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Mainfreight
1H21 Preview — A Blue Wave

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OUTPERFORM

Mainfreight (MFT) pre-released its 1H21 result at its recent investor day, providing detailed commentary by division, therefore, we expect few surprises when it reports on 11 November 2020. The company issued preliminary revenue and profit before tax (post IFRS-16) for the first half, implying year on year growth of +7% and +23% respectively. There could be some minor variations to these numbers given the estimated nature of September performance based on 'weekly' accounts by branch. MFT has weathered the COVID-19 storm exceedingly well, accelerating market share gains and benefiting from new supply chain outsourcing opportunities. Australia has been the key driver of the first half profit uplift with strong transport performance a function of "*big branches going well and regional branches showing significant improvement*". New Zealand and Asia also contributed to profit growth. In contrast, the Americas and Europe both experienced profit declines. MFT now trades at a ~27x one year forward PE, a modest discount to key international peers DSV Panalpina (~30x) and Old Dominion Freight Line (~29x), and continues to offer attractive growth qualities. OUTPERFORM.

NZX Code	MFT
Share price	NZ$53.56
Target price	NZ$60.00
Risk rating	Medium
Issued shares	100.7m
Market cap	NZ$5,394m
Avg daily turnover	77.5k (NZ$3,018k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	148.0	178.6	210.4	233.8
EPS* (NZc)	146.9	177.4	208.9	232.1
EPS growth* (%)	4.9	20.7	17.8	11.1
DPS (NZc)	59.0	70.0	83.6	92.9
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	36.4	30.2	25.6	23.1
EV/EBIT	16.2	20.1	17.2	15.6
EV/EBITDA	13.9	12.3	11.0	10.1
Price / NTA	7.9	6.9	5.3	4.3
Cash div yld (%)	1.1	1.3	1.6	1.7
Gross div yld (%)	1.5	1.8	2.2	2.4

Key things to look for in the 1H21 result:

- **Updated outlook commentary:** Management alluded to supply chain congestion at its recent investor day and suggested it was cautious on pre-Christmas volumes. Four more weeks of trading will provide more insight into early 2H21 trading. However, new restrictions in Europe will likely weigh on any increasing optimism.
- **Margin drivers:** Warehousing was the key driver of margin expansion in FY20. We expect transport has taken over in 1H21, particularly given the exceptional result in Australia.
- **New business conversion:** MFT continues to be well positioned for market share gains. Management has said that every division is winning new business with strong levels of inbound enquiry.
- **Capex and debt:** Half year net debt should be around ~NZ$115m. We expect management to retain a conservative approach to the balance sheet in light of the uncertain outlook.

Figure 1. Earnings forecasts (NZ$m)

	1H20	1H21E	Change
Sales revenue	1,500.5	1,607.2	7.1%
Profit before tax	**82.9**	**102.2**	**23.4%**
Reported NPAT	59.1	73.1	23.6%
Underlying NPAT	**59.1**	**73.1**	**23.6%**
Underlying EPS (cents)	58.7	72.6	23.6%
Interim DPS (cents)	25.0	28.0	12.0%

Source: MFT, Forsyth Barr analysis

Figure 2. Divisional PBT (NZ$m)

	1H20	1H21E	Change
NZ	34.3	37.3	8.9%
Australia	16.2	32.8	103.1%
Asia	14.9	13.1	-11.8%
Europe	3.8	6.2	63.8%
US	13.7	12.7	-7.6%
Total	**82.9**	**102.2**	**23.4%**

Source: MFT, Forsyth Barr analysis

Mainfreight Ltd (MFT)

Priced as at 03 Nov 2020 (NZ$)	**53.56**

12-month target price (NZ$)*	**60.00**
Expected share price return	12.0%
Net dividend yield	1.5%
Estimated 12-month return	13.5%

Spot valuations (NZ$)	
1. DCF	58.98
2. PE relative	57.93
3. n/a	n/a

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.94
WACC	6.3%
Terminal growth	1.0%

DCF valuation summary (NZ$m)	
Total firm value	8,164
(Net debt)/cash	(195)
Less: Capitalised operating leases	(2,029)
Value of equity	5,939

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	2,954.1	3,095.4	3,320.8	3,632.1	3,900.1
Normalised EBITDA	**257.0**	**398.7**	**447.7**	**497.3**	**542.0**
Depreciation and amortisation	(53.1)	(57.9)	(174.3)	(179.5)	(191.6)
Normalised EBIT	**203.9**	**340.8**	**273.5**	**317.8**	**350.3**
Net interest	(6.9)	(5.7)	(22.0)	(17.9)	(17.4)
Associate income	0	0	0	0	0
Tax	(53.0)	(26.3)	(71.2)	(83.9)	(93.2)
Minority interests	0	0	0	0	0
Normalised NPAT	**141.1**	**148.0**	**178.6**	**210.4**	**233.8**
Abnormals/other	3.5	(11.2)	0	0	0
Reported NPAT	**137.6**	**159.2**	**178.6**	**210.4**	**233.8**
Normalised EPS (cps)	140.1	146.9	177.4	208.9	232.1
DPS (cps)	56.0	59.0	70.0	83.6	92.9

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	21.6	13.9	12.3	11.0	10.1
EV/EBIT (x)	27.2	16.2	20.1	17.2	15.6
PE (x)	38.2	36.4	30.2	25.6	23.1
Price/NTA (x)	9.5	7.9	6.9	5.3	4.3
Free cash flow yield (%)	1.7	2.6	5.0	4.1	4.8
Net dividend yield (%)	1.0	1.1	1.3	1.6	1.7
Gross dividend yield (%)	1.5	1.5	1.8	2.2	2.4

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	29.7	60.1	12.4	17.8	20.1
Interest cover EBITDA (x)	37.4	70.3	20.4	27.8	31.1
Net debt/ND+E (%)	12.8	13.6	5.3	-6.7	-19.0
Net debt/EBITDA (x)	0.5	0.4	0.1	n/a	n/a

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	12.8	4.8	7.3	9.4	7.4
EBITDA (%)	19.3	55.1	12.3	11.1	9.0
EBIT (%)	21.7	67.1	-19.8	16.2	10.2
Normalised NPAT (%)	25.7	4.9	20.7	17.8	11.1
Normalised EPS (%)	25.7	4.9	20.7	17.8	11.1
Ordinary DPS (%)	24.4	5.4	18.6	19.4	11.1

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	13.6	14.8	11.6	12.6	13.0
Return on equity (%)	16.8	15.3	16.5	15.8	14.7
Return on funds employed (%)	8.5	9.4	15.2	14.1	14.1
EBITDA margin (%)	8.7	12.9	13.5	13.7	13.9
EBIT margin (%)	6.9	11.0	8.2	8.7	9.0
Capex to sales (%)	3.5	5.2	2.4	4.5	4.2
Capex to depreciation (%)	194	277	46	92	86
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	40	40	39	40	40

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**257.0**	**398.7**	**447.7**	**497.3**	**542.0**
Working capital change	0	15.0	17.3	18.2	19.1
Interest & tax paid	(61.4)	(65.0)	(93.2)	(101.7)	(110.6)
Other	1.7	(47.9)	(24.3)	(25.2)	(26.1)
Operating cash flow	**197.4**	**300.8**	**347.5**	**388.6**	**424.3**
Capital expenditure	(103.3)	(160.0)	(80.0)	(165.0)	(165.0)
(Acquisitions)/divestments	14.0	5.0	5.0	5.0	5.0
Other	0.1	(101.6)	(105.7)	(111.0)	(116.5)
Funding available/(required)	**108.3**	**44.1**	**166.9**	**117.6**	**147.8**
Dividends paid	(48.3)	(59.4)	(70.5)	(84.2)	(93.5)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**59.9**	**(14.3)**	**96.4**	**144.4**	**170.8**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (NZ$m)					
New Zealand	719	753	783	830	880
Australia	761	797	920	1,029	1,095
USA	725	762	773	847	926
Asia	109	95	114	130	148
Europe	640	689	731	796	852
Total	**2,954**	**3,095**	**3,321**	**3,632**	**3,900**
EBITDA (NZ$m)					
New Zealand	110.6	139.8	146.1	154.8	166.1
Australia	59.3	104.8	148.8	167.6	178.5
USA	38.3	60.4	58.8	67.7	77.4
Asia	9.3	8.3	13.6	15.6	17.7
Europe	39.6	85.4	80.4	91.5	102.2
Total	**257.0**	**398.7**	**447.7**	**497.3**	**542.0**
NZDAUD	0.92	0.95	0.91	0.87	0.88
NZDUSD	0.68	0.65	0.65	0.66	0.67
NZDEUR	0.59	0.58	0.56	0.55	0.55

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	74.5	81.3	97.5	106.6	114.5
Fixed assets	666.6	776.6	774.2	853.2	925.8
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
Total funds employed	**1,072.8**	**1,848.9**	**1,905.7**	**2,041.1**	**2,170.5**
Net debt/(cash)	123.5	151.6	61.0	(83.4)	(254.2)
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	1,081.9	1,328.9	1,594.5
Minority interests	0	0	0	0	0
Total funding sources	**1,072.8**	**1,848.9**	**1,905.7**	**2,041.1**	**2,170.5**

NOTE: IFRS 16 implemented from FY20

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

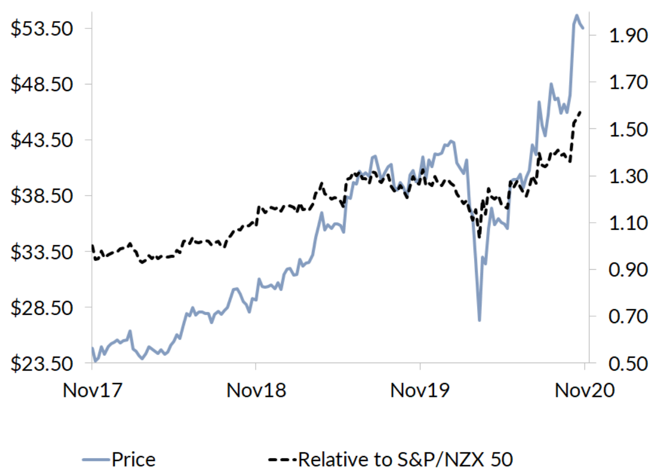
1H21 preview

Figure 3. Summary of 1H21 preliminary result and forecasts (NZ$m)

	1H20	2H20	FY20	1H21E	1H change
Sales revenue	**1,500.5**	**1,594.9**	**3,095.4**	**1,607.2**	**7%**
EBITDA	176.5	222.2	398.7	200.7	14%
Depreciation and amortisation	(28.5)	(29.3)	(57.9)	(31.0)	9%
Lease depreciation	(53.4)	(58.4)	(111.9)	(56.5)	
Abnormals (pre-tax)	0.0	(4.8)	(4.8)	0.0	n/a
Interest expense	(3.4)	(2.3)	(5.7)	(2.5)	-27%
Lease interest	(8.2)	(8.8)	(17.0)	(8.5)	
New Zealand	34.3	53.1	87.4	37.3	9%
Australia	16.2	35.5	51.7	32.8	103%
The Americas	14.9	16.0	30.9	13.1	-12%
Asia	3.8	1.4	5.2	6.2	64%
Europe	13.7	17.4	31.1	12.7	-8%
Profit before tax	**82.9**	**118.6**	**201.5**	**102.2**	**23%**
Taxation (incl. abnormal tax)	(23.7)	(18.6)	(42.3)	(29.1)	23%
Reported NPAT	59.1	100.1	159.2	73.1	24%
Abnormals (post tax)	0.0	(11.2)	(11.2)	0.0	n/a
Underlying NPAT	59.1	88.8	148.0	73.1	24%
Underlying EPS (cents)	58.7	88.2	146.9	72.6	24%
DPS (cents)	25.0	34.0	59.0	28.0	12%

Source: MFT, Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

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

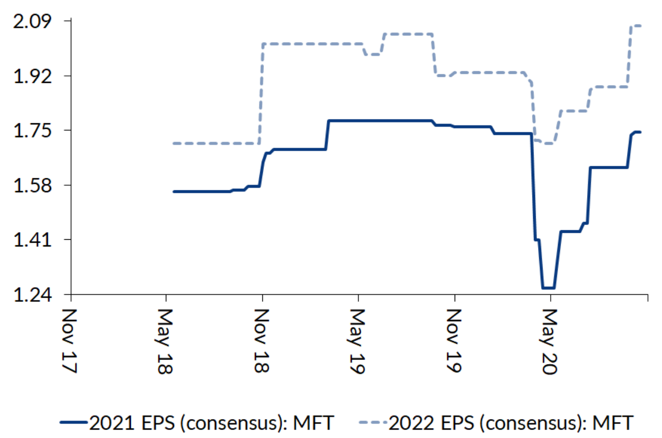
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. 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$53.56**	**NZ$5,394**	**30.2x**	**25.6x**	**12.4x**	**11.2x**	**20.3x**	**17.4x**	**1.6%**
FREIGHTWAYS *	FRE NZ	NZ$8.64	NZ$1,430	20.2x	17.1x	9.5x	8.5x	14.5x	12.1x	4.4%
OLD DOMINION FREIGHT LINE	ODFL US	US$197.59	US$23,184	34.0x	28.7x	19.0x	16.7x	24.7x	21.4x	0.3%
DSV PANALPINA A/S	DSV DC	kr1065.00	kr244,950	36.7x	29.0x	19.1x	16.9x	27.0x	23.1x	0.5%
C.H. ROBINSON WORLDWIDE INC	CHRW US	US$89.15	US$12,120	23.8x	20.8x	17.1x	15.0x	19.6x	16.9x	2.4%
KUEHNE + NAGEL INTL AG-REG	KNIN SW	CHF188.05	CHF22,566	29.8x	27.0x	12.8x	12.6x	22.8x	21.0x	2.3%
EXPEDITORS INTL WASH INC	EXPD US	US$86.71	US$14,538	22.7x	22.1x	14.9x	14.8x	16.1x	15.7x	1.3%
			Compco Average:	**27.9x**	**24.1x**	**15.4x**	**14.1x**	**20.8x**	**18.4x**	**1.9%**
EV = Current Market Cap + Actual Net Debt			**MFT Relative:**	**8%**	**6%**	**-20%**	**-21%**	**-2%**	**-5%**	**-17%**

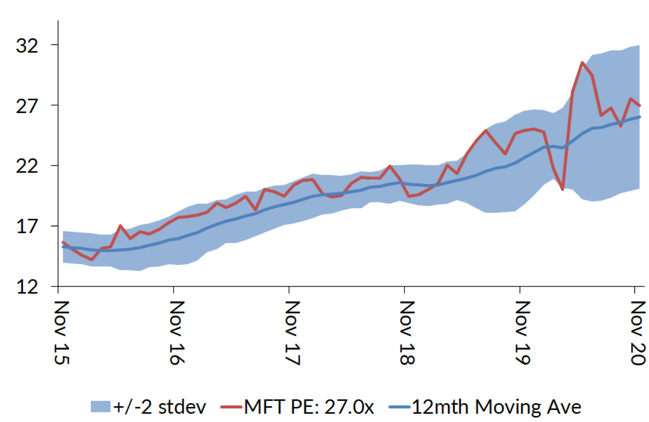
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (MFT) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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