

Expolanka Holdings PLC [EXPO.SL: LKR 209.00]

Salient features from the latest discussion with Mr Hanif Yusoof

Recommendation: BUY

Target Price: LKR 234.00-246.00

Sector: Transportation

Salient points from the latest discussion with Mr Hanif Yusoof- Executive Director and Group CEO of Expolanka Holdings PLC

- Mr Yusoof reiterated, expanding global footprint in logistics services, and setting up its presence across all its global stations to be EXPO's prime objective.
- According to him, EXPO 's focus will largely be concentrated on cementing its presence in captive markets like USA thereby driving up towards increasing market share/customer base .
- Inorganic strategies like acquisitions are believed to work in favor of EFL in his view as EFL can leverage its strong brand presence, market acceptance and network operations to pursue potential opportunities in captive markets. He believes EFL yet has immense potential in the US market given its size and demand.
- Backed by the solid foundation created by the North America trade lane, which is the key driver of growth, EXPO is expecting to make further inroads to USA by focusing on Central America.
- The recent acquisition, IDEA Logistics LLC-logistics company headquartered in the US, servicing a range of US customers, offering freight forwarding, warehousing and trucking services, is a clear example how EXPO is trying to capitalize on that region where its gaining popularity as an emerging and fast growing apparel manufacturing hub, in relation to Near Shoring strategies adopted by leading US customers.
- Management also hinted of a potential strong acquisition spree which would not only ramp up the volumes but would also help in locking up and attracting existing clients whilst also acquiring new customers through a range of services.
- We also believe that much larger acquisitions is a clear possibility given EXPO's strong cash position (albeit temporarily been impacted by WC financing) and improved performance.

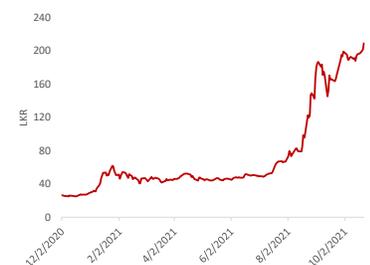
Key Statistics

Market Cap (LKR Bn)	408.58
Market Cap (USD Mn)	2,013
Issued Quantity (Mn)	1,955
Current Trading Range	203.00-209.75
52 week High/Low	209.00/17.00
YTD High/Low	209.00/30.90
Valuation	
Market PE (x)	11.9
Market PBV (x)	1.3
EXPO PE (x)	27.5
EXPO PBV (x)	13.1
Bloomberg Ticker	EXPO SL EQUITY
GICS industry Group	Transportation
Intrinsic Value	234.00-246.00
Rating	BUY

Main shareholders as at 30.06.2021

SG Holdings Global Pte. Ltd	75.6
Mr. H. Yusoof	7.5
Mr. F. Kassim	1.1
Sri Lanka Insurance Corporation Ltd-Life Fund	0.4
Nuwara Eliya Property Developers (Pvt) Ltd	0.3

Share Price Performance



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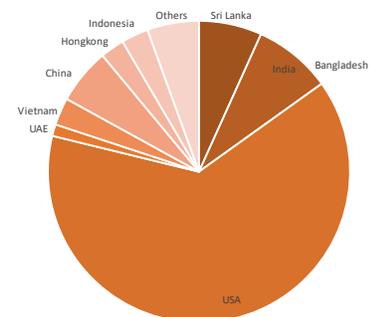
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- EXPO would also be focusing on value added services like CFS- Container Freight Services (distribution facility where import and export shipments are consolidated and de-consolidated) thereby help EXPO maintain margins once freight rates starts easing off gradually. Though current market conditions favours the CFS companies, EXPO will be in the watch out for attractive acquisitions.
- In terms of debtors, Management did not flag concerns of its high debtors' position given its normalcy in a rapidly growing market. Moreover, EXPO's careful credit evaluation, strong relationships and stringent evaluation process gives less room for default in his view. Like we stated in the previous update dated 27th September 2021, EXPO's debtors' days and working capital cycle is broadly in line specially compared with relatively young freight forwarders in the globe, implying the new normal of operational cycles.
- EXPO also take comfort from its parent company – SG Holdings – who not only plays a vital role in meeting short term liquidity requirements through cheap funding sources but also helping EXPO in its expansion strategies aided further through its strong relationships.
- Given the supply constraint and the increasing sea freight charges, EXPO is also tilting its operations towards sea freight business to reap maximum benefits from the current market conditions.

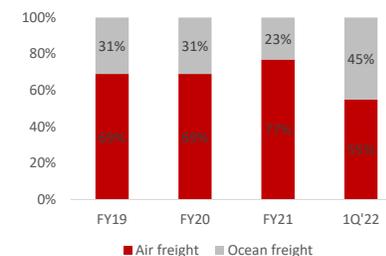
EXPO's working capital cycle is largely in line when compared with the relatively young freight forwarding companies

Entity	Number of years in operation	Receivable days	Inventory days	Payable days	Cash operating cycle
Kuehne + Nagel	131	101	8	76	32
C.H.Robinson	116	93	8	60	41
UPS	114	82	15	59	38
Nippon Express	84	29	1	16	13
Hitachi Transport System	71	124	1	59	67
Kintetsu World Express	51	124	13	75	62
DSV	45	102	9	68	44
EXPO	43	116	0	54	62
Agility Logistics	42	374	39	1195	-782
Expeditors	42	117	22	116	23
Kerry Logistics Network	40	131	4	106	29
FedEx Logistics	23	96	5	34	67
Sinotrans Ltd.	19	82	0	76	6

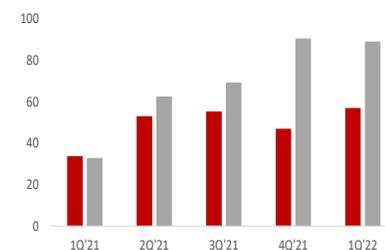
Asia- North American trade lane –the largest contributor to EXPO's topline



Ocean freight contribution to GP improved in 1Q'22



Volumes on both air & ocean freight picked up over the quarters



Source: Company Annual Reports

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NLE View

- We view EXPO's growth story which has evolved in four stages
 - Restructuring of EXPO in 2013/2017 period which enabled EXPO to redirect resources and focus on its core business.
 - Purchase of majority of the shares by Japan based SG Holdings in 2014/2016, which helped EXPO to realign its strategies further
 - EXPO's focus on consolidation and its ambitious growth plan during 2017/2019 period that helped EXPO to expand its global footprint and develop service capabilities
 - The foundation that was laid way back in 2017/19 period helping EXPO to navigate successfully specially during this pandemic period

- However, given the rapid changes in the global market and highly volatile freight rate environment, it has become extremely challenging to forecast EXPO's performance.

- Air freight charges in our view could remain at elevated levels with some shippers looking at alternative modes of freighting like even air due to supply chain turmoil. This could even be further exacerbated with shippers likely switching to charter services in race to put goods on shelves ahead of Black Friday and Christmas, benefiting freight companies like EXPO immensely.

- Even after people slowly start flying again, spurred by rising vaccination rates, demand for air cargo could continue to be high, driven by e-commerce and an ongoing global supply chain crisis on the ground in our view.

- Although there was slight easing off in rate for a 40-foot container in the recent past, ocean freight is still >5x more expensive than it was pre-pandemic, where we do not expect the supply chain crisis underpinning highly elevated freight rates to normalise before the end of next year.

- Volumes on the other hand will likely see a strong rebound underpinned by shift to air cargo during rush specially during festive season and strong recovery specially in the US market. Thereafter we expect a moderate growth helped by EXPO's strong global footprint however could even see a notable jump in an event of a large scale acquisition in our view.

Air freight rates are soaring to new highs

Sea freight rates are still >5x higher than pre pandemic times


Source: Bloomberg, Freightos

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EXPO'S base case scenario suggests ~100%YoY upside in profits for FY2021/22: We have arrived at a base case scenario when deriving at the profits for EXPO. We have assumed a considerable jump in volumes specially ahead of the festive season underpinned by elevated rates for FY 2021/22 and have adjusted the profits up to LKR 29.5Bn from the recent update. Beyond FY22 we have assumed a moderate pickup in volumes aided by expansions, however adjusted the freight rates which may settle with likely shocks on virus-related uncertainties cooling off.

In our bull case scenario however we have assumed the rates to remain high while volumes to pick up rapidly on the back of major acquisitions. Our bear case scenario conversely assumes volume pick up in mid to high teen levels and a gradual drop in rates.

EXPO warrants to trade at global peer multiples after transforming to a truly global company:

EXPO has transformed into a leading player in the global logistics sphere during the past few years becoming the 19th largest in the non-vessel operating companies in the world. EXPO's restructuring process by aligning the strategies to core business verticals and expanding its global footprint has successfully paid off during these trying times helped further by elevated yields. The near-medium term performance will be based on aggressive acquisition drive of EXPO which would further help cement EXPO's position by locking up and attracting existing clients whilst also acquiring new customers through range of peripheral services.

Given EXPO's solid global footprint and its foreign currency earning capacity, we firmly believe that EXPO should now trade in par with global peer multiples. Even after conservatively taking a 15.5x-16.2x earnings multiple on FY 21/22E earnings, which is still a 26%-30% discount to the average trading global peer multiple, EXPO should trade at LKR 234.00-246.00 levels, a 12%-18% upside to the current market price. However, if we take a more optimistic approach, and consider the bear market scenario the counter has the capacity to even trade at >40% premium to the current market price. Thus, given this scenario we maintain our recommendation BUY.

Earnings Forecast

YE 31 Mar/ (LKR Mn)	FY19	FY20	FY21	FY22E	FY23E
Net Profit (Recurrent)	1,448	1,322	14,828	29,535	30,642
YoY Growth (%)	103.7%	-8.7%	1021.6%	99.2%	3.7%
Recurrent EPS (LKR)	0.74	0.68	7.58	15.11	15.7
Dividend Payout	20.3%	-15.9%	6.6%	15.0%	20.0%
DPS (LKR.)	0.15	0.06	0.50	2.27	3.13
BVPS (LKR.)	8.1	6.6	14.0	26.9	39.5
Ratios (%)					
Dividend Yield (%)	0.1%	0.0%	0.2%	1.1%	1.5%
Price to Sales	4.28	3.96	1.87	0.82	1.00
ROE (%)	12.8%	5.5%	74.0%	74.1%	47.4%
Investor Ratios (%)					
PER - Recurrent (X)	282.2	309.0	27.6	13.8	13.3
PBV (X)	25.9	31.8	14.9	7.8	5.3

EXPO currently trades close to global peers

Entity	Country of Origin	Current PE
Kuehne + Nagel	Switzerland	22.9
DSV	Denmark	47.1
Sinotrans	China	9.9
UPS	United States	28.8
Expeditors	United States	20.8
Nippon Express	Japan	11.6
Bolloré Logistics	France	32.2
Kintetsu World Express	Japan	8.0
Hitachi Transport System	Japan	19.9
Sinotrans Ltd.	China	9.9
Kerry Logistics Network	Hong Kong	6.6
Agility Logistics	Kuwait	39.3
FedEx Logistics	USA	13.0
Dimerco Express Group	Taiwan	10.7
C.H. Robinson Worldwide	USA	20.6
Expolanka (EFL)	Sri Lanka	27.5

In a more bullish scenario target price could even be >LKR 280.00

	Profits in Bns		
	FY22E	FY23E	Target Price
Bearish case	26.5	27.6	210.00-221.00
Base case	29.5	30.6	235.00-245.00
Bullish case	36.5	38.6	289.00-304.00

Source: Investing.com, NLE Research

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