

# CTI Logistics Ltd

## (CLX \$0.83) Speculative Buy

**EUROZ HARTLEYS**

<b>Analyst</b>	<b>Date</b>	<b>Price Target</b>
Seth Lizee	2 <sup>nd</sup> 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

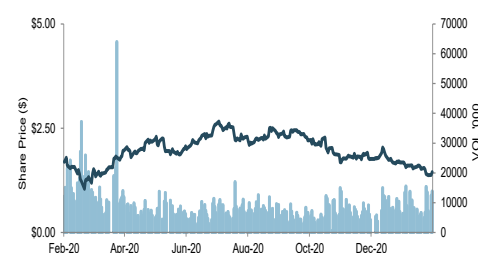
- Financial highlights:
  - \$118.6m Revenue (+8.0% pcp)
  - \$19.8m Reported EBITDA (+75% pcp)
  - \$17.8m Norm. EBITDA (vs. \$16.7m ESHL Estimate)
  - \$5.2m NPAT (+297% pcp)
  - \$3.5m Norm. NPAT
- Strong operating conditions broadly the result of continued growing demand for transport and logistics 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

<b>CTI Logistics Ltd</b>	<b>Year End 30 June</b>	
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
<b>Total Property &amp; Building Assets</b>		<b>67.6</b>	<b>0.87</b>
(+) Cash		6.3	0.08
(+) Other Tangible Assets		104.1	1.34
<b>Total Tangible Assets</b>		<b>177.9</b>	<b>2.29</b>
(-) Borrowings		-35.0	-0.45
(-) Lease Liabilities		-61.1	-0.79
(-) Other Liabilities		-27.0	-0.35
<b>Net Tangible Assets</b>		<b>54.9</b>	<b>0.71</b>
		A\$/sh.	%chng
<b>HoH Change (Dec-20 vs Jun-20)</b>		<b>0.08</b>	<b>12%</b>

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
<b>Income Statement</b>					<b>Growth &amp; Margins</b>				
(+) 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%
<b>Total Revenue</b>	<b>212.0</b>	<b>215.2</b>	<b>229.7</b>	<b>238.5</b>	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	<b>Liquidity</b>				
<b>EBITDA</b>	<b>12.0</b>	<b>27.3</b>	<b>32.6</b>	<b>29.5</b>	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
<b>EBIT</b>	<b>2.9</b>	<b>5.5</b>	<b>11.5</b>	<b>9.0</b>	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	-	<b>Risk Measures</b>				
<b>NPBT</b>	<b>1.8</b>	<b>-3.9</b>	<b>8.6</b>	<b>4.2</b>	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%
<b>NPAT</b>	<b>0.8</b>	<b>-4.3</b>	<b>6.5</b>	<b>3.0</b>	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%
<b>Adj. NPAT</b>	<b>2.6</b>	<b>0.8</b>	<b>4.7</b>	<b>3.0</b>	<b>Returns</b>				
					Return on Invested Capital	1.5%	1.2%	4.7%	3.2%
					Return on Assets	1.5%	0.4%	2.2%	1.4%
					Return on Equity	2.9%	1.0%	5.5%	3.4%
<b>Cash flow (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>Share Data/Valuation</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>
<b>Reported NPAT</b>	<b>0.8</b>	<b>-4.3</b>	<b>6.5</b>	<b>3.0</b>	<b>Share Data</b>				
(+) D&A	9.0	21.8	21.1	20.5	Issued shares (m)	75.0	75.0	75.0	75.0
(-) Lease Expense	-	-11.0	-11.0	-11.0	Weighted ave shares (m)	74.7	75.0	75.0	75.0
(+/-) Impairments, Non-cash	-	5.8	-	-	Fully diluted shares (m)	77.7	77.7	77.7	77.7
(+/-) Other	2.3	0.0	-	-	Basic EPS (c)	1.1	-5.8	8.6	3.9
<b>Gross Cashflow</b>	<b>12.2</b>	<b>12.3</b>	<b>16.5</b>	<b>12.5</b>	YoY change (%)	-0.8	-6.5	-2.5	-0.5
(-) Capital Expenditure	-5.7	-6.8	-6.0	-6.0	Fully diluted EPS (c)	1.0	-5.6	8.3	3.8
(-) Change in NWC	-2.1	0.1	-0.0	-1.2	YoY change (%)	-0.8	-6.5	-2.5	-0.5
<b>Operating Free Cashflow</b>	<b>4.4</b>	<b>5.5</b>	<b>10.5</b>	<b>5.3</b>	Fully diluted normalised EPS (c)	3.3	1.0	6.1	3.8
(+/-) Sale of assets	0.8	0.7	-	-	YoY change (%)	-0.4	-0.7	4.9	-0.4
(-) Acquisition	-7.0	-	-	-	Dividend/share (c)	4.0	-	2.5	2.4
(-) Dividend	-3.0	-	-1.9	-1.8	Franking (%)	1.0	1.0	1.0	1.0
(+/-) Equity Issue	0.5	-	-	-	Gross cashflow/share (c)	16.2	16.3	22.0	16.6
(+/-) Other	-0.2	0.7	-	-	NBV/share (c)	120.4	108.8	114.9	116.4
<b>Net Cashflow</b>	<b>-4.5</b>	<b>6.9</b>	<b>8.6</b>	<b>3.5</b>	NTA/Share (c)	75.0	65.1	73.3	74.5
<b>BoP Net Cash</b>	<b>-41.9</b>	<b>-46.4</b>	<b>-94.2</b>	<b>-89.6</b>	<b>Valuation</b>				
(+/-) Net Cashflow	-4.5	6.9	8.6	3.5	PER (Basic) (x)	79.0	-14.3	9.7	21.0
(+/-) AASB16 Adj.	-	-54.8	-4.0	-1.0	PER (Fully diluted) (x)	81.8	-14.8	10.0	21.8
<b>EoP Net Cash</b>	<b>-46.4</b>	<b>-94.2</b>	<b>-89.6</b>	<b>-87.1</b>	PER (Fully diluted, normalized) (x)	24.8	81.2	13.7	21.8
					P/CFPS (x)	5.1	5.1	3.8	5.0
					Price/NBV (x)	0.7	0.8	0.7	0.7
					Price/NTA (x)	1.1	1.3	1.1	1.1
					Dividend Yield (%)	0.0	-	0.0	0.0
					EV/EBITDA (x)	12.9	5.7	4.7	5.2
					EV/EBIT (x)	52.5	74.1	19.0	27.6
					EV/Revenue (x)	0.7	0.7	0.7	0.6
<b>Balance Sheet (\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021F</b>	<b>2022F</b>	<b>Other Information</b>				
Cash	2.2	7.6	6.6	9.1	12-mth High/Low (A\$/sh)				0.87-0.44
Receivables	30.8	29.9	31.0	32.2	Average daily volume (\$k)				8.7
Income tax receivables	0.5	-	-	-	ASX Code				CLX
properties held for sale	-	-	-	-	Next result				Aug-21
Inventories	0.1	0.2	0.2	0.2	<b>Company Description</b>				
<b>Total Current Assets</b>	<b>33.6</b>	<b>37.7</b>	<b>37.7</b>	<b>41.4</b>	CTI Logistics Ltd ("CTI") is a Perth based transport and logistics				
Other Investments	0.1	0.0	0.0	0.0	company with large WA exposure and a wider national presence. The				
PP&E	98.0	90.0	88.5	87.2	company's various brands provide everything from couriers and taxi				
Investment properties	2.2	2.2	2.2	2.2	trucks to warehousing and distribution solutions.				
Deffered Tax Assets	0.6	4.0	4.0	4.0					
Right of Use Assets	-	43.2	46.2	46.2					
Intangible Assers	34.0	32.8	31.2	30.0					
<b>Total Non-Current Assets</b>	<b>134.9</b>	<b>172.3</b>	<b>172.2</b>	<b>169.7</b>					
<b>Total Assets</b>	<b>168.5</b>	<b>210.0</b>	<b>209.9</b>	<b>211.1</b>					
Payables	21.7	17.5	16.9	18.0					
Borrowings	2.2	-	2.0	2.0					
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					
<b>Total Current Liabilities</b>	<b>29.9</b>	<b>39.3</b>	<b>42.7</b>	<b>44.2</b>					
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					
<b>Total Non-Current Liabilities</b>	<b>48.3</b>	<b>89.1</b>	<b>81.0</b>	<b>81.0</b>					
<b>Total Liabilities</b>	<b>78.2</b>	<b>128.4</b>	<b>123.8</b>	<b>125.2</b>					
<b>Net Assets</b>	<b>90.3</b>	<b>81.6</b>	<b>86.2</b>	<b>85.9</b>					
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					
<b>Total Equity</b>	<b>90.3</b>	<b>81.6</b>	<b>86.2</b>	<b>87.4</b>					

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