ORD MINNETT RESEARCH

Lindsay Australia Limited

Rail strategy can change the journey

We initiate coverage on Lindsay Australia with a BUY rating and $0.40 price target. The company's investment in a wider geographical footprint into high growth horticulture regions is starting to yield returns, with company guidance pointing to high single digit EBITDA growth for 1H21e. Most importantly, the commitment to more than double the rail transport business to 450 units by June 2022 can help grow new business and provide material uplift to free cash flow and returns on capital during FY22e and FY23e. Evidence that the rail investment can materially improve return metrics is the major catalyst to close the P/E ratio discount versus peers.

A key logistics and rural partner to the horticulture sector

- Lindsay Australia is an integrated provider of logistics services and rural goods to the horticulture, co-operative and corporate market across Australia. The company specialises in time and temperature sensitive freight, mostly fresh fruit and vegetable produce for the domestic and export/import markets. Lindsay operates in all major Australian States and has diversified geographically into emerging horticultural regions.

1Q21 AGM update provides an upbeat outlook

- FY20 AGM guidance reported +8% underlying EBITDA growth during 1QFY21. This rate of growth is expected to be maintained into 2QFY21, supported by the benefits of FY20 investment into the new logistics hub in Sydney and Perth and continued ramp up in operations in Northern QLD. Performance of the rural business also reads positively, with recent expansion into regions that hold synergies with the transport segment yielding well and trading conditions and pricing across the horticultural segment positive. Commercial/passenger plane capacity is likely to improve during 2021, alleviating some pressure on the import/export operation. Overall, we forecast underlying EBITDA growth of 9% and underlying NPAT growth of 6% and free cash flow of $10m in FY21e.

Rail program ramping up

- Management has issued guidance of a more than doubling of rail container units to 450 by 30 June 2022. Growth in the rail franchise is cash flow and margin accretive to the group. We forecast rail to reach ~20% of group revenue and ~30% of group EBITDA in FY23e.

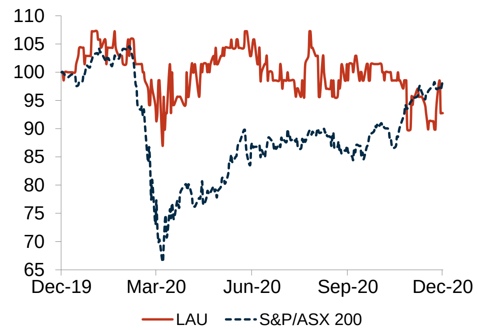
Year-end June ($)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue ($m)	389.5	415.1	439.6	463.5	486.6
EBITDA ($m)	37.4	40.1	43.5	49.7	53.0
EBIT ($m)	15.7	16.4	18.4	22.2	23.8
Reported NPAT ($m)	8.9	5.3	7.5	9.6	10.8
Reported EPS (c)	3.0	1.8	2.5	3.2	3.6
Normalised NPAT ($m)	7.1	7.8	8.2	10.4	11.6
Normalised EPS (c)	2.4	2.6	2.7	3.4	3.9
EPS Growth (%)	(13.3)	9.0	5.6	25.7	11.8
Dividend (c)	2.1	1.5	1.8	2.0	2.3
Net Yield (%)	6.6	4.7	5.5	6.3	7.0
Franking (%)	100	100	100	100	100
EV/EBITDA (X)	5.2	5.0	4.5	3.8	3.5
Normalised P/E (x)	13.4	12.3	11.7	9.3	8.3
Normalised ROE (%)	7.7	8.3	8.6	10.0	10.4

Source: OML, Iress, Lindsay Australia Limited

Last Price
A$0.32
Target Price
A$0.40
Recommendation
Buy
Risk
Higher

Trucking	
ASX Code	LAU
52 Week Range ($)	0.30 - 0.37
Market Cap ($m)	95.8
Shares Outstanding (m)	299.5
Av Daily Turnover ($m)	0.0
3 Month Total Return (%)	-5.9
12 Month Total Return (%)	-7.2
Benchmark 12 Month Return (%)	-1.3
NTA FY21E (¢ per share)	30.3
Net Debt FY21E ($m)	100.8

Relative Price Performance



Source: FactSet

Consensus Earnings	FY21E	FY22E
NPAT (C) ($m)	8.5	9.0
NPAT (OM) ($m)	8.2	10.4
EPS (C) (c)	3.0	3.0
EPS (OM) (c)	2.7	3.4

Source: OML, Iress, Lindsay Australia Limited

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Investment thesis

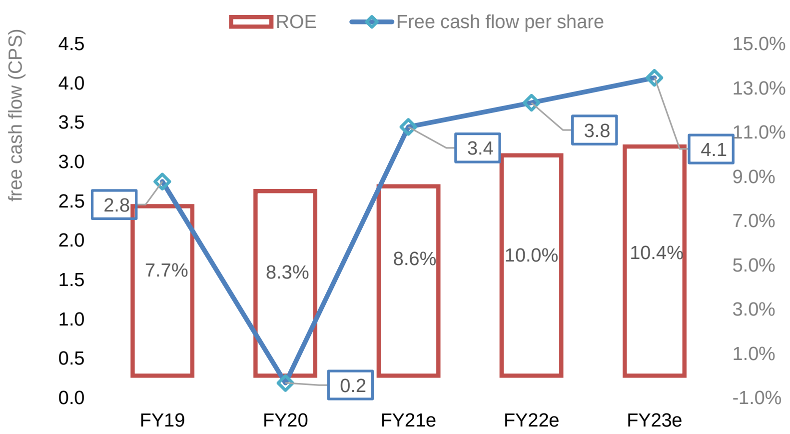
- We are attracted to the market position of Lindsay Australia, as the largest stand-alone brand in the refrigerated produce market, and the consistency of revenue generation. Competitive advantage is found in the synergies and customer value-add leveraged through the combined transport and rural store network. Refrigerated transport holds high barriers to entry and although returns on capital are low in Australia, by global standards, the acceleration of rail services is proving to be a major positive catalyst for returns. The company is targeting a more than doubling of rail containers to 450 by 30 June 2022, which we expect to increase the share of group EBITDA generated by rail services to ~30% in FY23e.
- Lindsay Australia executed a major geographical expansion program between FY15-FY20, impacting free cash flow performance. New facilities in Northern QLD, Perth, Adelaide and Sydney have completed the national circuit and substantially diversified the customer base. Capitalising on this wider footprint remains a critical ingredient to unlocking value within the company and re-rating the P/E ratio closer to peers.

Figure 1: Key financial indicators

Investment Summary	FY19	FY20	FY21e	FY22e	FY23e
P&L - $m					
rural revenues	114	129	132	134	137
transport revenues	272	283	305	326	347
group revenues	390	415	440	464	487
EBIT	15.7	16.4	18.4	22.2	23.8
NPAT-underlying	7.1	7.8	8.2	10.4	11.6
EBIT margin %	4.1%	4.0%	4.2%	4.8%	4.9%
Cash flow - $m					
Operating cash flow	35.2	38.3	40.3	43.4	45.5
capex & leases	-27.1	-37.7	-30.0	-32.2	-33.3
Free cash flow	8.1	0.6	10.3	11.2	12.2
Balance sheet - ratios					
NTA: $/share	$0.29	$0.28	$0.30	$0.33	$0.36
Net debt (ex AASB16)	98.5	106.3	100.8	95.2	89.3
Net debt / EBITDA (ex AASB 16)	2.63x	2.65x	2.31x	1.91x	1.68x
ROE	7.7%	8.3%	8.6%	10.0%	10.4%

Source: Ord Minnett Research

Figure 2: ROE and free cash flow growth



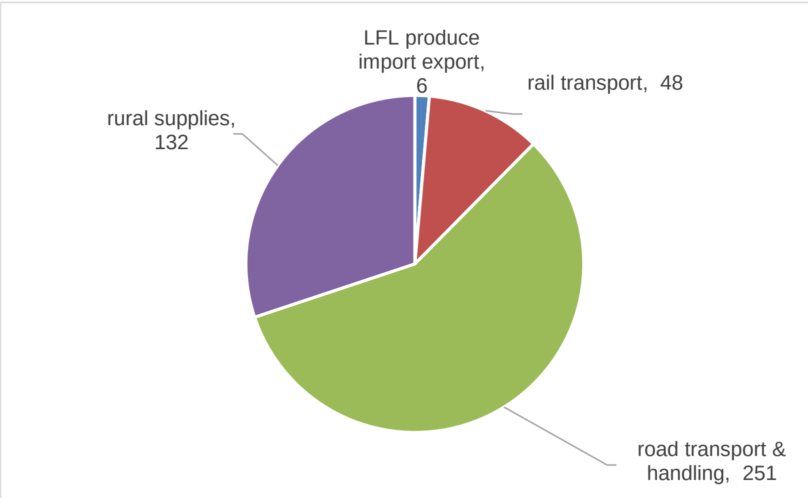
Source: Ord Minnett Research

Overview

- Lindsay Australia is an integrated logistics and rural supply company servicing customers in the horticultural and food processing sectors. Lindsay operates across Australia via 19 logistics terminals, 18 rural stores and an import/export hub located within the Brisbane produce markets. ~85% of transport loads carry time sensitive food related products, mostly fruit and vegetables for 3,000+ horticultural customers across Australia. Lindsay Rural also services the group's grower base, supplying farming equipment, fertiliser, nutrients, and packaging materials to an estimated 1,500 rural customers.
- Headquartered in Brisbane, the company is the second largest refrigerated transport and storage company in Australia and the no. 1 market share holder in the QLD market. Forecast FY21e net tangible assets amount to $0.30 per share. The company employs over 1,400 staff and is a founder led company, with the Lindsay family holding an estimated ~13% of issued shares.

Figure 3: Transport and rural national footprint, FY21e revenue

Lindsay Transport	Lindsay Rural
Adelaide	Adelaide
Bowen	Brisbane
Brisbane	Brisbane - warehouse
Bundaberg	Bowen
Childers	Brandon
Coffs Harbour	Bundaberg
Emerald	Childers
Gatton	Coffs Harbour
Innisfail	Emerald
Mackay	Gatton
Mareeba	Innisfail
Melbourne	Invergordon
Mildura	Mareeba
Mundubbera	Mildura
Nambour	Mundubbera
Perth	Murwillumbah
Stanthorpe	Nambour
Sydney	Stanthorpe
Tully	Tully
Lindsay Fresh Logistics	
Brisbane Markets	



Source: Ord Minnett research, company reports

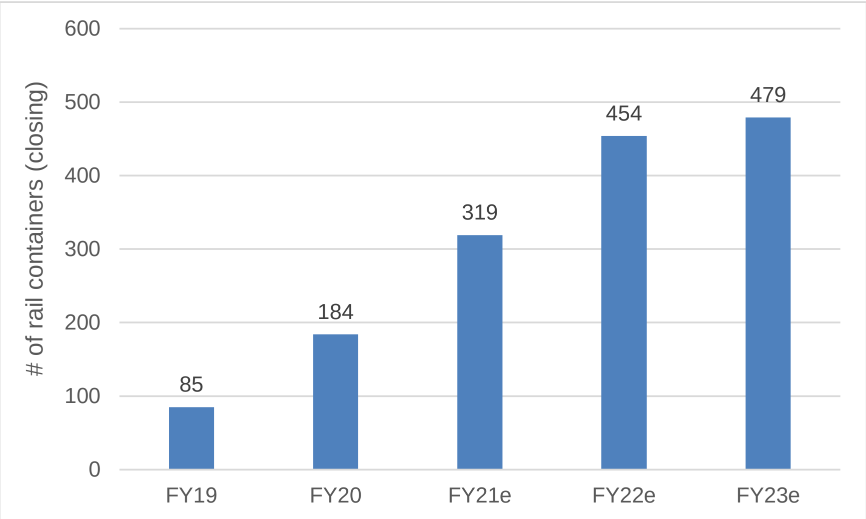
- Operating assets include over 600 prime movers and trailers and over 200 refrigerated rail containers. Customer segments include agents, wholesalers, grocery chains, corporate and family owned farming groups. Transport revenue is a function of the number of pallets transported, distance, and storage and handling required.
- Rural revenues are mostly the sale of physical inventory for use as a horticultural input and agronomy services. Lindsay Fresh is the most recently formed segment, offering transport and handling services involved in the air and sea freight of imported and exported horticultural products.

Investment drivers

Ramp up of the rail offering supports market share growth

- **Lindsay's growing refrigerated rail strategy is accretive to group cash flow and margins:** The company has ramped up a long-haul rail transport strategy since FY18 and we see continued growth. To date, ~200 customised refrigerated rail containers have been purchased and deployed into active customer contracts.
- **Rail routes currently serviced include Melbourne to Perth, Sydney to Perth, Perth to Brisbane (via Adelaide), Brisbane to Melbourne, Cairns/Innisfail to Brisbane, Brisbane to Sydney:** These corridors cover the major corporate markets and catchment zones for horticultural production across QLD, WA and SA. We see continued modal shift from road to rail in the horticultural segment. Lindsay's biggest lanes on rail are Melbourne-Perth-Melbourne and Sydney-Perth-Sydney.
- **Industry analysis suggests that rail services are applicable** for less time sensitive freight including unripened bananas, mangoes and other fruit, vegetable varieties. The advantage of rail is in the reliability of service, improved safety outcomes with less human input, fuel efficiency relative to road transport and economies of scale shared across users.
- **We understand that Lindsay Transport can offer a more competitive pricing structure on rail**, relative to road transport, which we see as supportive for market share growth with existing and new customers.

Figure 4: Rail container targeting 450 units by June 2022

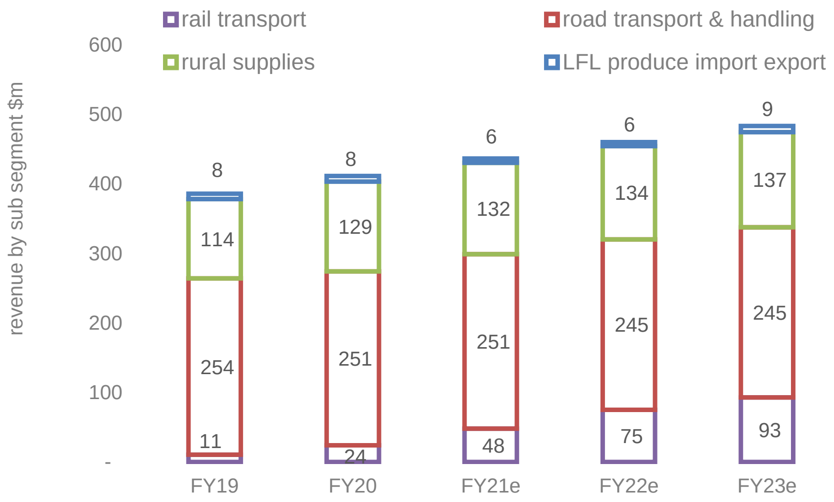


Source: Ord Minnett Research

Rail is accretive to earnings margins and free cash flow

- **Rail carries a lower overall variable cost structure for Lindsay transport for line haul routes:** We estimate average EBITDA margins of ~16% on rail contracts, versus ~12% on road-based transport. Key rail supplier Pacific National has invested significantly in fleet size and service frequencies. The associated customer aggregation model allows Lindsay to enjoy economies of scale and partly benefit from rising utilisation within the Pacific National network.
- **Rail also carries fixed cost relief for Lindsay:** We estimate that each incremental rail container purchased and utilised, is equivalent to removing 0.65 truck/trailer combinations from operation. We estimate an average capex differential of $600K. Adjusting for load factors, the relative capex saving of a rail container is ~$400K. Rail assets also carry a longer useful life of 10 years, versus line haul trucks at 5 years.
- **Rail container investment can save an incremental $80k in lease payments per annum, per container.** Thus, the strategy is accretive to free cash flow for the group, as well as improving safety and environmental outcomes, both important KPIs in customer decisions. We see growth in the number of rail containers to 479 by the end of FY23e.

Figure 5: Rail likely to grow to 19% of group revenues by FY23e



Source: Ord Minnett Research

Rural and transport service offering forms a customer lock

- Lindsay is the only national pure play rural operator servicing the horticultural sector. Rural operates as an independent purchaser with major packaging, chemicals, nutrient, fertiliser, and irrigation/piping suppliers locally and abroad. Execution of a major geographical expansion strategy means that the company now services most core horticultural growing regions across Australia, excluding the Northern Territory and Tasmania.

Figure 6: An integrated service offering for the horticulture sector

Source: Company reports

- **The combination of the rural store footprint with the size and scale of the transport operations,** provides synergies in customer service, asset utilisation and cross selling opportunities across the broader group. We estimate that the Lindsay Rural and Transport segment services ~800 complementary grower customers. This is equivalent to 40%-50% of the repeat rural customer pool. The co-location of many rural and transport franchises, combined with specialist agronomy services offered to growers, benefits the combined operations in key areas:

  1) The model gains insights into customer planting and associated harvest timing and profile. Natural duplication in relationship building and whole of customer pricing strategies, facilitating market share growth.

  2) The transport segment provides capacity to deliver rural goods to customers in a timely fashion and supports backloading of prime movers on return freight, an important profit margin driver.

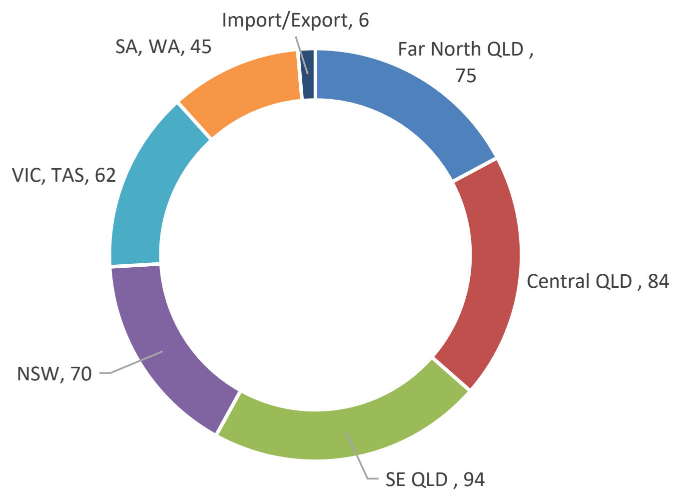
  3) The combined operations provide insights and opportunities to launch new services in response to market trends. An example of this is the horizontal extension of the business model to include Lindsay Fresh (LF).

- **LF is an import/export transport service opened within the Brisbane produce markets in 2015 in response to demand from existing customers to gain exposure to offshore markets.** The company has extended its packaging supply partnership with Visy group for 5 years from 1 January 2021. We estimate that Lindsay procures ~$30m in packaging material from Visy per annum and growing.

Expansion strategy is strengthening the combined model

- Investment in new transport and rural facilities, including cold storage and warehousing in Perth, Adelaide, Mildura, Brisbane, Mareeba and Bowen between FY15 and FY20 has extended the service footprint and improved the quality of revenues across the company.
- Expansion strategy has broadened the level of exposure to core growing regions - the Atherton Tablelands, Burdekin region, Adelaide and Riverlands, Murray and Perth catchment zones. We believe that this strategy has delivered benefits in terms of:
  1) Reducing the reliance to SE Queensland and Northern NSW;
  2) Smoothing the timing of fruit and vegetable harvests across regions which evens the demands on the transport fleet throughout a given year; and
  3) Diversifying the exposure to particular seasonal events and weather patterns.
- We also see a major benefit from servicing a larger catchment zone of customers. This widens the capacity to service a greater number of corporate and grocery customers nationally, with associated benefits to origin and destination and return journey freight.

Figure 7: Diversifying revenue exposure by region, FY21e



Source: Ord Minnett Research

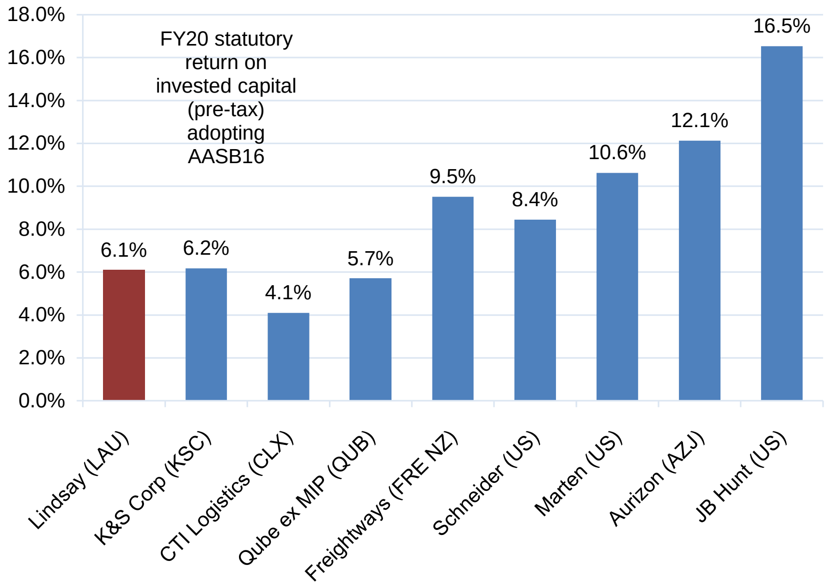
Leveraging scale creates barrier to entry and cost efficiencies

- Growth in the size and scale of the operation continues to provide benefits to cost economics on equipment, subcontractors, leasing, and other input costs with key suppliers. We believe that Lindsay's cost to serve is within the lowest cost quartile of the food and horticultural transport sector.
- The size of the fleet provides a major barrier to entry for other entrants looking to win share with major accounts. Safety and compliance continue to be a key area of focus across the industry. The scale of the Lindsay operating model and adoption of best of breed traffic management system Truckmate (by TMS) and extensive investment into safety and compliance continues to keep the company at the forefront of best practice.

Financial metrics are sound, with upside potential

- Lindsay Australia generates solid financial returns by industry standards. Returns on invested capital of 6.1% (pre-tax) rank in line with industry comparables KSC, CLX, and QUB (ex Moorebank). We believe that this provides validation of the benefits of the combined rural and transport segments, diversification strategy and market position in refrigerated transport. LAU records lower historical ROIC versus international peers, we believe linked with reduced levels of scale and operating leverage and variances in the cost structure.

Figure 8: Returns on capital are solid by industry standards



Source: Ord Minnett Research, US comparables utilise CY19 financials.

- Industry benchmarks in the US, suggest that LAU are generating an acceptable level of revenue per prime mover, albeit can generate higher profit margins on its transport revenue mix. Excluding the impact of AASB 16, we estimate ~12% EBITDA margins on the transport business and ~5% EBITDA margins on rural revenues. We see an EBIT margin target range of 7%-10% as an appropriate medium-term target, based on returns generated by industry comparables Schneider, Marten and JB Hunt in the USA.

Figure 9: US refrigerated transport peers

	Lindsay Aus	JB Hunt	Schneider	Marten
	AUD- FY20	USD-CY19	USD- CY19	USD-CY19
Avg revenue / prime mover	$872,414	$853,571	$660,169	$993,341
Avg. operating income / prime mover	$45,172	$80,410.15	$70,638	$72,659
Margin (%)	*5.2%*	*9.4%*	*10.7%*	*7.3%*

Source: Ord Minnett Research, US comparables utilise CY19 financials.

- We see potential for higher utilisation on Lindsay's asset base, operating leverage and potential to capture higher prices as levers to increasing average operating income/prime mover.

Financial metrics

Profit and loss

- We forecast FY21e revenue of $440m (+6% vs FY20 $415m), underlying EBITDA of $43.5m (+8% vs FY20 $40.1m) and underlying NPAT of $8.2m (+6% vs FY20 $7.8m)
- FY21e guidance issued at the 2020 AGM referred to expected EBITDA growth of approximately +8% during 2QFY21e, subject to adverse events, following a similar level of growth during 1QFY21e. The AGM commentary also highlighted:
  1) The group is well positioned to take advantage of prior years' investment, such as the Sydney logistics hub, in future periods. LFL import/export volumes are likely to remain subdued, subject to an increase in international commercial air traffic.
  2) Rail utilisation levels remain high and this is expected to continue throughout FY21e, even with the extra capacity that LAU are purchasing. The company has committed to reaching 450 rail containers in operation by June 2022.
  3) Rural continues to grow, with a focus on high growth horticultural regions which have strategic synergy with the Transport division.
- Our P&L and cash flow and enterprise value forecasts are underlying, excluding the impact of AASB 16. FY21e dividends of 1.75cps implies a ~64% payout ratio on FY21e earnings per share.

Figure 10: Ord Minnett forecasts

	FY20a	FY21e	*change %*	FY22e	*change %*	FY23e	*change %*
revenue- segments $m							
transport	*283*	*305*	*8%*	*326*	*7%*	347	*6%*
rural	129	132	*2%*	134	*2%*	137	*2%*
other	3	3	*-9%*	3	*0%*	3	*0%*
revenue- total	415	440	*6%*	464	*5%*	487	*5%*
EBITDA- segments $m							
transport	*35.6*	*37.6*	*6%*	*43.7*	*16%*	46.9	*7%*
rural	5.9	5.9	*0%*	6.0	*2%*	6.2	*2%*
EBITDA- total	40.1	43.5	*9%*	49.7	*14%*	53.0	*7%*
EBITDA margin %	*10%*	*10%*	*2%*	*11%*	*8%*	11%	*2%*
Key P&L metrics $m							
D&A- underlying	-23.7	-25.1	*6%*	-27.5	*9%*	-29.2	*6%*
EBITA	*16.9*	*19.0*	*12%*	*22.7*	*20%*	25.4	*12%*
EBIT	16.4	18.4	*12%*	22.2	*20%*	23.8	*7%*
Net Interest-underlying	-5.3	-6.6	*26%*	-7.4	*11%*	-7.3	*-1%*
NPAT - underlying	7.8	8.2	*6%*	10.4	*26%*	11.6	*12%*
EPS (cents)-underlying	*2.6*	*2.7*	*6%*	*3.4*	*26%*	3.9	*12%*
abnormal & AASB adj	*-3.9*	*-1.1*	*-72%*	*-1.1*	*0%*	-1.1	*0%*
reported NPAT	5.3	7.5	*40%*	9.6	*28%*	10.8	*13%*
Dividend (cents)	1.50	1.75	*17%*	2.00	*14%*	2.25	*13%*
payout % reported	58%	64%	*na*	58%	*na*	58%	*na*
Key metrics $m							
operating cash flow	38.3	40.3	*5%*	*43.4*	*8%*	45.5	*5%*
Net PPE capex	-11.7	-3.0	*-74%*	-3.2	*5%*	-3.3	*5%*
Lease payments	-26.0	-27.0	*4%*	-29.0	*7%*	-30.0	*3%*
free cash flow	0.6	10.3	*1726%*	11.2	*9%*	12.2	*8%*
net debt (cash) ex AASB16	106.3	100.8	*-5%*	95.2	*-6%*	89.3	*-6%*
ND/ND+Equity % (ex AASB16)	54%	50%	*na*	47%	*na*	44%	*na*
Net debt/EBITDA ex (AASB16)	2.7x	2.3x	*na*	1.9x	*na*	1.7x	*na*
ROE %	8.3%	8.6%	*na*	10.0%	*na*	10.4%	*na*
EV/EBIT x	12.5x	10.8x	*na*	8.7x	*na*	7.9x	*na*
P/E x	12.7x	12.0x	*na*	9.6x	*na*	8.6x	*na*

Source: Ord Minnett Research

Cash Flow

- During the last 5 financial years, the average conversion from EBITDA to operating cash flow (post tax, post interest repayments) has been 88%. Operating cash flow is grossed up for lease repayments on vehicle and equipment. Free cash flow levels are best represented by operating cash flow after tax, less net movement in PPE, less lease repayments. We assume ~$5m of PPE capex, $0.5m of intangible capex in FY21e and $2.5m proceeds from disposal of assets.

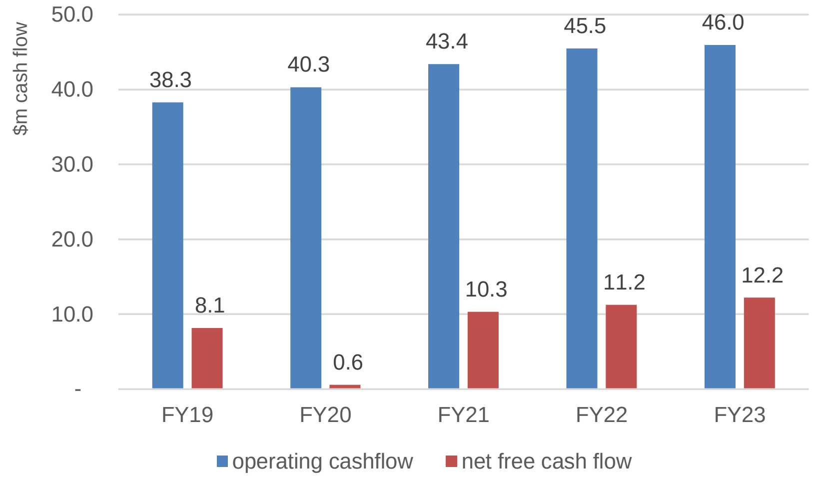
Figure 11: Cash flow reconciliation

Cash flow - metrics		FY19	FY20	FY21e
EBITDA-adjusted	*$m*	37.4	40.1	43.5
(cash tax)	*$m*	-1.8	-2.2	-0.9
(interest)	*$m*	-6.0	-9.2	-6.6
net working capital	*$m*	2.6	0.2	-0.2
other asset movements	*$m*	3.0	9.4	4.5
operating cash flow	*$m*	35.2	38.3	40.3
PPE capex	*$m*	-4.2	-13.9	-5.0
PPE proceeds	*$m*	1.3	2.5	2.5
Intangible capex	*$m*	-0.1	-0.2	-0.5
Lease repayments	*$m*	-24.2	-26.0	-27.0
free cash flow	*$m*	8.1	0.6	10.3
dividends paid	*$m*	-4.9	-5.4	-4.8

Source: Ord Minnett Research

- Between FY16 and FY20 (inclusive), LAU invested an estimated $33m in net PPE expansion capex. As a result of this investment only $19m in free cash flows were generated during the 5-year period. We see the benefits of this investment strategy as accruing in FY21e and beyond as regional penetration rises and the benefits of the rail strategy are captured. Under current forecasts, we predict free cash flow of ~$10m in FY21e, ~$11m in FY22e and ~$12m in FY23e. Instant depreciation write-off benefits are likely to reduce cash tax to < $1m in each of FY21e and FY22e under our forecasts.

Figure 12: Operating cash vs. net free cash flow



Source: Ord Minnett Research

Balance sheet

- FY20 Net tangible asset backing of $83m or 28 cents per share is comprised of equity in leased equipment, leasehold improvements on long term leased properties, rural goods inventory, and other fixed assets.
- Working capital. We assume average debtors' days of 44, inventory days of 10 and creditors days of 30. The company held a net surplus working capital position of $28.5m as at FY20.
- We are yet to fully adopt AASB 16 throughout the P&L, cash flow and enterprise value calculations. On an underlying basis, gross debt was $124m in FY20 (net debt of $106m), including $6m of drawn down working capital facilities and $19.5m of corporate debt. We forecast gross debt to reduce to $122m in FY21e ($101m net debt).
- Incorporating AASB 16, the company maintains a statutory debt position of $192.7m at FY20 comprised of corporate debt, equipment leases and property lease liabilities.
- At FY20, LAU's balance sheet recognised $200.7m in Right-of-Use assets relating mainly to properties and lease liabilities of $185.5m, $87m of which relates to properties and the balance of which relates to equipment leases.

Figure 13: Balance sheet reconciliation

Balance sheet - underlying pre AASB 16		**FY19**	**FY20**
Corporate debt & working capital	*$m*	20	26
Equipment finance	*$m*	96	99
Gross debt (underlying)	*$m*	116	124
(Net cash)	*$m*	-17	-18
Net Debt - underlying OML	*$m*	98	106
net debt/net debt plus equity	%	51%	54%
Net debt / EBITDA	*x*	2.63x	2.65x
Balance sheet - statutory		**FY19**	**FY20**
Equipment finance	*$m*	na	98.7
Lease liabilities (property AASB 16)	*$m*	na	87.6
Current - corporate debt & working capital	*$m*	38.5	7.9
Non-current- corporate debt & working capital	*$m*	77.4	17.2
Gross debt - statutory	*$m*	115.9	211.4
(Net cash)	*$m*	-17.5	-17.9
Net debt (cash) - statutory	*$m*	98.5	193.5
Net working capital assets	*$m*	28.7	28.5
Net tangible assets	*$m*	84.5	83.1

Source Ord Minnett Limited Research

Sector analysis

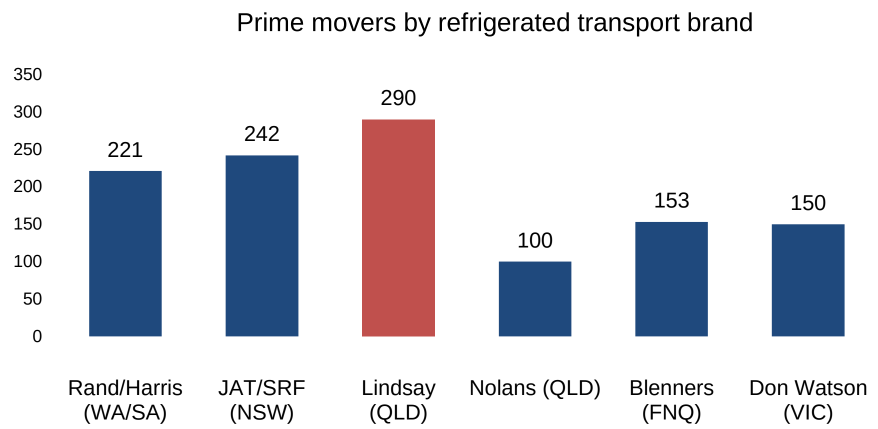
- The refrigerated transport sector includes companies operating in the horticulture, frozen and chilled foods and seafood industries.
- The sector is broadly consolidating, albeit is still highly fragmented at the smaller end.

Figure 14: Domestic refrigerated transport competitors

Competitor	Company Profile
Don Watson Transport	150+ prime movers offering 200+ customer services per week. 12,000 pallet cold storage capacity. Transport centres in Melbourne, Wodonga, Sydney and Brisbane. Horticulture and food industry customers. A high growth brand.
Rand, Harris Transport	Rand was founded in WA, Harris Transport was founded in SA. Cold storage facilities. Combined ~220 prime movers. Increasing rail services in WA/SA. Interstate facilities in Melbourne, Brisbane, Sydney. Substantial nationwide cold storage footprint. Customer base are typically food manufacturers and retailers. Acquired by Anchorage Capital, from AP Eagers in 2019. ~$300m+ revenues p.a. Turnaround strategy.
Scott's Refrigerated (SRL), JAT	Scott's Refrigerated headquartered in Sydney is a national road and rail service operator. Scott's RL services customers along the East Coast of Australia, in the food manufacturing and retail sectors. JAT is an East Coast transport company, offering road and rail services with a client bias towards horticulture and seafood. JAT has historically held a packaging partnership with Orora Limited. Combined ~240 prime movers. Acquired by Anchorage Capital, from AP Eagers in 2019. ~$270m+ revenues p.a. Turnaround strategy.
Nolans Transport	Nolan's Transport operates out of Gatton in the Lockyer Valley in QLD. The company operates intrastate and interstate transport services for horticultural and food producers. A total of 100 prime movers are in operation. Distribution services are offered throughout the East Coast. Steady industry position.
Blenners	Blenners Transport operates out of Tully, Northern QLD and specialises in horticultural products originated in QLD, particularly Northern QLD. The company runs a fleet of 153 prime movers and 39 rail containers. Distribution services are offered nationwide. Leverage to growth in FNQ production.

Source: Ord Minnett Research

Figure 15: Fleet size by competitor



Source: Ord Minnett Research

Recent M&A activity in the cold storage sector

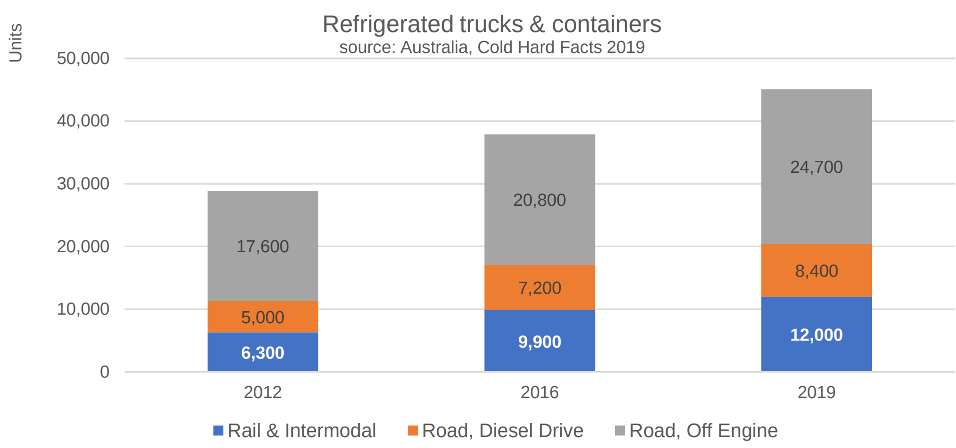
The cold storage industry has been subject to M&A consolidation activity, highlighted by several recent transactions as follows:

- In February 2020, private equity fund Anchorage Capital Partners acquired AP Eager's refrigerated logistics businesses at an enterprise valuation of A$75m (adjusted by $20m from the purchase price). The division is comprised of four brands – Rand Transport, Harris Refrigerated, Scott's Refrigerated Freightways and JAT Refrigerated Road Services. At the time, the division comprised 24 cold storage facilities across Australia, serviced by 1,800 trucks and 500 rail cars.
- In November 2019, Lineage Logistics – the world's largest provider of temperature controlled logistics solutions – announced the takeover of Emergent Cold for approximately AUD$1.3bn. Emergent Cold itself had previously engaged in M&A activity in the sector with the purchase of Melbourne-based Montague Cold Storage in 2018, Swire Logistics in 2018 and Oxford Cold Storage in 2019.

Higher intermodal units reflect demands for refrigeration

- The Australian Department of Environment and Energy prepares data on refrigeration including estimates on road and rail transport refrigeration units. We consider the Trailer, Intermodal category the most relevant to Lindsay's market which includes transport refrigeration units (TRUs) used on articulated trucks and trailers as well as intermodal (road or rail) containers.
- The data highlights growth in this category from 6,300 units in 2012 to 12,000 units in 2019 at a CAGR of 9.6% reflecting growing demand for refrigerated freight. This trend was replicated across non-intermodal refrigerated road transport.

Figure 16: Australian refrigerated transport vehicles

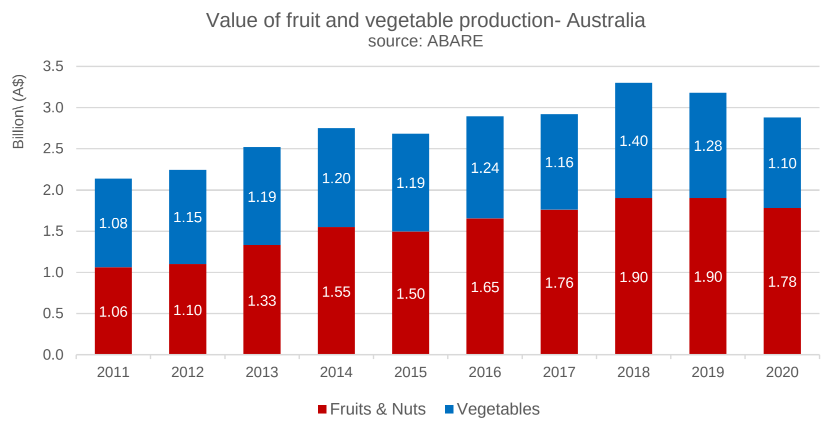


Source: Cold Hard Facts, Department of the Environment and Energy 2019

Growth in Agri values and volumes provide a tailwind

- The Queensland Department of Agriculture and Fisheries releases data on the gross value of production for agricultural products. This data highlights the growth in value produced of Fruit & Nut and Vegetables in QLD expanding from ~$2bn in 2008 to a 5-yr average of over $3bn per annum in 2020e.

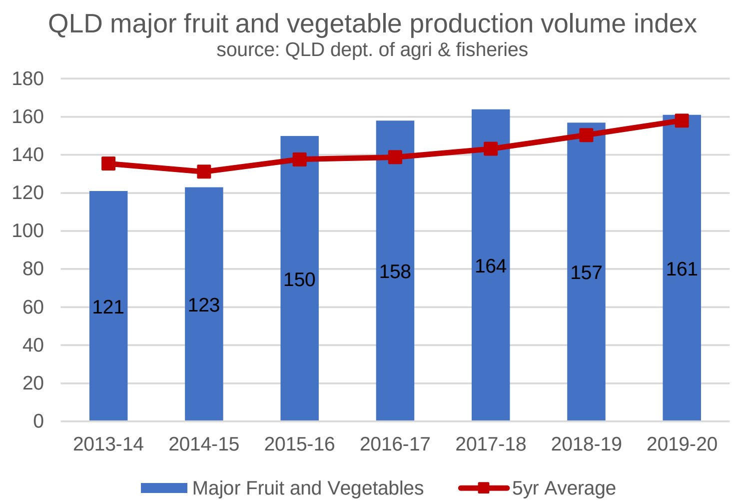
Figure 17: 4% CAGR in QLD values, proxy for national conditions



Source: Queensland Department of Agriculture and Fisheries

- The Queensland AgTrends 2019-20 report also highlights growth in the volume of major fruit and vegetable crops in the state with the combined production volume of fruit and vegetable in the state forecast to reach an indexation level of 161 in 2019-20 (base year 1996-97 = 100). 5-year average production volumes have increased by 17% since 2013-14 with these higher volumes supportive of transport providers servicing the region such as Lindsay Australia.

Figure 18: QLD production volumes rising



Indexation Year 1996-97 = 100

Source: QLD Department of Agriculture and Fisheries

Price Target, Rating and Valuation

Initiating on Lindsay Australia with a BUY, PT $0.40

We value Lindsay Australia using a DCF approach with a WACC of 8.2%, a cost of equity of 13.1% and terminal growth rate of 2.0% based on forecasts for FY21-FY30.

The results of our DCF approach yields a 12-month price target of $0.40 reflecting a 25% premium to last. We initiate coverage with a BUY recommendation.

We see the next catalysts as: A) 1H results B) Contract wins in rail.

Relative valuation highlights attractive PER multiple

- Analysis of global Trucking & Transport peers highlights an average FY21 PER of 15.2x (median is 13.3x). This reflects a 30% premium to LAU's FY21 PER of 11.7x. We note the premium for refrigerated transport providers with higher EBIT margins and higher returns on capital and believe that LAU has potential to re-rate positively, with greater evidence of these trends.
- FY21 average/median EV/EBIT multiple of 12.6x is at a 15% premium to LAU's EV/EBIT multiple of 11.0x. Given the varying adoption of AASB16, we prefer earnings per share and EPS as a valuation comparison tool.

Figure 19: Peer valuation analysis

		Mkt cap	EV	EV/Revenue			Rev growth	EV/EBIT			P/E Ratio		
Ticker	Name	(US$m)	(US$m)	FY20	FY21	NTM	NTM	FY20	FY21	NTM	FY20	FY21	NTM
9075	FUKUYAMA TRANSPO	2,390	3,042	1.1	1.1	1.1	5%	16.0	17.9	15.5	15.9	17.7	16.2
MRTN	MARTEN TRANSPORT	1,415	1,328	1.5	1.4	1.4	9%	14.4	12.8	12.8	20.9	18.1	18.2
SNDR	SCHNEIDER NATL-B	3,621	3,114	0.7	0.6	0.7	8%	10.9	8.2	8.3	16.9	13.3	13.4
HTLD	HEARTLAND EXPRES	1,503	1,421	2.2	2.1	2.1	5%	15.1	12.6	12.7	21.2	17.2	17.4
CVLG	COVENANT LOGISTI	277	430	0.5	0.5	0.5	2%	14.1	10.3	10.4	15.0	8.5	8.6
JBHT	HUNT (JB) TRANS	14,383	15,368	1.6	1.5	1.5	11%	21.9	17.2	17.4	29.2	22.5	22.7
KNX	KNIGHT-SWIFT TRA	6,960	7,526	1.6	1.5	1.5	12%	12.6	10.1	10.1	15.4	12.3	12.4
CHRW	CH ROBINSON	12,269	13,516	0.9	0.8	0.8	8%	20.8	17.4	17.5	25.1	21.4	21.6
STF	STEF	1,136	2,169	0.6	0.5	0.5	12%	18.8	14.3	14.4	15.8	11.4	11.6
WERN	WERNER ENT	2,745	2,891	1.2	1.1	1.1	7%	12.7	10.1	10.2	16.1	13.0	13.1
ARCB	ARCBEST CORP	1,079	1,137	0.4	0.4	0.4	11%	8.5	8.1	8.1	13.8	11.5	11.6
	Average			**1.1**	**1.0**	**1.0**	**8%**	**15.1**	**12.6**	**12.5**	**18.7**	**15.2**	**15.2**
	Median			**1.1**	**1.1**	**1.1**	**8%**	**14.4**	**12.6**	**12.7**	**16.1**	**13.3**	**13.4**
LAU	**Lindsays Australia**	**73**	**153**	**0.5**	**0.5**	**0.4**	**6%**	**12.3**	**11.0**	**10.0**	**12.3**	**11.7**	**10.6**

Source: Ord Minnett Research, Bloomberg

Board and Management

Mr Richard Anderson OAM - Non-executive Chairman (incoming)

Mr Anderson was appointed to the Lindsay Board in December 2002. He is a former partner of PwC and holds a Bachelor of Commerce degree from the University of Queensland. He is a Fellow of the Institute of Chartered Accountants and a Fellow of CPA Australia and serves as the current chairman of Data #3 Limited and is a former board member of Namoi Cotton Limited. Holds 391,869 LAU shares.

Mr Anthony Kelly - Non-executive Director

Mr Kelly joined Lindsay Australia Limited in May 2019 and brings over 25 years' experience in the agricultural and horticulture industries. Mr Kelly is currently a Director and Deputy Chair of Brisbane Markets Limited. He also serves as Chairman and co-owner of Veracity Technology and has held previous directorships with Gladstone Ports Corporation, Brisbane Lions, Brismark and Carter & Spencer Group.

Mr Robert Green - Non-executive Director

Mr Green was appointed to the Board in August 2019 and brings extensive experience in the agribusiness sector. Prior roles include Louise Dreyfus Australia, Union Dairy Corporation, and as prior President of the Australian Grain exporters association. He is currently a Director of Namoi Cotton Ltd.

Mr John Pressler OAM – Outgoing Chairman Non-executive Director

Mr Pressler has been involved in the agricultural and horticultural industries for over 40 years. Mr Pressler was a non-executive director of Wide Bay Australia Limited from 1988 to 2013, and Chairman from 1997 to 2009. Mr Pressler is a member of the Australian Institute of Company Directors. He was awarded the medal of the Order of Australia in 2004 for services to the horticultural industry. Holds 2,670,387 shares.

Mr Michael (Kim) Lindsay - Managing Director and Chief Executive Officer

Mr Lindsay has over 30 years' experience in the Australian transportation and rural merchandising industries. From 1974 to 1983 he worked for Lindsay Transport, and in 1983 Mr Lindsay established Lindsay Rural where he was responsible for expansion from a small local operation to a major regional business. Mr Lindsay has been Managing Director and Chief Executive Officer of Lindsay Australia since 2002. Holds 11,843,886 shares and 1,200,000 options.

Mr Justin Green - Chief Financial Officer and Company Secretary

Mr Green was appointed CFO and Company Secretary in 2018 and has been with Lindsay Australia for 19 years. He has held Group Finance positions in head office and in commercial positions for the Rural and Transport divisions. He holds a Bachelor of Business (Accounting) and is a member of CPA Australia.

Mr Broderick Jones - Group Legal Counsel and Company Secretary

Mr Jones holds a Bachelor of Laws degree from Queensland University of Technology. He has 20 years' professional experience within law, finance, property and markets gained from a number of senior roles both domestically and offshore. Broderick joined Lindsay Australia Limited in September 2014 and was appointed Company Secretary 30 October 2014

Mr Craig Baker - General Manager, Rural

Mr Baker joined Lindsay Australia in May 2007 and has held various responsibilities across the group, including as General Manager of Rural. Mr Baker is responsible for all aspects of operations and marketing across the division.

Risks

- **Fuel prices:** Fuel price changes are passed through to customers within haulage rates via an applied fuel levy. Thus, fuel price movements on average are earnings neutral over the cycle. Lower fuel prices are an indirect positive for LAU given the improved cash generation within the core grower and wholesaler customer base.
- **Capital intensity:** LAU's business is highly capital intensive with the company's container and road fleet incurring large fixed annual maintenance costs irrespective of economic conditions. This capital intensity has restricted the level of free cash flow generated by the company, which in turn has capped the upside potential in the earnings multiples.
- **Seasonal conditions and agricultural risk:** Food production and output is sensitive to agricultural risks (crop yields, disease risks). Specific to LAU customers, risks are associated with exposure to drought/cyclone in coastal NSW & QLD. Irrigation access and diversification of growers has partially insulated Lindsay's customer risk from impacts of recent drought conditions.
- **Contract risk and customer concentration:** The largest 10 debtors represent 29% of total debtors. The largest individual debtor accounts for 7.2% of the debtor balance. Customer contract renewal is an ongoing process.
- **Lower returns than industry peers:** Returns on capital from LAU have been lower than global peers. Without a material improvement to margins and returns on capital versus FY20 as a starting base, the earnings multiples may not materially change, impacting returns for investors.
- **Accident and occupational risk:** LAU's business requires many of its employees to operate heavy vehicles over long distances which carries an inherent level of risk. Whilst LAU aims to maintain a culture of safety and adhere to legislated safety requirements, there is a risk that accidents and occupational incidents may result in adverse legal and financial outcomes. In November 2020, the National Heavy Vehicle Regulator issued court documents relating to alleged breaches of the Heavy Vehicle National Law following a fatality in 2018. The outcome of the court proceedings is yet to be determined.

Lindsay Australia Limited

Buy

PROFIT & LOSS (A$m)	2019A	2020A	2021E	2022E	2023E
Revenue	389.5	415.1	439.6	463.5	486.6
Operating costs	(352.1)	(375.0)	(396.1)	(413.8)	(433.6)
Operating EBITDA	**37.4**	**40.1**	**43.5**	**49.7**	**53.0**
D&A	(21.8)	(23.7)	(25.1)	(27.5)	(29.2)
EBIT	**15.7**	**16.4**	**18.4**	**22.2**	**23.8**
Net interest	(5.6)	(5.3)	(6.6)	(7.4)	(7.3)
Pre-tax profit	**10.1**	**11.1**	**11.8**	**14.8**	**16.5**
Net tax (expense) / benefit	(3.0)	(3.3)	(3.5)	(4.4)	(5.0)
Normalised NPAT	**7.1**	**7.8**	**8.2**	**10.4**	**11.6**
Reported NPAT	**8.9**	**5.3**	**7.5**	**9.6**	**10.8**
Normalised dil. EPS (cps)	2.4	2.6	2.7	3.4	3.9
Reported EPS (cps)	3.0	1.8	2.5	3.2	3.6
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 (%)	6.6	4.7	5.5	6.3	7.0
Payout ratio (%)	88.1	57.8	63.8	58.0	58.4
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	48.0	53.5	56.8
Change in working capital	2.6	0.2	(0.2)	(1.6)	(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)	(2.5)
Other operating items	2.7	1.6	-	-	-
Operating Cash Flow	**35.2**	**38.3**	**40.3**	**43.4**	**45.5**
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	3.5	3.6	3.9

BALANCE SHEET (A$m)	2019A	2020A	2021E	2022E	2023E
Cash	17.5	17.9	21.4	25.1	28.9
Receivables	55.0	50.5	52.6	55.5	58.3
Inventory	13.2	12.0	12.0	12.6	13.3
Other current assets	5.2	6.6	6.6	6.6	6.6
PP & E	170.1	265.2	266.7	267.9	268.7
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**	**368.7**	**377.0**	**383.9**
Short term debt	38.5	44.9	44.9	44.9	44.9
Payables	39.5	34.0	35.9	37.9	39.8
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**	**268.6**	**268.5**	**268.4**
Total Equity	**94.1**	**92.4**	**100.0**	**108.0**	**115.5**
Net debt (cash)	98.5	106.3	100.8	95.2	89.3

DIVISIONS	2019A	2020A	2021E	2022E	2023E

KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	7.0	6.6	5.9	5.4	5.0
EBITDA growth	4.9	7.0	8.6	14.1	6.7
EBIT growth	(2.4)	4.4	12.3	20.5	7.4
Normalised EPS growth	(13.3)	9.0	5.6	25.7	11.8
EBITDA margin	9.6	9.7	9.9	10.7	10.9
EBIT margin	4.0	3.9	4.2	4.8	4.9
Return on assets	4.1	3.6	3.5	4.2	4.4
Return on equity	7.7	8.3	8.6	10.0	10.4

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	10.7	17.9	12.9	10.0	8.9
Normalised P/E	13.4	12.3	11.7	9.3	8.3
Price To Free Cash Flow	11.6	169.0	9.3	8.5	7.9
Price To NTA	1.1	1.2	1.1	1.0	0.9
EV / EBITDA	5.2	5.0	4.5	3.8	3.5
EV / EBIT	12.3	12.3	10.7	8.6	7.8

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	51.1	53.5	50.2	46.8	43.6
Net Debt / EBITDA (%)	262.9	265.3	231.5	191.5	168.4
EBIT Interest Cover (x)	2.8	3.1	2.8	3.0	3.3
EBITDA Interest Cover (x)	6.7	7.6	6.6	6.7	7.3

SUBSTANTIAL HOLDERS	m	%

VALUATION	
Cost of Equity (%)	13.1
Cost of debt (after tax) (%)	5.0
D / EV (%)	51.3
WACC (%)	**8.2**
Forecast cash flow ($m)	93.5
Terminal value ($m)	129.0
Enterprise Value ($m)	222.6
Equity NPV Per Share ($)	**0.40**
Target Price Method	DCF
Target Price ($)	0.40
Valuation disc. / (prem.) to share price (%)	25.0

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Guide to Ord Minnett Recommendations

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.