

CTI Logistics Ltd

(CLX \$0.83) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Seth Lizee	2 nd March 2021	\$0.94/sh ▲ from \$0.85/sh

Mighty 1H Results

Investment case

CTI reported robust 1H results, delivering \$17.8m in underlying EBITDA, exceeding our forecasts. This beat is mostly the result of stronger than expected margins in the transport and logistics segments. We continue to look towards a softer second half (EBITDA), in line with a traditional 55/45 split, however with upgraded full year earnings expectations. Nevertheless, we maintain our view of margins normalising in FY'22 and beyond in anticipation of abnormal COVID-19 operating conditions easing. As a result of these improvements we have upgraded our Valuation and Price Target.

Our investment case is predicated on CTI driving earnings growth through organic growth, operational efficiencies, and maximising asset utilisation. We believe if CTI can deliver on our earnings forecasts that the stock can trade up.

We maintain our Speculative Buy recommendation with an updated \$0.94/sh. Price Target

Key points

- Financial highlights:
 - \$118.6m Revenue (+8.0% pcp)
 - \$19.8m Reported EBITDA (+75% pcp)
 - \$17.8m Norm. EBITDA (vs. \$16.7m ESHL Estimate)
 - \$5.2m NPAT (+297% pcp)
 - \$3.5m Norm. NPAT
- Strong operating conditions broadly the result of continued growing demand for transport and logistics services across Australia
- CTI received \$1.3m in JobKeeper during the H
- NTA increased 12.3% HoH to 73.1cps (from 65.1cps)
 - 70.6cps Fully diluted (+12% HoH)
- CTI has declared a 2.0c fully franked dividend for the H (vs. previous 2.0cps FY'21 EHSL forecasts)
- Reduced net debt by \$7.9m to \$28.7m (ex. Lease liabilities), finished the H with:
 - \$6.3m Cash
 - \$35.0m Borrowing
- We maintain our Speculative Buy recommendation with an updated \$0.94/sh. Price Target

CTI Logistics Ltd	Year End 30 June	
Share Price	0.83	A\$/sh
Price Target	0.94	A\$/sh
Valuation (DCF)	1.17	A\$/sh
WACC	10.0%	
Terminal Growth	2.5%	

Shares on issue	78 m, diluted
Market Capitalisation	64.5 A\$m
Enterprise Value	154.3 A\$m
Cash (1H)	6.3 A\$m
Debt (inc. Lease liab.)	96.1 A\$m

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	215.2	229.7	238.5
EBITDA (A\$m)	27.3	32.6	29.5
EBIT (A\$m)	5.5	11.5	9.0
Reported NPAT (A\$m)	-4.3	6.5	3.0
Normalised NPAT (A\$m)	0.8	4.7	3.0

Gross Cashflow (A\$m)	12.3	16.5	12.5
Capex (A\$m)*	-6.8	-6.0	-6.0
Op. Free Cashflow (A\$m)	5.5	10.5	5.3

Revenue Growth (%)	1%	7%	4%
EBITDA Growth (%)	128%	19%	-10%
Norm. NPAT Growth (%)	-69%	494%	-37%

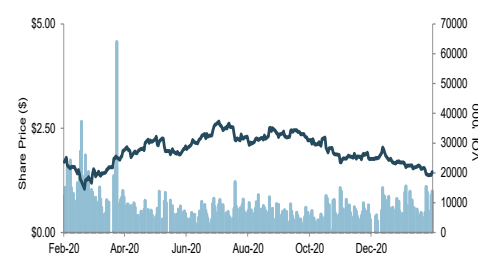
Normalised EPS (Ac)	1.02	6.08	3.81
Norm. EPS growth (%)	-0.69	4.94	-0.37
PER (x)	81.2	13.7	21.8
EV:EBITDA (x)	5.7	4.7	5.2
EV:EBIT (x)	74.1	19.0	27.6

DPS (Ac)	0.0	2.5	2.4
Dividend Yield (%)	0.0%	3.0%	2.9%

Net Debt (A\$m)*	94.2	89.6	87.1
Net Debt:Equity (%)	115%	104%	100%
Interest Cover (x)	1.1	2.4	1.9

* includes AASB 16 leases

Share Price Chart



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Analysis

1H Operating performance commentary:

- Stronger than expected revenue growth in both transport and logistics;
- Continued focus on winning quality revenue, east coast expansion, and COVID-19 related customer activity;
- Increased warehouse utilisation due to customers increased holdings in certain states as a result of changing border restrictions and supply chains;
- Improved flooring profits as a result of increased transport and warehouse volumes;
- Brisbane warehousing benefited from increased activity from current and new clients;
- Significant volume increases in interstate freight into WA, however the business was negatively impacted by inefficiencies resulting from natural disasters and ongoing rail issues;
- WA courier and parcel businesses were negatively impacted by ongoing driver shortages;
- Continued focus on receivables, cost reduction and productivity initiatives resulting in improved margins;

We have upgraded our FY'21 forecasts post results. We continue to look for a 55/45 EBITDA (ex. JobKeeper) split as a basis of our forecasts. This implying a minor (-7.2%) upgrade in our normalised EBITDA forecasts to \$32.6m for the full year. The impact on the bottom line is however disproportionately larger as a result of CTI's massive operating leverage, with most of the incremental EBITDA falling straight to the bottom line.

The table below highlights key financials:

FY	Units	2020	1H'21	2H'21	2021	2022	2023	2024
Transport	A\$m	144.5	81.4	73.2	154.6	160.8	166.7	173.8
Logistics	A\$m	82.1	45.6	42.3	87.9	91.4	94.8	98.8
Property	A\$m	4.0	2.0	2.1	4.1	4.1	4.2	4.3
Other	A\$m	6.7	3.3	3.4	6.7	6.7	6.7	6.7
Eliminations	A\$m	-22.1	-13.6	-9.9	-23.6	-24.5	-25.4	-26.4
Total Revenue	A\$m	215.2	118.6	111.0	229.7	238.5	247.0	257.2
EBITDA, Adj.	A\$m	27.3	17.8	14.8	32.6	29.5	30.5	31.8
			55%	45%	Split			
Reported NPAT	A\$m	-4.3	5.2	1.3	6.5	3.0	4.0	5.2
Norm NPAT	A\$m	0.8	3.5	1.3	4.7	3.0	4.0	5.2

Source: Euroz Hartleys estimates, company reports

Key Takeaways:

- We anticipate a softer 2H as we maintain our view of a 55/45 adj. EBITDA split
- The incremental increase in full year EBITDA is mostly a result of a stronger Logistics and transport outlook for FY'21
- Our forecasts for FY'22 and beyond remain unchanged at this time as we continue to expect easing of these abnormal COVID-19 operating conditions in the near term, we however note the potential for greater results should this change.
- Full year dividend upgraded to 2.5cps fully franked (vs 2.0cps previously), implying a 3% yield at last price

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NTA

CTI's fully diluted NTA has increased ~7.8cps HoH (+12%) to 70.6cps, this is mostly a result of the large NPAT reported (Inc. Job keeper) during the H.

We highlight the NTA breakdown below:

Facility	Description	Book Value	
		A\$m	A\$/sh.*
West Perth	Head Office. Couriers; Records Management; Security.		
Hazelmere	Logistics & Warehousing.		
Welshpool	Parcels & Warehousing		
Sub-Total	Freehold Land & Buildings	65.4	0.84
Sub-Total	Investment Properties	2.2	0.03
Total Property & Building Assets		67.6	0.87
(+) Cash		6.3	0.08
(+) Other Tangible Assets		104.1	1.34
Total Tangible Assets		177.9	2.29
(-) Borrowings		-35.0	-0.45
(-) Lease Liabilities		-61.1	-0.79
(-) Other Liabilities		-27.0	-0.35
Net Tangible Assets		54.9	0.71
		A\$/sh.	%chng
HoH Change (Dec-20 vs Jun-20)		0.08	12%

Source: Euroz Hartleys Estimates, Company Reports

Valuation

The stronger than anticipated 1H results have boosted CTI's current NTA as well as our earnings forecasts for FY'21. As a result of this we have increased our equally blended DCF and NTA Valuation and Price Target, the table shown below:

Methodology	Weight (W)	Valuation (V)	W x V
DCF	50%	\$1.17	\$0.58
NTA (1H'21)	50%	\$0.71	\$0.35
Blended Total	100%		\$0.94
Price Target			\$0.94

Source: Euroz Hartleys Estimates

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Financial Statements	2019A	2020A	2021F	2022F	Performance Ratios	2019A	2020A	2021F	2022F
Income Statement					Growth & Margins				
(+) Transport	136.7	144.5	154.6	160.8	Revenue Growth	16%	1%	7%	4%
(+) Logistics	84.6	82.1	87.9	91.4	EBITDA Growth	-22%	128%	19%	-10%
(+) Property	3.9	4.0	4.1	4.1	EBIT Growth	-58%	86%	110%	-22%
(+) Other	6.8	6.7	6.7	6.7	Normalized Net Profit Growth	-37%	-69%	494%	-37%
(-) Eliminations	-19.9	-22.1	-23.6	-24.5	EBITDA margin	6%	13%	14%	12%
Total Revenue	212.0	215.2	229.7	238.5	EBIT margin	1%	3%	5%	4%
(-) COGS	-198.1	-185.5	-194.5	-206.4	Normalized net profit margin	1%	0%	2%	1%
(-) Corp O/H	-1.9	-2.4	-2.5	-2.6	Effective tax rate	56%	-12%	25%	30%
Total Expenses	-200.1	-187.9	-197.1	-209.0	Liquidity				
EBITDA	12.0	27.3	32.6	29.5	Capex/depreciation (x)	0.6	0.3	0.3	0.3
(-) D&A	-9.0	-21.8	-21.1	-20.5	Current ratio (x)	1.1	1.0	0.9	0.9
EBIT	2.9	5.5	11.5	9.0	Quick ratio (x)	1.5	2.1	2.2	2.3
(-) Net Finance	-2.1	-5.1	-4.8	-4.8	Receivable days	53.0	50.8	49.3	49.3
(-) Impairment	-	-5.8	-	-	Payable days	40.0	34.5	31.8	31.8
(+/-) Other Income	0.9	1.5	1.9	-	Risk Measures				
NPBT	1.8	-3.9	8.6	4.2	Dividend Cover (x)	0.3	na	2.5	1.7
(-) Tax	-1.0	-0.5	-2.2	-1.3	Payout ratio (%)	379%	0%	40%	60%
NPAT	0.8	-4.3	6.5	3.0	Net interest cover (x)	1.4	1.1	2.4	1.9
(+/-) Abnormals, pre-tax	1.9	5.0	-1.9	-	Net debt/equity (%)	51%	115%	104%	100%
Adj. NPAT	2.6	0.8	4.7	3.0	Returns				
Cash flow (A\$m)					Return on Invested Capital	1.5%	1.2%	4.7%	3.2%
Reported NPAT	0.8	-4.3	6.5	3.0	Return on Assets	1.5%	0.4%	2.2%	1.4%
(+) D&A	9.0	21.8	21.1	20.5	Return on Equity	2.9%	1.0%	5.5%	3.4%
(-) Lease Expense	-	-11.0	-11.0	-11.0	Share Data/Valuation				
(+/-) Impairments, Non-cash	-	5.8	-	-	Share Data				
(+/-) Other	2.3	0.0	-	-	Issued shares (m)	75.0	75.0	75.0	75.0
Gross Cashflow	12.2	12.3	16.5	12.5	Weighted ave shares (m)	74.7	75.0	75.0	75.0
(-) Capital Expenditure	-5.7	-6.8	-6.0	-6.0	Fully diluted shares (m)	77.7	77.7	77.7	77.7
(-) Change in NWC	-2.1	0.1	-0.0	-1.2	Basic EPS (c)	1.1	-5.8	8.6	3.9
Operating Free Cashflow	4.4	5.5	10.5	5.3	YoY change (%)	-0.8	-6.5	-2.5	-0.5
(+/-) Sale of assets	0.8	0.7	-	-	Fully diluted EPS (c)	1.0	-5.6	8.3	3.8
(-) Acquisition	-7.0	-	-	-	YoY change (%)	-0.8	-6.5	-2.5	-0.5
(-) Dividend	-3.0	-	-1.9	-1.8	Fully diluted normalised EPS (c)	3.3	1.0	6.1	3.8
(+/-) Equity Issue	0.5	-	-	-	YoY change (%)	-0.4	-0.7	4.9	-0.4
(+/-) Other	-0.2	0.7	-	-	Dividend/share (c)	4.0	-	2.5	2.4
Net Cashflow	-4.5	6.9	8.6	3.5	Franking (%)	1.0	1.0	1.0	1.0
BoP Net Cash	-41.9	-46.4	-94.2	-89.6	Gross cashflow/share (c)	16.2	16.3	22.0	16.6
(+/-) Net Cashflow	-4.5	6.9	8.6	3.5	NBV/share (c)	120.4	108.8	114.9	116.4
(+/-) AASB16 Adj.	-	-54.8	-4.0	-1.0	NTA/Share (c)	75.0	65.1	73.3	74.5
EOp Net Cash	-46.4	-94.2	-89.6	-87.1	Valuation				
Balance Sheet (\$m)					PER (Basic) (x)	79.0	-14.3	9.7	21.0
Cash	2.2	7.6	6.6	9.1	PER (Fully diluted) (x)	81.8	-14.8	10.0	21.8
Receivables	30.8	29.9	31.0	32.2	PER (Fully diluted, normalized) (x)	24.8	81.2	13.7	21.8
Income tax receivables	0.5	-	-	-	P/CFPS (x)	5.1	5.1	3.8	5.0
properties held for sale	-	-	-	-	Price/NBV (x)	0.7	0.8	0.7	0.7
Inventories	0.1	0.2	0.2	0.2	Price/NTA (x)	1.1	1.3	1.1	1.1
Total Current Assets	33.6	37.7	37.7	41.4	Dividend Yield (%)	0.0	-	0.0	0.0
Other Investments	0.1	0.0	0.0	0.0	EV/EBITDA (x)	12.9	5.7	4.7	5.2
PP&E	98.0	90.0	88.5	87.2	EV/EBIT (x)	52.5	74.1	19.0	27.6
Investment properties	2.2	2.2	2.2	2.2	EV/Revenue (x)	0.7	0.7	0.7	0.6
Deferred Tax Assets	0.6	4.0	4.0	4.0	Other Information				
Right of Use Assets	-	43.2	46.2	46.2	12-mth High/Low (A\$/sh)				0.87-0.44
Intangible Assets	34.0	32.8	31.2	30.0	Average daily volume (\$k)				8.7
Total Non-Current Assets	134.9	172.3	172.2	169.7	ASX Code				CLX
Total Assets	168.5	210.0	209.9	211.1	Next result				Aug-21
Payables	21.7	17.5	16.9	18.0	Company Description				
Borrowings	2.2	-	2.0	2.0	CTI Logistics Ltd ("CTI") is a Perth based transport and logistics company with large WA exposure and a wider national presence. The company's various brands provide everything from couriers and taxi trucks to warehousing and distribution solutions.				
Lease Liabilities	-	14.9	15.7	15.7					
Current Tax Liabilities	-	0.1	1.2	1.2					
Provisions	6.0	6.7	6.9	7.3					
Total Current Liabilities	29.9	39.3	42.7	44.2					
Borrowings	46.4	42.8	33.0	33.0					
Deferred Tax Liabilities	-	-	-	-					
Lease Liabilities	-	44.2	45.4	45.4					
Provisions	2.0	2.2	2.6	2.6					
Total Non-Current Liabilities	48.3	89.1	81.0	81.0					
Total Liabilities	78.2	128.4	123.8	125.2					
Net Assets									
	90.3	81.6	86.2	85.9					
Contributed Equity	27.2	27.2	27.2	27.2					
Reserves	1.9	1.9	1.9	1.9					
Retained Earnings	61.2	52.4	57.0	58.2					
Total Equity	90.3	81.6	86.2	87.4					

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