

Singapore Company Guide

Hutchison Port Holdings Trust

Version 11 | Bloomberg: HPHT SP | Reuters: HPHT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Apr 2018

BUY (Upgrade from HOLD)

Last Traded Price (13 Apr 2018): US\$0.33 (STI : 3,501.30)

Price Target 12-mth: US\$0.38 (15% upside) (Prev US\$0.39)

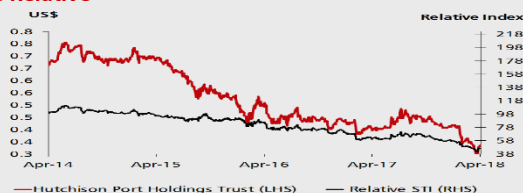
Analyst

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What's New

- 1Q18 earnings disappoint as HK operations lag
- We project FY18F dividend to be flat from FY17
- HPHT is now the highest yielding large cap stock in Singapore
- Upgrade to BUY, TP US\$0.38

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2016A	2017A	2018F	2019F
Revenue	11,912	11,551	11,903	12,299
EBITDA	7,218	6,565	6,837	7,065
Pre-tax Profit	3,600	2,705	2,841	3,004
Net Profit	1,714	944	951	1,009
Net Pft (Pre Ex.)	1,714	944	951	1,009
Net Pft Gth (Pre-ex) (%)	(1.8)	(44.9)	0.7	6.2
EPS (US cts.)	2.51	1.38	1.39	1.48
EPS Pre Ex. (US cts.)	2.51	1.38	1.39	1.48
EPS Gth Pre Ex (%)	(2)	(45)	1	6
Diluted EPS (US cts.)	2.51	1.38	1.39	1.48
Net DPS (US cts.)	3.90	2.62	2.62	2.62
BV Per Share (US cts.)	60.3	58.9	57.6	56.3
PE (X)	13.2	23.9	23.7	22.4
PE Pre Ex. (X)	13.2	23.9	23.7	22.4
P/Cash Flow (X)	4.4	3.9	4.6	4.0
EV/EBITDA (X)	9.5	10.4	9.9	9.4
Net Div Yield (%)	11.8	8.0	8.0	8.0
P/Book Value (X)	0.5	0.6	0.6	0.6
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	4.1	2.3	2.4	2.6
Earnings Rev (%):			(9)	(9)
Consensus EPS (US cts.):			1.40	1.40
Other Broker Recs:		B: 1	S: 3	H: 6

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Value emerges with 8% yield

Upgrade to BUY with TP of US\$0.38. With Hutchison Port Holdings Trust (HPHT)'s share price declining by over 10% since it reported its FY17 results, we believe value has emerged at the current price level, implying a dividend yield of 8%. While earnings remain unexciting given on-going price pressures, HPHT's operations are generating sufficient cash flows to support a generous dividend payout.

Where we differ: We project FY18F dividend to stay flat from FY17 at 20.6 HK cts vs. guided range of 20-23 HK cts.

Potential catalysts. HPHT's share price could re-rate if throughput volumes can more than offset a decline in average tariff rates in the quarters ahead.

1Q18 earnings below expectations. Despite a 3.5% y-o-y improvement in overall revenue to HK\$2,667m, HPHT's net profit fell by 13% y-o-y to HK\$145m as its wholly-owned Hong Kong operations continued to lag. Throughput at 52%-owned Yantian Port rose by 9% y-o-y while average revenue per TEU declined by an estimated 1% (due to a higher mix of transshipment and empty boxes, offset by a stronger RMB). Meanwhile, volumes at Hong Kong (including COSCO-HIT and ACT) was higher by 1% y-o-y, but average revenue per TEU fell by an estimated 6% y-o-y.

Valuation:

Upgrade to BUY, TP US\$0.38. Our TP is based on a discounted cash flow valuation framework (weighted average cost of capital of 7.4% and terminal growth rate of 0%). HPHT is now the highest yielding large cap stock in Singapore.

Key Risks to Our View:

A global recession would materially impact trade and throughput numbers for HPHT, which would then have an impact on the group's earnings and cash flows, and ultimately dividend payout.

At A Glance

Issued Capital (m shrs)	8,711
Mkt. Cap (US\$m/US\$m)	2,875 / 2,875
Major Shareholders (%)	
Hutchison Ports	27.6
Temasek Holdings Private Ltd	11.0
Free Float (%)	61.4
3m Avg. Daily Val (US\$m)	8.4
ICB Industry : Financials / Nonequity Investment Instrument	

WHAT'S NEW

1Q18 earnings below expectations as HK operations lag

Revenue improves on higher throughput volumes: Despite a 3.5% y-o-y improvement in overall revenue to HK\$2,667m, HPHT's net profit fell by 13% y-o-y to HK\$145m as its wholly-owned Hong Kong operations continued to lag. Throughput at 52%-owned Yantian Port rose by 9% y-o-y while average revenue per TEU declined by an estimated 1% (due to a higher mix of transshipment and empty boxes, offset by a stronger RMB). Meanwhile, volumes at Hong Kong (including COSCO-HIT and ACT) was higher by 1% y-o-y, but average revenue per TEU fell by an estimated 6% y-o-y.

Yantian operations continue to outperform Hong Kong:

Operating profit increased 7.6% y-o-y to HK\$783m, mainly due to forex gains of HK\$45m and HK\$20m in dividends from River Ports Economics Benefits deferred from 2017. Interest costs rose by 18% y-o-y to HK\$229m on higher interest rates while contributions from joint ventures fell by 50% y-o-y to HK\$8.5m and contributions from associates (Huizhou International Container Terminal) worsened by 16% y-o-y to HK\$33.9m. Pretax earnings rose by 1% to HK\$509m but due to Yantian operations outperforming Hong Kong operations, non-controlling interests increased 32% y-o-y to HK\$276m, and PATMI fell by 13% y-o-y.

Minimal impact expected from NDRC announcement and trade war.

During the 1Q18 earnings call, HPHT mentioned that there was no significant impact on effective tariff rates at Yantian Port in 1Q18 following NDRC's (National Development and Reform Commission) announcement of a cut in published rates and that there should not be any material impact from the US-China trade war as the list of goods affected thus far do not form a significant portion of exports out of Yantian Port.

Quarterly / Interim Income Statement (HK\$m)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	2,578	2,857	2,667	3.5	(6.6)
Cost of Goods Sold	(919)	(1,111)	(992)	8.0	(10.7)
Gross Profit	1,660	1,746	1,675	0.9	(4.0)
Other Oper. (Exp)/Inc	(951)	(963)	(912)	(4.0)	(5.2)
Operating Profit	709	783	763	7.6	(2.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(12.2)	(18.7)	(25.4)	nm	35.8
Net Interest (Exp)/Inc	(194)	(215)	(229)	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	503	550	509	1.2	(7.5)
Tax	(127)	51.7	(87.2)	(31.2)	(268.7)
Minority Interest	(209)	(364)	(276)	nm	(24.1)
Net Profit	167	238	145	(12.9)	(38.9)
Net profit bef Except.	167	238	145	(12.9)	(38.9)
EBITDA	1,433	1,534	1,514	5.7	(1.3)
Margins (%)					
Gross Margins	64.4	61.1	62.8		
Opg Profit Margins	27.5	27.4	28.6		
Net Profit Margins	6.5	8.3	5.5		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Modest volume growth expected. Throughput volume at Yantian Port grew by 8.6% y-o-y to 12.7m TEUs in 2017, driven mainly by growth in US and transshipment volumes. This followed a 3.9% y-o-y decline in 2016, which was led by lower transshipment volumes. For 2018, we expect volume growth of 4% at Yantian, as both transshipment and O&D (origination & destination) volumes continue to gain on the back of a synchronised global economic recovery.

Meanwhile, the Trust's wholly owned subsidiary Hong Kong International Terminals (HIT) saw volumes contract 2.6% y-o-y in 2017 following a 6.2% y-o-y decline in 2016. However, including total throughput of joint ventures ACT and COSCO-HIT, volumes grew by 5.1% y-o-y following the co-management arrangement made in Dec 2016. We are projecting 2% growth in volumes in 2018.

Container handling rates continue to be under some pressure.

The average revenue per TEU for HIT fell by 8% y-o-y in 2017, compared to a 0.9% y-o-y gain in 2016, due to greater concessions offered to liners and revisions in tariffs following the mergers and acquisitions of certain liners amid price competition within Hong Kong. With negotiations with liners on such concessions and tariff revisions continuing into 2018, we project average revenue per TEU to further decline by 4% at HIT. For Yantian, we assume a similar 1% decline in revenue per TEU in 2018 as in 2017, with a USD reversal (strengthening) being the main cause.

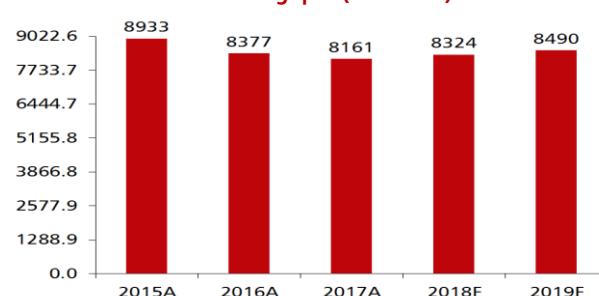
Cost management important for margin improvement. The co-management arrangement effective January 2017 to jointly manage the ACT, HIT and COSCO-HIT terminals should further yield cost efficiencies in 2018 and help to improve operating margins. Meanwhile, higher contributions from joint ventures ACT and COSCO-HIT should help to offset on-going losses at Huizhou Container Terminals, which is still trying to ramp-up.

Lower tax rate for Yantian Phase 3 obtained for 2017 to 2019.

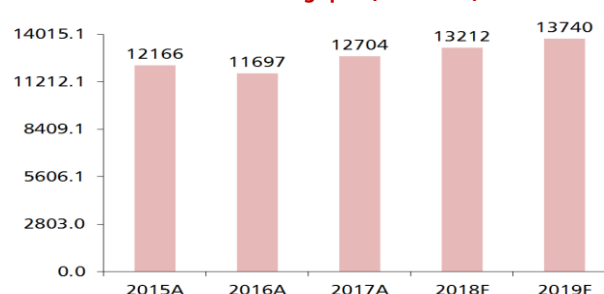
With Yantian Port Phase 3 qualifying as "High and New Technology Enterprise" for a preferential tax rate of 15% vs 25% previously from 2017 to 2019, HPHT will enjoy some tax savings ahead.

Rising interest cost a drag on pretax earnings. In a rising interest rate environment, we project higher interest costs for HPHT ahead, which would drag core pre-tax earnings growth in FY18F and FY19F. We project HPHT's finance costs to rise by 10% in FY18 and FY19F as we factor in higher interest rates, despite a reduction in debt.

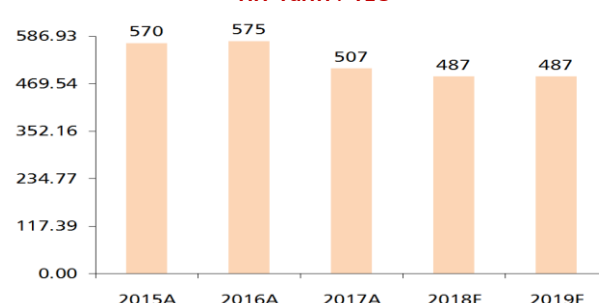
HIT Throughput ('000 TEUs)



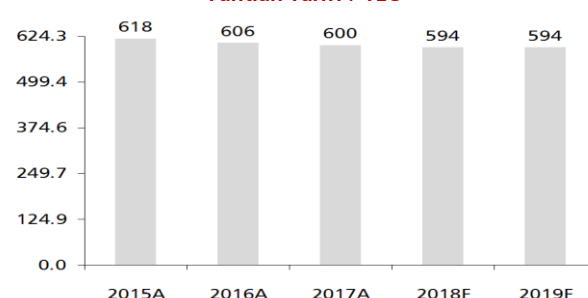
Yantian Throughput ('000 TEUs)



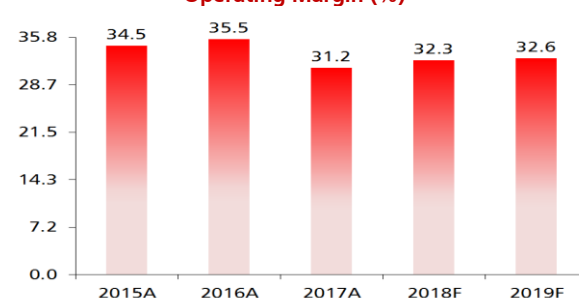
HIT Tariff / TEU



Yantian Tariff / TEU



Operating Margin (%)



Source: Company, DBS Bank

Balance Sheet:

Net gearing to decline following start of debt repayment programme in 2017. HPHT's net gearing stood at 0.65x as at end FY17, and this should decline as the trust continues to pay down debt, to 0.61x by end-2019F.

Debt repayment programme. HPHT disclosed that it will look to repay a minimum of HK\$1bn of debt annually beginning from 2017 to lower its gearing level and improve its interest coverage ratio in a rising interest rate environment. Including mandatory amortisation of term loans and contributions from non-controlling interests on debt repayment, we estimate this would result in a HK\$600-650m use of cash per annum that would lower distributable income

Share Price Drivers:

Strong South China export growth. With market shares of c. 70% and c. 60% in Hong Kong and Shenzhen respectively, HPHT would be the prime beneficiary of a potential recovery of South China exports. A sharp rise in manufacturing activity (reflected in future PMI data) could thus lift its share price.

Target price of US\$0.38 based on DCF. Our TP is based on a discounted cash flow valuation framework (weighted average cost of capital of 7.4% and terminal growth rate of 0%).

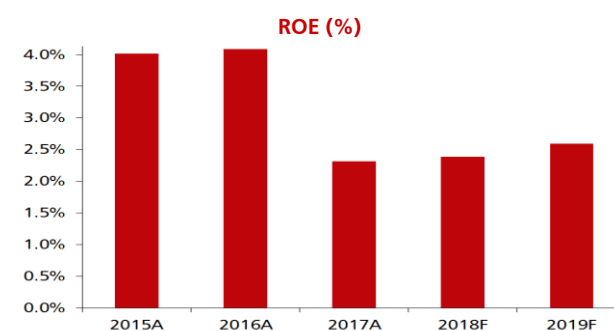
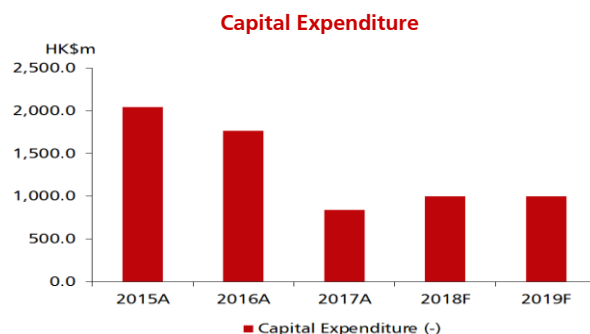
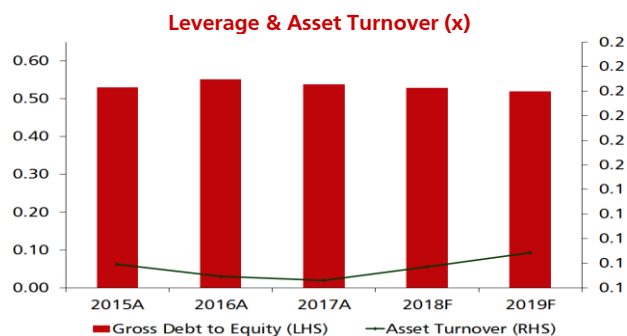
Key Risks:

Transshipment volumes can be volatile. About 65% of Hong Kong Port volumes are transshipment cargoes, which are subject to competition from other regional ports like Singapore, Shanghai, and Busan. Hence, pricing for transshipment cargoes is likely to be continuously under pressure. Furthermore, transshipment volumes are vulnerable to changes in the route planning and strategies of shipping companies and shipping alliances.

Exposed to higher interest rates. If interest rates were to rise at a rapid pace in 2018 and beyond, it would lead to lower-than-expected earnings, cash flow and thus impact on dividends for HPHT.

Company Background

Hutchison Port Holdings Trust (HPHT) has controlling interests in container port assets located in two of the world's busiest container port cities by throughput - Kwai Tsing, Hong Kong and Yantian Port, Shenzhen, China.



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
HIT Throughput ('000	8,933	8,377	8,161	8,324	8,490
Yantian Throughput ('000	12,166	11,697	12,704	13,212	13,740
HIT Tariff / TEU	570	575	507	487	487
Yantian Tariff / TEU	618	606	600	594	594
Operating Margin (%)	34.5	35.5	31.2	32.3	32.6

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (HK\$m)					
HK	5,093	4,820	4,138	4,052	4,133
PRC	7,520	7,092	7,413	7,851	8,165
Total	12,613	11,912	11,551	11,903	12,299

Income Statement (HK\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	12,613	11,912	11,551	11,903	12,299
Cost of Goods Sold	(4,575)	(4,251)	(4,132)	(4,222)	(4,358)
Gross Profit	8,038	7,661	7,419	7,682	7,940
Other Opng (Exp)/Inc	(3,685)	(3,437)	(3,818)	(3,839)	(3,934)
Operating Profit	4,353	4,224	3,602	3,843	4,006
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	141	76.9	(40.0)	(60.0)	(10.0)
Net Interest (Exp)/Inc	(624)	(701)	(857)	(942)	(992)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3,870	3,600	2,705	2,841	3,004
Tax	(825)	(646)	(487)	(522)	(543)
Minority Interest	(1,300)	(1,240)	(1,273)	(1,368)	(1,452)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,745	1,714	944	951	1,009
Net Profit before Except.	1,745	1,714	944	951	1,009
EBITDA	7,315	7,218	6,565	6,837	7,065
Growth					
Revenue Gth (%)	(0.1)	(5.6)	(3.0)	3.1	3.3
EBITDA Gth (%)	6.6	(1.3)	(9.0)	4.1	3.3
Opg Profit Gth (%)	11.1	(3.0)	(14.7)	6.7	4.2
Net Profit Gth (Pre-ex) (%)	11.6	(1.8)	(44.9)	0.7	6.2
Margins & Ratio					
Gross Margins (%)	63.7	64.3	64.2	64.5	64.6
Opg Profit Margin (%)	34.5	35.5	31.2	32.3	32.6
Net Profit Margin (%)	13.8	14.4	8.2	8.0	8.2
ROAE (%)	4.0	4.1	2.3	2.4	2.6
ROA (%)	1.5	1.5	0.8	0.9	0.9
ROCE (%)	3.2	3.3	2.8	3.1	3.3
Div Payout Ratio (%)	171.7	155.6	190.1	188.8	177.8
Net Interest Cover (x)	7.0	6.0	4.2	4.1	4.0

Source: Company, DBS Bank

Hutchison Port Holdings Trust

Quarterly / Interim Income Statement (HK\$m)

FY Dec	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	2,578	2,894	3,222	2,857	2,667
Cost of Goods Sold	(919)	(1,000)	(1,102)	(1,111)	(992)
Gross Profit	1,660	1,894	2,120	1,746	1,675
Other Oper. (Exp)/Inc	(951)	(939)	(966)	(963)	(912)
Operating Profit	709	955	1,155	783	763
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(12.2)	(3.1)	(6.0)	(18.7)	(25.4)
Net Interest (Exp)/Inc	(194)	(210)	(238)	(215)	(229)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	503	742	910	550	509
Tax	(127)	(180)	(232)	51.7	(87.2)
Minority Interest	(209)	(293)	(408)	(364)	(276)
Net Profit	167	269	270	238	145
Net profit bef Except.	167	269	270	238	145
EBITDA	1,433	1,688	1,911	1,534	1,514

Growth

Revenue Gth (%)	(12.8)	12.3	11.3	(11.3)	(6.6)
EBITDA Gth (%)	(16.6)	17.8	13.2	(19.7)	(1.3)
Opg Profit Gth (%)	(27.2)	34.7	20.9	(32.2)	(2.6)
Net Profit Gth (Pre-ex) (%)	(56.7)	61.2	0.5	(12.1)	(38.9)

Margins

Gross Margins (%)	64.4	65.4	65.8	61.1	62.8
Opg Profit Margins (%)	27.5	33.0	35.8	27.4	28.6
Net Profit Margins (%)	6.5	9.3	8.4	8.3	5.5

Balance Sheet (HK\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	68,717	67,799	66,321	64,266	62,197
Invt in Associates & JVs	4,060	4,712	4,590	4,430	4,320
Other LT Assets	30,766	29,932	29,574	29,574	29,574
Cash & ST Invt	6,841	7,000	6,768	6,614	7,110
Inventory	124	112	110	114	118
Debtors	3,723	3,818	3,446	3,514	3,631
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	114,231	113,373	110,809	108,513	106,950
ST Debt	8,911	4,242	4,241	4,241	4,241
Creditor	7,295	7,648	6,742	6,258	6,472
Other Current Liab	313	259	410	410	410
LT Debt	24,082	29,241	28,249	27,249	26,249
Other LT Liabilities	11,462	11,301	10,846	10,846	10,846
Shareholder's Equity	42,600	41,249	40,294	39,413	38,484
Minority Interests	19,568	19,433	20,028	20,096	20,249
Total Cap. & Liab.	114,231	113,373	110,809	108,513	106,950
Non-Cash Wkg. Capital	(3,761)	(3,977)	(3,595)	(3,039)	(3,133)
Net Cash/(Debt)	(26,153)	(26,483)	(25,722)	(24,876)	(23,380)
Debtors Turn (avg days)	101.9	115.5	114.8	106.7	106.0
Creditors Turn (avg days)	1,481.3	2,043.4	2,327.5	2,031.9	1,802.0
Inventory Turn (avg days)	26.8	32.2	35.9	35.0	32.8
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.6	0.9	0.9	0.9	1.0
Quick Ratio (x)	0.6	0.9	0.9	0.9	1.0
Net Debt/Equity (X)	0.4	0.4	0.4	0.4	0.4
Net Debt/Equity ex MI (X)	0.6	0.6	0.6	0.6	0.6
Capex to Debt (%)	6.2	5.3	2.6	3.2	3.3
Z-Score (X)	0.1	0.2	0.1	0.1	0.1

Source: Company, DBS Bank

Cash Flow Statement (HK\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	3,870	3,600	2,705	2,841	3,004
Dep. & Amort.	2,821	2,917	3,003	3,054	3,069
Tax Paid	(1,226)	(968)	(646)	(522)	(543)
Assoc. & JV Inc/(loss)	(141)	(76.9)	40.0	60.0	10.0
Chg in Wkg.Cap.	(40.9)	270	(532)	(556)	93.6
Other Operating CF	(298)	(577)	1,170	0.0	0.0
Net Operating CF	4,985	5,164	5,740	4,877	5,634
Capital Exp.(net)	(2,042)	(1,765)	(839)	(1,000)	(1,000)
Other Invt.(net)	0.0	0.0	21.6	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	(673)	0.0	0.0
Div from Assoc & JV	138	83.0	131	100	100
Other Investing CF	711	56.2	(249)	0.0	0.0
Net Investing CF	(1,194)	(1,626)	(1,609)	(900)	(900)
Div Paid	(3,310)	(2,849)	(2,274)	(1,831)	(1,939)
Chg in Gross Debt	(629)	441	(1,039)	(1,000)	(1,000)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(810)	(971)	(1,050)	(1,300)	(1,300)
Net Financing CF	(4,749)	(3,379)	(4,363)	(4,131)	(4,239)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(958)	159	(232)	(154)	495
Opg CFPS (US cts.)	7.35	7.16	9.17	7.94	8.10
Free CFPS (US cts.)	4.30	4.97	7.17	5.67	6.78

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Apr 17	0.40	0.42	HOLD
2:	20 Jul 17	0.45	0.42	HOLD
3:	31 Oct 17	0.43	0.39	HOLD
4:	06 Feb 18	0.37	0.39	HOLD

Source: DBS Bank

Analyst: Paul YONG, CFA

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 16 Apr 2018 07:56:54 (SGT)

Dissemination Date: 16 Apr 2018 08:19:33 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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