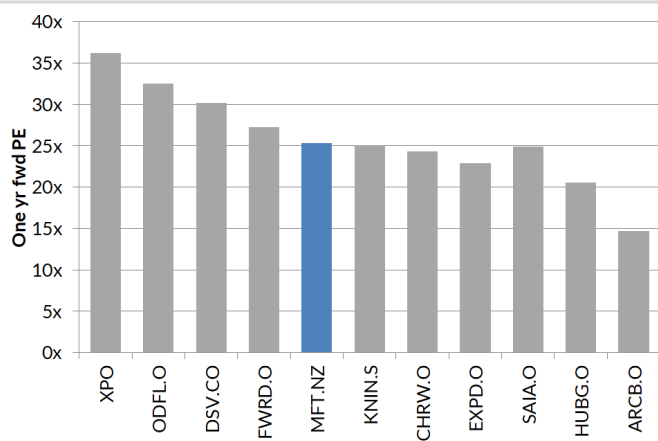
Mainfreight (MFT) is a high quality growth company that has a moral compass fixed firmly in the right direction. Underlying NPAT growth of +11% in FY20 represents its sixth year in 10 of double digits earnings growth. Over the past decade it has grown both NPAT and EPS by a compound average growth rate of +15%. While the business is significantly impacted by COVID-19 and the enduring economic challenges, its cyclical exposure is mitigated by its ability to win new customers and cross-sell products and geographies to existing customers. OUTPERFORM.

**Figure 1. MFT trading at par with key global peers**



Source: Eikon, Forsyth Barr analysis

**Figure 2. Mid-range of key international peers**



Source: Eikon, Forsyth Barr analysis NOTE: based on consensus estimates

### Result summary

MFT's FY20 result was in-line with our expectations, highlighting continued positive business momentum with a similar shape to profitability as in 1H20 (deceleration in revenue growth, mitigated by margin expansion). Pre-IFRS 16 NPAT was up +11% against the prior year, on revenue growth of +5%. Margin expansion remained a key driver with Europe, Australia and the Americas posting impressive gains. The company has retained a 34c final, fully imputed, dividend (flat on last year).

**Figure 3. Result summary (NZ\$m)**

|                        | FY19         | FY20 pre-IFRS16 | Change       | Forsyth Barr* | FY20 post-IFRS16 |
|------------------------|--------------|-----------------|--------------|---------------|------------------|
| Sales revenue          | 2,954.1      | 3,095.4         | 4.8%         | 3,130.5       | 3,095.4          |
| EBITDA                 | 257.0        | 281.0           | 9.3%         | 282.2         | 398.7            |
| Reported NPAT          | 137.6        | 167.3           | 21.6%        | 156.8         | 159.2            |
| <b>Underlying NPAT</b> | <b>141.1</b> | <b>156.1</b>    | <b>10.6%</b> | <b>156.8</b>  | <b>148.0</b>     |
| Underlying EPS (cents) | 140.1        | 155.0           | 10.6%        | 155.7         | 146.9            |
| Final DPS (cents)      | 34.0         | 34.0            | 0.0%         | 25.0          | 34.0             |

Source: MFT, Forsyth Barr analysis \*Our forecasts were based on pre-IFRS 16 numbers

### Earnings revisions

Our revised earnings estimates are shown in Figure 4. We incorporate IFRS 16 into all new forecasts for the first time, which has a misleading impact on the revisions, given the significant increase in EBITDA and ~-5% adverse impact on NPAT. While our NPAT estimate for FY21 falls by -3%, this represents a ~+2% underlying upgrade. In light of company commentary on the first seven weeks of FY21, our forecasts imply a PBT decline of -12% for the remainder of the year.

**Figure 4. Earnings revisions (NZ\$m)**

|                        | FY21E        |              |              | FY22E        |              |              | FY23E        |              |             |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                        | Old          | New          | Chg          | Old          | New          | Chg          | Old          | New          | Chg         |
| Sales revenue          | 3,004.7      | 3,306.5      | 10.0%        | 3,348.9      | 3,558.6      | 6.3%         | 3,677.6      | 3,899.7      | 6.0%        |
| EBITDA                 | 240.1        | 371.9        | 54.9%        | 294.3        | 434.3        | 47.6%        | 335.0        | 492.7        | 47.1%       |
| <b>Underlying NPAT</b> | <b>127.3</b> | <b>124.0</b> | <b>-2.6%</b> | <b>167.0</b> | <b>166.4</b> | <b>-0.4%</b> | <b>197.8</b> | <b>206.3</b> | <b>4.3%</b> |
| Underlying EPS         | 126.4        | 123.2        | -2.6%        | 165.8        | 165.2        | -0.4%        | 196.4        | 204.9        | 4.3%        |
| Full year DPS          | 50.0         | 59.0         | 18.0%        | 66.3         | 66.1         | -0.4%        | 78.6         | 82.0         | 4.3%        |

Source: Forsyth Barr analysis

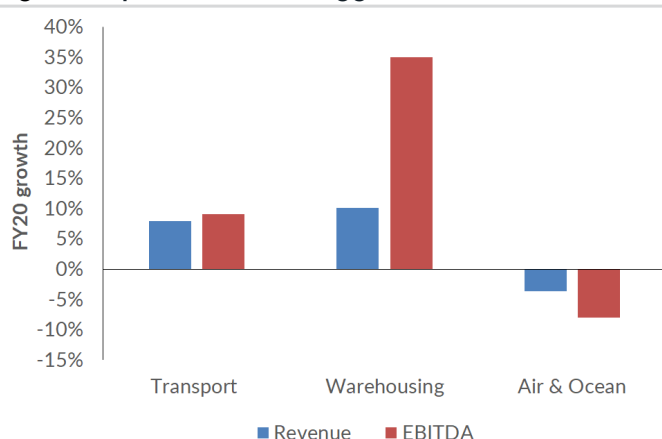
## Key result issues

### (1) Transport robust; Warehousing margin focus; Air & Ocean drag

Trading performance across the group was mixed through FY20. The main Transport engine was robust with EBITDA growth of +9%, while Air & Ocean was caught in the fourth quarter by China tariff issues and COVID-19 headwinds. Management estimates this cost the group NZ\$6m of EBITDA. Warehousing margin improvement (driven by utilisation, higher picking activity and a greater focus on profit per sqm) more than made up for this decline.

At a country level Australia had a very strong 2H20, with local currency EBITDA up +19% year on year. In contrast the Americas momentum stalled with revenue growth negative through 2H20. Profit progression in Europe continues with margin expansion in both Warehousing and Transport.

**Figure 5. Impressive warehousing growth in FY20**



Source: MFT, Forsyth Barr analysis

**Figure 6. Australian improvement in FY21-to-date**

|                      | Revenue                  | Profit before tax (FY20)      |
|----------------------|--------------------------|-------------------------------|
| New Zealand          | -16%                     | Break-even (NZ\$7m)           |
| Australia            | +13%                     | A\$6m (A\$2m)                 |
| Europe               | -5%                      | Break-even (€1m)              |
| Americas             | Flat                     | US\$1m (US\$3m)               |
| Asia                 | +41%                     | US\$1.1m (US\$0.6m)           |
| <b>7 wk total</b>    | <b>+5.7% (ccy -0.3%)</b> | <b>NZ\$9.1m (NZ\$15.6m)</b>   |
| 52 wk forecast       | +6.8% (ccy +3.1%)        | NZ\$173.5m (NZ\$201.5m)       |
| <b>45 wk implied</b> | <b>+7.0% (ccy +3.3%)</b> | <b>NZ\$164.4 (NZ\$185.9m)</b> |

Source: MFT, Forsyth Barr analysis

### (2) FY21 trading ahead of expectations

MFT's first seven weeks of FY21 includes significant challenges from restrictions imposed by governments globally. New Zealand has been most impacted with revenues down -16% and PBT at break-even. In contrast, Australia has had a storming start to FY21, albeit against weak comparatives. Overall EBITDA is -41% down compared to FY20. However, management says performance has improved through May with group PBT ahead of the prior year in recent weeks. Our full year forecast implies a PBT decline of -12% for the remaining 45 weeks.

Weekly trading results are estimated at the PBT level given the overhead applied to each branch is constant through the year. Any cost cutting measures to actual overheads will not be captured in the weekly PBT estimates. Moreover, the weekly PBT estimates include a nominal bonus provision, which may not be needed in full given an expected decline in profitability through FY21.

MFT has not introduced any additional cost measures in response to COVID-19 to those already announced, but has deferred NZ \$120m of capex planned for FY21 to later years. This is a prudent measure, which we suspect is more to reflect the lower need for new capacity than balance sheet orientated.

### (3) Investment in growth

At its Europe investor day in 2018 MFT alluded to a greater investment in its sales force. These increases are now coming through with an additional 80 sales roles in the Americas and 72 in Europe. The additional cost has suppressed margin expansion, with the benefit likely to accrue over the near to medium term in the form of higher and more sustainable revenue growth. Group revenue growth was a disappointment in FY20 at just +3.6% on a constant currency basis.

Excluding the impact on China of COVID-19 and the tariff changes in the last quarter, growth would have still been well below historic average growth rates (~+7% pa) at +4.3%. The global economy softened over the past 12 months with freight markets slowing as evidenced by MFT's international peers (see our report *Mainfreight: Q1 Peer Read-through Beginning to Show Symptoms*, dated 22 May 2020).

## Result analysis

Figure 7. Summary FY20 result and commentary (NZ\$m)

|   | FY19           | FY20 pre-IFRS<br>16 | Change     | Comments   |
|---|----------------|---------------------|------------|--|
| <b>Profit and loss account</b>                          |                |                     |            |  |
| <b>Sales revenue</b>                                    | <b>2,954.1</b> | <b>3,095.4</b>      | <b>5%</b>  | <b>+3.6% on a constant currency basis</b>  |
| New Zealand   | 110.6          | 115.9               | 5%         | Network expansion increasing presence of all three divisions   |
| Australia   | 59.3           | 65.0                | 10%        | Second half recovery led by Warehousing and Transport  |
| The Americas  | 38.3           | 43.3                | 13%        | Boosted by CaroTrans and Transport margins   |
| Asia  | 9.3            | 6.0                 | -35%       | Affected by COVID-19 causing Chinese New Year shutdown, Hong Kong civil unrest, and US import tariffs on China |
| Europe  | 39.6           | 50.8                | 28%        | Improved margins in both Transport and Warehousing   |
| <b>EBITDA</b>   | <b>257.0</b>   | <b>281.0</b>        | <b>9%</b>  | <b>Constant currency EBITDA up +8.6%</b>   |
| Depn and amort.   | (53.1)         | (57.9)              | 9%         |  |
| Abnormals (pre-tax)                                     | (5.0)          | (4.8)               | -4%        |  |
| Interest expense  | (6.9)          | (5.7)               | -17%       |  |
| Profit before tax                                       | 192.1          | 212.7               | 11%        |  |
| Taxation (incl. abn tax)                                | (54.5)         | (45.4)              | -17%       | Effective rate of ~21.3%   |
| <b>Reported NPAT</b>                                    | <b>137.6</b>   | <b>167.3</b>        | <b>22%</b> |  |
| Abnormals (post tax)                                    | 3.5            | (11.2)              | n/a        | Includes a positive tax adjustment of NZ\$14.7m  |
| <b>Underlying NPAT</b>                                  | <b>141.1</b>   | <b>156.1</b>        | <b>11%</b> | <b>NPAT under IFRS 16 of NZ\$148.0m</b>  |
| Underlying EPS (cents)                                  | 140.1          | 155.0               | 11%        | Average weighted shares on issue at 100.7m   |
| Final DPS (cents)                                       | 34.0           | 34.0                | 0%         | Fully imputed final dividend payable on 17 July 2020   |
| <b>Cashflow and net debt</b>                            |                |                     |            |  |
| Operating cashflow                                      | 197.4          | 200.2               | 1%         | Increased profitability and acceptable cash collection   |
| Maint capex = depn                                      | (53.1)         | (57.9)              | 9%         |  |
| Disposals   | 14.0           | 5.0                 | -65%       |  |
| <b>Free cash flow</b>                                   | <b>158.4</b>   | <b>147.3</b>        | <b>-7%</b> |  |
| Growth capex  | 101.9          | 97.2                | -5%        | Land and building expenditure of NZ\$111.7m. Capex for FY21 expected to be NZ \$80m                            |
| Acquisitions  | 0.0            | 0.0                 | n/a        |  |
| Net debt  | 130.5          | 157.4               | 21%        | NZ\$235m undrawn out of NZ\$500m total debt facilities.  |
| <b>Divisional/segment sales growth (local currency)</b> |                |                     |            |  |
| New Zealand   | 7.9%           | 4.7%                | n/a        | Air & Ocean continues to take market share   |
| Australia   | 13.9%          | 6.6%                | n/a        | Strong second half improvements in Warehousing and Transport   |
| The Americas  | 13.1%          | -0.1%               | n/a        | Trans-Pacific ex Asia experienced volume decline   |
| Asia  | -11.2%         | -17.6%              | n/a        | COVID-19 affected freight volumes to/from all Asia regions during February and March                           |
| Europe  | 12.1%          | 6.7%                | n/a        | Three new branches established in the year   |
| Transport   | 11.9%          | 8.6%                | n/a        |  |
| Warehousing   | 19.9%          | 10.7%               | n/a        |  |
| Air & Ocean   | 12.2%          | -1.8%               | n/a        | Largely due to Asia performance which is primarily Air & Ocean   |
| <b>Margin analysis</b>                                  |                |                     |            |  |
| New Zealand   | 15.4%          | 15.4%               | 1bps       |  |
| Australia   | 7.8%           | 8.2%                | 37bps      | Transport expansion has seen profitability improve   |
| The Americas  | 5.3%           | 5.7%                | 39bps      |  |
| Asia  | 8.5%           | 6.4%                | (209)bps   |  |
| Europe  | 6.2%           | 7.4%                | 118bps     | Increased Transport margins as well as improved freight mix  |
| Transport   | 10.8%          | 10.9%               | 7bps       |  |
| Warehousing   | 10.8%          | 13.2%               | 241bps     | Introduction of profit per sqm KPI has helped drive improvement  |
| Air & Ocean   | 5.5%           | 5.2%                | (24)bps    |  |
| Group EBITDA margin                                     | 8.7%           | 9.1%                | 38bps      |  |
| Group EBIT margin                                       | 6.9%           | 7.2%                | 31bps      |  |

Source: Forsyth Barr analysis

## Investment Summary

Mainfreight (MFT) is a leading New Zealand business international success story. As a result, it is an attractive growth company that has an enviable track record and significant opportunities ahead to further expand its market presence internationally. MFT will face significant headwinds as a result of the COVID-19 pandemic, however, we believe its operational strengths and current business momentum will help it recover strongly and gain market share out the other side. **OUTPERFORM.**

### Business quality

- **The Mainfreight Way:** MFT does things its way. It has a strong culture promotion from within, sharing bonuses, open plan offices, whiteboard openness, weekly profits, and an endless emphasis on quality. It is a heavy investor in its people.
- **Quality focus:** MFT is a best-in-class operator with a commitment to quality, and a history of market share gains in multiple geographies.
- **Owner-drivers:** MFT operates an owner-driver (OD) model in most of its freight forwarding operations (ex-Europe). OD is an asset light model which tends to benefit from high driver productivity.

### Earnings and cashflow outlook

- **Economic growth:** Local economic conditions dictate market growth levels, excess capacity and industry pricing dynamics. Notwithstanding market share gains as a key driver of growth, it is still a cyclical business.
- **Operating leverage:** Increasing levels of network intensity offer margin benefits from scale economies and network expansion opportunities.
- **Offshore:** Above average earnings growth will be increasingly driven from offshore businesses in the US, Europe and Australia, given MFT's domestic operations are maturing.

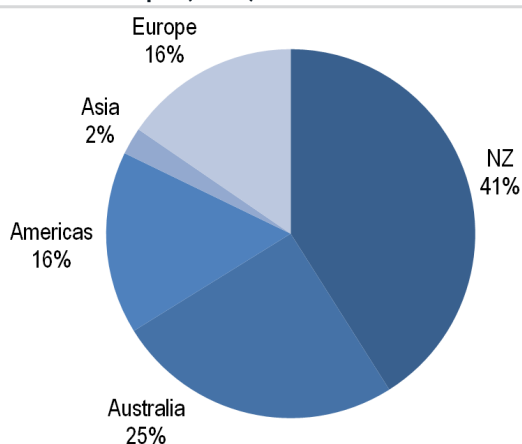
### Financial structure

- **Capital management:** MFT is a growth business that likes to reinvest profit. Its dividend pay-out has been consistently ~40% for the past 20 years. The company will focus its capex outlay over the medium term on strategic land and buildings in key sites across Australasia.

### Risk factors

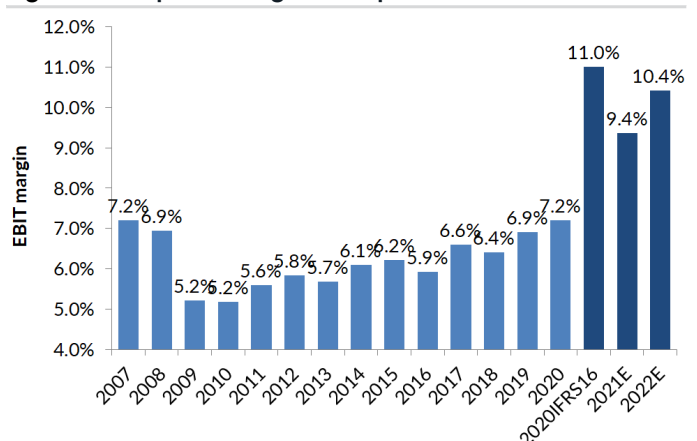
- **Acquisitions:** History suggests that MFT is not as good at due diligence as it is at operating a freight and logistics business.
- **Disruptive technology:** Freight forwarders leverage the inefficiencies in the freight supply chain. New technologies may lower supply chain costs, therefore, increasing competition.

Figure 8. EBITDA split (FY20)

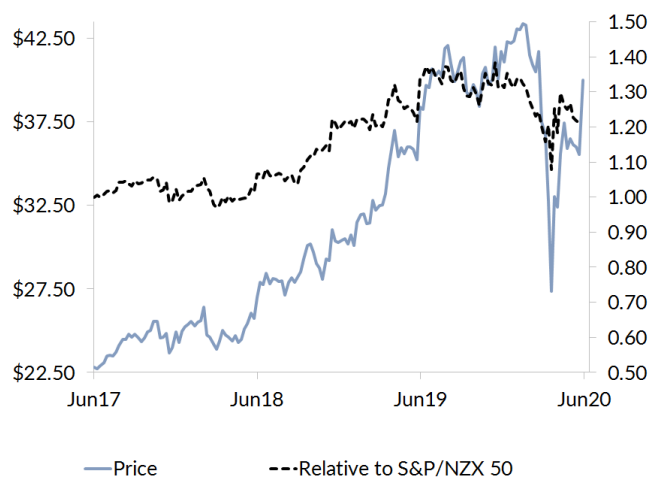


Source: Forsyth Barr analysis

Figure 9. Group EBIT margin development



Source: Forsyth Barr analysis

**Figure 10. Price performance**


Source: Forsyth Barr analysis

**Figure 11. Substantial shareholders**

| Shareholder  | Latest Holding |
|--|----------------|
| Rorohora No. 2 Trust                                 | 16.3%          |
| Harbour Asset Management & Jarden Securities Limited | 5.6%           |
| Fisher Funds Management                              | 5.1%           |

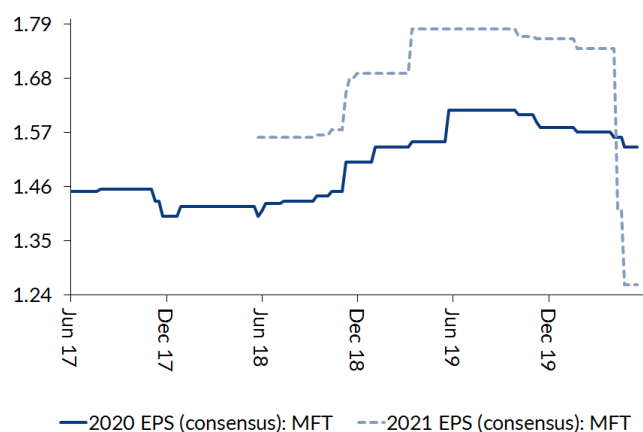
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 12. International valuation comparisons**

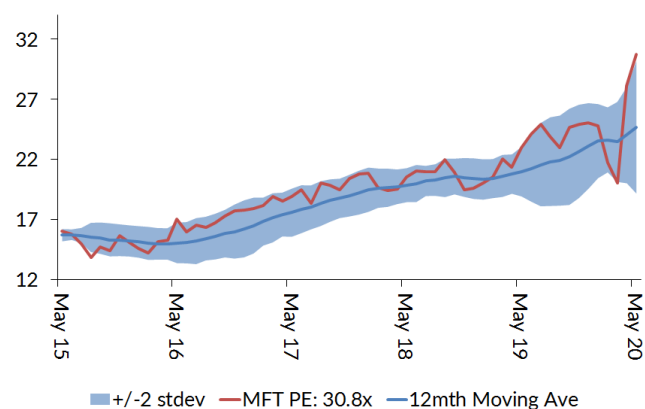
| Company   | Code    | Price      | Mkt Cap    | PE            |       | EV/EBITDA |       | EV/EBIT |       | Cash Yld |
|---|---------|------------|------------|---------------|-------|-----------|-------|---------|-------|----------|
| (metrics re-weighted to reflect MFT's balance date - March) |         |            |            |               |       |           |       |         |       |          |
|   |         |            | (m)        | 2021E         | 2022E | 2021E     | 2022E | 2021E   | 2022E | 2022E    |
| Mainfreight   | MFT NZ  | NZ\$39.99  | NZ\$4,027  | 32.5x         | 24.2x | 11.2x     | 9.6x  | 21.1x   | 16.3x | 1.7%     |
| Freightways *   | FRE NZ  | NZ\$6.85   | NZ\$1,133  | 19.7x         | 16.6x | 8.7x      | 7.9x  | 12.8x   | 11.2x | 4.5%     |
| EXPEDITORS INTL WASH INC                                    | EXPD US | US\$72.06  | US\$11,993 | 22.8x         | 20.1x | 15.1x     | 13.6x | 16.2x   | 14.2x | 1.5%     |
| OLD DOMINION FREIGHT LINE                                   | ODFL US | US\$158.79 | US\$18,729 | 33.0x         | 27.2x | 17.7x     | 15.2x | 24.0x   | 20.5x | 0.4%     |
| DSV PANALPINA A/S   | DSV DC  | kr739.80   | kr170,154  | 35.0x         | 24.9x | 17.0x     | 13.7x | 27.5x   | 19.7x | 0.6%     |
| C.H. ROBINSON WORLDWIDE INC                                 | CHRW US | US\$77.86  | US\$10,480 | 25.5x         | 20.7x | 17.5x     | 14.9x | 20.4x   | 17.0x | 2.8%     |
| KUEHNE + NAGEL INTL AG-REG                                  | KNIN SW | CHF137.15  | CHF16,458  | 26.0x         | 20.8x | 11.3x     | 10.0x | 21.0x   | 16.9x | 3.3%     |
| Compco Average:   |         |            |            | 27.0x         | 21.7x | 14.5x     | 12.5x | 20.3x   | 16.6x | 2.2%     |
| EV = Current Market Cap + Actual Net Debt                   |         |            |            | MFT Relative: | 20%   | 12%       | -23%  | -23%    | 4%    | -2%      |
|   |         |            |            |               |       |           |       |         |       | -25%     |

EV = Current Market Cap + Actual Net Debt

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

**Figure 13. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 14. One year forward PE (x)**


Source: Forsyth Barr analysis



**Analyst certification:** The research analyst(s) primarily responsible for the preparation and content of this publication ("**Analysts**") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

**Analyst holdings:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Ratings distributions:** As at 26 May 2020, Forsyth Barr's research ratings were distributed as follows:

| <b>OUTPERFORM</b> | <b>NEUTRAL</b> | <b>UNDERPERFORM</b> |
|-------------------|----------------|---------------------|
| <b>49.0%</b>      | <b>36.7%</b>   | <b>14.3%</b>        |

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

**Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

**Investment banking engagements:** Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: FRE

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

**Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

**Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.