

Silk Logistics Holdings Limited

Delivering! The essential pandemic service

Silk Logistics Holdings Limited (ASX:SLH) listed on the ASX on 9 July 2021, raising \$70m. The company traces its history back more than a century but was formed as a consolidated group in 2008. SLH is an integrated “port-to-door” logistics provider, offering three distinct services across two primary segments. The port logistics segment provides wharf cartage and the contract logistics segment offers warehousing and distribution services. SLH provides services to customers in the fast-moving consumer goods (FMCG), light industrial, food, specialised retail and containerised agriculture sectors. The company has operations in all mainland states of Australia and differentiates its offer with a time-certain service, blending physical logistics capabilities with predictive insights, inventory optimisation and supply chain visibility from wharf-to-warehouse to last-mile distribution. Following the IPO, the company has a strategic focus on acquisition opportunities. In January, SLH announced the acquisition of a Victorian-based contract logistics provider, 101Warehousing, for \$10.5m funded through debt. The business founders of 101Warehousing will remain with the group. SLH forecasts FY22 revenues at \$370m-\$380m versus last year’s \$323m and expects underlying NPAT of ~\$16m. The company expects volumes deferred in HY22 will impact positively in Q3 with customers planning for early arrival of CY22 inventory. The company will likely make further acquisitions in CY22, increase capacity in Melbourne, Brisbane and Perth and aims to expand NSW warehouses in 2024.

Business model

Silk provides port logistics services in Melbourne, Sydney and Brisbane using its own port logistics capabilities, however, in Perth and Adelaide these services are currently provided through third-party operators. The company aims to establish its own port logistics capabilities through acquisition opportunities in these two locations. Warehousing services are delivered by a mix of permanent employees and contracted labour, ensuring capacity and costs remain flexible and responsive to customer demand. Distribution services are provided through a virtualised fourth-party logistics (4PL) platform that allows SLH to match third-party transport businesses with customers’ distribution requirements. The company blends rental/leases and transport contractors in addition to its own full-time workforce to create an asset-right business model which has delivered impressive returns on capital.

Strong performance continues

Silk Logistics announced strong HY FY22 results with revenue growing +18.5% vs pcp to \$182.4m for the half. Underlying EBIT rose 44.5% to \$12.5m and margins improved. The company saw a 10.5% increase in port logistics billed container volumes and a 9% improvement in revenue per container. Warehouse occupancy increased from 74.7% to 81.6%. These strong figures generated a ROCE of 59.0% vs FY21 at 50.8%.

Fast growing, fairly valued relative to peers

Consensus values SLH at \$3.23/share. Relative to peers, Silk Logistics is growing revenue faster, has a near-median EV/EBITDA, and is trading on a near-median trailing-12-months PER multiple. The logistics sector has broadly been a beneficiary of the pandemic with greater emphasis on supply of crucial goods and increased consumer focus on products and home life rather than experiences and travel.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.*	NPAT rep.	EPS adj.*	EPS rep.	EV/Revenue (x)^	EV/EBITDA (x)^	PER (x)^
06/18a	143.88	8.19	1.74	1.74	0.02	0.02	1.08	18.9	n.a.
06/19a	194.83	5.99	(0.79)	(0.79)	(0.01)	(0.01)	0.80	25.9	n.a.
06/20a	251.49	42.88	(4.32)	(4.32)	(0.06)	(0.06)	0.62	3.6	n.a.
06/21a	323.31	59.95	11.08	8.39	0.15	0.11	0.48	2.6	13.7

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items
^calculated from current enterprise value and share price

Transportation

11th March 2022

Share Details

ASX code	SLH
Share price	\$2.05
Market capitalisation	\$155.8M
Shares on issue	76.0M
Net cash at 31-Dec-2021	\$0.9M
Free float	64%

Share Performance (since listing)



Upside Case

- Shipping volumes remain elevated
- Price/container also stays up
- SLH completes further synergistic acquisitions

Downside Case

- Uncertainty reduces trade volumes
- Supply chains are further constrained
- Consumers turn back to experiences

Catalysts

- FY22 result – August 2022
- Further acquisitions

Comparable companies (Aust/NZ)

Qube Holdings (ASX:QUB), K&S Corporation (ASX:KSC), Lindsay Aust (ASX:LAU), CTI Logistics (ASX:CLX)

Board and Management

Terry Sinclair	Non-Executive Chair
Brendan Boyd	Managing Director/CEO
John Sood	Executive Director/Chief Customer Officer
Stephen Moulton	Non-Executive Director

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FINANCIAL SERVICES GUIDE

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