

NZ Road Transport: Upside for transport firms as economy recovers

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Mainfreight, the biggest operator in NZ's LCL, or less-than-container-load, freight market has "left the recession behind" and is heading for improved earnings in the near term, says Michael Lang, chief investment officer at NZ Funds Management, which oversees \$1bn. Freight distribution businesses are "uniquely exposed" to the business cycle and "life is returning" for Mainfreight's domestic freight forwarding operations on both sides of the Tasman. NZ Funds is also bullish on Freightways, saying the fixed costs which punished the express package company when sales were declining will be dwarfed by earnings growth as freight volumes increase again.

Nick Dravitzki, a portfolio manager at the fund says "as the economy grows, so too will physical movement of packages and Freightways will benefit. When volume growth returns you can expect to see margins widen and earnings rapidly improve." The company has just emerged from a first quarter where the economy was at its weakest and the volumes from existing customers in express packages, which make up 80% of its revenue, fell 5%.

So far this year, Mainfreight's stock has outperformed the NZX 50 Index, gaining 17% to the benchmark's 1% advance. Freightways has lagged behind, sinking 6% in the same period. Freightways' performance in the first half of its current financial year is a reminder the recession was long and difficult. But Dravitzki says the express packages sector "remains well positioned to benefit from an economy that is slowly returning to growth."

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