

CTI Logistics Limited

(CLX \$0.75) Speculative Buy - Initiation of Coverage

EUROZ HARTLEYS

Analyst Seth Lizée	Date 30 th November 2020	Price Target \$0.85/sh
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Initiation of Coverage

Investment case

CTI Logistics Ltd (“CTI”) is a Perth based transport and logistics company with a 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.

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 initiate coverage of CTI Logistics Ltd with a Speculative Buy recommendation and \$0.85/sh. Price Target, implying 13% upside.

Key points

- **Earnings Growth** – We are forecasting -\$3.0m in NPAT in 2021, a material step-up from \$0.8m (adj. NPAT) in 2020. On balance we are expecting a flat 2022, however we forecast continued growth in 2023 and beyond. We see considerable earnings potential in the business, we believe management can achieve this through organic growth opportunities, greater efficiencies, and maximising asset utilisation.
- **Leverage to WA Recovery** – CTIs overweight exposure to WA leverages the business to an economic recovery in the state. Although, recent recovery turnaround was delayed as a result of COVID-19, we remain optimistic of positive operating conditions beyond the pandemic.
- **Fixed Asset Backing** – CTI has a 0.63/sh. NTA, this is supported by \$0.87/sh (book value) in property and building assets held on the balance sheet. We view this fixed asset backing as backstop in the company’s value and share price. CTI trades at a minor premium to its NTA, although still below longer term levels.
- **Discount to Valuation** – CTI trades at a 12% discount to our \$0.85/sh. valuation. We believe our equally blended discount cash flow (DCF) valuation and NTA captures both the lower bounds of CTIs value, underpinned by hard property assets, whilst accounting for the longer-term value potential of the business.

CTI Logistics Limited	Year End 30 June	
Share Price	0.75	A\$/sh
Price Target	0.85	A\$/sh
Valuation (DCF)	1.07	A\$/sh
WACC	10.0%	
Terminal Growth	2.5%	
Shares on issue	78 m,	diluted
Market Capitalisation	58.3	A\$m
Enterprise Value	152.5	A\$m
Cash	7.6	A\$m
Debt (inc. Lease liab.)	101.8	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	215.2	229.7	238.5
EBITDA (A\$m)	27.3	30.4	29.8
EBIT (A\$m)	5.5	9.3	9.3
Reported NPAT (A\$m)	-4.3	3.0	3.0
Normalised NPAT (A\$m)	0.8	3.0	3.0

Gross Cashflow (A\$m)	12.3	13.1	12.5
Capex (A\$m)*	-6.8	-6.0	-6.0
Op. Free Cashflow (A\$m)	5.5	4.0	6.3

Revenue Growth (%)	1%	7%	4%
EBITDA Growth (%)	128%	11%	-2%
Norm. NPAT Growth (%)	-69%	273%	0%

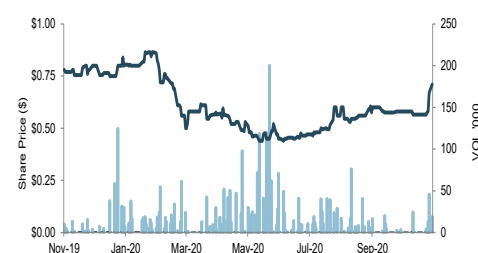
Normalised EPS (Ac)	1.02	3.81	3.81
Norm. EPS growth (%)	-0.69	2.73	0.00
PER (x)	73.3	19.7	19.7
EV:EBITDA (x)	5.6	5.0	5.1
EV:EBIT (x)	73.3	25.8	25.8

DPS (Ac)	0.0	2.0	2.4
Dividend Yield (%)	0.0%	2.6%	3.2%

Net Debt (A\$m)*	94.2	92.7	89.1
Net Debt:Equity (%)	115%	112%	106%
Interest Cover (x)	1.1	1.8	1.8

* includes AASB 16 leases

Share Price Chart



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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%	11%	-2%
(+) Property	3.9	4.0	4.1	4.1	EBIT Growth	-58%	86%	70%	0%
(+) Other	6.8	6.7	6.7	6.7	Normalized Net Profit Growth	-37%	-69%	273%	0%
(-) Eliminations	-19.9	-22.1	-23.6	-24.5	EBITDA margin	6%	13%	13%	12%
Total Revenue	212.0	215.2	229.7	238.5	EBIT margin	1%	3%	4%	4%
(-) COGS	-198.1	-185.5	-196.7	-206.1	Normalized net profit margin	1%	0%	1%	1%
(-) Corp O/H	-1.9	-2.4	-2.5	-2.6	Effective tax rate	56%	-12%	30%	30%
Total Expenses	-200.1	-187.9	-199.3	-208.7	Liquidity				
EBITDA	12.0	27.3	30.4	29.8	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	1.1	1.2
EBIT	2.9	5.5	9.3	9.3	Quick ratio (x)	1.5	2.1	2.3	2.5
(-) Net Finance	-2.1	-5.1	-5.1	-5.1	Receivable days	53.0	50.8	54.8	54.8
(-) Impairment	-	-5.8	-	-	Payable days	40.0	34.5	34.5	34.5
(+/-) Other Income	0.9	1.5	-	-	Risk Measures				
NPBT	1.8	-3.9	4.2	4.2	Dividend Cover (x)	0.3	na	2.0	1.7
(-) Tax	-1.0	-0.5	-1.3	-1.3	Payout ratio (%)	379%	0%	50%	60%
NPAT	0.8	-4.3	3.0	3.0	Net interest cover (x)	1.4	1.1	1.8	1.8
(+/-) Abnormals, pre-tax	1.9	5.0	-	-	Net debt/equity (%)	51%	115%	112%	106%
Adj. NPAT	2.6	0.8	3.0	3.0	Returns				
Cash flow (\$m)					Return on Invested Capital	1.5%	1.2%	3.3%	3.3%
Reported NPAT	0.8	-4.3	3.0	3.0	Return on Assets	1.5%	0.4%	1.4%	1.4%
(+) D&A	9.0	21.8	21.1	20.5	Return on Equity	2.9%	1.0%	3.6%	3.5%
(-) 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	13.1	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	-3.0	-0.1	Basic EPS (c)	1.1	-5.8	4.0	3.9
Operating Free Cashflow	4.4	5.5	4.0	6.3	YoY change (%)	-0.8	-6.5	-1.7	-0.0
(+/-) Sale of assets	0.8	0.7	-	-	Fully diluted EPS (c)	1.0	-5.6	3.8	3.8
(-) Acquisition	-7.0	-	-	-	YoY change (%)	-0.8	-6.5	-1.7	-0.0
(-) Dividend	-3.0	-	-1.5	-1.8	Fully diluted normalised EPS (c)	3.3	1.0	3.8	3.8
(+/-) Equity Issue	0.5	-	-	-	YoY change (%)	-0.4	-0.7	2.7	-0.0
(+/-) Other	-0.2	0.7	-	-	Dividend/share (c)	4.0	-	2.0	2.4
Net Cashflow	-4.5	6.9	2.5	4.6	Franking (%)	1.0	1.0	1.0	1.0
BoP Net Cash					Gross cashflow/share (c)	16.2	16.3	17.4	16.6
(+/-) Net Cashflow	-4.5	6.9	2.5	4.6	NBV/share (c)	120.4	108.8	110.8	112.3
(+/-) AASB16 Adj.	-	-54.8	-1.0	-1.0	NTA/Share (c)	75.0	65.1	69.2	72.3
EoP Net Cash	-46.4	-94.2	-92.7	-89.1	Valuation				
Balance Sheet (\$m)					PER (Basic) (x)	71.4	-12.9	19.0	19.0
Cash	2.2	7.6	9.2	12.7	PER (Fully diluted) (x)	74.0	-13.4	19.7	19.7
Receivables	30.8	29.9	34.5	35.8	PER (Fully diluted, normalized) (x)	22.4	73.3	19.7	19.7
Income tax receivables	0.5	-	-	-	P/CFPS (x)	4.6	4.6	4.3	4.5
properties held for sale	-	-	-	-	Price/NBV (x)	0.6	0.7	0.7	0.7
Inventories	0.1	0.2	0.2	0.2	Price/NTA (x)	1.0	1.2	1.1	1.0
Total Current Assets	33.6	37.7	43.8	48.7	Dividend Yield (%)	0.1	-	0.0	0.0
Other Investments	0.1	0.0	0.0	0.0	EV/EBITDA (x)	12.7	5.6	5.0	5.1
PP&E	98.0	90.0	88.5	87.2	EV/EBIT (x)	51.9	73.3	25.8	25.8
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	43.2	43.2	12-mth High/Low (A\$/sh)	0.87-0.44			
intangible Assers	34.0	32.8	31.2	30.0	Average daily volume (\$k)	8.7			
Total Non-Current Assets	134.9	172.3	169.2	166.7	ASX Code	CLX			
Total Assets	168.5	210.0	212.9	215.4	Next result	Feb-21			
Payables	21.7	17.5	18.6	19.5	Company Description				
Borrowings	2.2	-	-	-	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	14.9	14.9					
Current Tax Liabilities	-	0.1	0.1	0.1					
Provisions	6.0	6.7	7.1	7.5					
Total Current Liabilities	29.9	39.3	40.8	42.0					
Borrowings	46.4	42.8	42.8	42.8					
Deferred Tax Liabilities	-	-	-	-					
lease Liabilities	-	44.2	44.2	44.2					
Provisions	2.0	2.2	2.2	2.2					
Total Non-Current Liabilities	48.3	89.1	89.1	89.1					
Total Liabilities	78.2	128.4	129.9	131.1					
Net Assets	90.3	81.6	83.1	84.3					
Equity									
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	53.9	55.1					
Total Equity	90.3	81.6	83.1	84.3					

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Valuation and Price Target

We initiate coverage on CTI with a Speculative Buy and \$0.85/sh. PT., implying 13.3% upside from initiation.

Methodology	Weight (W)	Valuation (V)	W x V
DCF	50%	\$1.07	\$0.53
NTA	50%	\$0.63	\$0.31
Blended Total	100%		\$0.85
Price Target			\$0.85

Our valuation and Price Target are based on an equal blend of NTA and Discount Cash Flow (“DCF”) valuations. We believe the NTA captures the lower bounds of CTI’s value, underpinned by hard property assets, whereas our DCF valuation outlines the longer-term value potential of CTI.

Discounted Cash Flow (DCF) Valuation

FY	Units	2021	2022	2023	2024	2025
EBIT	A\$m	9.3	9.3	10.8	12.4	13.8
(-) tax	A\$m	-2.8	-2.8	-3.2	-3.7	-4.1
(-) Lease Exp	A\$m	-14.4	-14.4	-14.4	-14.4	-14.4
(-) ΔNWC	A\$m	-3.0	-0.1	-0.3	-0.4	-0.3
(-) Capex	A\$m	-6.0	-6.0	-6.0	-6.0	-6.0
(+) D&A	A\$m	21.1	20.5	20.0	19.7	19.4
FCFF	A\$m	4.2	6.5	6.9	7.6	8.3
Period	yrs	0.5	1.0	1.5	2.0	2.5
Discount	%	95%	91%	87%	83%	79%
PV FCFF	A\$m	4.0	5.9	6.0	6.3	6.6
Total PV	A\$m	28.7				
					WACC	10.0%
TV	A\$m	113.7			TGR	2.5%
PV of TV	A\$m	89.6				
PV of Fcst	A\$m	28.7				
EV	A\$m	118.3				
(-) Debt (ex leases)	A\$m	-42.8				
(+) Cash	A\$m	7.6				
Equity Value	A\$m	83.1				
(/) SOI	m	77.7				
Equity / Sh	A\$/sh	1.07				

Our DCF calculation is coming out at \$1.07 per share

This valuation outlines the longer-term potential of the business, clearly it requires achieving strong earnings growth via margin expansion and modest revenue growth as we forecast.

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Fixed Asset Backing

CTI's NTA at June 2020 was \$0.63 per share (fully diluted). A solid portion of this NTA is backed up by the company's large property holdings. We view this asset base as a backstop to the company's valuation and share price.

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		7.6	0.10
(+) Other Tangible Assets		102.0	1.31
Total Tangible Assets		177.2	2.28
(-) Borrowings		-42.8	-0.55
(-) Lease Liabilities		-59.1	-0.76
(-) Other Liabilities		-26.5	-0.34
Net Tangible Assets		48.8	0.63

*Fully diluted. Source: Annual report, EHSL estimates

CTI reported a book value of \$67.6m for its land, building, and investment properties.

We further note these property assets at market prices would likely command a premium to their book value. We have attached the below hypothetical analysis showing the NTA uplift with changes in these property values.

	Units	NTA Sensitivity				
		0%	5%	10%	15%	20%
Property and Building Flex	%	0%	5%	10%	15%	20%
Property and Building Value	A\$m	67.6	70.9	74.3	77.7	81.1
Property and Building Value	A\$/sh.	0.87	0.91	0.95	1.00	1.04
Implied NTA	A\$/sh.	0.63	0.67	0.71	0.76	0.80

Source: EHSL estimates

We can take this a step further and explore indicatively the earnings potential behind these assets. We have outlined an indicative mental exercise below:

Return on Assets	Units	Figures
PP&E Book Value	A\$m	90.0
(x) ROA (Indicative Only)	%	5.0%
Implied Earnings	A\$m	4.5
(/) Share Capita	m	77.9
Implied EPS	A\$/sh	0.0578
(x) Capitalisation Multiple	x	15
Implied Valuation	A\$/sh	\$0.87

Source: EHSL estimates

The sort of analysis is theoretical, however assuming CTI achieves a 5% return on its assets (PP&E, and after financing) the scope of its earnings potential becomes clear. Capitalising this implied earnings figure at 15x we can clearly see the value potential within the stock.

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PT and Recommendation

Our \$0.85/sh. Price Target per our analysis requires CTI achieving the level of earnings growth we ascribe in our analysis, this forecasted via modest revenue growth and a step change in margins over time. Per our math this equates to modest asset returns which we believe can be achieved in time, and possibly exceeded. The factors surrounding these assumptions further drive our Speculative Buy recommendation.

Investment Opportunity

Strategic Growth Opportunities - Earnings Growth

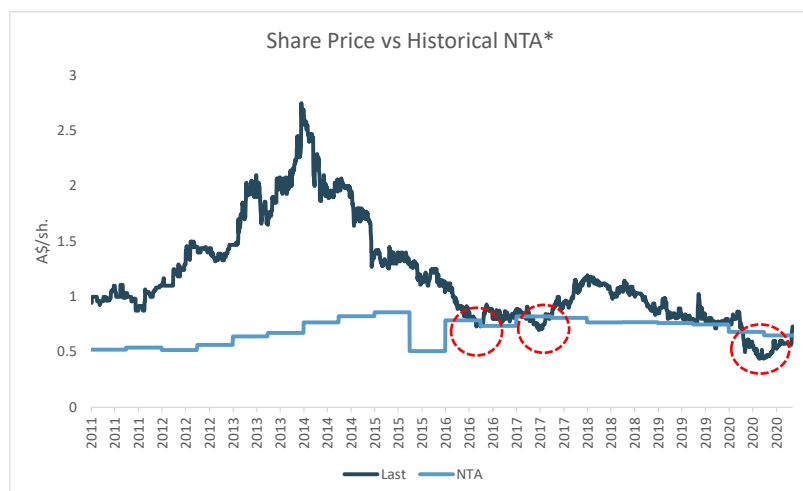
We are forecasting improved margins and revenue growth in 2021, on balance we are expecting a flat 2022, however we forecast continued growth in 2023 and beyond. We acknowledge CTI has not been without pain, operations and connected financial performance have been impacted considerably in the last few years by numerous factors including WA downturn, natural disasters, and most recently COVID-19. However, we see upside in earnings, materialised through organic growth opportunities, greater efficiencies, and maximising asset utilisation.

Leverage to WA Recovery

Although the company has diversified its operation interstate in recent years CTI still maintains a major exposure to Western Australia and its economy. We acknowledge COVID-19 has disrupted the states recovery trajectory, however we still see WA's positive outlook beyond the pandemic as an investment opportunity for CTI.

Fixed Asset Backing - Value Back Stop

CTI maintains a large fixed asset backing which forms a key pillar in our investment thesis. We believe the \$0.63/sh. NTA (fully diluted) outlines a value backstop in the company's share price, supported by \$0.87/sh. in hard property assets. We believe these assets at market prices would command a premium to their book value, potentially outlining additional value upside, this not even considering the additional uplift potential if WA property prices begin to recover. Although CTI currently trades at a minor premium to its NTA it is still below longer term averages. We further note the fact the share price has only dipped below NTA on three occasions in the last 10 years, and only temporarily at that.



*trailing Half year NTA. Source: Factset

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Investment Risks

We highlight key risks to our investment thesis:

- **Economic Downturn** – CTI remains tightly connected to broader economic activity, both in WA and nationally. A deterioration in the environment is likely to put pressure on the business and its earnings.
- **Liquidity** – CTI's tight float and limited liquidity (avg. ~A\$8.7k/day LTM) is a key risk to our investment thesis.
- **Competition** – Heightened competition beyond current levels in a commoditised industry that CTI operates in opens up potential margin pressure on the business
- **Natural Disasters** – Natural disasters, such as the floods and bushfires which have occurred over the last year remain a risk to operations. These previously impacted CTI in 2020, similar events would likely pose the same impact.
- **Key Personnel** – CTI operations are centred around a few key individuals. Rapid and or unplanned change in key management remains a risk to our investment thesis.

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Company Background



Overview

CTI Logistics Ltd ("CTI") is a Perth based transport and logistics company, founded in 1974 and listed in 1987. The company has a national presence, however is predominantly leveraged to Western Australia. CTI has +800 employees with a fleet of +550 company and dedicated contractor vehicles.

Services provided by CTI, grouped in line with the annual report include:

1. Perth metro transport business. Comprised of: couriers, parcel B2B and B2C deliveries, and taxi trucks.
2. Regional Freight. Formed through a number of acquisitions, services cover all of regional Western Australia and include regular services throughout the entire state.
3. Interstate Freight. CTI offers a road and rail network between mainland capital cities, and includes local pick-up and delivery fleets and on-forwarding capabilities.
4. GMK Logistics. The brand encompasses national storage and distribution of carpet and other flooring product, supported with specialised equipment.
5. National 3PL Warehousing. These services are provided in Brisbane, Sydney, Melbourne, Adelaide and Perth. This is in addition to records management and recycling destructions services operated in Perth.
6. Security and Security related services. Based in Perth with national affiliations, CTI operates an monitored alarm control room (A1 Graded) in addition to its recently developed lone worker protections devices.

These services are delivered through various brands:



STIRLING FREIGHT
EXPRESS

Source: CTI Website

Operations are grouped into four segments:

- **Transport** – Provision of courier, taxi truck, parcel distribution, fleet management and line-haul freight
- **Logistics** – Provision of warehousing and distribution, specialised flooring logistics, supply based management services and document storage services

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Source: CTI Investor Presentation

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- **Property** – Owner occupied and rental investment property
- **Other** – Includes provision of security services

CTI operates its business out of 25 different locations, these highlighted below with segment presences.

Locations	Status	Segment Presence(s)		
		Transport	Logistics	Other
Adelaide (3 Locations)	Leased	X	X	
Bassendean	Leased		X	
Bibra Lake (Wellard St)	Leased		X	
Bibra Lake (Miguel Rd)	Leased		X	
Brisbane (2 Locations)	Leased		X	
Broome	Leased	X		
Bunbury	Leased	X		
Cardiff	Leased	X		
Forrestfield	Leased	X		
Gregory Hills	Leased	X	X	
Hazelmere	Owned	X	X	
Karratha	Leased		X	
Kewdale	Leased		X	
Melbourne (Truganina)	Leased		X	
Melbourne (Altona)	Leased	X		
Melbourne (Other)	Leased	X	X	
Regional WA (4 Locations)	Leased	X		
Welshpool	Owned	X		
West Perth	Owned	X		X

Source: CTI Website, EHSL estimates

Transport (~61% of Revenue)

Transport is CTI's largest operating segment. It encompasses a variety of services big and small.

These include:

- **Couriers** – CTI operates the largest courier fleet in Perth. Operations are split between 5 brands in Perth, they supply vehicles ranging in size from CBD based pushbikes all the way up to two tonne flat top enclosed vehicles. There is a high level of competition as a result of low barriers to entry, whereby every man and his truck can compete.
- **Taxi Tucks** – Taxi truck operations encompass three different brands in the Perth marketplace. The combined fleet make CTI the largest operator in Perth. Vehicles provided range from one tonne flat tops up to 12 tonne enclosed vehicles.
- **Regional Freight** – CTI operates scheduled road services to the South West, and North West of Western Australia. Vehicles available range from rigid to triple road trains.
- **Fleet Management** – Includes the provision of permanent dedicated vehicles and drivers. Services are provided under the CTI Logistics Fleet Management brand.
- **Parcels** – CTI operates the largest same day parcel fleet in Perth, split between CTI Xpress and Foxline Express Parcels.
- **Interstate Freight** – Similarly to regional freight, CTI operates scheduled road and rail services to and from: Perth, Adelaide, Melbourne, Sydney, and Brisbane.
- **Specialised Services** – Additional services contained in the transport segment include rail and wharf container handling, truck mounted cranes, tail lift vehicles, and hot shot services.

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CTI Logistics Limited

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Logistics (~35% of Revenue)

The logistics division supports a number of services through various brands. CTI groups these offerings into the following:

- **Warehousing** – CTI operates 14 warehouses across Australia with in excess of 166,000 sqm of warehousing space and +120,000 sqm of hardstand. A variety of warehouse-based services are offered, including:
 - 3PL, 4PL, Supply chain and overflow warehousing
 - Contracted distribution centre services
 - Bulk product storage
 - Consolidation Services
 - Cross docking
 - Temperature controlled and food grade (HACCAP)
 - Specialised warehousing
- **CTI Projects** – Assortment of logistics related services, ranging from supply base warehousing and asset management, plant and equipment hire, to logistics tailored to the minerals and energy sector.
- **E-Commerce Fulfilment** – CTI is exposed to the ecommerce industry via its fulfilment logistics. The company provides services from inventory storage and management to order shipments and returns management. We view these services offerings underpinning growth of the logistics segment.
- **Flooring Products (GMK)** – Founded in 1962, GMK specialised logistics operations support logistics for the flooring industry. Its specialised assets and distribution network support service offerings which include outsourced warehousing, transportation and third-party logistics across Australia. CTI acquired GMK in 2015 for a consideration of \$27m.

Other (~3%)

Beyond CTI's core transport and logistics business there are a few additional non-core services offerings, services include:

- **Document Management** – CTI provides document and sample storage as well as document destruction through two different brands. Confidential records management are supported out of facilities at West Perth and Bibra Lake.
- **Security** – Operating out of three brands, CTI is a leading provider of security systems and services in WA. CTI's ARM Security business operates the largest A1 grade monitoring station in WA, a further two retail security businesses provide electronic alarms, CCTV and access control systems.

Property (~2%)

The property business segment includes rental of owner-occupied and investment property

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Management Strategy

CTI have outlined a number of initiatives with the goal of driving profitable growth. Although there is overlap amongst some of these key points, the overall outcome is maximising the value of CTI's asset base. We see considerable opportunities emerging if CTI can meet these goals.

Targeted Growth

In order to maintain or grow margins CTI outlines the need for selective and focused growth. This aligns with the reality that major industry players operate in essentially commoditised services. Growing focused areas of the business, such as GMK with its bespoke offering and strong moats to entry has the potential of growing overall margins within the business.

Integrated National Network

The creation of an integrated national transport and warehousing operation has been a focus of CTI for some time. CTI is leveraging its existing GMK 'beachheads' and interstate freight (formerly Jayde Transport) footprints in building this network. The opportunity possible is in eventually adding ground services in these footprints, such as:

- Couriers
- eCommerce Solutions
- Taxi Trucks
- Etc.

This strategy would see CTI aggregate services on a national stage in a similar fashion to what it's done in WA, achievable both via bolt on acquisition and organic growth as it has previously done.

The initiative has the potential to create greater brand recognition and product offering, economies of scale, as well as further diversify its revenue base. Overall unlocking considerable revenue growth and margin expansion potential.

Operating Efficiencies and Superior Services Offering

The continued implementation of integrated warehouse and transport systems, supported by a backbone of skilled personnel should allow CTI to build a superior service offering as well as realise operational efficiencies. This similarly should support organic growth and margin expansion.

Maximise Asset Utilisation

Asset utilisation remains critical in CTI's asset heavy business. Maximising the utilisation of existing assets has the potential of unlocking untapped earnings and driving stronger returns on its assets. This initiative is reliant on driving greater volumes which we see aligned with its other strategies.

Develop Strategic Landholding

CTI continues to hold onto ~95,000 sqm of landholding adjoining its Hazelmere facilities in WA. This land remains un-utilised, and through its development, CTI has the potential to drive further organic growth opportunities.



Source: CTI Presentation

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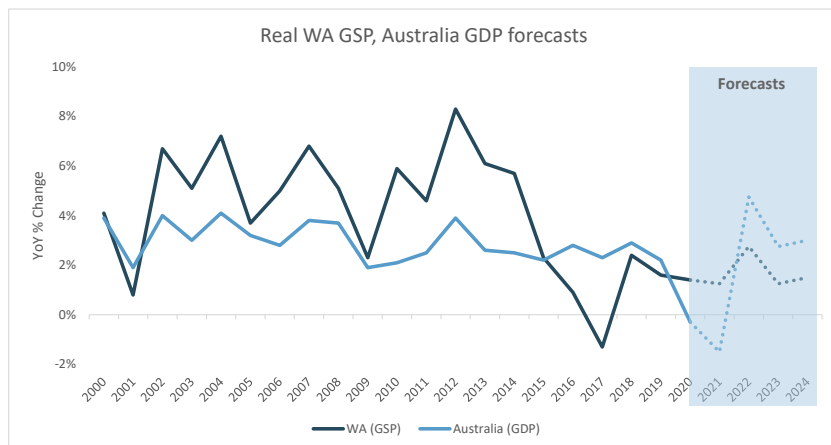
Industry Outlook and Forecasts

The Transport and logistics industry are quite mature, both are key inputs in essentially all commerce activity, hence industry growth typically tracks broader economic growth.

In CTI's case, its majority exposure to Western Australia has biased growth to the economic performance of the state.

Going forward we have forecasted revenue growth tracking inline with the weighted average GDP growth, of WA and broader Australia.

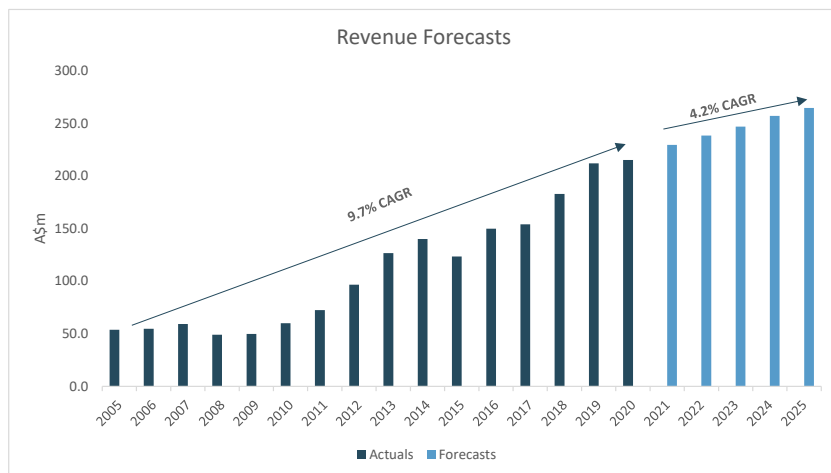
We expect modest levels of growth in the medium to long term.



Source: ABS, WA State Budget, Australian Budget

However, COVID-19 has created an exception to this. The pandemic has led to a temporary spike in activity, both in total revenues and operating margins. As a result of the pandemic we expect CTI to register a “sugar hit” in revenue growth and margins in FY’2021, broadly inline with the most recent profit update.

Taking these factors into account we have forecasted revenues growing -7% in 2021 of a spike in activity, however achieving a more modest -4.2% CAGR over the 2021-2025 period.



Source: Annual report, EHSL estimates

We further make note of additional growth opportunities beyond if CTI can gain further market share.

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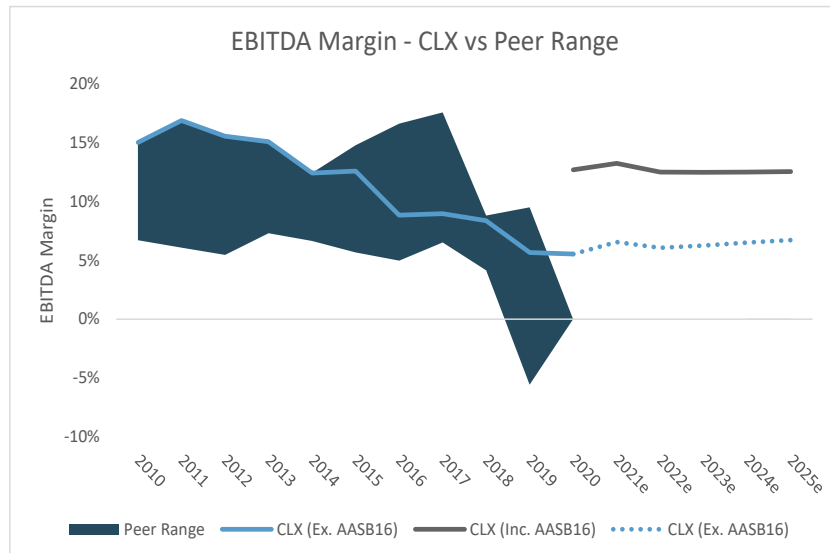
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Margins

High levels of competition in the logistics and transport industry have tightened margins across the board in the last 10 years. CTI has been further impacted by weaker conditions in WA over the last couple years.



Source: Factset, EHSL estimates

Going Forward we expect a temporary bounce in FY'2021 EBITDA margins as a result of abnormal conditions caused by COVID-19, beyond which we would expect margins to normalise as things return to normal. We expect CTI to regain margin over the following years towards a -7% EBITDA margin (pre-AASB16), we anticipate CTI realising this through its outlined strategy in parallel to positive operating conditions in the medium to long term.

FY	Units	2019	2020	2021	2022	2023	2024	2025
		A	A	F	F	F	F	F
Revenue	A\$m	212.0	215.2	229.7	238.5	247.0	257.2	264.7
EBITDA, Adj.	A\$m	12.0	27.3	30.4	29.8	30.8	32.1	33.1
EBITDA, Adj. (ex. AASB16)	A\$m	12.0	11.9	15.0	14.4	15.4	16.7	17.8
Margin	%	6%	13%	13%	12%	12%	12%	13%
Margin (ex. AASB16)	%	6%	6%	7%	6%	6%	6%	7%
NPAT, Adj.	A\$m	2.6	0.8	3.0	3.0	4.0	5.2	6.1

Source: Annual report, EHSL estimates

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Financials

P&L

We outline our forecasted P&L statement below:

P&L	Units	2019	2020	2021	2022	2023
		A	A	F	F	F
Revenue	A\$m	212.0	215.2	229.7	238.5	247.0
(-) COGS	A\$m	-198.1	-185.5	-196.7	-206.1	-213.5
(-) Corp O/H	A\$m	-1.9	-2.4	-2.5	-2.6	-2.7
EBITDA	A\$m	12.0	27.3	30.4	29.8	30.8
(-) D&A	A\$m	-9.0	-21.8	-21.1	-20.5	-20.0
EBIT	A\$m	2.9	5.5	9.3	9.3	10.8
(-) Net Finance	A\$m	-2.1	-5.1	-5.1	-5.1	-5.1
(-) Impairment	A\$m	0.0	-5.8	0.0	0.0	0.0
(+/-) Other Income	A\$m	0.9	1.5	0.0	0.0	0.0
NPBT	A\$m	1.8	-3.9	4.2	4.2	5.7
(-) Tax	A\$m	-1.0	-0.5	-1.3	-1.3	-1.7
NPAT	A\$m	0.8	-4.3	3.0	3.0	4.0
Adj. NPAT	A\$m	2.6	0.8	3.0	3.0	4.0
EBITDA Margin (pre-AASB16)	%	5.6%	5.5%	6.5%	6.0%	6.3%
EBITDA Margin	%	5.6%	12.7%	13.2%	12.5%	12.5%
EBIT margin	%	1.4%	2.5%	4.1%	3.9%	4.4%
NPAT Margin	%	0.4%	-2.0%	1.3%	1.2%	1.6%
Adj. NPAT Margin	%	1.2%	0.4%	1.3%	1.2%	1.6%

Source: Annual report, EHSL estimates

Commentary:

- We expect Transport and Logistics segments to experience a temporary “sugar hit” in 2021, achieving elevated levels of revenue growth and EBITDA margins, circa ~7% and ~6.5% (pre-AASB16) respectively.
- Between 2022 and 2025 we expect revenue growth to track broadly inline with economic growth (WA and broader Australia)
- We anticipate margins compressing in 2022 before being gradually regained over the next couple years as CTI enacts its strategy
- We however continue to note there remains considerable uncertainty as a result of the pandemic.

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Balance Sheet

Key Balance sheet items and respective forecasts are outlined below:

Balance Sheet	Units	2019	2020	2021	2022	2023
		A	A	F	F	F
Cash	A\$m	2.2	7.6	9.2	12.7	15.9
Receivables	A\$m	30.8	29.9	34.5	35.8	37.1
PP&E	A\$m	98.0	90.0	88.5	87.2	86.0
Right of Use Assets	A\$m	0.0	43.2	43.2	43.2	43.2
Intangible Assets	A\$m	34.0	32.8	31.2	30.0	29.1
Other Assets	A\$m	3.5	6.4	6.4	6.4	6.4
Total Assets	A\$m	168.5	210.0	212.9	215.4	217.7
Payables	A\$m	21.7	17.5	18.6	19.5	20.2
Borrowings	A\$m	48.6	42.8	42.8	42.8	42.8
Lease Liabilities	A\$m	0.0	59.1	59.1	59.1	59.1
Other Liabilities	A\$m	8.0	9.0	9.4	9.8	10.0
Total Liabilities	A\$m	78.2	128.4	129.9	131.1	132.0
Net Assets	A\$m	90.3	81.6	83.1	84.3	85.7
Net Tangible Assets	A\$/sh	0.75	0.65	0.69	0.72	0.75
Net Debt/Equity	%	51%	115%	112%	106%	100%
Net Debt (ex. Leases)/Equity	%	51%	43%	40%	36%	31%
ROIC	A\$m	1.5%	1.2%	3.3%	3.3%	4.0%
ROA	A\$m	1.5%	0.4%	1.4%	1.4%	1.8%
ROE	A\$m	2.9%	1.0%	3.6%	3.5%	4.7%

Source: Annual report, EHSL estimates

Commentary:

- Modest levels of asset returns (Total Assets) are achieved by our final year of forecasts, implying a ROA of ~3%
- We have not forecasted any change in debt
- We have forecasted capital expenditure in line with historical levels, equating to ~\$5-6m per year.
- 2020 saw a considerable change in Net debt, the result of adopting AASB16 which brings leases onto the balance sheet
- Our forecasted cash balance builds over time; however, this may change depending on numerous considerations which may emerge such as dividend policy, additional acquisitions, or even debt repayments.

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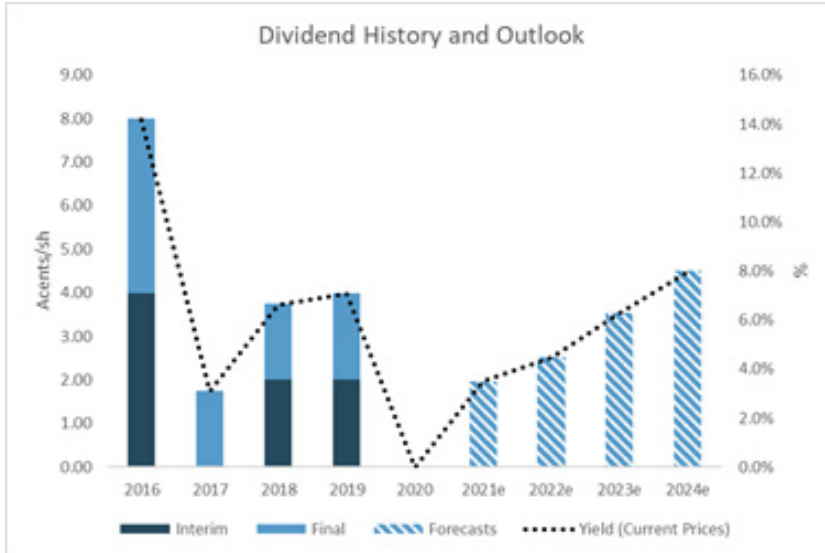
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Dividends

Dividends have historically been a key part of CTI's business, this changed in the most recent financial year as a result of difficult operating conditions. However, we would expect CTI to gradually return to paying dividends as its operating conditions improve per our forecasts. We highlight our forecasted dividend outlook below:



Source: Annual report, EHSI estimates

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Corporate Governance

CTI boast a highly aligned Management Team and Board of Directors.

David Watson - Founder, Executive Chairman, CEO

Shares Held: 25.9m (~33.3%)

Background:

Mr Watson is the founder, executive chairman and Chief Executive officer of CTI logistics. Mr Watson is a member of the remuneration committee and has not held any other directorships in listed companies over the last 4 years.

David Mellor - Co-Managing Director

Shares Held: 4.3m (~5.5%)

Background:

Mr. Mellor is a chartered accountant who has been with the group since 1978. He is responsible for the group's finances and accounts. Mr. Mellor has not held any other directorships in listed companies over the past 4 years.

Bruce Edmond Saxild - Co-Managing Director

Shares Held: 3.3m (~4.3%)

Background:

Mr. Saxild has been with the group since 1977. He is responsible for the group's logistics and transport operations. He is a member of the audit and risk committee. Mr. Saxild has not held any other directorships in listed companies over the past 4 years.

Peter James Leonhardt - Non-Executive Director

Shares Held: 0.7m (~0.8%)

Background:

Mr Leonhardt is a non-executive director and has been with the group since 1999. During the past 4 years Mr. Leonhardt has served as Chairman of Carnarvon Petroleum Ltd. Mr. Leonhardt is a former managing partner of Coopers & Lybrand (now PriceWaterhouseCoopers). Mr. Leonhardt is the Chairman of the audit risk committee and the remuneration committee.

Source: Annual Report

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Top Shareholders

Top shareholders are listed below.

Top Shareholders		Shareholding		Directors
Rank	Shareholders	m	%	
1	David Watson	24.8	33.0%	X
2	Forager Funds Management Pty Ltd.	6.4	8.6%	
3	Simon Kenworthy-Groen	3.9	5.2%	
4	Parmelia Pty Ltd, Asset Management Arm	3.5	4.6%	
5	David Mellor	3.5	4.6%	X
6	Bruce Saxild	3.0	4.0%	X
7	NovaPort Capital Pty Limited	2.0	2.7%	
8	Catherine Watson	1.8	2.4%	X
9	Dixson Trust Pty Limited, Asset Management Arm	1.7	2.2%	
10	Peachtree Pty. Ltd.	1.1	1.5%	
11	Nch Pty Ltd	1.0	1.3%	
12	FMR LLC	0.7	0.9%	
13	Coram Pty Ltd	0.7	0.9%	
14	Peter Leonhardt	0.7	0.9%	X
15	Aberdeen Management Pty. Ltd.	0.6	0.8%	
16	Dewver Pty Ltd	0.5	0.7%	
17	Hilary Hall	0.3	0.3%	
18	Walter Hall	0.3	0.3%	
	Total	56.4	75.2%	

As of 31st Oct. Source: IRESS

CTI directors own a substantial share of the business, owning ~43.8% of the issued capital. Breakdown of director shareholding is shown below:

Director	Shareholding			% Share
	Direct	Indirect	Total	
Peter James Leonhardt	0.0	0.7	0.7	0.8%
David Mellor	0.5	3.7	4.3	5.5%
Bruce Edmond Saxild	0.3	3.0	3.3	4.3%
David Watson	18.1	7.8	25.9	33.3%
Total	18.9	15.2	34.2	43.8%

Source: Annual report

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