Clasquin

France | Support services | MCAP EUR 93.3m

27 September 2018

Hold

Target Price	**EUR 41.00** (37.00)
Current Price	EUR 40.50
Up/downside	1.2%
Change in TP	10.8%
Change in EPS	1.3% 18E / 0.9% 19E

Target price moving forward

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We raise our TP from EUR37 to EUR41 after Clasquin released robust operating performance figures for H1.

Quality growth

In the wake of a vigorous H1 (see Espresso of 20 September), Clasquin is on the way to recording a second consecutive year of solid growth (KECH: +11% in gross profit, +28% in EBIT). Clasquin benefits from dynamic growth in merchandise trade (the WTO estimated +4.4% in 2018, roughly matching the 4.7% increase recorded for 2017). The company also capitalises on its differentiating profile in the freight forwarding industry (medium-sized global player), which enables it to offer end-to-end solutions like industry giants do, but with higher degrees of customisation and flexibility. Performance in previous quarters indicates sustained market outperformance. Growth at Clasquin is balanced (the largest customer does not exceed 3% of gross profit) and diversified (a mix of new clients and growing market shares at existing clients).

Early-stage initiatives yet to deliver

In a somewhat moderate and uncertain context for trade (though still firmly above the post-financial crisis average), we see Clasquin as capable of continued growth that is faster than market benchmarks, while returning to low double-digit profitability (EBIT margin and ROIC) this year. Some early-stage initiatives have not yet reached their full potential and look fairly promising, these include: 1) the development of niche expertise and verticals (wine and spirits, fairs and events, fine arts, Roll-on/Roll-Off, etc.); 2) the ongoing upgrade of IT system which is likely to be a source of higher productivity in the medium term; 3) the broadening of its offering, which now include overseas logistics (storage, order preparation, distribution, etc.) and supply chain consulting; and 4) the business ramp-up in the fastest-growing regions for trade (the Middle East, southeast Asia, India, and Africa).

We raise our TP from EUR37 to EUR41

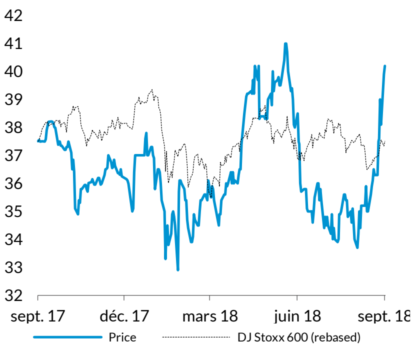
Our scenario up to 2020E includes a 9% gross profit CAGR and an 18% EBIT CAGR. In our DCF (8.2% WACC, 3% terminal growth), we model a 12.5% EBIT margin cruising speed thanks to the unfolding niche strategy, better IT tools, and scale effects. Our central scenario points to a fair value of EUR41 per share. This values Clasquin at 11.7x estimated EBITDA for 2019E. Shares indicate an 18% average discount to industry giants (K+N, Panalpina, DSV) which does not appear excessive considering the lower liquidity of its shares and its lower ROIC profile.

Market data

Bloomberg: ALCLA FP	Reuters: ALCLA.PA
Market cap (EURm)	93
Free float	39%
No. of shares outstanding (m)	2
Avg. daily volume (EURm)	0,0
YTD abs performance	11,7%
52-week high/low (EUR)	0.41/0.33

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
Sales (m)	70,0	75,8	81,0
EBITDA adj (m)	9,2	10,5	11,6
EBIT adj (m)	7,4	8,6	9,6
Net profit adj (m)	4,0	4,8	5,4
Net fin. debt (m)	22,1	23,2	23,7
FCF (m)	-3,8	2,4	3,6
EPS adj. and fully dil.	1,72	2,07	2,35
Consensus EPS	1,62	2,01	2,26
Net dividend	1,38	1,65	1,88

FY to 31/12 (EUR)	12/18E	12/19E	12/20E
P/E adj and ful. dil.	23,3	19,4	17,1
EV/EBITDA	12,9	11,5	10,5
EV/EBIT	16,0	14,0	12,6
FCF yield	-4,2%	2,6%	3,8%
Dividend yield	3,4%	4,1%	4,7%
Net fin.debt/EBITDA	2,4	2,2	2,0
Gearing	87,7%	85,6%	81,8%
ROIC	11,5%	11,8%	12,4%
EV/IC	2,6	2,5	2,4

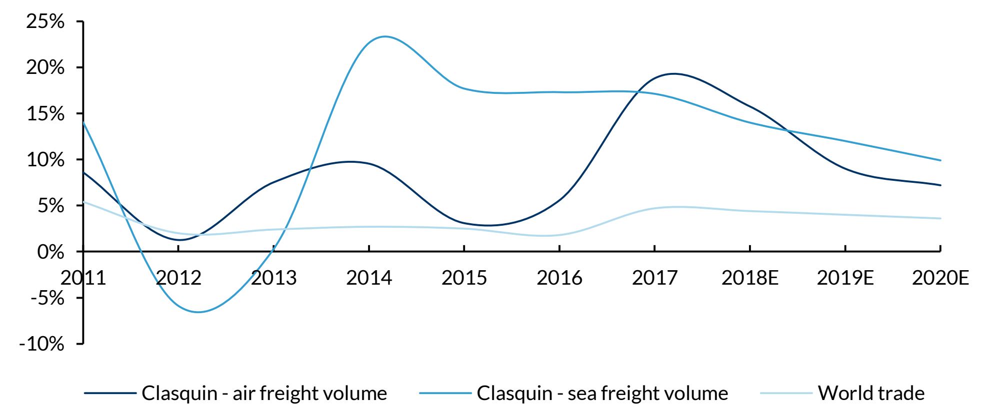


Kepler Cheuvreux and the issuer have agreed that **Kepler Cheuvreux** will produce and disseminate investment research on the said issuer as a service to the issuer.

Superior growth validates Clasquin's positioning

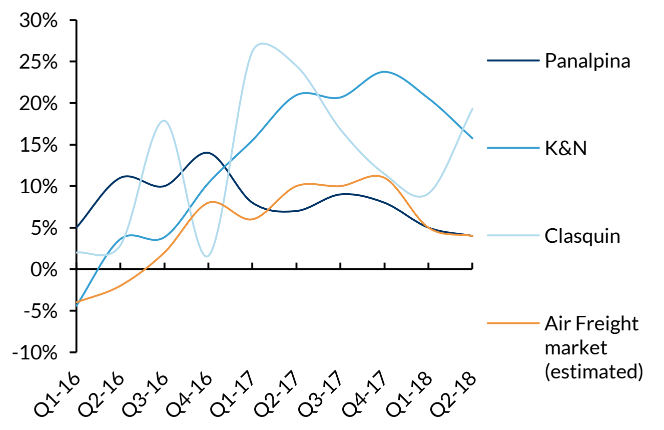
Clasquin has outperformed world trade growth significantly over the current decade, by a factor of 2.5x in sea freight and 4x in air freight in terms of volume (Chart 1). In recent quarters, Clasquin steadily outperformed the freight forwarding market, including industry giants (Charts 2 and 3), with growth rates similar to those seen before the 2008 financial crisis. Although it works with significantly fewer volumes than global forwarders, Clasquin's commercial performance still stands out.

Chart 1: Clasquin versus world merchandise trade (volume growth)



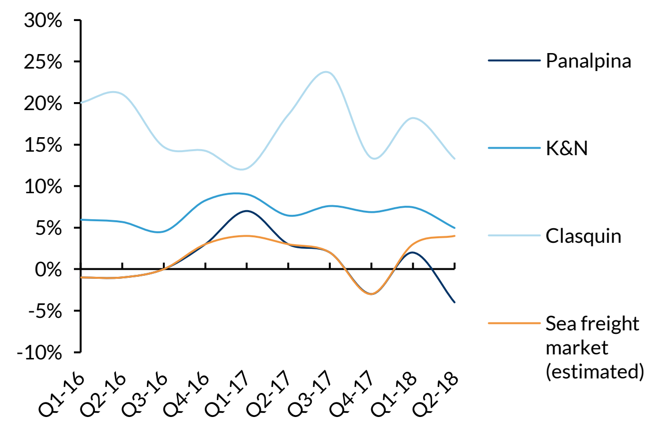
Source: Kepler Cheuvreux

Chart 2: Air freight - Quarterly volume trend



Source: Kepler Cheuvreux

Chart 3: Sea freight – Quarterly volume trend



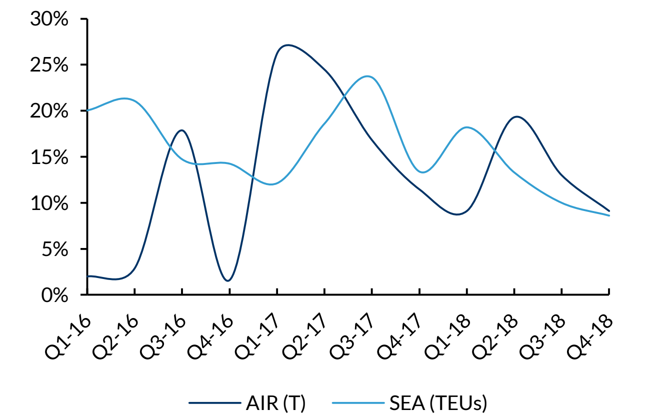
Source: Kepler Cheuvreux

This seems to validate the differentiating profile of Clasquin in the freight forwarding industry, which enables it to offer the same end-to-end solutions as rival industry giants, but with a higher degree of customisation, responsiveness and flexibility for customers. Growth at Clasquin is top-quality in our view: it is balanced (the largest customer does account for more than 3% of total GP), diversified (a mix of new clients and higher market shares at existing clients) and healthy (both organic and M&A-driven). Although Clasquin is not willing to disclose any of its customers' names, the list includes world leading firms in their respective sectors (consumer goods, automotive, industrial equipment, textile & fashion, luxury, food & wine, etc.). Its sustained outperformance seems to indicate that Clasquin is seen as a reliable partner by importers/exporters for the shipment of their goods.

Growth likely to be slower in H2, but still dynamic

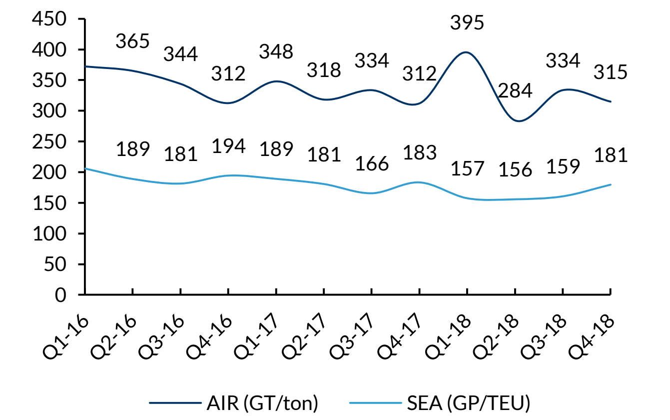
Although freight forwarders' volume seems to have peaked in late 2017, Clasquin still recorded solid volume growth in H1 2018 (+13% in sea freight, +19% in air freight). We note that Clasquin benefited in Q1 from a rapid and stronger-than-expected drop in air freight rates, resulting in an exceptionally high GP/t ratio. This was offset, to a certain extent, by disturbances in sea freight caused by the implementation of the new transport management system. Both effects are non-recurring and will not repeat in H2. Clasquin admits that momentum is likely to slow down in H2, but is confident of again posting dynamic growth and outperformance. We expect gross profit to grow by 11% to EUR70m (+14% in H1 reported, +9% in H2 estimated) for the full-year 2018.

Chart 4: Volume growth forecast 2018E



Source: Kepler Cheuvreux

Chart 5: GP/volume forecast 2018E



Source: Kepler Cheuvreux

Early-stage initiatives have potential

Clasquin is developing a series of fairly promising initiatives that support our medium-term scenario (+9% gross profit CAGR 2017-20E, and 18% EBIT CAGR).

- **"Overseas Logistics"** and **"supply chain consulting"** are two new offerings with interesting potential that Clasquin sees as key performance drivers in its attempt to integrate further services and go up the value chain (end-to-end solutions). "Overseas Logistics" consists of services such as storage, order preparation and delivery to final recipient. It was initially deployed in China, Japan and France and has since been expanded throughout the entire network. Clasquin reports an excellent market response so far. "Supply-chain management" is a dedicated consulting solution for supply chain optimisation.
- **Continued development of niche expertise and verticals.** Clasquin has been quite active in this field in recent years either organically (wine & spirits, fairs & events) or through bolt-on acquisitions ("Art Shipping" in fine arts, "Favat

Transit" in oleaginous products, etc.). Niche markets have their own supply-chain specifications and constraints and therefore require specific knowledge. For high-value and sensitive products, unit volume can be significantly higher than general cargo such as textile and other standardized products. Wine is a good example: Clasquin has been an important player on the Europe-Asia route and is now developing its offering globally. "Wine & Spirits" today accounts for 4% of the group's gross profit and is set to grow further in the mix. The acquisition of Art shipping in 2016 was yet more proof of Clasquin's ambition to diversify into niche markets. Outcomes for this strategy are differentiation, the shaping of competitive advantage and the offsetting of structural deflation of rates in general cargo.

- **More efficient IT architecture and organisation.** Clasquin is finalising the roll-out of CargoWise One Transport, its new transport management system which should be completed by mid-2019, after which an optimisation phase will begin. Clasquin expects CargoWise to take productivity and IT integration to the next level and optimise relations with clients and the entire ecosystem. CargoWise's functionalities include comprehensive and automated business processes, solutions for quotations, tracking, and electronic document management. Previously, Clasquin used an in-house tool ("AEOLUS") to manage its operations, but continued network expansion and complexity of operations forced it to shift towards a more sophisticated and scalable tool. At the same time, Clasquin is shifting towards an agile SaaS subscription methodology for its technology (implying lower capex and D&A but higher opex going forward) and is preparing the next generation of accounting, reporting and other software, which is scheduled for deployment in 2019.
- **Market presence ramp-up in fast-growing markets (southeast Asia, India, and Africa).** Clasquin hired a new CEO for southeast Asia in 2017 to develop business there and in India, which are expected to be the fastest-growing areas for external trade over the next decade. Clasquin has ambitions in North Africa and the Middle East too, where it has experienced some success lately (successful acquisition of LCI, and a big contract win in Dubai). It also recently created an Africa division, targeting French-speaking sub-Saharan Africa. Historically, Clasquin has had a strong footprint in China and Hong-Kong, and is very active on the major China to Europe route. The development of less competitive routes could be beneficial.

We also note the following:

- Clasquin made significant efforts in recruitment in recent years (staff costs were up 42% over the last three years) in order to better structure international offices, grow IT skills and strengthen management. With labour costs now representing 65% of gross profit, we assume Clasquin has reached a plateau.
- The recruitment in 2017 of a new boss for the US market could result in renewed commercial impetus in a region where Clasquin has been experiencing headwinds such as the failed acquisition of ECS in 2014 (from which Clasquin is considering an exit). Activity in H1 tends to support this statement (+14%).
- The Portuguese and Chilean offices, opened in late 2016, were still loss making in 2017 but are expected to turn profitable from 2018-19E. The restructuring and downsizing of German operations allowed Clasquin to

lower their breakeven point, the group expects EUR500,000 in cost savings in 2018E and breakeven in 2019E.

- Clasquin is open to further M&A operations. The company has adopted a more proactive stance here in recent years, as reflected by the leveraging of the balance sheet. Net gearing was 70% at the end of 2017, in contrast with pre-2015 when Clasquin was cash positive.

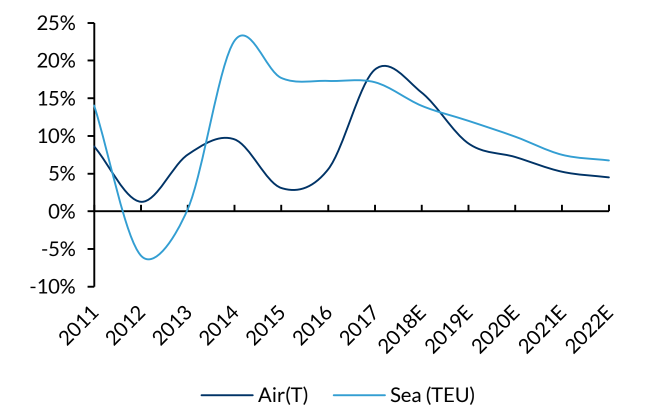
Dynamic growth and double-digit profitability ahead

The WTO anticipates merchandise trade volume growth of 4.4% in 2018E, pretty close to the 4.7% increase recorded for 2017. Growth is expected to fall to 4.0% in 2019E, below the average rate of 4.8% since 1990, but still firmly above the post-crisis average of 3.0%.

The outlook is fragile though as a result of escalating trade tensions between key economies that may affect business confidence and investment decisions, and compromise the current outlook. Clasquin states that its exposure to the US-China route is only marginal and therefore it does not expect a notable impact on business.

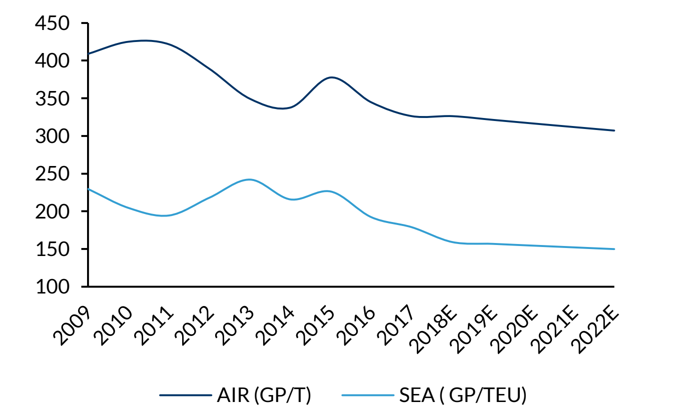
We forecast a 5-year gross profit growth of 7%, assuming 10% volume CAGR in ocean freight and 8% CAGR in air freight, as well as a 1.5% annual deflation of GP/volume.

Chart 6: Volume growth



Source: Kepler Cheuvreux

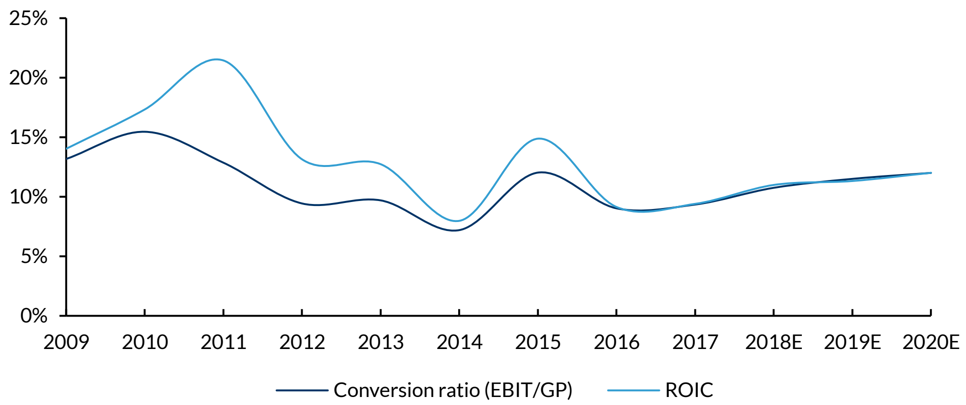
Chart 7: GP/volume deflation



Source: Kepler Cheuvreux

In 2018, Clasquin is reaping the reward of higher growth and sound strategy execution (accretive acquisitions, restructuring of loss-making subsidiaries, shift in product and activity-mix). The EBIT margin grew 160bp in H1 2018 to 10.2%. Clasquin is on its way to a low double-digit conversion ratio and ROIC by the end of the current year; we expect 10.8% (+150bps) and 11% (+160bps) respectively.

Chart 8: Conversion ratio and ROIC



Source: Kepler Cheuvreux

Valuation: TP up from EUR37 to EUR41

We do not use peers for valuation, given that listed freight forwarders are hardly comparable to Clasquin in terms of size, but we do note that Clasquin's shares are currently trading with a 18% average discount to industry giants (K+N, Panalpina, DSV) which does not appear excessive in our view considering the lower liquidity of its shares and its lower ROIC profile.

Table 1: Valuation multiples

	EV/EBITDA			EV/EBIT			P/E		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Kuehne+Nagel	14,4	13,3	12,5	17,5	16,0	14,8	23,0	21,1	19,7
Panalpina	11,6	10,1	8,7	23,4	17,3	14,2	35,2	26,0	21,8
DSV	18,7	17,4	16,4	21,2	19,6	18,3	26,7	23,8	21,3
Mean	**14,9**	**13,6**	**12,5**	**20,7**	**17,6**	**15,8**	**28,3**	**23,6**	**20,9**
Clasquin	12,9	11,5	10,5	16,0	14,0	12,6	23,3	19,4	17,1
Discount	*-14%*	*-15%*	*-16%*	*-23%*	*-20%*	*-20%*	*-17%*	*-18%*	*-18%*

Source: Kepler Cheuvreux

We build our DCF using a 8.2% WACC and assume terminal growth of 3% in gross profit. We expect its EBIT margin to reach 12.5% by 2022E thanks to the niche strategy unfolding, more performant IT tools, and scale effects. Forecasts take into account higher opex due to a technology migration strategy towards SaaS, but also lower capex and D&A overtime (as a percentage of gross profit). Our central scenario points to a fair value of EUR41 per share. This values Clasquin at 11.7x estimated EBITDA for 2019E.

Table 2: DCF summary

EURm	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2028E+
Gross profit	75,8	81,0	84,9	88,4	91,7	94,7	97,4	100,3	103,2	106,2	109,3
Growth	*8,2%*	*7,0%*	*4,8%*	*4,1%*	*3,7%*	*3,3%*	*2,9%*	*2,9%*	*2,9%*	*2,9%*	*3,0%*
EBIT	8,7	9,7	10,4	11,1	11,5	11,8	12,2	12,5	12,9	13,3	13,7
% of GP	11,5%	12,0%	12,3%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%
EBIT(1-T)	5,8	6,5	6,9	7,4	7,6	7,9	8,1	8,4	8,6	8,9	9,1
add back D&A	2,2	2,3	2,3	2,3	2,3	2,4	2,4	2,5	2,6	2,7	2,7
% of GP	*3,0%*	*2,9%*	*2,8%*	*2,7%*	*2,6%*	*2,5%*	*2,5%*	*2,5%*	*2,5%*	*2,5%*	*2,5%*
Change in WCR	-1,6	-1,1	-0,7	-0,5	-0,4	-0,3	-0,2	-0,2	-0,2	-0,2	-0,2
Capex	-3,6	-3,6	-3,6	-3,4	-3,3	-3,2	-3,1	-2,9	-3,0	-3,1	-2,7
% of GP	*-5,5%*	*-4,8%*	*-4,5%*	*-4,0%*	*-3,8%*	*-3,5%*	*-3,3%*	*-3,0%*	*-3,0%*	*-3,0%*	*-2,5%*
Free Cash flows	2,8	4,1	4,9	5,7	6,2	6,7	7,2	7,7	7,9	8,2	8,9
Discounted FCF	2,8	3,7	4,1	4,4	4,4	4,4	4,4	4,3	4,1	3,9	
Sum of FCF	40,7										
Terminal Value	82,2										
Value of operations	**122,9**										
Cash 2019E	13,0										
Debt 2019E	36,2										
Pension benefits 2019E	0,9										
Minorities 2019E	4,0										
Associates 2019E	0,2										
Equity value	**95,0**										
nb shares	2,3										
Equity value per share	**41,2**										

Source: Kepler Cheuvreux

We provide a RANGE of fair values according to slight changes in model assumptions (WACC, LT EBIT margin, terminal growth). Most realistic scenarios, in our view, point to a valuation range of EUR38 to EUR44 per share.

Table 3: Sensitivity table

		Terminal growth					LT EBIT margin	
		2,5%	**3,0%**	**3,5%**			**12,0%**	**12,5%**	**13,0%**
WACC	**8.7%**	33.7	36.4	39.5	WACC	**8.7%**	35.1	36.4	37.6
	8.5%	35.7	38.7	42.2		**8.5%**	37.3	**38.7**	41.1
	8,2%	38.0	41.2	45.2		**8,2%**	**39.8**	**41.2**	**42.7**
	8.0%	40.4	44.1	48.6		**8,0%**	42.5	**44.1**	45.7
	7,7%	43.1	47.2	52.4		**7,7%**	45.5	47.2	48.9

Source: Kepler Cheuvreux

Key financials

FY to 31/12 (EUR)	12/13	12/14	12/15	12/16	12/17	12/18E	12/19E	12/20E
Income Statement (EURm)								
Sales	47,4	43,6	55,5	57,5	62,9	70,0	75,8	81,0
% Change	5,1%	-8,0%	27,3%	3,6%	9,4%	11,3%	8,2%	7,0%
EBITDA adjusted	6,3	4,6	8,2	7,1	7,4	9,2	10,5	11,6
EBITDA margin (%)	13,3%	10,5%	14,8%	12,4%	11,7%	13,2%	13,9%	14,3%
EBIT adjusted	4,5	3,1	6,3	4,6	5,9	7,4	8,6	9,6
EBIT margin (%)	9,5%	7,1%	11,3%	8,0%	9,3%	10,6%	11,4%	11,9%
Net financial items & associates	-0,4	-0,4	-0,1	-0,5	-0,7	-0,6	-0,6	-0,6
Others	0,0	0,0	0,0	0,0	-0,4	0,0	0,0	0,0
Tax	-1,6	-0,9	-1,9	-1,5	-1,9	-2,4	-2,8	-3,2
Net profit from continuing operations	2,5	1,8	4,2	2,6	2,8	4,4	5,2	5,8
Net profit from discontinuing activities	0,0	0,7	-0,3	0,0	0,0	0,0	0,0	0,0
Net profit before minorities	2,5	2,5	4,0	2,6	2,8	4,4	5,2	5,8
Net profit reported	2,2	2,1	3,3	2,1	2,4	4,0	4,8	5,4
Net profit adjusted	2,2	2,1	3,3	2,1	2,4	4,0	4,8	5,4
Cash Flow Statement (EURm)								
Cash flow from operating activities	5,1	6,5	8,2	1,9	2,3	0,0	6,0	7,2
Capex	-2,8	-2,9	-2,4	-3,6	-3,6	-3,9	-3,6	-3,6
Free cash flow	2,3	3,7	5,8	-1,7	-1,3	-3,8	2,4	3,6
Acquisitions & Divestments	0,0	-1,8	-8,5	-0,6	0,1	0,0	0,0	0,0
Dividend paid	-2,0	-2,2	-2,1	-2,9	-1,9	-2,1	-3,3	-3,9
Others	-0,5	-0,4	1,5	-0,1	-1,5	-0,2	-0,2	-0,2
Change in net financial debt	-0,1	-0,7	-3,2	-5,4	-4,7	-6,1	-1,1	-0,6
Balance Sheet (EURm)								
Intangible assets	8,4	11,4	17,3	19,1	19,6	20,4	21,1	21,8
Tangible assets	5,5	6,2	3,8	5,2	5,1	6,0	6,7	7,4
Financial & other non-current assets	1,5	1,8	2,9	2,8	2,8	2,8	2,8	2,8
Total shareholders' equity	22,2	23,3	23,8	23,8	22,9	25,2	27,1	29,0
Pension provisions	0,7	1,1	1,1	0,8	0,9	0,9	0,9	0,9
Liabilities and provisions	65,8	73,3	85,5	93,8	102,9	137,9	146,2	151,9
Net financial debt	-0,1	0,7	5,2	11,0	16,0	22,1	23,2	23,7
Working capital requirement	8,0	6,2	6,3	9,2	12,7	19,4	21,0	22,1
Invested Capital	21,9	23,8	27,3	33,5	37,4	45,8	48,8	51,3
Per share data								
EPS adjusted	0,96	0,92	1,45	0,92	1,03	1,72	2,07	2,35
EPS adj and fully diluted	0,96	0,92	1,45	0,92	1,03	1,72	2,07	2,35
% Change	4,8%	-3,9%	57,8%	-36,6%	12,5%	66,4%	20,0%	13,6%
EPS reported	0,96	0,92	1,45	0,92	1,03	1,72	2,07	2,35
Cash flow per share	2,20	2,84	3,57	0,81	0,99	0,00	2,60	3,13
Book value per share	9,15	9,22	9,42	9,03	8,57	9,39	10,03	10,69
Dividend per share	0,75	0,80	1,25	0,80	0,86	1,38	1,65	1,88
Number of shares, YE (m)	2,30	2,30	2,30	2,30	2,30	2,30	2,30	2,30
Ratios								
ROE (%)	10,4%	10,0%	15,6%	10,0%	11,8%	19,2%	21,3%	22,7%
ROIC (%)	12,7%	8,9%	16,9%	9,6%	9,9%	11,5%	11,8%	12,4%
Net fin. debt / EBITDA (x)	0,0	0,2	0,6	1,5	2,2	2,4	2,2	2,0
Gearing (%)	-0,5%	3,0%	21,9%	46,3%	69,7%	87,7%	85,6%	81,8%
Valuation								
P/E adjusted	21,9	27,8	20,3	32,2	32,1	23,3	19,4	17,1
P/E adjusted and fully diluted	21,9	27,8	20,3	32,2	32,1	23,3	19,4	17,1
P/BV	2,3	2,8	3,1	3,3	3,9	4,3	4,0	3,8
P/CF	9,5	9,0	8,2	36,4	33,3	na	15,5	12,8
Dividend yield (%)	3,6%	3,1%	4,2%	2,7%	2,6%	3,4%	4,1%	4,7%
FCF yield (%)	4,8%	6,2%	8,6%	-2,5%	-1,7%	-4,2%	2,6%	3,8%
EV/Sales	1,1	1,4	1,4	1,4	1,5	1,7	1,6	1,5
EV/EBITDA	7,9	13,7	9,2	11,7	13,1	12,9	11,5	10,5
EV/EBIT	11,1	20,3	12,1	18,1	16,4	16,0	14,0	12,6

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Source: Factset closing prices of 26/09/2018

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Rating Breakdown	A	B
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Hold	37%	39%
Reduce	13%	12%
Not Rated/Under Review/Accept Offer	3%	9%
Total	100%	100%

Source: KEPLER CHEUVREUX
A: % of all research recommendations
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Company Name	Date	Business Line	Rating	Target Price	Closing Price
Clasquin (EUR)	27/04/2018 08:58	Equity Research	Hold	37.00	36.50

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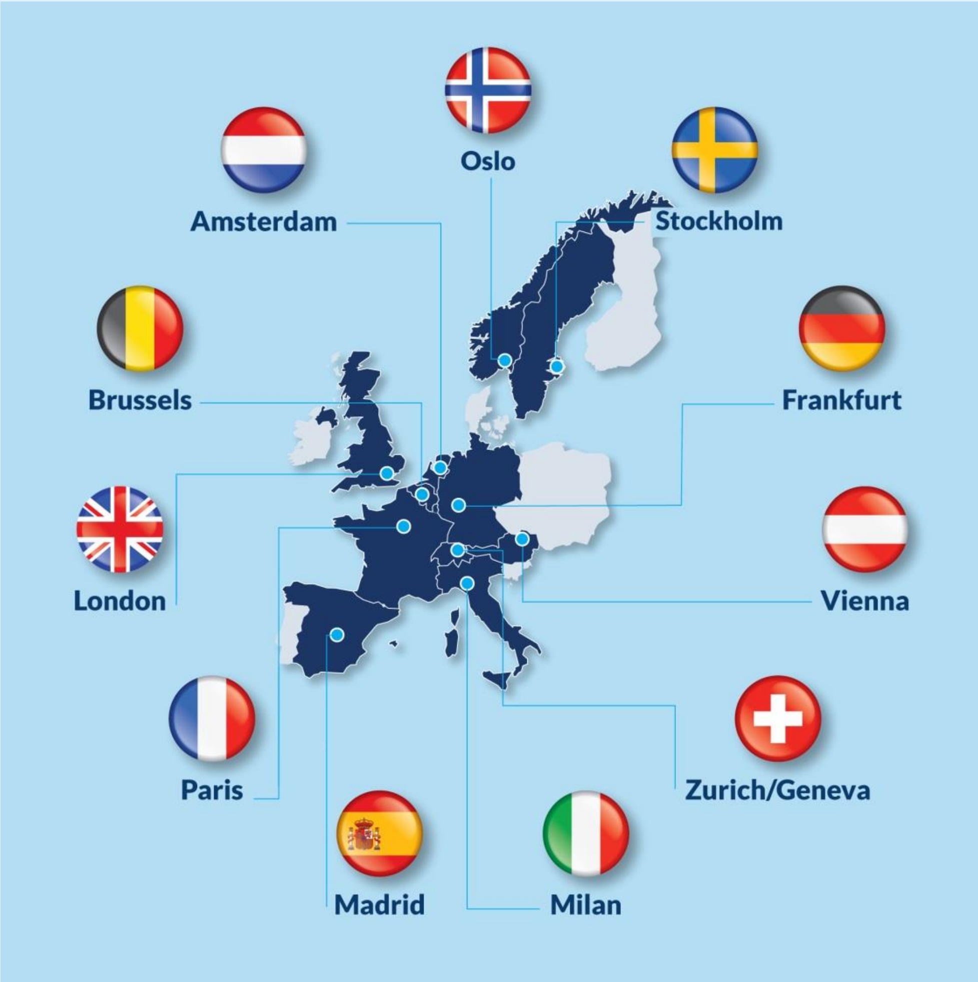

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