MA Moelis Australia

Silk Logistics Holdings Ltd (ASX: SLH)

Buy Rating

Target: $2.75 (Last: $1.75)

Initiation of Coverage

27 September 2023

MA Financial Group

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Silk Logistics Holdings Ltd. (SLH-AU) – Buy- Price: $1.75; PT: $2.75

We initiate coverage on logistics business, Silk Logistics Holdings, with a Buy rating and a $2.75 12-mth PT. SLH offers an integrated logistics exposure with FY23-25e 12% EPS CAGR at significant ~55% discount to peers.

Overview: Silk Logistics Holdings (SLH) is an integrated, port-to-door, landside logistics services business, with locations in most major cities in Australia. SLH offers 29 warehouse sites and 20 port logistics hubs across its national coverage.

Investment thesis

1. **Well positioned for continued growth:** 1) Boasting a tier 1 designation in port logistics, SLH is well positioned to capitalise on forecast growth in container volumes through the medium term, supported by recent Secon acquisition to bolster Victorian presence and wharfside bulks volume (MAe FY23-25e 12% revenue growth). 2) Increased ancillary service suite and cross sell strategy focus will help drive wallet share (77% of clients on single service). 3) Extending beyond the port, SLH's warehousing and distribution capability complete the fully integrated service offering. Visibility on an additional 85k sqm capacity growth and matching demand supports our constructive view on the landside services of the business.
2. **Contracted revenue streams coupled with solid track record of acquisitions and strong management executing inorganic growth strategy:** ~75% of warehouse revenue is from contracted customers, with which SLH has long term relationships. SLH has supplemented organic growth with acquisitions, having successfully acquired and integrated 4 businesses, in as many years. Balance sheet firepower for medium term $1b revenue ambition is supported by modest 0.6x net debt (ex leases) to EBITDA leverage.
3. **Undemanding valuation:** SLH trades at 8.3x FY24e P/E, representing a deep ~55% discount to peers. Even after accounting for size and liquidity, we see compelling value in SLH given the forecast 14% 2-year EPS CAGR, driven by near term warehousing capacity expansion and cross sell opportunities to drive wallet share in port logistics.

We initiate coverage with a Buy rating and $2.75/share 12-month price target, which is based on our equal weighted DCF and sum of the parts EV/EBIT valuation, rolled forward at the cost of equity, less estimated NTM dividends.

CAP STRUCTURE & FINANCIALS

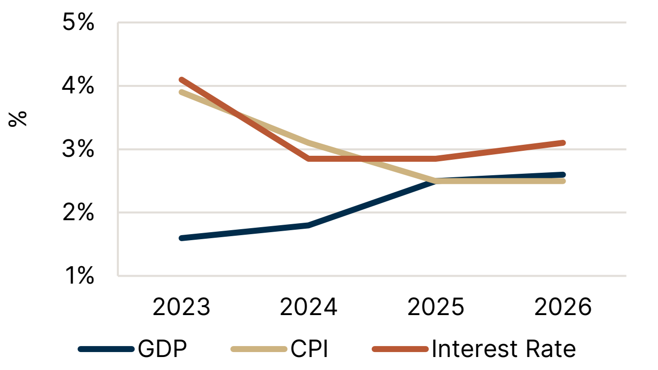
Silk Logistics Holdings		27 Sep 23
Last price	$	1.75
Shares on issue	m	81.5
Market capitalisation	**$m**	**142.6**
(Cash)	$m	(30.5)
Debt	$m	31.0
ROU debt	$m	190.5
Net debt / (cash)	**$m**	**191.0**
Enterprise value	**$m**	**333.6**
52 week range (low / high)	$	1.58-2.62
Free float	%	67.4%
Average daily value	$m/day	0.18

$m unless stated otherwise	FY23a	FY24e	FY25e	FY26e
Revenue	489.9	550.1	615.3	645.2
EBITDA	85.9	94.4	105.7	110.7
% growth	*25%*	*10%*	*12%*	*5%*
EBIT	35.4	40.3	47.1	48.8
NPAT	15.8	16.9	21.2	23.4
EPS - underlying, basic (¢)	20.0	21.0	26.1	28.7
% growth	*18%*	*5%*	*24%*	*10%*
DPS (¢)	8.4	10.2	12.8	14.1
Dividend yield (%)	*4.8%*	*5.8%*	*7.3%*	*8.0%*
EBITDA margin	*17.5%*	*17.2%*	*17.2%*	*17.2%*
EBIT margin	*7.3%*	*7.3%*	*7.7%*	*7.6%*
NPAT margin	*3.2%*	*3.1%*	*3.5%*	*3.6%*
EV/EBITDA	3.9x	3.5x	3.2x	3.0x
EV/EBIT	9.4x	8.3x	7.1x	6.8x
P/E	8.7x	8.3x	6.7x	6.1x

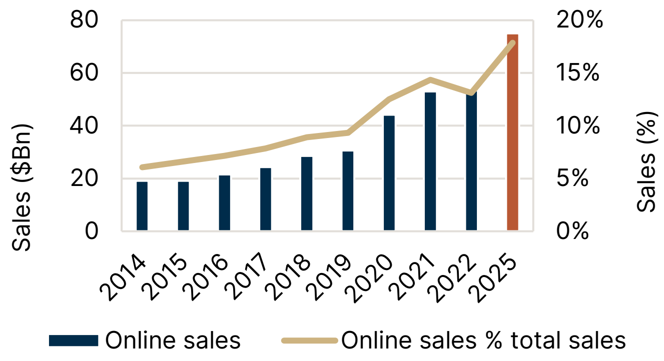
Investment Thesis In 6 Charts

Scale build with wharfside boost via Secon acquisition and increased near-term warehouse capacity positions SLH for growth as management strive for a $1bn revenue ambition.

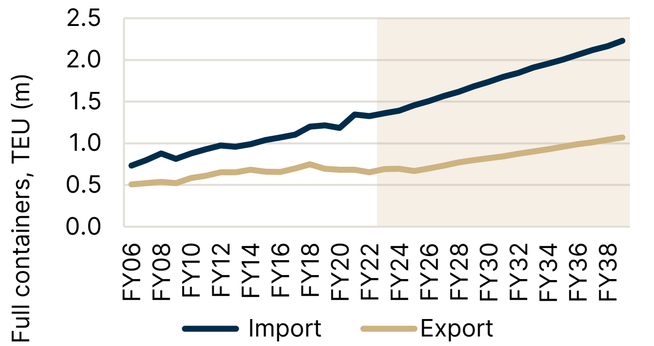
ECONOMY EXPECTED TO IMPROVE…



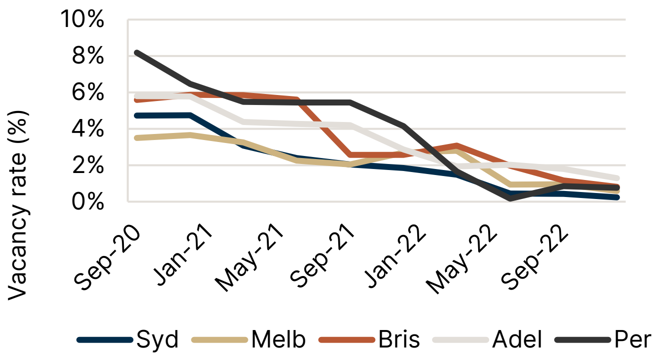
…DRIVING CONSUMPTION AND…



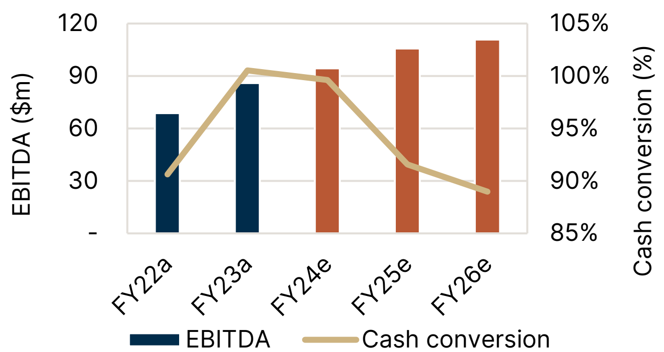
..CONTAINER VOLUME GROWTH… PLUS



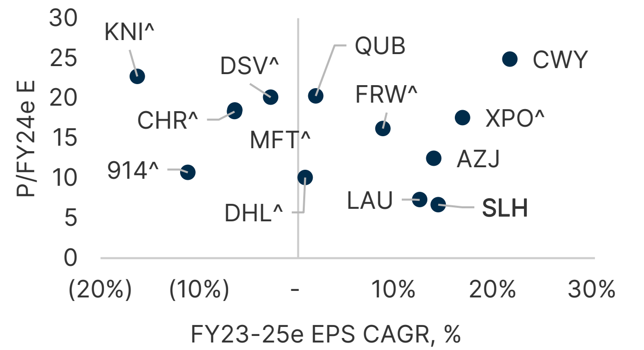
..VERY LOW WAREHOUSE VACANCY…



…POSITIONS SILK WELL…



SIGNIFICANT VALUATION DISCOUNT



Source: Company, MA Moelis Australia, BIS Oxford Economics, Colliers, NAB

01

Company Snapshot

Company Overview

Integrated logistics provider with a national footprint and disciplined acquisition strategy

Overview:

- SLH is a domestic provider of integrated, port-to-door, landside logistics services, with offices in most major cities. SLH offers 29 warehouse sites (includes 2 managed sites) and 20 port logistics hubs across its national coverage.

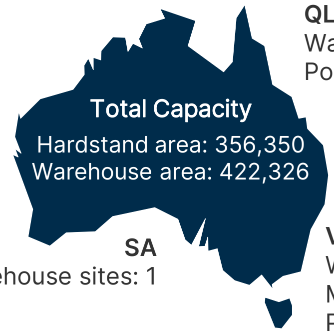
Core services across 3 offerings:

- **Port Logistics:** Specialises in transporting shipping containers between Australia's major ports and both Silk-operated and client facilities. The division moved more than 420k twenty-foot equivalent units (TEUs) in FY23.
- **Warehousing:** Provides specialist warehousing solutions to customers, based on individual requirements. Typical inclusions are basic warehousing, inventory management, and picking services. SLH has 28 premium-grade facilities, totaling approximately 422k sqm of storage space and racking, spread across each of Australia's capital cities. In FY23, the warehouses were 89% occupied, up from 85% in FY22 and 78% in FY21.
- **Distribution:** The Contract Logistics division has developed a fourth-party logistics (4PL) Virtual Distribution capability offering. The service helps customers manage and optimise their supply chains by providing a platform that consolidates pricing and schedules from a range of third-party logistics providers. This is SLH's newest offering.

NATIONAL DOMESTIC COVERAGE

QLD
Warehouse sites: 3
Port Logistics hubs: 2

WA
Warehouse sites: 3
Port Logistics hubs: 4



NSW
Warehouse sites: 5
Port Logistics hubs: 4

SA
Warehouse sites: 1

VIC
Warehouse sites: 15
Managed Warehouse sites: 2
Port Logistics hubs: 10

FULLY INTEGRATED SERVICE OFFERING

Port Services ↔ Port Logistics ↔ Warehousing ↔ Distribution ↔ End Customer

Port Logistics


Warehousing


Distribution


SLH is	SLH is not
Fully integrated Specialised and flexible Technology focused and enabled Capital-right	Volume oriented Low margin Capital intensive

Source: Company

Products & Services

SLH offers a suite of fully integrated, technologically enabled landside logistics solutions for customers under 5 market leading brands

Silk Contract Logistics: offices in each major Australian City. Facilitates delivery of integrated, port-to-door, landside logistics services.

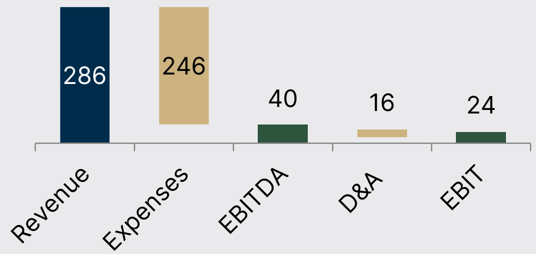
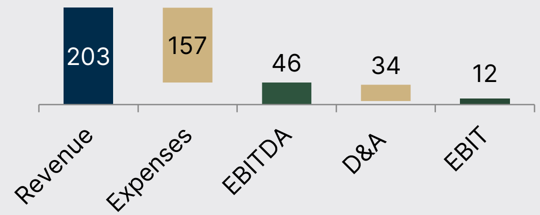
Rocke Brothers (Acquired Aug 19): based in the port of Melbourne, the business offers container cartage services to and from the Melbourne waterfront.

Fremantle Freight & Storage (Acquired Sep 22): FFS offers container cartage services, storage and delivery of LCL, fumigation, AQIS inspections and cold room storage in Perth.

Secon Freight Logistics (Acquired Sep 23): Operates 2 sites in Victoria, where Secon provides specialist port logistics, bulk logistics, warehouse, and distribution services.

101Warehousing (Acquired Feb 22): Provides 3PL warehousing and distribution services in Victoria.

SEGMENT OVERVIEW

Segment	Port Logistics	Contract Logistics
Services	Port Logistics *(58.5% rev)*; Margins *EBITDA: 14.0%* *EBIT: 8.3%*	Warehousing *(32.9% rev)*; Distribution *(8.6% rev)*; Margins *EBITDA: 22.7%* *EBIT: 5.8%*
Brands	Rocke Brothers; SILK Contract Logistics; FFS Fremantle Freight & Storage; SECON	101 101WAREHOUSING.com.au; SILK Contract Logistics
Earnings		
Key metrics	Billed containers: 288,897	Warehouse utilisation: 89%; Billed consignments: 85,203

FY23 metrics in Segment Overview. Source: Company.

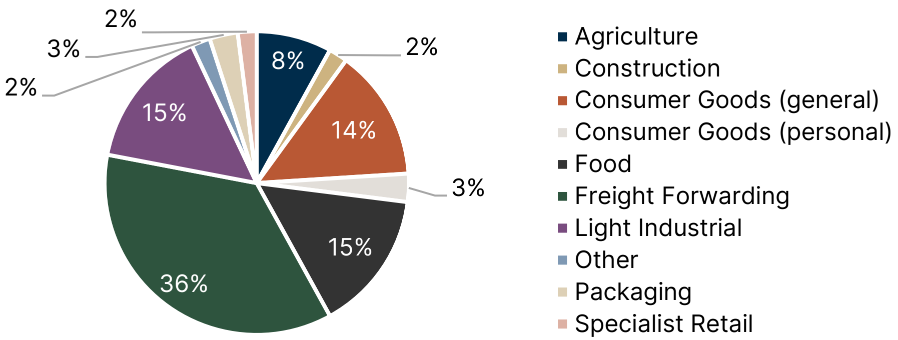
Customers

Blue-chip, long-term customers that offer diversified products and end markets. Stable recurring revenue mitigates against cyclical industry effects

Against a backdrop of typically short-dated (<1 year) logistics contracts, SLH has built a diverse portfolio of blue chip customers, founded on long term relationships.

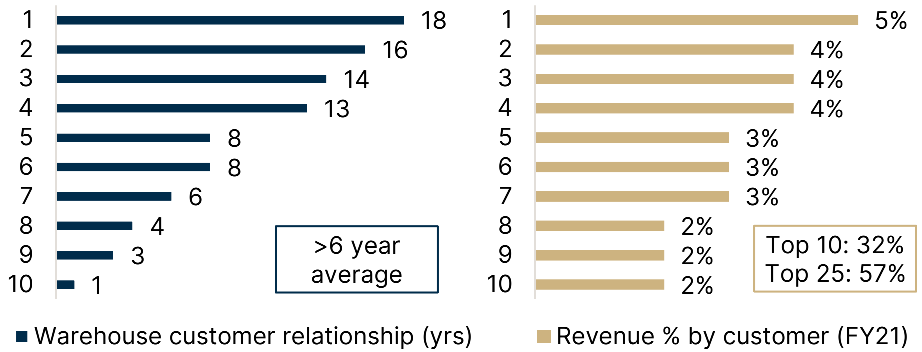
- 93% of FY23 revenue was derived from existing customers and 74% of this revenue came from contracted customers with tenure of >4yrs.
- The diversity of customer markets provides SLH with protection from cyclical effects in logistics requirements.
- SLH has low customer concentration risk, with their top 10 contributing 32% of group revenue and no individual customer exceeding 5% revenue contribution (at FY21 end).
- In warehousing, SLH has an average customer relationship of 6+ years.

DIVERSIFIED CUSTOMER MARKET (REVENUE %)



STABLE OF BLUE-CHIP CUSTOMERS

STRONG RELATIONSHIPS IN DIVERSE CUSTOMER BASE



Source: Company

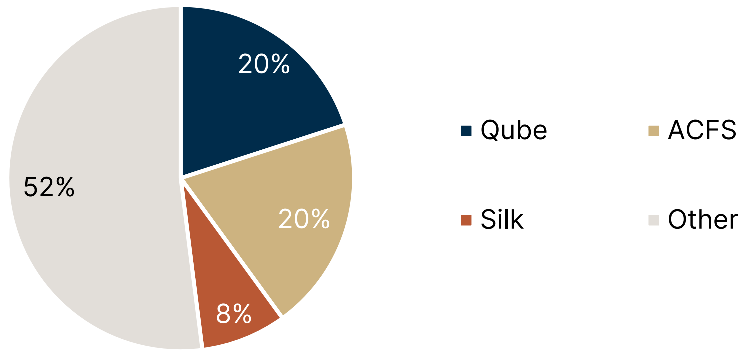
Competitive Position

As the 3rd largest port logistics provider, SLH is in a strong position to capitalise on their national, tech enabled, fully integrated service offering

SLH has a strong position as the 3rd largest port logistics player with a long tail of smaller players outside of the top three lacking scale. Key strengths and points of differentiation:

1. **National footprint:** SLH's scale and presence in each Australian mainland state facilitates the award of contracts from global and domestic blue-chip customers. Operators lacking this scale are unable to tender for this work, supporting SLH's position.
2. **Technology-enabled platform:** In addition to physical logistics services, SLH offers cutting edge data analytics services to their clients. The platform can provide predictive insights to clients and control tower visibility of both wharf to warehousing and last mile distribution.
3. **Integrated warehouse offering:** Offering services in wharf cartage, warehousing and domestic distribution makes SLH a one stop shop for integrated port-to-door logistics.
4. **Flexible solutions:** SLH's fully configurable system allows customers to optimise their supply chains and improve operational efficiency. The high level of flexibility supports SLH's value proposition and is a key differentiation from competitor services.
5. **Strong customer partnerships:** Impressive track record of building and maintaining relationships with a large stable of quality customers, coupled with longstanding tenure.

PORT LOGISTICS MARKET SHARE



COMPETITORS

ACFS PORT LOGISTICS

QUBE

OWENS

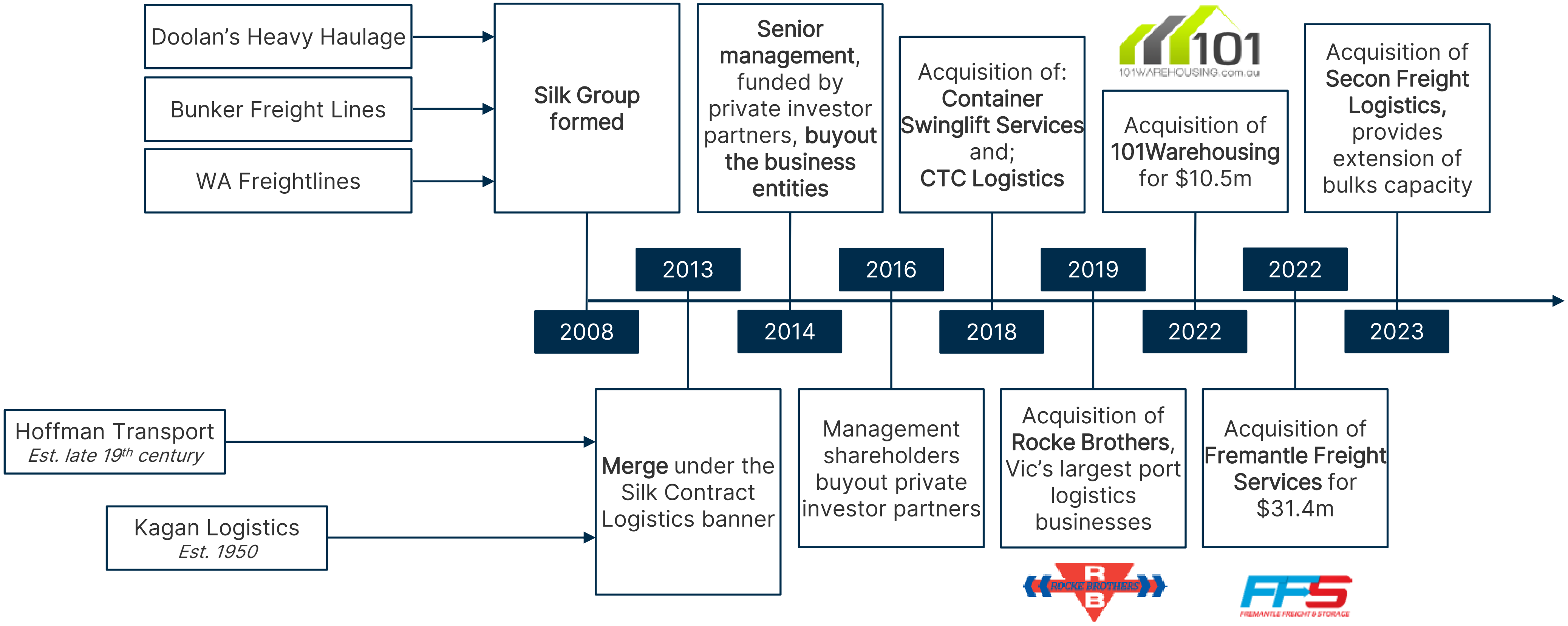
ARROW LOGISTICS

Source: Company

Company History

Since forming in 2008 after the merging of 3 business, SLH has expanded its capabilities and offerings via strategic, value accretive acquisitions

CORPORATE TIMELINE



Source: Company

02 Investment Thesis

Robust Growth Drivers

Strong medium to long term outlook, underpinned by forecast increases in import and export volumes plus low warehousing supply supporting elevated rates and utilisation

Container imports I export volume

- After short term softening in both import and export container volumes are expected to increase in the medium-long term.
- Increased container touch points with ancillary services will drive growth in revenue per container, supported by constrained processing capacity at major ports.

Warehouse vacancy

- Low industrial vacancy rates paired with low additions are supporting rising rates in warehousing. Upward pressure is expected to remain into the medium term until meaningful additions to supply increase. Line of sight to additional SLH warehousing capacity supports constructive near-term view.

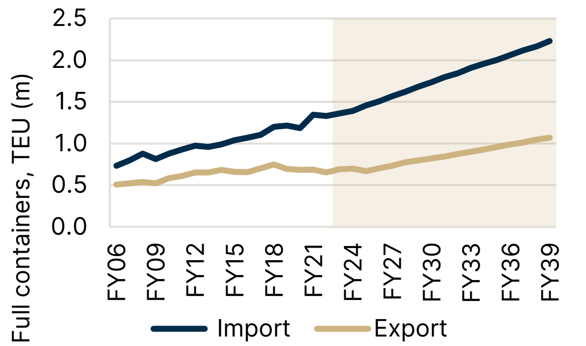
Economic drivers

- The post covid interest rate hiking cycle appears to be concluding as inflation moderates. We anticipate a return of consumption, higher warehouse demand, and normalisation of import volumes.

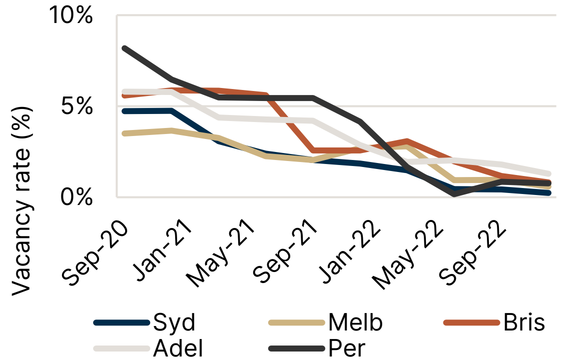
Other

- Inorganic growth opportunities are expected to present in the short term as smaller operators navigate challenges in the operating environment.

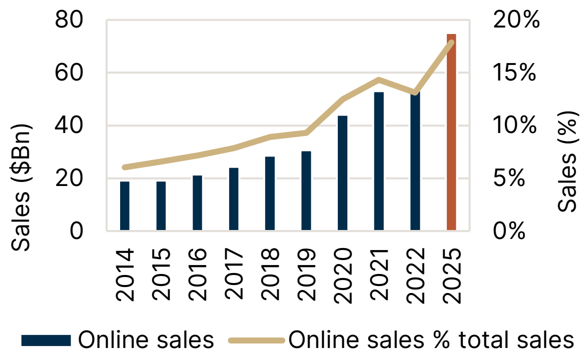
IMPORT | EXPORT VOLUMES (MEL)



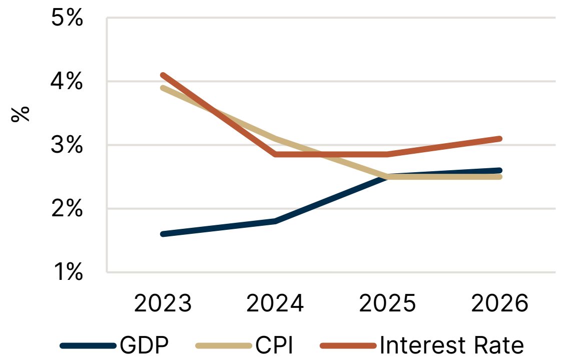
INDUSTRIAL VACANCY



E-COMMERCE GROWTH



ECONOMIC DRIVERS



TEU: Twenty foot equivalent units
Source: Bis Oxford Economics, Colliers research, NAB

Port Logistics

Well positioned as a tier 1 operator to weather suppressed container volumes in the short term, with the balance sheet and capability to take advantage of inorganic growth opportunities that may arise

The port logistics market in Australia is dominated by three tier one players, Qube, ACFS, and SLH. Qube and ACFS each have an estimated ~20% market share, while SLH has a share of mid to high single digits.

As a tier 1 operator, SLH is given preferential slot selection opportunities at port, this is advantageous as SLH can select slots that align with reduced road congestion (commonly overnight), decreasing trip durations, improving efficiency and ultimately margins. Tier 2 players typically operate in a single state and lack scale, so are likely to be disproportionately impacted by suppressed container volumes relative to their tier 1 counterparts.

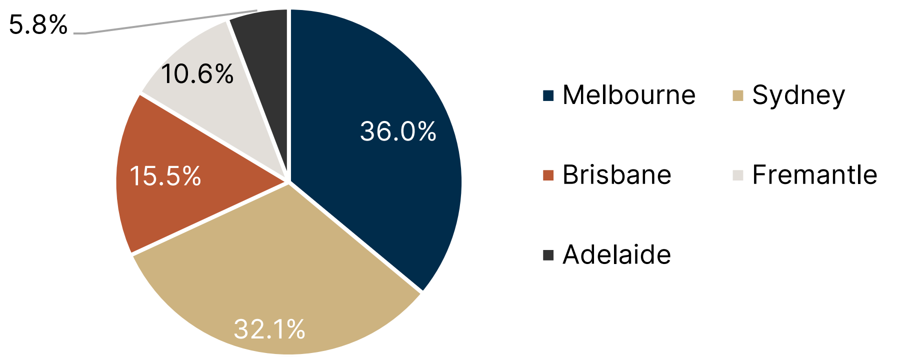
SLH's tier 1 designation and scale positions them well in a commoditised market for port logistics and container handling.

We anticipate short term margin pressure as container volumes recover from macro impacts, before normalising through the medium term. Container import volumes are expected to grow at 2.71% CAGR from FY22 to FY52 at Melbourne Port (SLH's largest presence) in BIS Oxford's base case, a slight contraction from FY06 to FY22 3.68% CAGR.

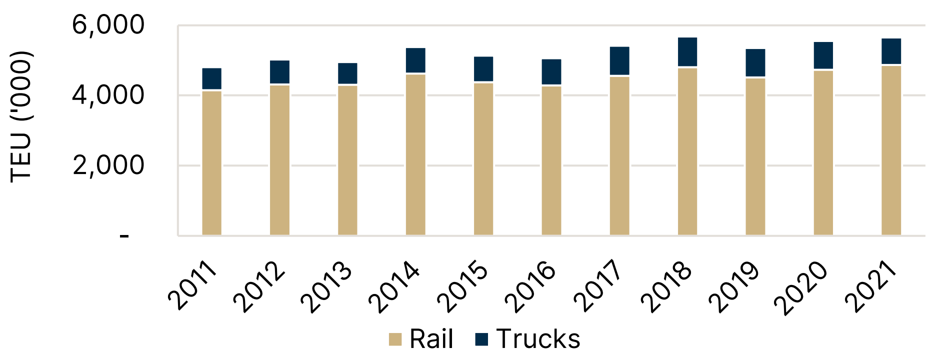
We view SLH's smaller port logistics competitors as an opportunity for SLH to opportunistically execute on its inorganic growth strategy, rather than as a significant competitive threat.

Expansion into bulks and additional ancillary services via recent FFS and Secon acquisitions provides additional growth opportunity for SLH's logistics service to increase market and wallet share.

TEU TRANSPORT THROUGHPUT BY FIVE PORTS, FY22



TRANSPORT THROUGHPUT: FIVE PORTS



TEU: Twenty foot equivalent units
Source: BITRE

Warehousing & Distribution

Warehousing rates and utilisation are expected to remain robust through the medium-term as consumption and supply chain management initiatives continue to drive elevated demand while new supply lags

SLH has 422,326sqm of warehousing space that was 89% utilised through FY23. Additional capacity is expected in the short term at two sites: Kenwick (25,000 sqm by 2H24) and Kemps Creek (60,000 sqm by FY25).

Elevated demand levels and low industrial vacancy persist against a lack of warehouse availability in the Australian market. The recent elevated level of demand is largely attributable to high levels of consumption, e-commerce, and changing customer demands in supply management post covid.

Recent strong aggregate leasing activity saw 4.9m sqm leased nationally in 2022 (2021: 4.7m sqm), almost 2x the long term 2.5m sqm/pa average.

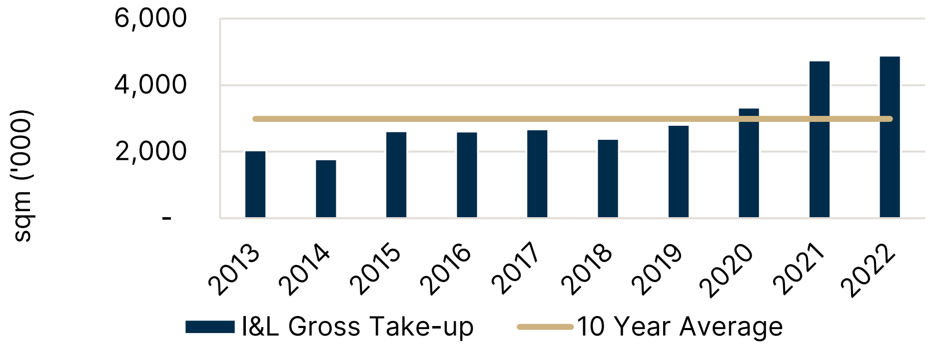
With industrial space now undersupplied, the outlook for demand remains robust in the near to medium term.

Supply is expected to improve in the short-term as the economic outlook becomes clearer and supports investment, taking some upward pressure out of the market. Regardless, we do not expect the additional supply to meet demand, **as such we expect rates and utilisation to remain robust.**

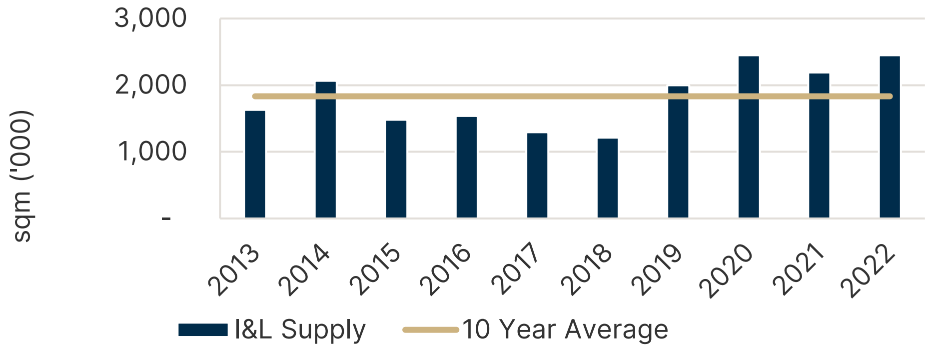
Distribution is SLH's newest offering and represents the last mile of the port to door offering SLH provides its clients. The size of the Australian distribution market is estimated to exceed $66bn, compared to $6bn Port Logistics and $6bn Warehousing. SLH is well placed to develop distribution by marketing to their existing clients as they add capacity in the short term.

SLH management sees a significant cross sell opportunity across its existing client portfolio, with 77% of existing customers currently using a single SLH service only. 83% of warehousing customers utilise competitors for various 'Port-to-Door' services that SLH offer.

INDUSTRIAL AND LOGISTICS GROSS TAKE UP



INDUSTRIAL AND LOGISTICS SUPPLY



Source: Colliers research, IBIS World

03

Key Financials

Earnings Estimates

Our growth outlook is supported by: 1) integration of recent port acquisition to increase bulk presence; 2) upcoming landside capacity expansions; 3) continued organic growth and wallet share focus

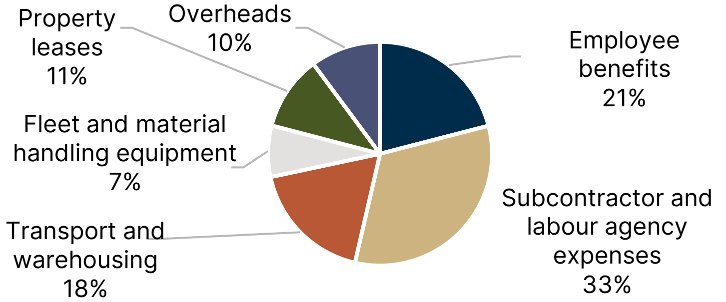
KEY EARNINGS ESTIMATES

$m unless indicated otherwise	FY23a	1H24e	2H24e	FY24e	FY25e	FY26e	*FY24e* (Growth on pcp)	*FY25e* (Growth on pcp)	*FY26e* (Growth on pcp)	FY23-25e CAGR	FY23-26e CAGR
Key earnings											
Sales revenue	489.9	267.5	282.7	550.1	615.3	645.2	+12%	+12%	+5%	12.1%	9.6%
EBITDA	85.9	45.9	48.5	94.4	105.7	110.7	+10%	+12%	+5%	11.0%	8.9%
EBITDA margin	*17.5%*	*17.2%*	*17.2%*	*17.2%*	*17.2%*	*17.2%*	*-36 bps*	*+2 bps*	*-2 bps*		
D&A	(49.9)	(26.3)	(27.7)	(54.0)	(58.6)	(61.8)	+8%	+8%	+6%		
EBIT	36.0	19.6	20.8	40.4	47.1	48.9	+12%	+17%	+4%	14.4%	10.8%
EBIT margin	*7.3%*	*7.3%*	*7.4%*	*7.3%*	*7.7%*	*7.6%*	*-0 bps*	*+32 bps*	*-8 bps*		
PBT	23.0	12.2	11.9	24.1	30.4	33.4	+5%	+26%	+10%	14.9%	13.2%
Underlying NPAT	15.8	8.5	8.3	16.9	21.2	23.4	+7%	+26%	+10%	16.1%	14.0%
NPAT margin	*3.2%*	*3.2%*	*2.9%*	*3.1%*	*3.5%*	*3.6%*	*-15 bps*	*+39 bps*	*+17 bps*		
EPS - diluted ($)	0.196	0.104	0.100	0.206	0.256	0.281	+5%	+24%	+10%	14.2%	12.8%
DPS ($)	0.084	0.052	0.050	0.102	0.128	0.141	+22%	+25%	+10%	23.6%	18.9%
Valuation multiples											
EV/EBITDA	3.9			3.5	3.2	3.0					
EV/EBIT	9.3			8.3	7.1	6.8					
P/E	8.9			8.5	6.8	6.2					
Dividend yield	4.8%			5.8%	7.3%	8.0%					

Source: Company, MA Moelis Australia

- Strong recent growth (+24% to 2H23) has come from both organic sources (~55%, primarily customer growth) and as a result of acquisitions (~45%, Fremantle Freight & Storage and 101Warehousing).
- No quantitative FY24 guidance as yet; we assume 12% revenue growth in FY24, supported by Secon acquisition and scheduled Kenwick expansion coming online. We forecast continued growth into FY25 supported by additional capacity and improving conditions driving robust demand.
- We estimate FY24e EBIT of $40.4m (+12% YoY) and FY25e EBIT of $47.1m (+17% YoY).
- Our estimates imply FY23-25e EBIT and EPS CAGR of 14.4% and 14.2%, respectively.

COST BREAKDOWN



Cash Flow Estimates

Asset-right strategy enables strong cash flow generation and free cash flow yield

KEY FINANCIAL ESTIMATES

Cashflow ($m)	FY23a	FY24e	FY25e	FY26e
EBITDA	**85.9**	**94.4**	**105.7**	**110.7**
Net Interest	(12.3)	(16.2)	(16.7)	(15.5)
Tax	(13.5)	(7.2)	(9.1)	(10.0)
Change in Working Capital	-	(0.4)	(8.9)	(12.2)
Other	0	-	-	-
Operating Cash Flow	**60.5**	**70.6**	**71.0**	**73.1**
Growth	34%	17%	1%	3%
Capex	(8.8)	(9.9)	(11.1)	(11.6)
Acquisitions	(17.3)	(35.0)	-	-
Divestments	1.7	-	-	-
Other	-	-	-	-
Investing Cash Flow	**(24.4)**	**(44.9)**	**(11.1)**	**(11.6)**
Equity Raised	-	5.0	-	-
Dividends Paid	(9.1)	(6.7)	(9.1)	(11.0)
Net Borrowings	(24.2)	(39.6)	(42.6)	(38.4)
Other	(4.2)	-	-	-
Financing Cash Flow	**(37.6)**	**(41.3)**	**(51.7)**	**(49.4)**
FX / Non Cash Items	-	-	-	-
Change in Cash	**(1.5)**	**(15.7)**	**8.2**	**12.0**
Free Cash Flow	**8.0**	**13.5**	**17.3**	**23.0**

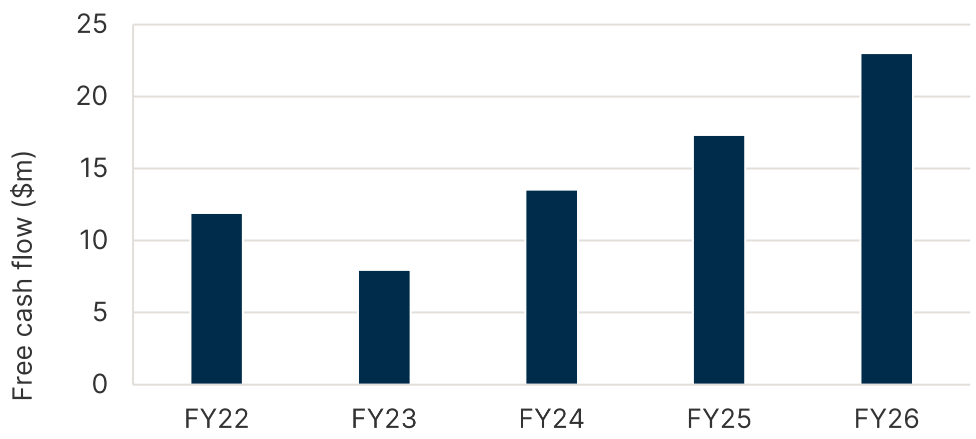
Cash Flow Metrics	FY23a	FY24e	FY25e	FY26e
FCF/Share ($)	**0.10**	**0.17**	**0.21**	**0.28**
Price/FCPS (x)	16.5	9.9	7.9	5.9
Free Cash Flow Yield (%)	6.0%	10.1%	12.7%	16.9%
Gross Cash Conversion	100.5%	99.6%	91.6%	89.0%
Capex/Sales (%)	1.8%	1.8%	1.8%	1.8%
Capex/Depreciation (x)	0.2	0.2	0.2	0.2

The business generates strong free cash conversion (90%+) of lease-adjusted EBITDA. Cash generation, along with $50M borrowing capacity, supports SLH's growth strategy, which is expected to be supplemented via acquisition.

Management's asset-right approach to logistics targets ownership of specialist equipment. Sustaining capital expenditure is relatively modest under the asset-right strategy. Additional warehouse capacity expansion will not require significant additional capex.

We assume a dividend payout ratio of 50% (payout range of 40-60%).

FCF GENERATION UNDER ASSET-RIGHT STRATEGY



Source: Company, MA Moelis Australia

Financial Estimates

Modest 1.3x net gearing with acquisition and opportunistic expansion headroom on balance sheet

KEY FINANCIAL ESTIMATES

Balance Sheet ($m)	FY23a	FY24e	FY25e	FY26e
Cash	30.5	14.8	23.0	35.1
Inventory	-	-	-	-
Current Receivables	63.1	77.7	90.5	98.8
PPE	22.2	60.3	55.3	43.5
Intangibles	62.1	62.1	62.0	62.0
Other	184.5	260.4	237.1	216.1
Total Assets	**362.4**	**475.3**	**468.0**	**455.4**
Current Payables	39.8	51.5	53.5	52.1
ST Debt	62.0	-	-	-
LT Debt	159.4	305.0	281.7	260.6
Provisions	20.1	22.7	24.5	22.1
Other	5.6	7.2	8.5	9.0
Total Liabilities	**287.0**	**386.4**	**368.3**	**343.8**
Net Assets	**75.4**	**88.9**	**99.7**	**111.6**
Equity & Reserves	51.4	56.4	56.4	56.4
Retained Profits	24.0	32.5	43.3	55.2
Shareholders' Equity	**75.4**	**88.9**	**99.8**	**111.7**
Minorities	-	-	-	-
Total Equity	**75.4**	**88.9**	**99.8**	**111.7**

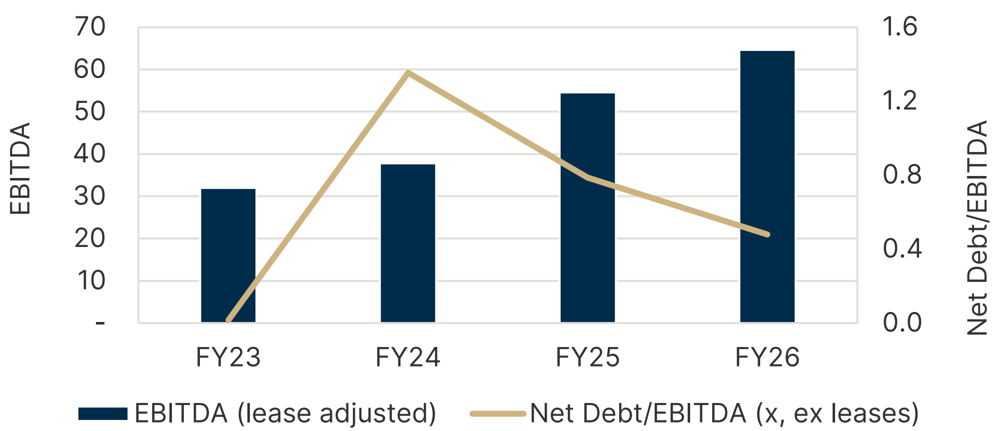
Performance Ratios	FY23a	FY24e	FY25e	FY26e
ROA	4.7%	4.0%	4.5%	5.1%
ROE	22.2%	20.5%	22.5%	22.1%
ROIC	10.3%	8.8%	8.9%	9.8%
Net Debt (Cash) ($m, incl. leases)	191	290	259	226
Net Debt/EBITDA (x, pre leases)	2.2	3.1	2.4	2.0
ND/(ND + Equity) (%)	71.7%	76.5%	72.2%	66.9%
Interest Cover (x)	2.9	2.5	2.8	3.2

Net debt at Jun'23 end of $190m; although excluding leases net debt is $1m. Post Secon acquisition (Aug'23) financial net debt has increased to an estimated $24m.

Gearing level (net and ex leases) is a manageable 1.3x (and 0.6x at FY23 end). The company has an estimated $27m borrowing capacity post Secon acquisition.

Capital right model focuses on owning specialised equipment and machinery, and reduces capital intensity in a typically intensive industry.

EBITDA PROFILE AND GEARING



Source: Company, MA Moelis Australia

04 Valuation and Price target

Valuation & Price Target

SLH trades at a significant discount (55%) to peers with visibility on near term EPS growth as global peers face continuing sector headwinds

- We initiate coverage with a 12-mth PT of $2.75/share. Our valuation methodology uses an equal weight DCF (key assumptions WACC 11.5%, TGR 3%) and 9.0x EV/FY24e EBIT multiple, rolled forward at the cost of equity less dividends.
- Our $2.75 PT implies 13.3x FY24e P/E (cf. peer average of 18.6x). We note it trades at a significant 55% discount to peers despite 14% FY23-25e EPS CAGR, compared to -2% of peers (9% average among domestic peers).
- Strong management, deep customer relationships, national footprint, cross sell strategy, growing tech capability, and acquisition-led strategy are keys to continued growth. We note cyclicality and competition are potential offsets to the above.
- SLH has no direct ASX listed logistics, warehousing, and wharf cartage comps. We use a basket of listed logistics, warehousing, and wharf cartage peers. We note international peers trade at an average 18.4x FY24e P/E with -8% FY23-25e EPS CAGR, compared to domestic peers at 19x and 9%, respectively. We further note the limitation in any comparison with international peers as well as local comps, due to differing mix of logistics services as well as scale and scope of operations.
- Varying and significant lease financing among peers affects valuation comparison based on EV trading multiples. SLH still trades at a significant discount even after adjusting for these, and we see ample scope to rerate as SLH executes on its growth strategy.

MA VALUATION AND SUMMARY

Share Price Target		
DCF value per share	50.0%	2.85
EV/EBIT value per share	50.0%	2.12
Blended valuation per share		2.49

DCF Valuation		
PV of FCFF	$m	223.7
Enterprise value	**$m**	232.7
Less: net debt (ex leases)	$m	(0.5)
Less: deferred acquisition consideration	$m	-
Equity value	**$m**	**232.2**
No. of shares	m	81.5
DCF value per share	**$**	**2.85**
Upside (downside) to last price	*%*	*63%*

EV/EBIT Valuation		
FY24 EBIT	$m	40.4
Peer multiple	x	9.0
Enterprise value	**$m**	**363.6**
Add: net debt	$m	(191.0)
Less: deferred acquisition consideration	$m	-
Equity value	**$m**	**172.6**
No. of shares	m	81.5
Valuation per share	**$**	**2.12**
Upside (downside) to last price	*%*	*21%*

Source: Factset, MA Moelis Australia, Company

Valuation & Price Target (cont)

SLH offers sound EPS growth at a 55% discount to domestic peers

- Qube Holdings (QUB) are a diversified provider of port, bulk and logistic & infrastructure services. Qube is a key competitor for SLH in each of their core competencies. Qube is a larger and more diversified business than SLH, offering stevedoring services at port, maintaining a large presence in bulk haulage, including mining and chartering of vessels.
- Lindsay Australia (LAU) is an integrated transport, logistics and rural supply company and the most closely comparable domestic business by size. Similar to SLH, Lindsay provide road transport, logistics and warehousing services. Unlike SLH's diverse customer base, Lindsay are specialised in rural markets, particularly the horticultural industry.

CONSENSUS TRADING COMPARABLES

		Last price	Mkt cap	Net Debt	EV	EV/EBIT (x)		P/E (x)		EPS CAGR (%)	NPAT margin	PEG
Ticker	Company name	($)	($m)	($m)	($m)	2024	2025	2024	2025	23-25	2024	2024
SLH	Silk Logistics (MAe)	1.75	143	191	334	8.3	7.1	8.3	6.7	14%	3.1%	1.6
AZJ	Aurizon Holdings	3.52	6,479	5,184	11,663	12.2	11.2	14.1	12.5	14%	12.0%	1.0
CWY	Cleanaway Waste	2.42	5,390	1,487	6,881	19.5	17.1	30.1	24.9	21%	4.8%	1.4
FRW^	Freightways Group	8.74	1,441	562	2,003	14.6	13.1	18.5	16.2	9%	6.9%	5.7
LAU	Lindsay Australia	1.12	346	182	528	7.5	6.9	8.0	7.3	12%	5.0%	0.5
MFT^	Mainfreight	62.90	5,885	605	6,500	15.9	13.8	21.6	18.5	(6%)	5.8%	(0.9)
QUB	Qube Holdings	2.86	5,053	1,846	6,892	21.0	19.6	21.7	20.3	2%	7.2%	(6.9)
	Average		4,099	1,644	5,745	15.1	13.6	19.0	16.6	9%	7.0%	0.1
	Median		5,222	1,046	6,690	15.3	13.5	20.0	17.4	10%	6.4%	0.8
914^	NIPPON EXPRESS	7,918.00	7,511	4,152	11,642	12.7	11.4	12.2	10.7	(11%)	2.5%	(0.4)
CHR^	C.H. Robinson Worldwide	84.95	15,415	2,914	18,250	17.5	15.5	21.3	18.3	(6%)	2.6%	(0.9)
DHL^	Deutsche Post	38.36	78,401	30,705	106,344	9.7	9.1	11.1	10.1	1%	4.8%	(1.4)
DSV^	DSV	1,291.00	62,541	6,616	67,567	17.5	17.3	21.4	20.1	(3%)	7.8%	(1.9)
EXP^	Expeditors	114.00	26,276	(1,809)	24,519	15.8	15.5	21.9	21.2	(9%)	8.0%	(1.1)
FWR^	Forward Air	65.65	2,628	445	3,062	8.5		13.4	12.6	(3%)	8.8%	(1.1)
IDL^	ID Logistics Group	233.00	2,373	1,828	4,160	19.2	17.3	22.8	19.3	23%	2.2%	0.8
KNI^	Kuehne Nagel Intl	260.70	53,696	(449)	51,848	16.1	16.2	22.4	22.7	(16%)	5.3%	(0.8)
MAE^	A.P. Moller - Maersk A	12,280.00	48,032	6,359	53,647	13.1	19.2	13.9	25.6	(70%)	4.3%	(0.2)
XPO^	XPO	68.04	12,297	4,524	16,699	18.9	14.8	23.5	17.6	17%	4.3%	12.7
	Average		30,917	5,529	35,774	14.9	15.1	18.4	17.8	(8%)	5.1%	0.6
	Median		26,276	1,828	24,519	16.1	16.8	21.9	20.1	(3%)	5.3%	(0.8)

Source: Factset, MA Moelis Australia

05 Key Risks

Risks

Deterioration in economic conditions and trade volumes: logistics volumes reflect economic conditions. Operations are mostly domestic, and so is leveraged to cyclical domestic economic conditions. Consumer sentiment is low; household indebtedness may affect future activity levels.

Key customer concentration and contracts: Failure to maintain or renew contracts with major customers or on less favourable terms, as well as counterparty risk from major customers.

Failure to renew warehouse leases: critical to the company's business and operations, with no guarantee that long term warehouse leases are renewed at expiry or on commercially acceptable terms. Risk of termination of existing contractual arraignments. Similarly, the business relies on critical operating equipment and failure to renew plant and equipment leases is a risk to group operations.

Disruption to port operations: Port logistics segment operations would be adversely affected by disruption to port operations including from adverse weather, external factors affecting port operator, technical issues with automated systems, disruption to rail and/or shipping infrastructure.

Business approvals, permits, and licenses: failure to obtain or renew licenses and approvals to conduct business would adversely affect performance.

Competitive position: operates in a competitive industry in the integrated logistics market, which can be affected by competitor actions, new entrants or failure to position successfully in the markets in which it competes.

Government policy, legal, and regulatory oversight: dependence on public infrastructure including roads, seaports, and associated infrastructure, with the potential to be affected by legislative or policy changes.

Employee relations: proportion of the business' workforce are members of labour unions with enterprise agreements governing employment. Renegotiation of enterprise agreements, strike or other industrial action, or failure to resolve dispute the unions have the potential to adversely affect group's business and operational performance. The company also relies on third party contractors, particularly in distribution services and port logistics in select locations. Inability to source contractors could aversely affect the group's financial position and performance.

Seasonal cycle effect: group business is subject to seasonal demand for its services.

Geopolitical risk: group operations rely on international trade, which could be affected by geopolitical factors.

Occupational health & safety: failure to conduct operational tasks using heavy machinery at port and warehouse facilities safely may have an adverse effect on group operations.

Acquisitions and investment risk: corporate opportunities that are not successfully implemented could have material adverse effect on group operations.

06 Appendix

Board and Key Management

Experienced Board with skill sets that complement SLH's growth strategy

NAME & POSITION	SUMMARY OF EXPERIENCE
Terry Sinclair *Non-Executive Chair* (0.1% shareholder)	• Significant operational and corporate development experience across industrial, resources and consumer services sectors. • Terry has held senior management roles at BHP, Australia Post, Service Stream Limited, Star Track Express. • Terry provides M&A advisory services to PE and government clients. • Current directorships include non-executive director of Indara Corporation Pty Ltd and Cleanaway Waste Management Ltd.
Stephen Moulton *Non-Executive Director* (0.1% shareholder)	• Stephen is a Corporate Advisory and M&A law partner with over 30 years' experience. • Previously held senior roles at Gadens, Clayton Utz, PwC and Mills Oakley. • Current Chairman and Partner at Danaher Moulton.
Louise Thurgood *Non-Executive Director* (0.1% shareholder)	• Louise has extensive risk management experience, gained during 30 years with fast growing global companies in banking, finance, and infrastructure sectors. • Louise holds current non-executive director positions of Sydney Metro, Inland Rail, and Orion Mechanical Services.
Cheryl Hayman *Non-Executive Director* (0.0% shareholder)	• Cheryl has a comprehensive background in digital strategy and customers insights developed over 20 years of experience as a senior marketing executive. • Cheryl holds current non-executive director positions with AIM and BFC boards.
Brendan Boyd *Managing Director, Chief Executive Officer* (13.2% shareholder)	• Brendan has held leadership positions at Australia Post, Toll Group, AUSDOC and Mayne Nickless prior to joining Silk as the GM of warehousing. • Brendan accepted the role of Managing Director and CEO in 2014.
John Sood *Executive Director, Chief Customer Officer* (13.3% shareholder)	• Prior to joining Silk in 2012, John gained experience in senior roles at Linfox and Westgate. • John is highly skilled in supply chain management and maintains long standing relationships with Australian retailers, manufacturers and wholesale distributors.

Source: Company, LinkedIn

Acquisition History

Strong track record of successful growth via strategic, value accretive acquisitions

Demonstrated ability to acquire and integrate businesses successfully within Silk.

Management have completed 6 acquisitions in the last ~5 years, each of which is performing successfully.

Growth via acquisition is expected to be a key feature for Silk throughout the forecast horizon.

ACQUISITION SUMMARY

Date completed	Target	Price	Implied EBITDA multiple	Commentary
July 2018	Container Swinglift Services	Not disclosed (ND), pre IPO	ND, pre IPO	3.5x revenue since acquisition at time of IPO
November 2018	CTC Logistics	ND, pre IPO	ND, pre IPO	2.0x revenue since acquisition at time of IPO
August 2019	Rocke Brothers	ND, pre IPO	ND, pre IPO	Grown 20% since acquisition at time of IPO
2 Feb 2022	101Warehousing	$10.5m	4.2x	N/A
1 Sept 2022	Fremantle Freight Services	$23.6m upfront $5.6m earn-out	na	N/A
1 Sept 2023	Secon Freight Logistics	$35m upfront $tbc earn-out	5.0x	N/A

Source: Company, MA Moelis Australia

Disclosure Appendix

RESEARCH & SALES RESPONSIBILTIES

Equities			**Equities Research**	
			Real Estate	
Bryan Johnson	Head of Sales	+612 8288 5412	Edward Day	+612 8288 5424
Edward Day	Head of Research	+612 8288 5424	Murray Connellan	+612 8288 5421
Elliot Leahey	Business Director	+612 8288 5402		
Brooke Davis	Finance Executive	+612 8288 5417		
Jacqui Irons	Corporate Broking	+612 8288 5427		
Equities Sales & Trading			***Industrials***	
Bryan Johnson	Head of Sales	+612 8288 5412	Ronan Barratt	+612 8288 5426
Aaron Payne		+612 8288 5405	Sarah Mann	+612 8288 5407
Roger Gamble		+612 8288 5410	Matthew Chen	+612 8074 0872
David Baker		+612 8288 5428	David Meehan	+612 8288 5413
Jack Dyson		+612 8288 5401	Tom Tweedie	+612 8288 5430
Jake Rischbieth		+612 8288 5654	Lachlan Scott	+612 8288 5403
			Oliver Porter	+618 6555 8607

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