

Mainfreight

100 Year Company En Route to NZ\$100

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OUTPERFORM

Mainfreight (MFT) is a high quality growth story with an enviable track record and a significant opportunity to expand its presence further in global freight and logistics markets given its proven competitive advantage. These attractive features aren't missed by the market. It has enjoyed strong share price performance over an extended period of time, driven by a combination of PE multiple expansion, earnings growth and earnings upgrades. However, at ~33x one year forward PE, with MFT trading ahead of its key global freight peers and now broadly on par with the domestic market, share price upside is more reliant on earnings growth, in our opinion. We recognise this may slow down share price momentum, though with MFT's forward looking earnings growth rate more attractive than that of the domestic market, we retain an OUTPERFORM rating.

NZX Code	MFT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$67.30	NPAT* (NZ\$m)	148.0	178.8	201.6	224.3	PE	45.8	37.9	33.6	30.2
Target price	NZ\$70.00	EPS* (NZc)	146.9	177.6	200.2	222.7	EV/EBIT	31.6	27.7	25.1	22.7
Risk rating	Medium	EPS growth* (%)	4.9	20.8	12.8	11.2	EV/EBITDA	18.1	16.6	15.4	14.2
Issued shares	100.7m	DPS (NZc)	59.0	72.0	80.1	89.1	Price / NTA	9.9	8.6	6.7	5.3
Market cap	NZ\$6,777m	Imputation (%)	100	100	100	100	Cash div yld (%)	0.9	1.1	1.2	1.3
Avg daily turnover	75.5k (NZ\$3,184k)	*Based on normalised profits					Gross div yld (%)	1.2	1.5	1.7	1.8

What's changed?

- **Earnings:** Minor changes to reflect stronger NZD and higher constant currency sales growth in key markets
- **Target price:** Increased to NZ\$70 from NZ\$62

Not your average trucking company

MFT's strategic drive to increase its exposure to "everyday freight" provides numerous operational and financial benefits. The latter equates to lower earnings volatility than more cyclical peers. Our analysis shows that MFT has a lower observed equity beta than all of its larger cap international freight and logistics peers that we monitor. Intuitively this makes sense, particularly given its impressive record through COVID-19. Almost all of its peers were negatively impacted by government restrictions, yet MFT, helped by geographic diversification maintained its earnings growth momentum.

Expensive vs history; but vs today?

At ~33x one year forward PE, MFT's multiple has more than doubled over the past four years. Its long dated and consistent re-rating has been driven by a number of factors: (1) an increasingly consistent earnings growth track record, (2) consensus earnings upgrades, (3) more apparent defensive characteristics, (4) falling cost of capital, and (5) a potential scarcity premium.

An NZ\$100 company?

Management has a history of setting itself challenging targets as outlined in each MFT annual report. A share price of NZ\$100 may have been considered challenging several years ago, but now it's within the realms of possibilities. Assuming historical average EPS growth (+12% pa) can be maintained, and MFT is able to sustain its current forward PE multiple, then a share price of NZ\$100 is possible within the next 3–4 years, on our calculations.

Mainfreight Ltd (MFT)

Prised as at 08 Feb 2021 (NZ\$) **67.30**

12-month target price (NZ\$)*	70.00
Expected share price return	4.0%
Net dividend yield	1.2%
Estimated 12-month return	5.2%

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.88
WACC	5.6%
Terminal growth	1.5%

Spot valuations (NZ\$)	
1. DCF	69.84
2. PE relative	61.89
3. n/a	n/a

DCF valuation summary (NZ\$m)	
Total firm value	9,254
(Net debt)/cash	(191)
Less: Capitalised operating leases	(2,029)
Value of equity	7,033

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	2,954.1	3,095.4	3,277.3	3,520.6	3,818.8
Normalised EBITDA	257.0	398.7	454.7	489.1	530.5
Depreciation and amortisation	(53.1)	(169.7)	(182.5)	(189.3)	(199.7)
Normalised EBIT	203.9	228.9	272.2	299.7	330.8
Net interest	(6.9)	(22.7)	(22.2)	(17.8)	(17.1)
Associate income	0	0	0	0	0
Tax	(56.0)	(58.3)	(71.3)	(80.4)	(89.4)
Minority interests	0	0	0	0	0
Normalised NPAT	141.1	148.0	178.8	201.6	224.3
Abnormals/other	3.5	(11.2)	0	0	0
Reported NPAT	137.6	159.2	178.8	201.6	224.3
Normalised EPS (cps)	140.1	146.9	177.6	200.2	222.7
DPS (cps)	56.0	59.0	72.0	80.1	89.1

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	12.8	4.8	5.9	7.4	8.5
EBITDA (%)	19.3	55.1	14.0	7.6	8.5
EBIT (%)	21.7	12.3	18.9	10.1	10.4
Normalised NPAT (%)	25.7	4.9	20.8	12.8	11.2
Normalised EPS (%)	25.7	4.9	20.8	12.8	11.2
Ordinary DPS (%)	24.4	5.4	22.0	11.2	11.2

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	257.0	398.7	454.7	489.1	530.5
Working capital change	0	15.0	17.3	18.2	19.1
Interest & tax paid	(61.4)	(65.0)	(93.4)	(98.1)	(106.5)
Other	1.7	(47.9)	(24.3)	(25.2)	(26.1)
Operating cash flow	197.4	300.8	354.2	383.9	417.0
Capital expenditure	(103.3)	(160.0)	(105.0)	(115.0)	(150.0)
(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	148.6	163.0	155.5
Dividends paid	(48.3)	(59.4)	(72.5)	(80.6)	(89.7)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	59.9	(14.3)	76.1	193.3	182.3

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	74.5	81.3	96.2	103.3	112.1
Fixed assets	666.6	776.6	800.2	831.7	894.1
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	1,930.4	2,016.3	2,136.4
Net debt/(cash)	123.5	151.6	81.3	(112.0)	(294.3)
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	1,086.4	1,332.7	1,600.5
Minority interests	0	0	0	0	0
Total funding sources	1,072.8	1,848.9	1,930.4	2,016.3	2,136.4

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

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	27.0	18.1	16.6	15.4	14.2
EV/EBIT (x)	34.0	31.6	27.7	25.1	22.7
PE (x)	48.0	45.8	37.9	33.6	30.2
Price/NTA (x)	11.9	9.9	8.6	6.7	5.3
Free cash flow yield (%)	1.4	2.1	3.7	4.0	3.9
Net dividend yield (%)	0.8	0.9	1.1	1.2	1.3
Gross dividend yield (%)	1.2	1.2	1.5	1.7	1.8

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	29.7	10.1	12.3	16.9	19.4
Interest cover EBITDA (x)	37.4	17.6	20.5	27.5	31.0
Net debt/ND+E (%)	12.8	13.6	7.0	-9.2	-22.5
Net debt/EBITDA (x)	0.5	0.4	0.2	n/a	n/a

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	13.6	9.9	11.4	12.0	12.5
Return on equity (%)	16.8	15.3	16.5	15.1	14.0
Return on funds employed (%)	8.5	15.8	15.6	15.5	15.6
EBITDA margin (%)	8.7	12.9	13.9	13.9	13.9
EBIT margin (%)	6.9	7.4	8.3	8.5	8.7
Capex to sales (%)	3.5	5.2	3.2	3.3	3.9
Capex to depreciation (%)	194	94	58	61	75
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	40	40	41	40	40

Operating Performance	2019A	2020A	2021E	2022E	2023E
Revenue (NZ\$m)					
New Zealand	719	753	794	846	897
Australia	761	797	900	987	1,069
USA	725	762	757	797	881
Asia	109	95	110	120	138
Europe	640	689	716	771	834
Total	2,954	3,095	3,277	3,521	3,819

Profit before tax (NZ\$m)					
New Zealand	85.7	87.4	96.9	103.2	109.4
Australia	50.1	51.7	81.9	93.8	104.7
USA	30.5	30.9	29.5	35.1	41.4
Asia	8.6	5.2	10.2	11.4	13.1
Europe	22.2	31.1	31.5	38.5	45.0
Total PBT	197.1	206.3	250.1	282.0	313.7
Tax	(56.0)	(58.3)	(71.3)	(80.4)	(89.4)
Normalised NPAT	141.1	148.0	178.8	201.6	224.3

NZDAUD	0.92	0.95	0.93	0.92	0.91
NZDUSD	0.68	0.65	0.67	0.71	0.71
NZDEUR	0.59	0.58	0.57	0.58	0.56

NOTE: IFRS 16 implemented from FY20

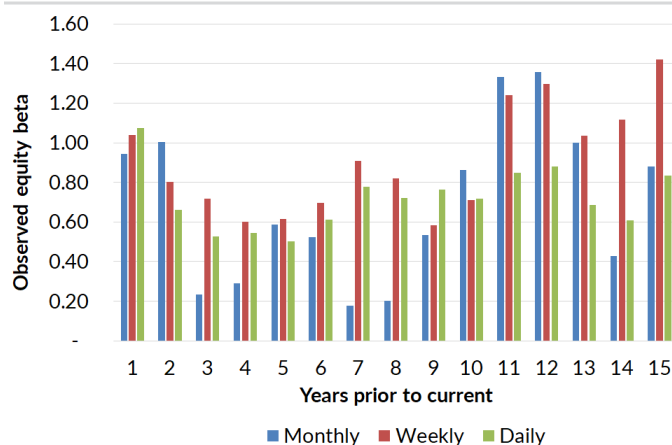
The beta argument for valuation

Mainfreight (MFT) has enjoyed a strong period (over one, two or many more years) of share price performance, driven primarily by significant PE expansion, yet we don't believe it is expensive. Whilst we recognise it's not cheap, we retain an OUTPERFORM rating in light of its growth potential, track record, and high quality attributes.

We raise our target price from NZ\$62 to NZ\$70 to reflect a combination of (1) a higher DCF calculation helped by a lower cost of equity (and WACC) estimate, and (2) a marginal increase in our PE comparative valuation. Our revised cost of equity assumption incorporates a change to our estimate of MFT's asset beta from 0.85 to 0.75. There are several key reasons we now apply this change:

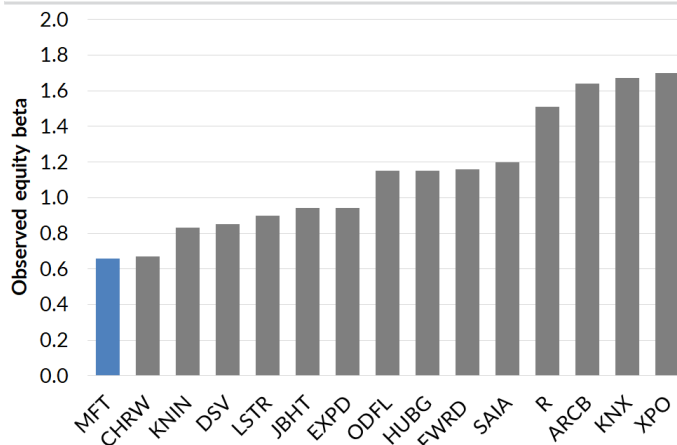
- We believe MFT is now definitely more defensive than a typical freight forwarder or transport company. Its focus on "everyday freight" in defensive FMCG categories means lower demand volatility. Consequently, it is less exposed to the economic cycle than it has been historically and freight transport peers. Moreover, its competitive advantage allows for accelerated market share wins during periods of extreme market uncertainty as was the case during 2020.
- The longer term trend in MFT's observed equity beta is supportive to a lower asset beta estimate. An analysis of MFT's observed equity beta suggests it has declined over the past 15 years, despite an increase over the past two years. In light of the volatility in observed equity betas at an individual company level we refrain from using the absolute value provided by our analysis in our WACC assumptions. Our asset beta estimates for New Zealand companies under coverage are qualitatively applied relative to each other based on our understanding of each company with some reference to international market beta observations for each sector.
- MFT's observed equity beta is lower than all of its key international freight and logistics peers as shown in Figure 2. This analysis is based on the average observed equity beta for daily, weekly and monthly observations over 10 years. The same is true for MFT's share price return correlation to the MSCI World Index when compared to these peers; it has the lowest correlation.

Figure 1. Annual equity beta observations for MFT based on daily, weekly and monthly price observations vs the NZX50



Source: Bloomberg, Forsyth Barr analysis

Figure 2. Observed equity betas for range of MFT's international peers – 10 year averages



Source: Bloomberg, Forsyth Barr analysis

Earnings revisions

We lower our earnings forecasts for MFT over our outlook period due to the adverse impact of a stronger NZD on the translation of international earnings. The downgrades are partially offset by better underlying earnings given the stronger economic backdrop across MFT's key regional businesses.

Figure 3. Changes to earnings forecasts (NZ\$m)

	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Sales revenue	3,338.3	3,277.3	-1.8%	3,673.6	3,520.6	-4.2%	3,936.2	3,818.8	-3.0%
EBITDA	458.9	454.7	-0.9%	499.6	489.1	-2.1%	539.0	530.5	-1.6%
PBT	253.5	250.1	-1.3%	291.1	282.0	-3.1%	320.7	313.7	-2.2%
Underlying NPAT	181.2	178.8	-1.3%	208.1	201.6	-3.1%	229.3	224.3	-2.2%
Underlying EPS	180.0	177.6	-1.3%	206.7	200.2	-3.1%	227.7	222.7	-2.2%
Full year DPS	72.0	72.0	0.0%	82.7	80.1	-3.1%	91.1	89.1	-2.2%

Source: Forsyth Barr analysis

MFT's re-rating – a long term theme

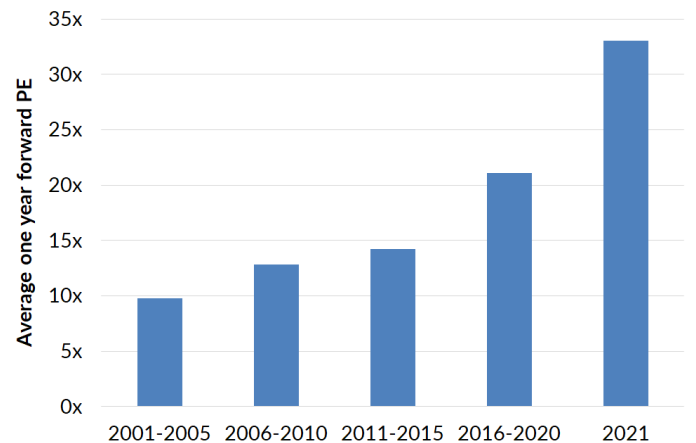
MFT has enjoyed a long term PE re-rating, which has accelerated over the past five years. In 2001 it averaged a one year forward PE rating of 9x. In 2021-to-date it has averaged a one year forward PE of ~33x. Moreover, its one year forward PE has more than doubled over the past four years.

Figure 4. 20 year one year forward PE time series for MFT



Source: Refinitiv, Forsyth Barr analysis

Figure 5. Average multiples in five year blocks for MFT



Source: Refinitiv, Forsyth Barr analysis

PE trumps EV/EBITDA and EV/EBIT

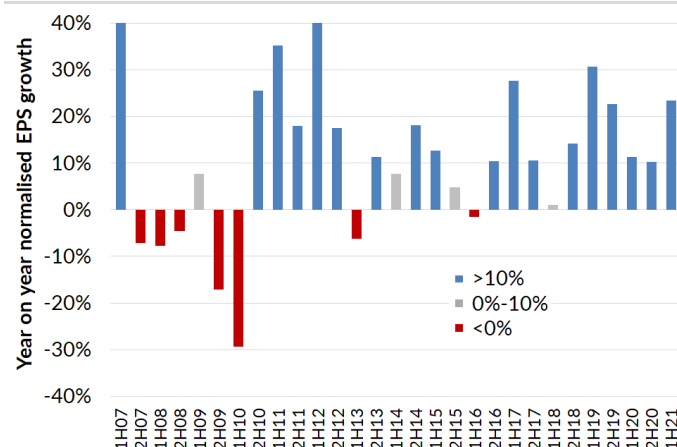
The introduction of IFRS16 (Accounting for Leases) over the past two years means EV/EBITDA and EV/EBITDA valuation comparisons are more difficult to undertake particularly with international peers given the limited availability of like-for-like data. We, therefore, focus our attention on PE ratios as a primary means of relative valuation comparisons.

Key re-rating drivers

The impressive re-rating reflects a number of drivers, in our opinion:

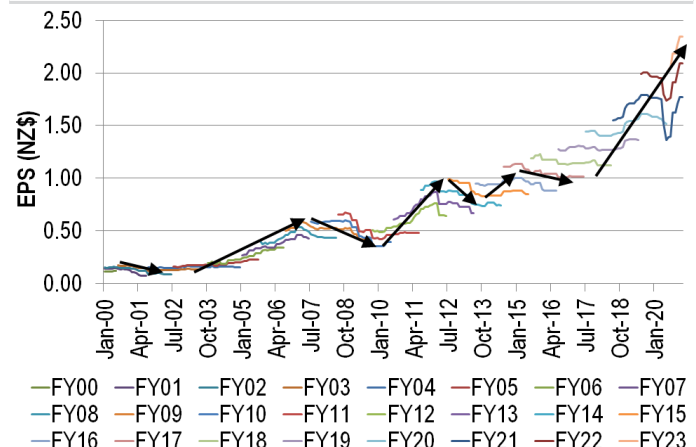
- **Increasingly consistent growth track record:** MFT has delivered six consecutive half year periods of double digits EPS growth, its longest stretch over the past 20 years. This stat is particularly impressive given it incorporated COVID-19 government restrictions (refer Figure 6) and economic fall-out. Moreover, it has delivered double digit growth in nine of the last 10 half years. MFT's growth track record is a function of its ability to consistently win new business.
- **Earnings upgrades:** Investors often reward companies that are enjoying upgrade cycles with a double benefit of higher future earnings expectations and a higher rating. This is intuitive so long as the higher earnings are sustainable, as higher earnings should ordinarily mean a higher return on capital. MFT has enjoyed longer periods of upgrade cycles than converse downgrade cycles (refer to Figure 7).

Figure 6. EPS growth is becoming more consistent



Source: MFT, Forsyth Barr analysis

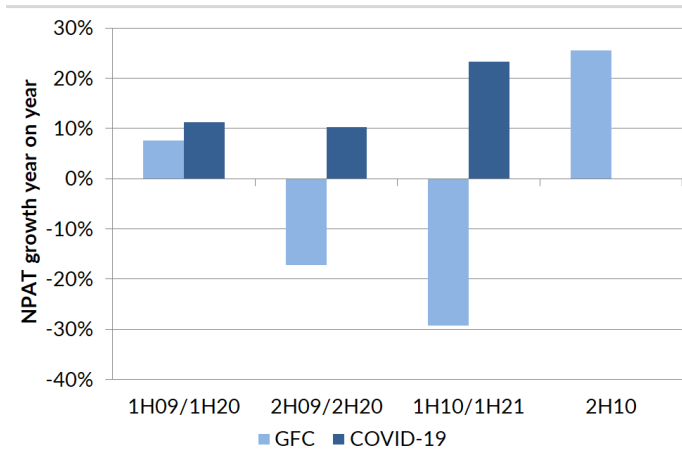
Figure 7. Upgrades add to the froth



Source: Datastream Forsyth Barr analysis

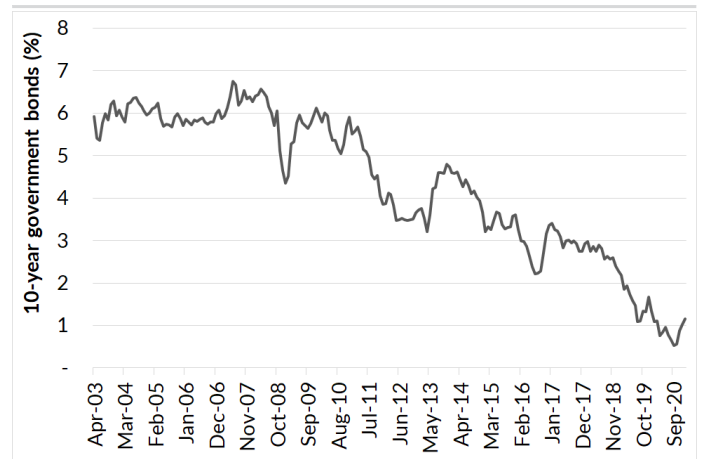
- **Defensive characteristics more apparent:** MFT often talks about its desire to attract "everyday freight", which refers to key verticals including food, beverages, household products, and DIY. These in combination tend to be defensive, offering MFT a more consistent volume backdrop through economic cycles.
- **Falling cost of capital:** Simplistically a PE multiple reflects three key variables, namely (1) growth, (2) return on equity, and (3) cost of equity. This last variable in particular has benefitted from the long term reduction in government bond rates (refer to Figure 9).
- **Scarcity premium:** This goes against conventional liquidity discount theory, as in MFT's case its strong track record, underlying business momentum, clear competitive advantage with a strong moat, reluctance to issue new equity, and the flight to quality investment theme may have aided its elevated valuation.

Figure 8. MFT has been more defensive through COVID-19 than the GFC



Source: Forsyth Barr analysis

Figure 9. The risk free rate has fallen considerably (10 year gov't bonds)



Source: Forsyth Barr analysis

Valuation today; expensive, cheap or justifiable?

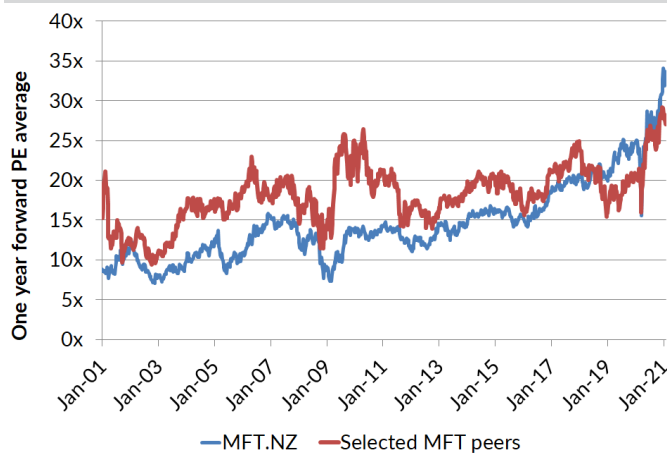
Our assessment of MFT's valuation below is on both a relative basis and absolute basis. We consider its forward earnings multiple relative to the domestic market and to its closest international peers. We also deconstruct this forward multiple to determine what the share price implies for key valuation. We conclude, that despite a significant PE re-rating during 2020, MFT's current share price is justified by a combination of (1) the expensive domestic market, (2) the re-rating enjoyed by international peers, (3) MFT's growth trajectory, and (4) a substantial benefit from a falling cost of capital.

Now expensive relative to international benchmarks

With increasing ownership of the NZX50 by international investors and the growing global nature of MFT's business, the use of international peers as a valuation benchmark for MFT is increasingly relevant, in our opinion. There are a large number of freight and logistics players globally that could be considered valuation peers for MFT. Our analysis suggests the most relevant 10 are: DSV Panalpina, Kuehne & Nagel, Old Dominion Freight Line, Forward Air, Saia, Hub Group, Expeditors, JB Hunt, Landstar and XPO.

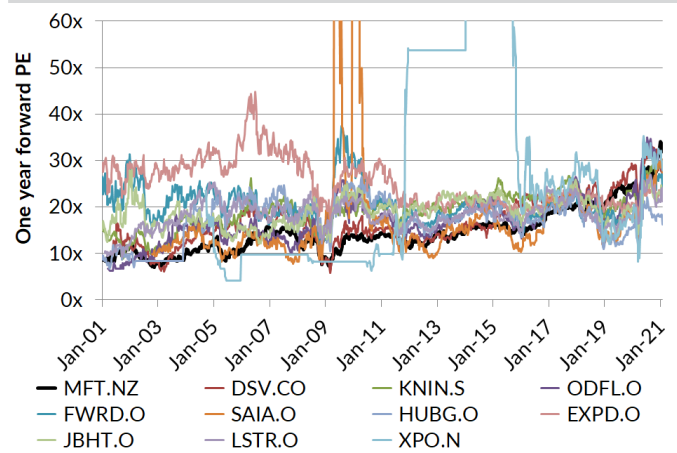
Relative to the average of these peers MFT is currently trading at a +26% premium, albeit narrowing the field to the most relevant five (those ranked 1-5 in Figure 14) reduces the premium to +17%.

Figure 10. MFT's PE ascent vs its closest global freight peers...



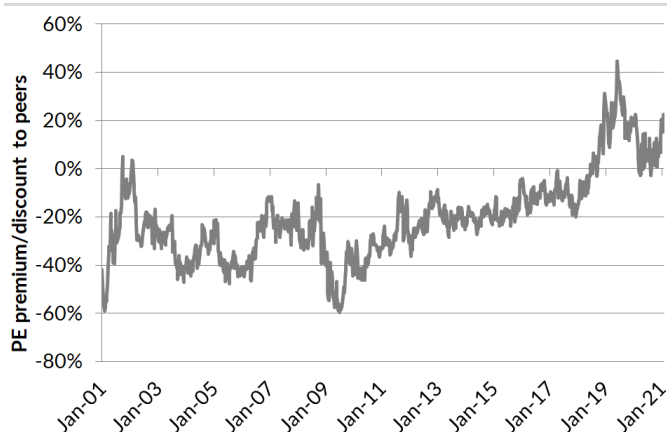
Source: Refinitiv, Forsyth Barr analysis

Figure 11. ...selected peers at a company level



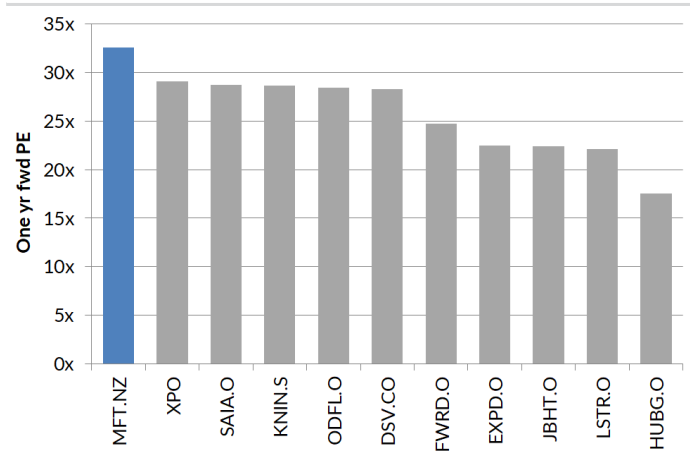
Source: Refinitiv, Forsyth Barr analysis

Figure 12. MFT premium/discount to closest peers



Source: Refinitiv, Forsyth Barr analysis

Figure 13. MFT currently at 10%+ premium to closest peers



Source: Refinitiv, Forsyth Barr analysis

Which international peers are most appropriate?

We have analysed more than 50 freight and logistics players globally to ensure we benchmark MFT's valuation against the most relevant listed companies. We have used a variety of parameters to compare MFT to other freight players including (1) product mix and LCL(less-than-container-load)/LTL (less-than-truckload) exposure, (2) geographical spread, (3) market cap, (4) historic EPS growth and consistency, and (5) return on capital. MFT's most comparable peers by rank are shown in Figure 14.

Figure 14. Comparison of listed international freight and logistics players

Rank	Name	Based	M cap (US\$bn)	LCL/LTL	Ware' Air & Ocean housing	Americas	Europe	Asia Pacific	EPS growth (5-yr ave.)	Ret. on cap (3-yr ave.)	EPS consistency	
	Mainfreight	NZ	5	85%	12%	37%	25%	22%	53%	14%	12%	93%
1	DSV Panalpina	Denmark	37	80%	20%	53%	20%	55%	20%	23%	15%	91%
2	Kuehne + Nagel	Switzerland	27	80%	24%	61%	27%	62%	11%	5%	29%	61%
3	Forward Air	USA	2	85%	9%	0%	100%	0%	0%	33%	15%	50%
4	Old Dominion	USA	24	99%	5%	Yes	95%	0%	0%	22%	22%	84%
5	Saia	USA	5	95%	Yes	Yes	99%	0%	0%	20%	14%	51%
6	J.B. Hunt	USA	15	30%	Yes	Yes	99%	0%	0%	9%	16%	89%
7	Landstar	USA	6	25%	3%	Yes	95%	0%	0%	10%	26%	73%
8	Expeditors	USA	4	50%	30%	63%	40%	15%	40%	11%	6%	30%
9	Hub Group	USA	2	25%	6%	Yes	99%	0%	0%	28%	14%	48%
10	XPO Logistics	USA	11	35%	Yes	Yes	61%	39%	0%	66%	7%	16%

Source: Bloomberg, Company reports, Forsyth Barr analysis

PE premium justifiable?

We are not tax experts, and all else being equal, we believe there is justification for MFT (and other New Zealand listed companies) to trade at PE premiums relative to international peers. New Zealand (and Australia) offers dividend tax efficiency through imputation (and franking) that is unique to this part of the world. Additionally, New Zealand has no capital gains tax. As a result the average investor typically receives more of a declared dividend in New Zealand (and Australia) than in other jurisdictions.

We accept that not all investors in New Zealand can access all of these tax benefits but most can obtain some. Offshore investors in the New Zealand market uniquely get tax efficiency on dividends through being paid a "supplementary dividend". This supplementary dividend offsets the (typically 15%) non-resident withholding tax (NRWT) they pay in New Zealand. If New Zealand has an income tax treaty with the investor's country of residence (including the US, Australia, China, Hong Kong, Singapore, Germany, UK and many more) the investor can offset this NRWT "paid" against their tax liability in their home country. It's the same principle as imputation – no double taxation on dividends. We understand that New Zealand is the only country in the world which provides a tax offset to foreign investors.

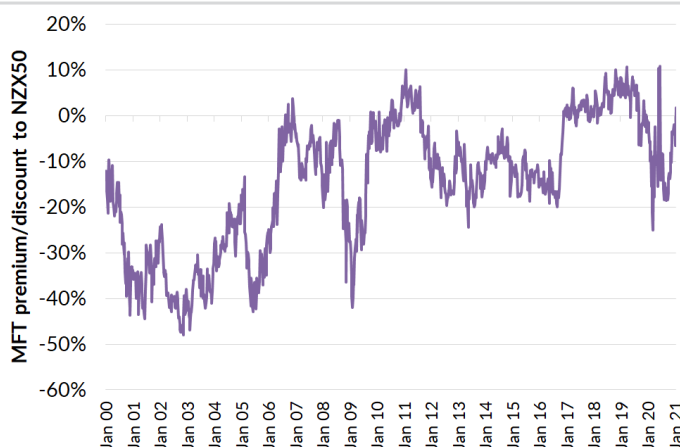
The big question is, what PE premium should this dividend tax efficiency provide for MFT relative to an identical company listed in an offshore jurisdiction? There is no simple answer to this question given the wide range of tax regimes and rates internationally, and MFT's marginal investor. Simplistically, if the MFT marginal investor has a 10% dividend tax advantage relative to its investment in an offshore equivalent business then MFT should demand a ~+10% PE premium.

Relative to the NZX50

MFT's re-rating has closed the gap it historically traded at relative to the NZX50. It now trades broadly in-line with the Datastream calculated forward PE for the NZX50 of ~32x.

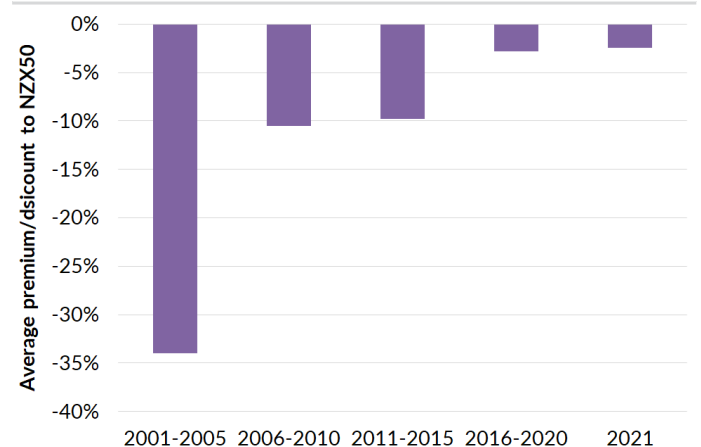
We recognise that index constituents have changed over time but argue that MFT's attractiveness relative to the index has increased justifying a closing of the historic valuation gap.

Figure 15. MFT vs NZX50 on a one year forward PE basis



Source: Datastream, Refinitiv, Forsyth Barr analysis

Figure 16. MFT's discount to the NZX50 has closed



Source: Datastream, Refinitiv, Forsyth Barr analysis

Deconstructing the multiple

The price/earnings or PE ratio of a company can be expressed simplistically in formulaic form as a function of return on equity (ROE), cost of equity (k_e) and growth (g). The calculation shown in Figure 17 assumes that margins, and depreciation, tax and investment rates remain constant over time. In light of the inconvenient (and annoying) impact of IFRS16 on EBITDA and EBIT we ignore EV/EBITDA and EV/EBIT multiples.

Figure 17. What is PE?

$$PE = \frac{ROE - g}{ROE \times (k_e - g)}$$

Source: Forsyth Barr analysis

Figure 18. Returns are a function of margins and asset turnover

$$ROE = \frac{NPAT}{Equity} = \frac{NPAT}{Sales} \times \frac{Sales}{Equity}$$

$$= NPAT \text{ margin} \times \text{asset turnover}$$

Source: Forsyth Barr analysis

Heightened PE suggests higher implied growth and/or a lower asset beta; both justifiable

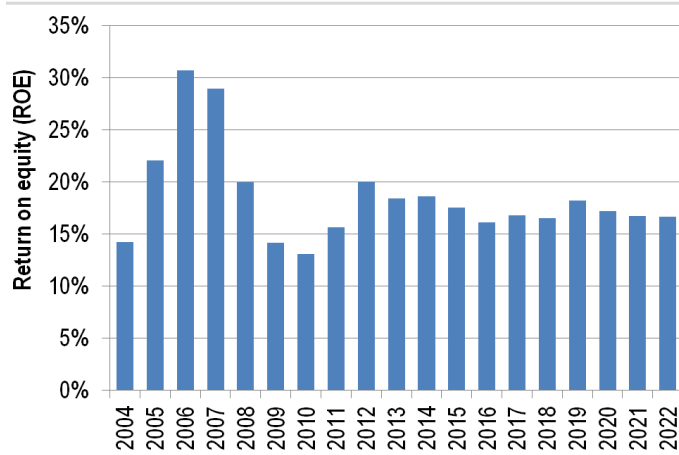
MFT's ROE has been relatively consistent since it acquired Wim Bosman in FY12 as shown in Figure 19 (this is counter intuitive given MFT's strong earnings track record of recent years and history of recycling capital, which leads to further analysis below). This implies the PE re-rating must stem from either higher g or a lower k_e . Both of these are possible and likely. However, in light of a lower risk free rate, we are more certain about the k_e than the g.

The assumptions we have used up until now for MFT's key WACC variables include asset beta, β_a of 0.85, tax adjusted market risk premium, TAMRP of 6%, debt leverage of 10% and the interpolated 10-year government bond as a proxy for the risk free rate, R_f .

We determine that using these parameters MFT's implied growth since 2010 has averaged ~3.2% (Figure 20) but is currently ~4.5%, close to its historic peaks, having climbed materially through 2020. A word of caution — this analysis assumes that asset beta, β_a is constant.

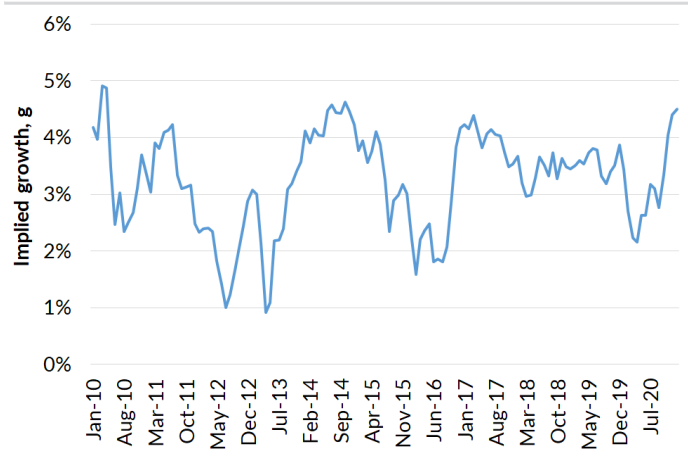
In contrast, we believe β_a may have fallen due to MFT's increasingly defensive characteristics (as discussed above). Any reduction in β_a would mean the acceleration in implied growth is less pronounced. Assuming the implied growth of 3.2% is static, we determine that its β_a has fallen -10bps through 2020.

Figure 19. ROE has been largely flat since the Wim Bosman deal



Source: Forsyth Barr analysis

Figure 20. MFT's implied g derived from ROE and PE



Source: Forsyth Barr analysis

Either way we think it's plausible to suggest that through COVID-19 impacted 2020, MFT's long term growth rate has moderately accelerated (from a 2019 average of ~3.6% up to ~4.5%, or MFT's asset beta has contracted by ~10bps applying the same approach in Figure 20 to asset beta). This means on the basis of MFT's ROE and k_e we believe its current PE multiple is justifiable.

Static returns reflects opposing directions for margins and asset turns

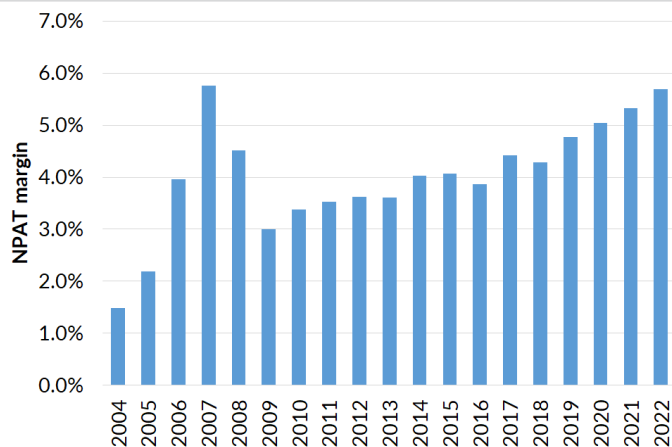
MFT's strong earnings performance over its history reflects a combination of (1) above average revenue growth, and (2) margin expansion. However, our analysis suggests margin expansion (as shown in Figure 21) has not led to ROE (or ROIC) improvements. This

is because MFT's asset turnover is deteriorating (as shown in Figure 22). Asset turnover measures the efficiency of a company's use of its equity or capital in generating revenue.

In our analysis we use NPAT margins and asset turns based on equity, but the same trends are evident when using NOPAT or EBIT margins and invested capital.

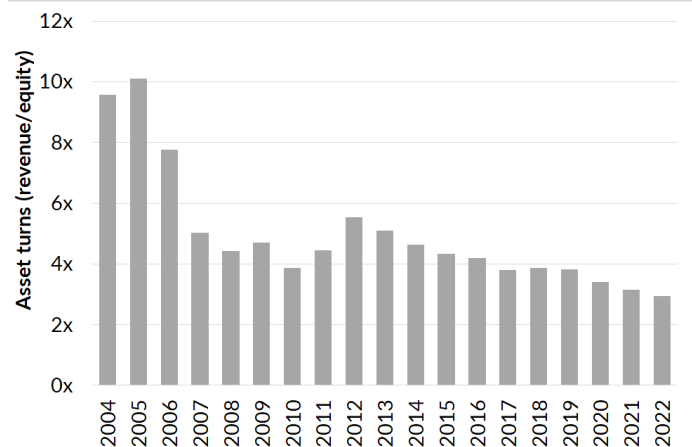
We think the simple reason why asset turns are falling is MFT's changing business mix. The less capital intensive air & ocean operations have been falling as a proportion of group revenue in recent years (MFT has only disclosed the product split since 2015) as MFT invests in its transport and warehousing operations. In particular, warehousing is asset intensive but generate strong margins. Ordinarily, higher asset intensity may make MFT less attractive, however, given warehousing investments help lock-in transport, and air & ocean customers, enhanced customer retention is a justifiable trade-off, so long as ROE (and ROIC) is stable.

Figure 21. NPAT margins



Source: MFT, Forsyth Barr analysis

Figure 22. Asset turns based on equity

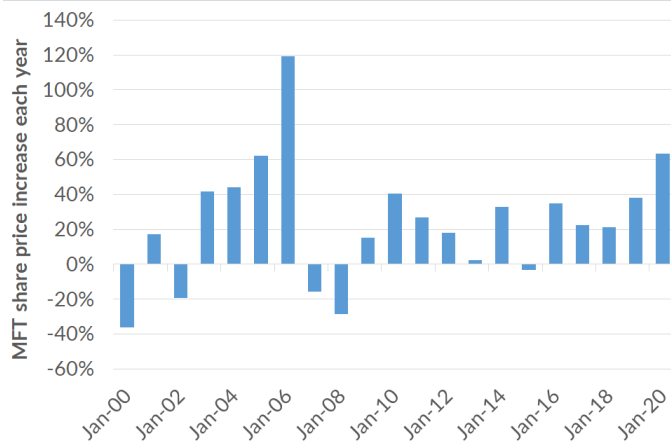


Source: MFT, Forsyth Barr analysis

How does MFT become an NZ\$100 stock?

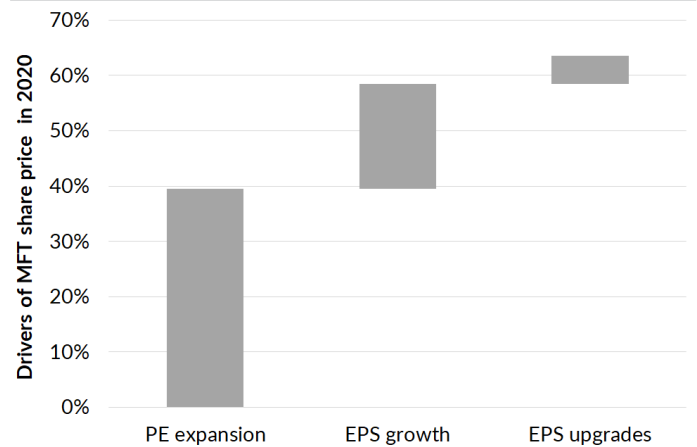
MFT's share price increased +64% through 2020. Another +64% would see it trade well above NZ\$100. While we think that's unlikely over the next 12 months, it's not outside the realms of possibilities. More realistically, it's a feasible outcome over the next few years, in our opinion. So let's ask the question, what needs to happen for MFT's share price to hit NZ\$100?

Figure 23. 2020 was a strong share price year for MFT; even after four 20%+ years of appreciation



Source: Refinitiv, Forsyth Barr analysis

Figure 24. Share price appreciation through 2020 was predominantly driven by PE expansion

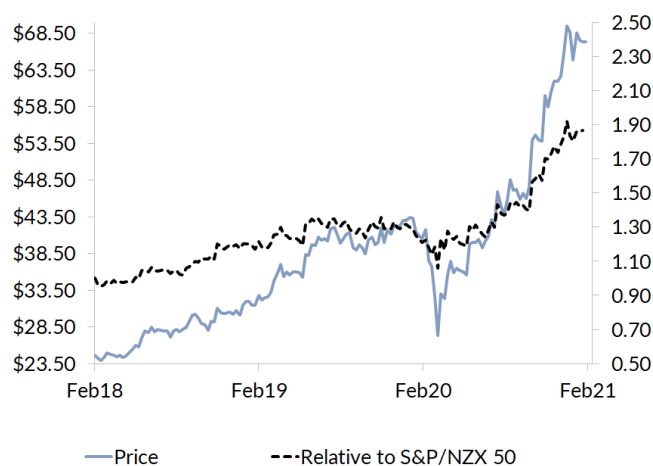


Source: Refinitiv, Forsyth Barr analysis

It's all about earnings

With MFT now trading at a historically high PE multiple both in absolute and relative (to peers) terms and cost of capital risks edging towards upside (should bond rates climb over the coming years PE contraction may be a feature from a rising cost of equity), we believe that investors can ignore the concept of PE expansion at this stage. Share price performance is reliant on EPS growth and EPS upgrades.

The current market consensus EPS growth profile for MFT really only provides one year of forward growth beyond the PE multiple, which currently sits at +12% (FY23E), identical to the average EPS growth MFT has achieved over the past 10 years. Assuming MFT can achieve that level of growth over the next 3–4 years it could become an NZ\$100 stock in 2024.

Figure 25. Price performance


Source: Forsyth Barr analysis

Figure 26. Substantial shareholders

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

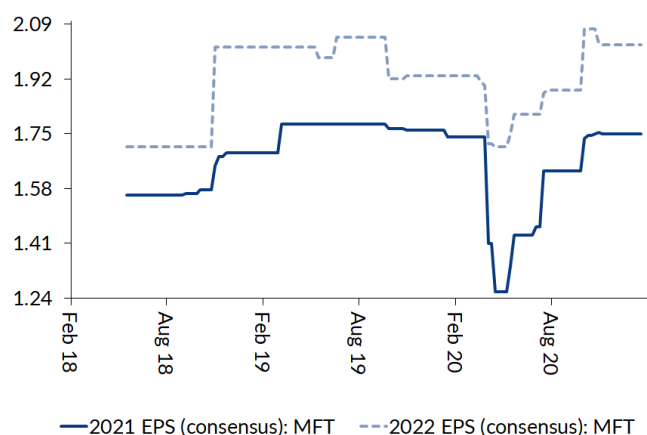
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 27. International valuation comparisons

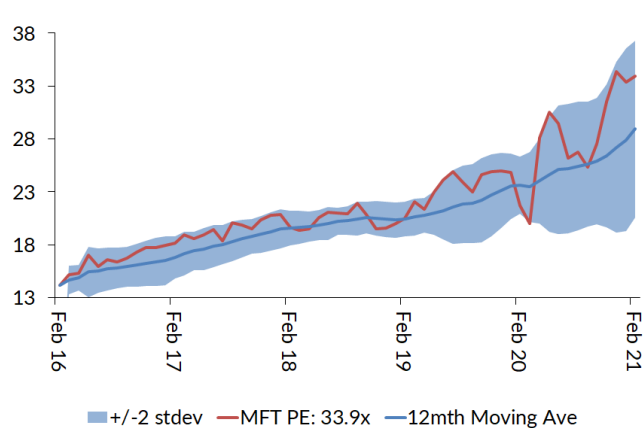
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect MFT's balance date - March)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Mainfreight	MFT NZ	NZ\$67.30	NZ\$6,777	37.9x	33.6x	15.2x	14.2x	25.5x	23.1x	1.2%
FREIGHTWAYS *	FRE NZ	NZ\$10.80	NZ\$1,788	25.2x	21.3x	11.6x	10.3x	17.6x	14.7x	3.5%
OLD DOMINION FREIGHT LINE	ODFL US	US\$200.30	US\$23,501	34.0x	28.2x	19.1x	16.4x	24.4x	20.5x	0.4%
DSV PANALPINA A/S	DSV DC	kr1007.00	kr231,610	34.5x	27.5x	18.0x	16.1x	25.4x	21.9x	0.5%
C.H. ROBINSON WORLDWIDE INC	CHRW US	US\$86.74	US\$11,792	22.4x	19.5x	16.2x	14.4x	18.5x	16.0x	2.5%
KUEHNE + NAGEL INTL AG-REG	KNIN SW	CHF207.00	CHF24,840	31.7x	29.1x	13.9x	13.6x	24.1x	22.3x	2.1%
EXPEDITORS INTL WASH INC	EXPD US	US\$91.19	US\$15,435	22.8x	22.4x	15.0x	15.0x	15.9x	15.8x	1.2%
Compco Average:				28.4x	24.7x	15.6x	14.3x	21.0x	18.6x	1.7%
MFT Relative:				33%	36%	-2%	-1%	21%	25%	-30%

EV = Current Market Cap + Actual Net Debt

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

Figure 28. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 29. One year forward PE (x)


Source: Forsyth Barr analysis

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