

Singapore Company Guide

Hutchison Port Holdings Trust

Version 12 | Bloomberg: HPHT SP | Reuters: HPHT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jul 2018

HOLD (Downgrade from BUY)

Last Traded Price (23 Jul 2018): US\$0.275 (STI : 3,293.71)

Price Target 12-mth: US\$0.28 (2% upside) (Prev US\$0.38)

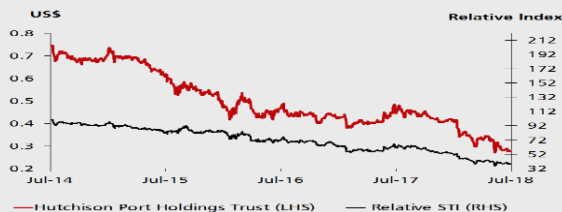
Analyst

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What's New

- 2Q earnings and DPU of 8.52 HK cts (-10.4% y-o-y) below expectations on weak volumes in Hong Kong
- An escalation in the US-China trade war would impact the Trust's volumes and cash flows
- FY18 DPU guidance lowered to 17-20 HK cts
- Downgrade to HOLD, TP US\$0.28

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2016A	2017A	2018F	2019F
Revenue	11,912	11,551	11,518	11,748
EBITDA	7,218	6,565	6,619	6,768
Pre-tax Profit	3,600	2,705	2,590	2,597
Net Profit	1,714	944	835	820
Net Pft (Pre Ex.)	1,714	944	835	820
Net Pft Gth (Pre-ex) (%)	(1.8)	(44.9)	(11.6)	(1.8)
EPS (US cts.)	2.51	1.38	1.22	1.20
EPS Pre Ex. (US cts.)	2.51	1.38	1.22	1.20
EPS Gth Pre Ex (%)	(2)	(45)	(12)	(2)
Diluted EPS (US cts.)	2.51	1.38	1.22	1.20
Net DPS (US cts.)	3.90	2.62	2.29	2.29
BV Per Share (US cts.)	60.3	58.9	57.8	56.9
PE (X)	11.0	19.9	22.5	22.9
PE Pre Ex. (X)	11.0	19.9	22.5	22.9
P/Cash Flow (X)	3.6	3.3	4.1	3.6
EV/EBITDA (X)	9.0	9.8	9.6	9.2
Net Div Yield (%)	14.2	9.5	8.3	8.3
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	0.4	0.4	0.4	0.4
ROAE (%)	4.1	2.3	2.1	2.1
Earnings Rev (%):			(12)	(19)
Consensus EPS (US cts.):			1.10	1.20
Other Broker Recs:		B: 2	S: 2	H: 6

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

Choppy seas

Downgrade to HOLD with TP of US\$0.28. Given the Hong Kong operations' ongoing struggles with profitability and management's reduced DPU guidance, we have cut our FY18F and FY19F earnings forecasts for HPHT by 12% and 19% respectively, as well as reduced our DPU forecast for FY18F and FY19F from 20.6 HK cts to 18 HK cts for each year. While >8% yield is on offer, which should support share price in the near term, the stock may struggle to re-rate until it addresses concerns over the profitability of its Hong Kong operations.

Where we differ: We cut our FY18F and FY19F DPU forecast from 20.6 HK cts each to 18 HK cts for both years.

Potential catalysts: HPHT's share price could re-rate if throughput volumes can drive better-than-expected revenues and cash flows in the quarters ahead.

DPU guidance lowered to 17-20 HK cts for FY18. Citing the weak performance in Hong Kong in 2Q18 and uncertainty over its throughput outlook due to the ongoing US-China trade war situation, HPHT cut its FY18 DPU guidance to 17-20 HK cts from 20-23 HK cts previously.

Valuation:

HOLD, TP US\$0.28. Our TP is based on a discounted cash flow valuation framework (weighted average cost of capital of 8.6% and terminal growth rate of 0%). We have adjusted our WACC assumption upwards to account for higher earnings volatility in view of the US-China trade war situation.

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)	2,396
Major Shareholders (%)	
Hutchison Ports	27.6
Temasek Holdings Private Ltd	11.0
Free Float (%)	61.4
3m Avg. Daily Val (US\$m)	12.0
ICB Industry : Financials / Non-equity Investment Instrument	

WHAT'S NEW

2Q earnings disappoint on weak Hong Kong performance

2Q18 revenue decline 3.6% y-o-y to HK\$2,789m. The combined throughput in Hong Kong fell by 7.2% y-o-y, mainly due to a decline in transshipment cargoes, while Yantian also saw a 4.1% y-o-y decline in volumes, which was mainly due to a drop in empty cargoes.

At half-time, revenue declined by 0.3% y-o-y to HK\$5,457m as the combined throughput in Hong Kong declined by 3.3%, offset by a 1.8% increase in throughput at Yantian.

2Q18 earnings decline 37% y-o-y to HK\$170m. As a result of higher operating costs and a 3.6% y-o-y decline in revenue, operating profit fell by 12.4% y-o-y to HK\$837m. Interest costs were higher by c. 20% y-o-y on higher rates and pretax earnings declined 22.5% y-o-y to HK\$757m. With Yantian performing relatively better than Hong Kong, which is largely wholly owned, PATMI fell by 37% to HK\$170m.

Interim earnings declined by 28% y-o-y to HK\$315m even as PAT fell by a lower 5% y-o-y, highlighting the continued weak performance of HPHT's Hong Kong operations.

Interim dividend cut by 10% to 8.52 HK cts. As a result of lower earnings and cash flow, HPHT lowered its interim dividend from 9.5 HK cts a year ago to 8.52 HK cts for the current interim period.

FY18 DPU guidance slashed to 17-20 HK cts. Citing the weak performance in Hong Kong in 2Q18 and uncertainty over its throughput outlook due to the ongoing US-China trade war situation, HPHT cut its FY18 DPU guidance to 17-20 HK cts from 20-23 HK cts previously.

Given the Hong Kong operations' ongoing struggles with profitability and management's reduced DPU guidance, we have cut our FY18F and FY19F earnings forecasts by 12% and 19% respectively, as well as reduced our DPU forecasts for FY18F and FY19F from 20.6 HK cts to 18 HK cts for each year.

Quarterly / Interim Income Statement (HK\$m)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	2,894	2,667	2,789	(3.6)	4.6
Cost of Goods Sold	(1,000)	(992)	(1,006)	0.6	1.4
Gross Profit	1,894	1,675	1,783	(5.9)	6.4
Other Oper. (Exp)/Inc	(939)	(912)	(946)	0.7	3.7
Operating Profit	955	763	837	(12.4)	9.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(3.1)	(25.4)	(10.0)	(222.6)	(60.6)
Net Interest (Exp)/Inc	(210)	(229)	(252)	(20.1)	(10.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	742	509	575	(22.5)	13.0
Tax	(180)	(87.2)	(102)	(43.5)	16.7
Minority Interest	(293)	(276)	(303)	(3.5)	9.8
Net Profit	269	145	170	(36.8)	16.9
Net profit bef Except.	269	145	170	(36.8)	16.9
EBITDA	1,688	1,514	1,594	(5.5)	5.3
Margins (%)					
Gross Margins	65.4	62.8	63.9		
Opg Profit Margins	33.0	28.6	30.0		
Net Profit Margins	9.3	5.5	6.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Volumes under pressure. 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 1% at Yantian, compared to 1.8% in 1H18 as the US-China trade war could impact on growth in the second half.

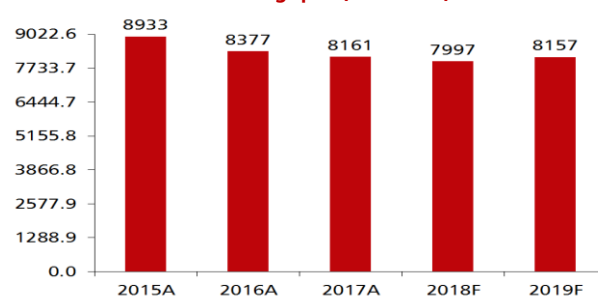
Meanwhile, the Trust's wholly owned subsidiary Hong Kong International Terminals (HIT) saw volumes contract 2.6% y-o-y in 2017 following a 6.2% y-o-y decline in 2016. However, including total throughput of joint ventures ACT and COSCO-HIT, volumes grew by 5.1% y-o-y following the co-management arrangement made in December 2016. We are projecting a 2% decline in volumes in 2018, following a 3.3% decline in 1H18.

Container handling rates to remain subdued. 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. As negotiations with liners on such concessions and tariff revisions continue 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. ASPs in 1H18 were marginally higher y-o-y due mainly to a more favourable mix of boxes.

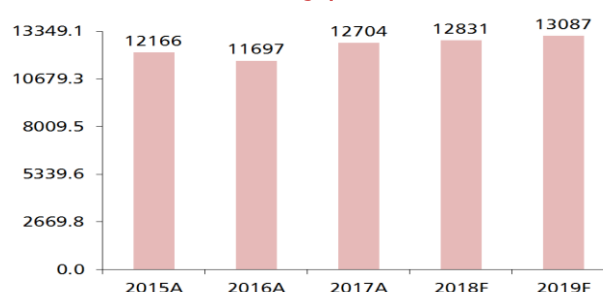
Cost management important to protect margins. The co-management arrangement effective January 2017 to jointly manage the ACT, HIT and COSCO-HIT terminals could further yield cost efficiencies in 2018 and help to protect operating margins. However during 1H18, operating costs rose despite lower revenue due to higher energy costs, and this could continue to put pressure on HPHT in the second half.

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 14% in FY18 and 13% in FY19F as we factor in higher interest rates, despite a reduction in overall debt.

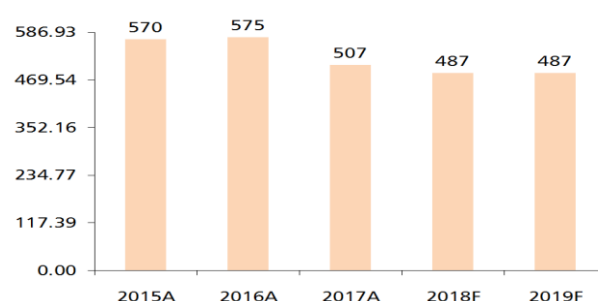
HIT Throughput ('000 TEUs)



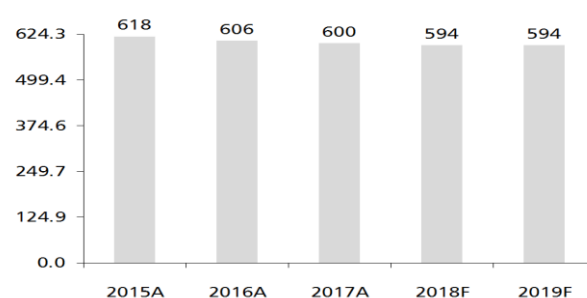
Yantian Throughput ('000 TEUs)



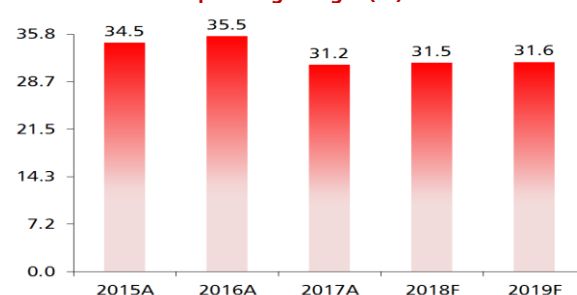
HIT Tariff / TEU



Yantian Tariff / TEU



Operating Margin (%)



Source: Company, DBS Bank

Hutchison Port Holdings Trust

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 0.6x 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\$0.28 based on DCF. Our TP is based on a discounted cash flow valuation framework (weighted average cost of capital of 8.6% and terminal growth rate of 0%).

Key Risks:

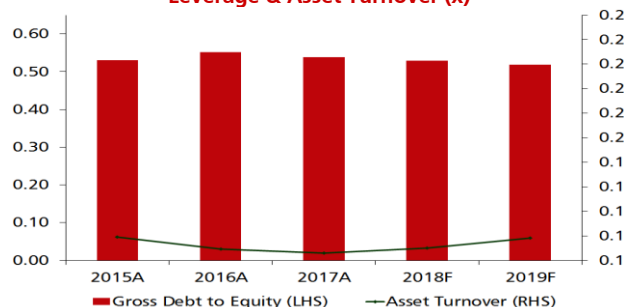
Transshipment volumes can be volatile. About 75% of Hong Kong Port volumes are transshipment cargoes, which are subject to competition from other regional ports like Singapore, Shanghai, and Busan. Hence, pricing for transshipment cargoes is likely to be continuously under pressure. Furthermore, transshipment 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 flows and thus impact on dividends for HPHT. Fixed rate debt accounts for c. 36% of its total debt.

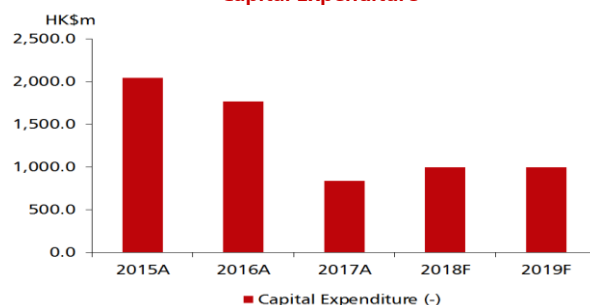
Company Background

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.

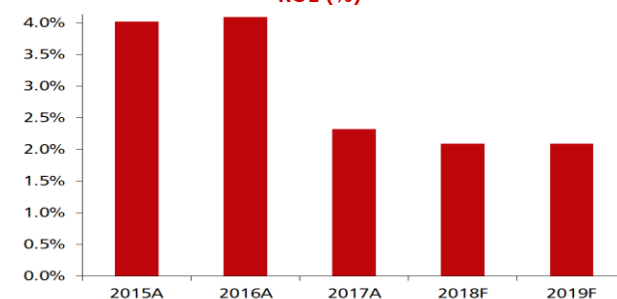
Leverage & Asset Turnover (x)



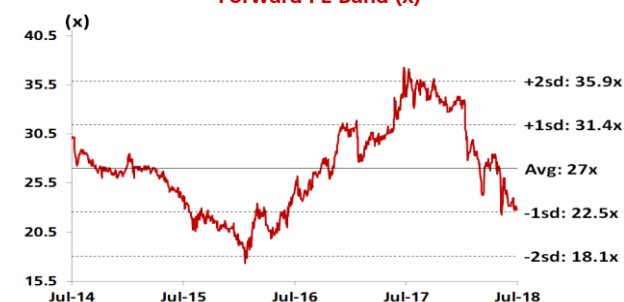
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
HIT Throughput ('000	8,933	8,377	8,161	7,997	8,157
Yantian Throughput ('000	12,166	11,697	12,704	12,831	13,087
HIT Tariff / TEU	570	575	507	487	487
Yantian Tariff / TEU	618	606	600	594	594
Operating Margin (%)	34.5	35.5	31.2	31.5	31.6

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (HK\$m)					
HK	5,093	4,820	4,138	3,893	3,971
PRC	7,520	7,092	7,413	7,625	7,777
Total	12,613	11,912	11,551	11,518	11,748

Income Statement (HK\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	12,613	11,912	11,551	11,518	11,748
Cost of Goods Sold	(4,575)	(4,251)	(4,132)	(4,083)	(4,165)
Gross Profit	8,038	7,661	7,419	7,435	7,584
Other Opng (Exp)/Inc	(3,685)	(3,437)	(3,818)	(3,810)	(3,875)
Operating Profit	4,353	4,224	3,602	3,625	3,709
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)	(975)	(1,102)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3,870	3,600	2,705	2,590	2,597
Tax	(825)	(646)	(487)	(477)	(495)
Minority Interest	(1,300)	(1,240)	(1,273)	(1,278)	(1,282)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,745	1,714	944	835	820
Net Profit before Except.	1,745	1,714	944	835	820
EBITDA	7,315	7,218	6,565	6,619	6,768
Growth					
Revenue Gth (%)	(0.1)	(5.6)	(3.0)	(0.3)	2.0
EBITDA Gth (%)	6.6	(1.3)	(9.0)	0.8	2.3
Opg Profit Gth (%)	11.1	(3.0)	(14.7)	0.6	2.3
Net Profit Gth (Pre-ex) (%)	11.6	(1.8)	(44.9)	(11.6)	(1.8)
Margins & Ratio					
Gross Margins (%)	63.7	64.3	64.2	64.5	64.5
Opg Profit Margin (%)	34.5	35.5	31.2	31.5	31.6
Net Profit Margin (%)	13.8	14.4	8.2	7.2	7.0
ROAE (%)	4.0	4.1	2.3	2.1	2.1
ROA (%)	1.5	1.5	0.8	0.8	0.8
ROCE (%)	3.2	3.3	2.8	2.9	3.0
Div Payout Ratio (%)	171.7	155.6	190.1	187.9	191.3
Net Interest Cover (x)	7.0	6.0	4.2	3.7	3.4

Source: Company, DBS Bank

Hutchison Port Holdings Trust

Quarterly / Interim Income Statement (HK\$m)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	2,894	3,222	2,857	2,667	2,789
Cost of Goods Sold	(1,000)	(1,102)	(1,111)	(992)	(1,006)
Gross Profit	1,894	2,120	1,746	1,675	1,783
Other Oper. (Exp)/Inc	(939)	(966)	(963)	(912)	(946)
Operating Profit	955	1,155	783	763	837
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(3.1)	(6.0)	(18.7)	(25.4)	(10.0)
Net Interest (Exp)/Inc	(210)	(238)	(215)	(229)	(252)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	742	910	550	509	575
Tax	(180)	(232)	51.7	(87.2)	(102)
Minority Interest	(293)	(408)	(364)	(276)	(303)
Net Profit	269	270	238	145	170
Net profit bef Except.	269	270	238	145	170
EBITDA	1,688	1,911	1,534	1,514	1,594

Growth

Revenue Gth (%)	12.3	11.3	(11.3)	(6.6)	4.6
EBITDA Gth (%)	17.8	13.2	(19.7)	(1.3)	5.3
Opg Profit Gth (%)	34.7	20.9	(32.2)	(2.6)	9.7
Net Profit Gth (Pre-ex) (%)	61.2	0.5	(12.1)	(38.9)	16.9

Margins

Gross Margins (%)	65.4	65.8	61.1	62.8	63.9
Opg Profit Margins (%)	33.0	35.8	27.4	28.6	30.0
Net Profit Margins (%)	9.3	8.4	8.3	5.5	6.1

Balance Sheet (HK\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	68,717	67,799	66,321	64,266	62,197
Invts 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 Invts	6,841	7,000	6,768	6,559	7,133
Inventory	124	112	110	110	112
Debtors	3,723	3,818	3,446	3,400	3,468
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	114,231	113,373	110,809	108,340	106,805
ST Debt	8,911	4,242	4,241	4,241	4,241
Creditor	7,295	7,648	6,742	6,052	6,185
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	39,536	38,887
Minority Interests	19,568	19,433	20,028	20,007	19,989
Total Cap. & Liab.	114,231	113,373	110,809	108,340	106,805
Non-Cash Wkg. Capital	(3,761)	(3,977)	(3,595)	(2,951)	(3,013)
Net Cash/(Debt)	(26,153)	(26,483)	(25,722)	(24,931)	(23,357)
Debtors Turn (avg days)	101.9	115.5	114.8	108.5	106.7
Creditors Turn (avg days)	1,481.3	2,043.4	2,327.5	2,269.4	2,037.8
Inventory Turn (avg days)	26.8	32.2	35.9	39.0	37.1
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	0.1	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	2,590	2,597
Dep. & Amort.	2,821	2,917	3,003	3,054	3,069
Tax Paid	(1,226)	(968)	(646)	(477)	(495)
Assoc. & JV Inc/(loss)	(141)	(76.9)	40.0	60.0	10.0
Chg in Wkg.Cap.	(40.9)	270	(532)	(644)	62.2
Other Operating CF	(298)	(577)	1,170	0.0	0.0
Net Operating CF	4,985	5,164	5,740	4,583	5,243
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)	(1,593)	(1,468)
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)	(3,893)	(3,768)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(958)	159	(232)	(209)	574
Opg CFPS (US cts.)	7.35	7.16	9.17	7.65	7.58
Free CFPS (US cts.)	4.30	4.97	7.17	5.24	6.21

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:	31 Oct 17	0.43	0.39	HOLD
2:	06 Feb 18	0.37	0.39	HOLD
3:	16 Apr 18	0.33	0.38	BUY

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: 24 Jul 2018 16:08:35 (SGT)

Dissemination Date: 24 Jul 2018 16:36:44 (SGT)

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

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