

Lindsay Australia Limited

Earnings outlook freshens up

Lindsay Australia has upgraded 1H guidance to \$26-\$27m underlying EBITDA, +14% at the mid-point versus pcp. The prior guidance was for +8% underlying EBITDA growth. We attribute the upgrade to better than expected volumes in the growing rail segment and margin benefits tied with the regionally focussed rural strategy. The upgrade is a positive indicator for earnings momentum into the second half and FY22e. We have increased FY21e EPS forecasts by 4% to reflect the upgrade. Our DCF based valuation increases to \$0.42 (from \$0.40). LAU trades on an FY21e P/E ratio of 12x versus the peer set of 15x P/E. We expect this valuation gap to narrow as the company delivers to the growth strategy. Next catalysts: 1H result.

1HFY21e guidance \$26m-\$27m EBITDA

- 1H EBITDA upgrade has likely be driven by: A) growth in the share of horticultural volumes transported on rail, which is accretive to profit margins and B) expansion of the rural store footprint within high growth horticultural areas across Northern QLD. The rail and rural outperformance is likely to have more than offset softness in import/export volumes, due to COVID related reduction in international air freight

Earnings momentum building

- We believe that the earnings outlook is supported by three key factors. Firstly, freight facilities in Sydney and Perth, opened during 2020, are beginning to reach a point of critical mass in throughput, which is likely to support earnings margins. Secondly, the share of group revenues handled on rail is likely to double to 16% in FY22e (from 6% in FY20), underpinned by new corporate and horticultural contracts on the Perth-Brisbane and Cairns-Brisbane rail legs. Thirdly, domestic freight conditions remain solid during FY21e, as evidenced by positive commentary and outlook statements from listed transport sector peers.

Profit outlook freshens up by 4% in FY21e

- The company is tracking ahead of our profit expectations and we have upgraded FY21e EPS by 4%. With the greater share of profit captured during the 1H due to seasonal factors, this announcement largely de-risks our FY21e forecasts and provides upside risk to free cash flow and dividend projections.

Year-end June (\$)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (\$m)	389.5	415.1	444.8	474.8	498.0
EBITDA (\$m)	37.4	40.1	45.0	50.7	54.1
EBIT (\$m)	15.7	16.4	18.8	22.7	24.3
Reported NPAT (\$m)	8.9	5.3	7.8	10.0	11.2
Reported EPS (c)	3.0	1.8	2.6	3.3	3.7
Normalised NPAT (\$m)	7.1	7.8	8.5	10.7	11.9
Normalised EPS (c)	2.4	2.6	2.8	3.6	4.0
EPS Growth (%)	(13.3)	9.0	9.4	25.5	11.4
Dividend (c)	2.1	1.5	1.8	2.0	2.3
Net Yield (%)	6.2	4.4	5.1	5.9	6.6
Franking (%)	100	100	100	100	100
EV/EBITDA (X)	5.3	5.2	4.5	3.9	3.5
Normalised P/E (x)	14.3	13.1	12.0	9.5	8.6
Normalised ROE (%)	7.7	8.3	8.9	10.3	10.6

Source: OML, Iress, Lindsay Australia Limited

Last Price

A\$0.34

Target Price

A\$0.42 (Previously A\$0.40)

Recommendation

Buy

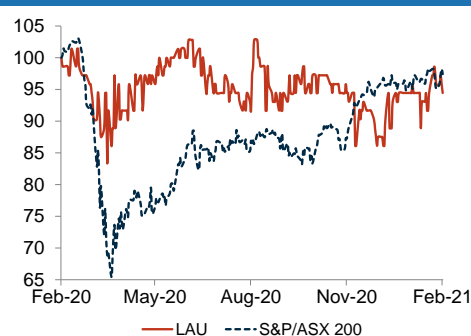
Risk

Higher

Trucking

ASX Code	LAU
52 Week Range (\$)	0.30 - 0.37
Market Cap (\$m)	101.8
Shares Outstanding (m)	299.5
Av Daily Turnover (\$m)	0.0
3 Month Total Return (%)	0.0
12 Month Total Return (%)	-5.6
Benchmark 12 Month Return (%)	-2.6
NTA FY21E (¢ per share)	30.4
Net Debt FY21E (\$m)	99.7

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY21E	FY22E
NPAT (C) (\$m)	8.3	9.7
NPAT (OM) (\$m)	8.5	10.7
EPS (C) (c)	2.9	3.2
EPS (OM) (c)	2.8	3.6

Source: OML, Iress, Lindsay Australia Limited

Ian Munro

Senior Research Analyst

(03) 9608 4127

imunro@ords.com.au

Joshua Goodwill

Research Associate

(03) 9608 4121

jGoodwill@ords.com.au

1H21e result expectations: growth across all key metrics

	1H20	2H20	1H21e	2H21e	1H v 1H
revenue- segments \$m					
transport (incl rail)	152	131	162	143	6%
rural	67	62	72	64	8%
other	3	0	2	1	-47%
revenue- total	220	195	236	209	7%
EBITDA- underlying \$m					
EBITDA- ex AASB16	23.3	16.8	26.5	18.5	14%
EBITDA margin %	10.6%	8.6%	11.2%	8.8%	0.6%
Key P&L metrics \$m					
D&A- ex AASB16	-11.6	-12.1	-13.1	-13.1	12%
EBITA	12.0	5.0	13.7	5.7	15%
EBIT	11.7	4.7	13.4	6.0	15%
Net Interest-underlying	-2.9	-2.3	-3.4	-3.2	16%
NPAT - underlying	6.1	1.7	7.0	1.5	14%
EPS (cents)-underlying	2.1	0.5	2.3	0.5	14%
abnormal & AASB adj	-0.4	-2.0	-0.5	-0.3	25%
reported NPAT	5.8	-0.4	6.5	1.3	13%
Dividend (cents)	1.00	0.50	1.25	0.50	25%
payout % adj EPS	49%	93%	53%	100%	10%
Key metrics \$m					
operating cash flow	17.6	20.7	21.2	20.2	21%
Net PPE capex	-4.1	-7.7	-2.4	-0.6	-41%
Lease payments	-15.4	-10.6	-15.7	-11.3	2%
free cash flow	-1.9	2.4	3.1	8.2	-269%
net debt (cash) ex AASB16	112.1	106.3	108.0	99.7	-4%
ND/ND+Equity %	54%	54%	55%	50%	2%
Net debt / EBITDA x	2.4x	2.7x	2.7x	2.2x	12%
ROE % (1H/FY)	6.4%	8.3%	7.0%	8.9%	9%

Source Ord Minnett Limited Research

- We expect half-on-half growth in revenue (+7%) EBITDA (+14%) EPS (+14%) and dividend forecasts (+25%) based on the upgraded guidance.
- Forecasts are on an underlying basis, excluding the impact of AASB16 leases.
- On-going confirmation of EPS momentum is likely to assist narrowing the P/E discount to the peer group.

LAU trades at an 20% P/E discount to the peer average in FY21e

Ticker	Name	Mkt cap (US\$m)	EV (US\$m)	EV/Revenue			Rev growth NTM	EV/EBIT			P/E Ratio		
				FY20	FY21	NTM		FY20	FY21	NTM	FY20	FY21	NTM
9075	FUKUYAMA TRANSPO	2,696	3,347	1.0	1.1	1.0	5%	15.0	16.8	14.2	14.7	16.7	14.9
MRTN	MARTEN TRANSPORT	1,390	1,303	1.4	1.3	1.3	9%	13.7	11.5	11.5	19.6	16.4	16.3
SNDR	SCHNEIDER NATL-B	3,790	3,282	0.7	0.7	0.7	8%	11.4	8.4	8.3	17.6	13.7	13.6
HTLD	HEARTLAND EXPRESS	1,514	1,432	2.1	2.1	2.1	4%	15.0	12.5	12.5	21.5	17.6	17.5
CVLG	COVENANT LOGISTI	264	549	0.5	0.5	0.5	4%	13.5	10.2	10.1	14.1	8.2	8.1
JBHT	HUNT (JB) TRANS	13,420	14,405	1.6	1.4	1.4	13%	22.0	17.0	16.8	29.4	22.2	21.9
KNX	KNIGHT-SWIFT TRA	6,810	7,376	1.7	1.5	1.5	13%	13.0	10.3	10.4	15.2	12.1	12.1
CHRW	CH ROBINSON	12,309	13,555	0.8	0.8	0.8	4%	20.4	16.7	16.6	24.7	20.5	20.4
STF EN	STEF SA	1,098	2,131	0.6	0.5	0.5	13%	18.2	14.4	14.2	15.7	11.8	11.6
WERN	WERNER ENT	2,787	2,932	1.2	1.1	1.1	8%	12.7	10.2	10.2	16.1	12.9	12.9
ARCB	ARCBEST CORP	902	960	0.4	0.4	0.4	13%	9.3	8.4	8.4	15.2	12.4	12.3
Average				1.1	1.0	1.0	9%	14.9	12.4	12.1	18.5	14.9	14.7
Median				1.0	1.1	1.0	8%	13.7	11.5	11.5	16.1	13.7	13.6
LAU	Lindsay Australia Ltd.	81	159	0.5	0.5	0.4	6%	12.7	10.7	10.7	13.1	12.0	10.7

Source Ord Minnett Limited Research

3%-4% upgrade to FY21e, FY22e, FY23e EPS forecasts

	FY21e			FY22e			FY23e		
	old	new	change %	old	new	change %	old	new	change %
revenue- segments \$m									
transport	305	305	0%	326	332	2%	347	353	2%
rural	132	137	4%	134	139	4%	137	142	4%
other	3	3	0%	3	3	0%	3	3	0%
revenue- total	440	445	1%	464	475	2%	487	498	2%
EBITDA- segments \$m									
transport	37.6	38.8	3%	43.7	44.4	2%	46.9	47.7	2%
rural	5.9	6.1	4%	6.0	6.3	4%	6.2	6.4	4%
EBITDA- total ex AASB16	43.5	45.0	3%	49.7	50.7	2%	53.0	54.1	2%
EBITDA margin %	10%	10%	2%	11%	11%	0%	11%	11%	0%
Key P&L metrics \$m									
D&A- ex AASB16	-25.1	-26.1	4%	-27.5	-28.0	2%	-29.2	-29.7	2%
EBITA	19.0	19.4	2%	22.7	23.3	2%	25.4	25.9	2%
EBIT	18.4	18.8	2%	22.2	22.7	2%	23.8	24.3	2%
Net Interest-underlying	-6.6	-6.6	0%	-7.4	-7.4	0%	-7.3	-7.3	0%
NPAT - underlying	8.2	8.5	4%	10.4	10.7	3%	11.6	11.9	3%
EPS (cents)-underlying	2.7	2.8	4%	3.4	3.6	3%	3.9	4.0	3%
abnormal & AASB adj reported NPAT	-1.1	-1.1	0%	-1.1	-1.1	0%	-1.1	-1.1	0%
Dividend (cents)	1.75	1.75	0%	2.00	2.00	0%	2.25	2.25	0%
payout % reported	64%	61%	-4%	58%	56%	-3%	58%	56%	-3%
Key metrics \$m									
operating cash flow	40.3	41.4	3%	43.4	44.0	1%	45.5	46.4	2%
Net PPE capex	-3.0	-3.0	0%	-3.2	-3.2	0%	-3.3	-3.3	0%
Lease payments	-27.0	-27.0	0%	-29.0	-29.0	0%	-30.0	-30.0	0%
free cash flow	10.3	11.4	10%	11.2	11.8	5%	12.2	13.1	8%
net debt (cash)	100.8	99.7	-1%	95.2	93.5	-2%	89.3	86.7	-3%
ND/ND+Equity %	50%	50%	-1%	47%	46%	-1%	44%	43%	-2%
Net debt / EBITDA x	2.3x	2.2x	-4%	1.9x	1.8x	-4%	1.7x	1.6x	-5%
ROE %	9%	9%	4%	10%	10%	3%	10%	11%	2%
EV/EBIT x	10.8x	10.4x	-4%	8.8x	8.4x	-4%	7.6x	7.3x	-5%
P/E x	12.8x	12.0x	-6%	10.2x	9.5x	-6%	9.1x	8.6x	-6%

Source Ord Minnett Limited Research

- We have upgraded forward EPS forecasts, given the positive earnings momentum and greater conviction in the rail and rural strategy.
- We forecast the share of group revenues and EBITDA from rail transport to reach 19% and 28% respectively, in FY23e.
- DCF based valuation upgraded to \$0.42 (from \$0.40), given the higher free cash flow forecasts. We adopt a WACC of 8.4% and terminal growth rate of 2.0%.

Lindsay Australia Limited

PROFIT & LOSS (A\$m)	2019A	2020A	2021E	2022E	2023E
Revenue	389.5	415.1	444.8	474.8	498.0
Operating costs	(352.1)	(375.0)	(399.8)	(424.1)	(444.0)
Operating EBITDA	37.4	40.1	45.0	50.7	54.1
D&A	(21.8)	(23.7)	(26.1)	(28.0)	(29.7)
EBIT	15.7	16.4	18.8	22.7	24.3
Net interest	(5.6)	(5.3)	(6.6)	(7.4)	(7.3)
Pre-tax profit	10.1	11.1	12.2	15.3	17.1
Net tax (expense) / benefit	(3.0)	(3.3)	(3.7)	(4.6)	(5.1)
Normalised NPAT	7.1	7.8	8.5	10.7	11.9
Reported NPAT	8.9	5.3	7.8	10.0	11.2
Normalised dil. EPS (cps)	2.4	2.6	2.8	3.6	4.0
Reported EPS (cps)	3.0	1.8	2.6	3.3	3.7
Effective tax rate (%)	30.0	30.0	30.0	30.0	30.0
DPS (cps)	2.1	1.5	1.8	2.0	2.3
Dividend yield (%)	6.2	4.4	5.1	5.9	6.6
Payout ratio (%)	88.1	57.8	61.6	56.1	56.6
Franking (%)	100.0	100.0	100.0	100.0	100.0
Diluted # of shares (m)	296.9	299.6	300.6	300.7	300.7

CASH FLOW (A\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA incl. adjustments	37.3	44.0	49.5	54.5	57.8
Change in working capital	2.6	0.2	(0.5)	(2.0)	(1.5)
Net Interest (paid)/received	(5.6)	(5.3)	(6.6)	(7.4)	(7.3)
Income tax paid	(1.8)	(2.2)	(0.9)	(1.1)	(2.6)
Other operating items	2.7	1.6	-	-	-
Operating Cash Flow	35.2	38.3	41.4	44.0	46.4
Capex	(4.3)	(14.2)	(5.5)	(5.7)	(5.8)
Other investing items	1.3	2.5	2.5	2.5	2.5
Investing Cash Flow	(2.9)	(11.7)	(3.0)	(3.2)	(3.3)
Inc/(Dec) in borrowings	(24.6)	(20.7)	(29.0)	(31.0)	(32.0)
Dividends paid	(4.9)	(5.4)	(4.8)	(5.6)	(6.3)
Other financing items	-	-	-	-	-
Financing Cash Flow	(29.6)	(26.1)	(33.8)	(36.6)	(38.3)
Net Inc/(Dec) in Cash	2.8	0.4	4.5	4.2	4.8

BALANCE SHEET (A\$m)	2019A	2020A	2021E	2022E	2023E
Cash	17.5	17.9	22.5	26.7	31.5
Receivables	55.0	50.5	53.3	56.9	59.7
Inventory	13.2	12.0	12.1	12.9	13.6
Other current assets	5.2	6.6	6.6	6.6	6.6
PP & E	170.1	265.2	265.7	266.4	266.7
Intangibles	9.6	9.3	9.2	9.2	8.1
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Total Assets	270.5	361.5	369.5	378.8	386.1
Short term debt	38.5	44.9	44.9	44.9	44.9
Payables	39.5	34.0	36.3	38.8	40.7
Other current liabilities	12.8	13.5	13.5	13.5	13.5
Long term debt	77.3	166.7	163.7	161.7	159.7
Other non-current liabilities	8.1	10.6	10.6	10.6	10.6
Total Liabilities	176.2	269.6	269.0	269.5	269.4
Total Equity	94.1	92.4	100.3	108.7	116.5
Net debt (cash)	98.5	106.3	99.7	93.5	86.7

Buy

DIVISIONS	2019A	2020A	2021E	2022E	2023E
KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	7.0	6.6	7.2	6.8	4.9
EBITDA growth	4.9	7.0	12.2	12.8	6.6
EBIT growth	(2.4)	4.4	15.0	20.5	7.3
Normalised EPS growth	(13.3)	9.0	9.4	25.5	11.4
EBITDA margin	9.6	9.7	10.1	10.7	10.9
EBIT margin	4.0	3.9	4.2	4.8	4.9
Return on assets	4.1	3.6	3.6	4.2	4.5
Return on equity	7.7	8.3	8.9	10.3	10.6

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	11.4	19.1	13.1	10.3	9.2
Normalised P/E	14.3	13.1	12.0	9.5	8.6
Price To Free Cash Flow	12.4	179.6	8.9	8.6	7.8
Price To NTA	1.2	1.2	1.1	1.0	0.9
EV / EBITDA	5.3	5.2	4.5	3.9	3.5
EV / EBIT	12.7	12.7	10.7	8.6	7.7

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	51.1	53.5	49.9	46.3	42.7
Net Debt / EBITDA (%)	262.9	265.3	221.8	184.4	160.5
EBIT Interest Cover (x)	2.8	3.1	2.8	3.1	3.3
EBITDA Interest Cover (x)	6.7	7.6	6.8	6.9	7.4

SUBSTANTIAL HOLDERS

m %

VALUATION

Cost of Equity (%)	13.1
Cost of debt (after tax) (%)	5.0
D / EV (%)	48.8
WACC (%)	8.4
Forecast cash flow (\$m)	98.6
Terminal value (\$m)	128.6
Enterprise Value (\$m)	227.2
Equity NPV Per Share (\$)	0.42
Target Price Method	DCF
Target Price (\$)	0.42
Valuation disc. / (prem.) to share price (%)	23.5

Institutional Research			
Nicolas Burgess	Senior Research Analyst	+61 3 9602 9379	nburgess@ords.com.au
James Casey	Senior Research Analyst	+61 3 9602 9265	jcasey@ords.com.au
Phillip Chippindale	Senior Research Analyst	+61 2 8216 6346	pchippindale@ords.com.au
Michael Gerges	Senior Research Analyst	+61 2 8216 6625	mgerges@ords.com.au
Dylan Kelly	Senior Research Analyst	+61 2 8216 6417	dkelly@ords.com.au
William MacDiarmid	Senior Research Analyst	+61 2 8216 6514	wmacdiarmid@ords.com.au
Luke Macnab	Senior Research Analyst	+61 2 9250 8930	lmacnab@ords.com.au
Ian Munro	Senior Research Analyst	+61 3 9608 4127	ian.munro@ords.com.au
John O'Shea	Senior Research Analyst	+61 3 9608 4146	joshea@ords.com.au
Leanne Truong	Senior Research Analyst	+61 3 8216 6367	ltruong@ords.com.au
Joshua Goodwill	Research Associate	+61 3 9608 4121	jgoodwill@ords.com.au
Olivia Hagglund	Research Associate	+61 2 8216 6358	ohagglund@ords.com.au
Jason Korchinski	Research Associate	+61 2 8216 6348	jkorchinski@ords.com.au
Jack Lynch	Research Associate	+61 2 8216 6368	jlynch@ords.com.au
Supun Wijerathna	Research Associate	+61 3 9602 9325	swijerathna@ords.com.au

Institutional Sales (Australia)			
Nick Burmester	Head of Institutional Equities	+61 2 8216 6363	nburmester@ords.com.au
Jim Bromley	Institutional Equities Sales	+61 2 8216 6343	jbromley@ords.com.au
Stephen Jolly	Institutional Equities Sales	+61 2 8216 6424	sjolly@ords.com.au
Chris McDermott	Institutional Equities Sales	+61 2 8216 6335	cmcdermott@ords.com.au
Scott Ramsay	Institutional Equities Sales	+61 3 9608 4100	sramsay@ords.com.au
Matt White	Institutional Equities Sales	+61 3 9608 4133	mwhite@ords.com.au
Zac Whitehead	Institutional Equities Sales	+61 2 8216 6350	zwhitehead@ords.com.au
Isaac Morris	Institutional Equities Sales Support	+61 2 8216 6370	imorris@ords.com.au
Brendan Sweeney	Operator	+61 2 8216 6781	bsweeney@ords.com.au

Institutional Sales (Hong Kong)			
Chris Moore	Institutional Equities Sales	+61 2 8216 6362	cmoore@ords.com.hk

Ord Minnett Offices

Adelaide

Level 11
13 Grenfell Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Canberra

101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Mackay

45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888
Fax: (07) 4969 4800

Newcastle

426 King Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

Head Office

Sydney
Level 8, NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311
www.ords.com.au

Brisbane

Level 31
10 Eagle Street
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Gold Coast

Level 7
50 Appel Street
Surfers Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5557 3377

Melbourne

Level 7
161 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

Perth

Level 27
108 St Georges Terrace
Perth WA 6000
Tel: (02) 4910 2400
Fax: (02) 4910 2424

Buderim (Sunshine Coast)

1/99 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Hobart

Level 3
85 Macquarie Street
Hobart TAS 7000
Tel: (03) 6161 9300

International

Hong Kong
1801 Ruttonjee House
11 Duddell Street
Central, Hong Kong
Tel: +852 2912 8980
Fax: +852 2813 7212
www.ords.com.hk

Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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