

# Market Commentary

## MAINFREIGHT - CHANGING GEAR?

NZFUNDS

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Freight distribution businesses like Mainfreight are uniquely exposed to the business cycle because they are plugged into every industry and sector. When the domestic economy fell into recession last year, Mainfreight's share price also began to weaken. But Mainfreight has left the recession behind and looks set to improve its earnings over the near term.

Life is returning to Mainfreight's domestic freight forwarding operations in New Zealand and Australia with top line growth bringing comfort to investors. This is because it is sustained revenue growth which helps the value of the company increase. Its Australian division has shown the first period of revenue growth for four quarters and a significant profit improvement. The fact the corner has been turned in Australia is positive news indeed.

Overall, Mainfreight is an excellent company. It is by far the largest operator in the domestic 'LCL' (less-than-container-load) freight market and as a consequence is able to generate operating margins of around 11% in its local division, exceptional for this sort of business. In addition, it has developed a large and successful business in Australia, has a very promising division in the United States and has begun to establish operations in Asia.

While some of these offshore businesses earn negligible profits, at present they offer growth potential and, importantly, help protect the domestic franchise by collecting New Zealand destined freight and shipping it to its local business.

Mainfreight's share price has fluctuated significantly over the last couple of years. While that is true of many companies, it is striking to see a company of the quality of Mainfreight halve from its peak in 2007. In many ways the company has been punished for its ambition as investors stopped believing in its strong offshore growth prospects. That belief has come back and over the last six months Mainfreight's share price has appreciated strongly as the market anticipates the strength of the company's business model to benefit from the momentum of a turning domestic and global economy.

### MAINFREIGHT PRICE



### MAINFREIGHT RELATIVE TO NZ SHARES



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