

# EXPOLANKA HOLDINGS PLC [EXPO.N0000]

## COVID-19 LOGISTICAL CONUNDRUM TO EASE

### VALUATION NOTE

Fair Value [FY22E]: LKR 23.0

#### Expo benefited from a boom in medical supplies

The air cargo sector stepped into the spotlight at the beginning of the COVID-19 pandemic as operators scrambled to get medical supplies and other goods to clients on time.

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Estimates (LKR 'Mn)</b>							
Revenue	63,492	77,533	95,455	103,246	175,056	132,542	139,023
Gross Profit	11,199	13,726	18,100	19,183	31,510	22,532	23,634
EBIT	1,917	1,820	3,203	621	11,879	3,720	3,897
<b>Net Profit</b>	<b>955</b>	<b>711</b>	<b>1,448</b>	<b>(737)</b>	<b>9,153</b>	<b>2,805</b>	<b>2,950</b>
Adjusted EPS (LKR)	0.5	0.4	0.7	(0.4)	4.7	1.4	1.5
YoY Growth (%)	-14%	-26%	104%	-151%	1143%	-69%	5%
<b>Valuations</b>							
PER (x)	52.4x	70.4x	34.6x	-67.9x	5.5x	17.8x	17.0x
PBV (x)	4.1x	3.9x	3.6x	3.9x	2.3x	2.1x	1.9x
DY (%)	0.6%	0.6%	0.6%	0.6%	2.0%	0.6%	0.6%

#### Resists coronavirus pandemic

EXPO posted a strong growth of LKR 4.5Bn for 2QFY21, compared to the loss of LKR 807Mn in 2QFY20. Profitability growth was mainly supported by the surge in demand for emergency supplies (medical supplies and personal protective equipment) via air freight into North American markets, revenue grew by 71%YoY to LKR 49.1Bn.

#### Cargo belly-space shortage pushed air freight rates

EXPO witnessed lower volumes of air freight during 1HFY21, however, this was largely offset by a spike in airline rates due to tight capacity. Sharp fall in passenger flights set the stage for squeezed capacity, which took out about 40-45% of cargo capacity as per IATA statistics.

#### EXPO revert to new normal

The notable growth in air freight market capacity has displayed signs of a return to normalcy which is likely to reduce freight rates as the market stabilizes in the coming quarters. With the rates plunging amidst the airports reopening and flights returning to normalcy, EXPO is set to experience a sharp dip in margins, back to pre-COVID-19 levels. EXPO also witnessed a strong recovery in their traditional business of fast fashion apparel logistics while they are also likely to retain part of the medical supplies business despite competition returning. The medical supplies business enjoyed super normal margins and profitability during COVID-19, though in new normal margins are expected to drop. However, medical supplies business has usually enjoyed superior margins compared to the fashion industry.

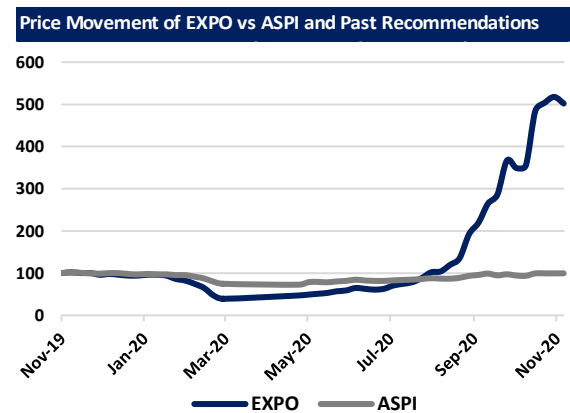
In FY22E, under normalised margins the biggest challenge for EXPO would be to grow or even retain the volumes as a globally prolonged economic slowdown may reshape the global industries with businesses shrinking or even closing down altogether. We expect EXPO's sustainable profitability under the **NEW NORMAL** would be near LKR 3Bn in the Mid-Term.

- We expect EXPO 3Q&4QFY21E margins to gradually shrink while continuing to experience strong growth in earnings compared to FY20. However, share price of EXPO has rose steeply ignoring the temporary nature of the super profits. It is important to note that part of the new profitability can be retained. With the earnings for 3Q & 4Q also likely to record strong growth rates, we believe EXPO is likely to hover in a range of **LKR 25-30** for FY21E amidst the difficulty in identifying the sustainable portion of earnings.
- The easing capacity constraints, expected steep plunge in margins and globally prolonged economic slowdown, offers limited growth opportunity for EXPO in the medium term creating a valuation gap. We estimate the growth adjusted Fair value under a new normal for FY22E to be at **LKR 23.0**.

#### FIRST CAPITAL RESEARCH

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<b>KEY DATA</b>			
CSE Ticker	EXPO.N0000		
Bloomberg Ticker	EXPO SL		
Share Price (LKR)	25.60		
52w High (LKR)	28.20		
52w Low (LKR)	1.80		
Avg. Daily Volume (Shares)	8,813,183		
Avg. Daily Turnover (LKR)	112,944,278		
Issued Share Capital (Shares 'Mn)	1,955		
Market Cap (LKR 'Mn)	50,046		
Market Cap (USD 'Mn)	271		
*1 USD = LKR 185			
<b>Price Performance (%)</b>			
	1 mth	3 mths	12mths
EXPO	48%	402%	402%
ASPI	7%	13%	-1%



#### Disclosure on Shareholding:

First Capital Group do not hold shares in EXPO and will not trade in this share for three trading days following the issue of this document.



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