

Hutchison Port Holdings Trust

Version 13 | Bloomberg: HPHT SP | Reuters: HPHT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Feb 2019

HOLD

Last Traded Price (12 Feb 2019): US\$0.26 (STI : 3,201.15)

Price Target 12-mth: US\$0.26 (0%) (Prev US\$0.38)

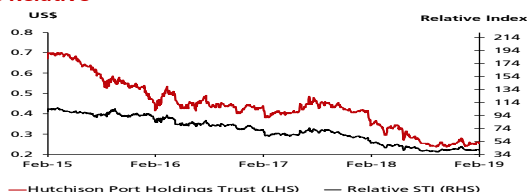
Analyst

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What's New

- FY18 core earnings fell 22% y-o-y to HK\$738m mainly due to higher finance costs with full year DPS 17.5% lower at 17HKcts
- Non-cash impairment charges of HK\$12.3bn to reflect uncertain outlook and other structural changes
- We cut our FY19F DPS forecast to 15HKcts, which is within management's guidance of 11HKcts to 17HKcts
- Maintain HOLD with a reduced TP of US\$0.26

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2017A	2018A	2019F	2020F
Revenue	11,551	11,483	11,407	11,655
EBITDA	6,565	6,575	6,458	6,591
Pre-tax Profit	2,705	(9,812)	2,356	2,446
Net Profit	944	(11,551)	693	720
Net Pft (Pre Ex.)	944	738	693	720
Net Pft Gth (Pre-ex) (%)	(44.9)	(21.9)	(6.1)	3.9
EPS (US cts.)	1.38	(16.9)	1.01	1.05
EPS Pre Ex. (US cts.)	1.38	1.08	1.01	1.05
EPS Gth Pre Ex (%)	(45)	(22)	(6)	4
Diluted EPS (US cts.)	1.38	(16.9)	1.01	1.05
Net DPS (US cts.)	2.62	2.17	1.91	2.04
BV Per Share (US cts.)	58.9	39.2	38.3	37.3
PE (X)	18.8	nm	25.7	24.7
PE Pre Ex. (X)	18.8	24.1	25.7	24.7
EV/EBITDA (X)	9.7	9.5	9.5	9.0
Net Div Yield (%)	10.1	8.3	7.4	7.8
P/Book Value (X)	0.4	0.7	0.7	0.7
Net Debt/Equity (X)	0.4	0.5	0.5	0.5
ROAE (%)	2.3	(34.5)	2.6	2.8
Earnings Rev (%):			(15)	-
Consensus EPS (US cts.):			0.80	0.10
Other Broker Recs:		B: 1	S: 4	H: 5

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

Uncertainties abound

Maintain HOLD with TP of US\$0.26. Despite a decent prospective yield of 7.4% on offer, we remain neutral on HPH Trust (HPHT) as it remains vulnerable to the on-going trade dispute between the US and China as its key port assets in Shenzhen and Hong Kong are heavily exposed to China's export sector. The relatively high gearing level of the trust also means that higher interest rates would also hurt its earnings and cash flows.

Where we differ: We cut our FY19F and FY20F DPU forecast to 15HKcts and 16 HKcts respectively.

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.

Cautious DPU guidance of 11HKcts to 17HKcts for 2019 highlights the uncertainty posed by the US-China trade situation. Citing the uncertainty over its throughput outlook due to the ongoing US-China trade war situation, and depending on how interest rates move, the company provided a wide DPU guidance range for FY19 of between 11HKcts to 17HKcts.

Valuation:

HOLD, TP cut to US\$0.26. 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)	2,265
Major Shareholders (%)	
Hutchison Ports	27.6
Temasek Holdings Private Ltd	13.9
Free Float (%)	58.5
3m Avg. Daily Val (US\$m)	1.9

ICB Industry : Financials / Nonequity Investment Instrument



Live more, Bank less

WHAT'S NEW

Weak 2018 earnings with uncertain outlook

Core earnings declined 22% y-o-y to HK\$738m: 2018 revenue dipped marginally by 0.6% y-o-y to HK\$11,483m on a slight drop in throughput volumes. Operating profit declined by 1.4% y-o-y as operating costs were relatively well contained. Finance costs rose by 19% y-o-y resulting in an 8.4% y-o-y decline in core pre-tax earnings and an overall 22% drop in core profit. Yantian continued to outperform HK port operations.

Non-cash impairment charges of HK\$12.3bn recorded. In view of the mounting global trade uncertainties caused by the current trade tensions, multinational corporations are adjusting their strategies such as accelerating the diversification of production bases outside of China and addressing the effects stemming from the structural changes

within the shipping line industry, HPHT recognised non-cash impairment losses of HK\$12,289m in 4Q18.

2018 DPU of HK 17cts expected; cautious DPU guidance ahead. HPHT declared a final dividend of 8.48 HKcts, bringing the full year total to 17HKcts. Citing the uncertainty over its throughput outlook due to the ongoing US-China trade war situation, and depending on how interest rates move, the management provided a wide DPU guidance range for FY19 of between 11HKcts to 17HKcts.

Quarterly / Interim Income Statement (HK\$m)

FY Dec	4Q2017	3Q2018	4Q2018	% chg yoy	% chg qoq
Revenue	2,857	3,027	2,999	5.0	(0.9)
Cost of Goods Sold	(1,111)	(1,017)	(1,128)	1.5	10.9
Gross Profit	1,746	2,010	1,871	7.2	(6.9)
Other Oper. (Exp)/Inc	(963)	(957)	(972)	0.9	1.5
Operating Profit	783	1,052	900	14.9	(14.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(18.7)	(13.6)	(3.6)	80.7	(73.5)
Net Interest (Exp)/Inc	(215)	(270)	(270)	(25.9)	nm
Exceptional Gain/(Loss)	0.0	0.0	(12,289)	nm	nm
Pre-tax Profit	550	768	(11,663)	nm	nm
Tax	51.7	(128)	(118)	nm	(8.1)
Minority Interest	(364)	(401)	(326)	10.5	(18.8)
Net Profit	238	240	(12,106)	nm	nm
Net profit bef Except.	238	240	183	(23.1)	(23.7)
EBITDA	1,534	1,803	1,665	8.5	(7.6)
Margins (%)					
Gross Margins	61.1	66.4	62.4		
Opg Profit Margins	27.4	34.8	30.0		
Net Profit Margins	8.3	7.9	(403.6)		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Volumes under pressure. Throughput volume at Yantian Port grew by 3.6% y-o-y to 13.2m TEUs in 2018, driven mainly by growth in US and transshipment volumes. This followed an 8.6% y-o-y improvement in 2017, which was also led by growth in US volumes and transshipment cargoes. For 2019, we expect volumes at Yantian to stay flat, subject to how the US-China trade war situation plays out.

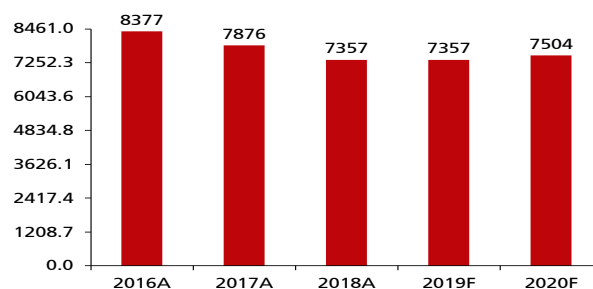
Meanwhile, the Trust's wholly owned subsidiary, Hong Kong International Terminals (HIT), saw volumes contract 6.6% y-o-y in 2018 following a 6% y-o-y decline in 2017. We are projecting throughput growth to be flat in 2019, with an improvement of 2% in 2020.

Container handling rates to remain subdued. The average revenue per TEU for HIT rose by 0.5% y-o-y in 2018, compared to 8.7% y-o-y decline in 2017, due mainly to a write-back of agency fee provision following the finalisation of tariff negotiation. We expect average tariff for HIT to be flat in 2019. For Yantian, we assume a similar 1% decline in revenue per TEU in 2019 as in 2018, as the RMB continues to weaken slightly against the US\$.

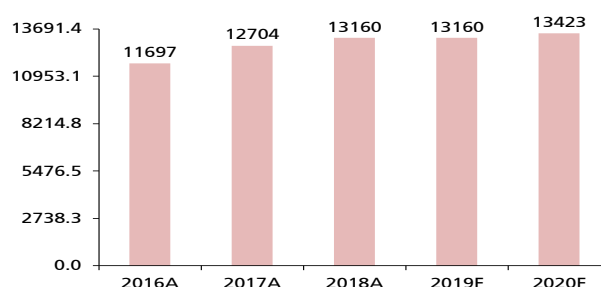
Cost management important to protect margins. On 8 January 2019, HIT, COSCO-HIT, ACT and Modern Terminals Limited entered into a Hong Kong Seaport Joint Operating Alliance Agreement regarding the terms on which they will collaborate with each other for the efficient management and operation of the 23 berths in Kwai Tsing. This should help manage costs for all parties involved.

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 FY19F and 2020F. We have assumed there would be one further rate hike of 25bps towards the end of 2019.

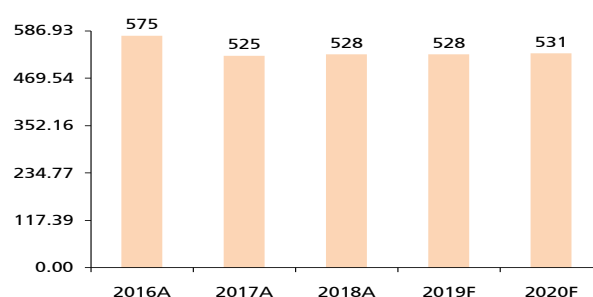
HIT Throughput ('000 TEUs)



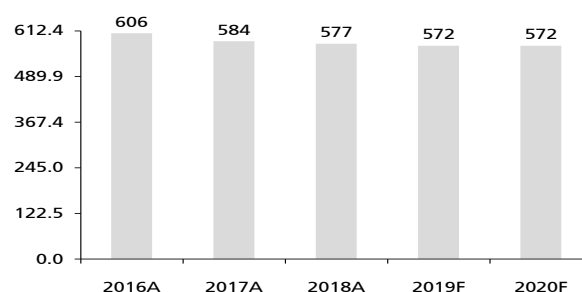
Yantian Throughput ('000 TEUs)



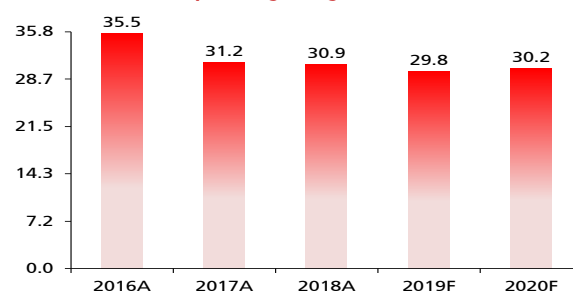
HIT Tariff / TEU



Yantian Tariff / TEU



Operating Margin (%)



Source: Company, DBS Bank

Appendix 1: What drives HPHT's share price?

As a business trust, HPHT's share price is unsurprisingly strongly correlated with consensus' DPS expectations for the stock. Since Feb 2012, HPHT's share price had close to 94% correlation with consensus' 12-month forward DPS expectations for the stock.

We project FY19F DPS for HPHT to decline 12% y-o-y to 1.93 UScts compared to consensus of 1.91 UScts, thus we can expect HPHT's share price performance to continue to be lackluster.

HPHT Share price vs. 12-month forward DPS (US\$)



Source: ThomsonReuters, 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 0.93x as at end-FY18, and this should decline as the Trust continues to pay down debt, to 0.86x by end-2020F.

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\$0.26 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:

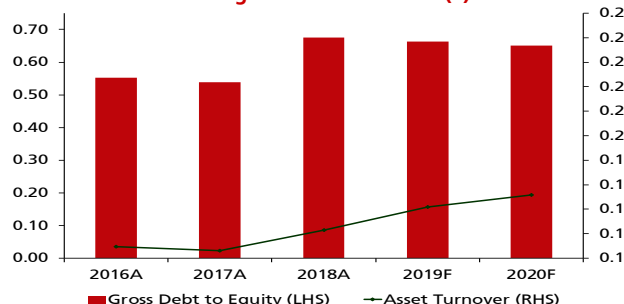
Transshipment volumes can be volatile. About 75% of Hong Kong Port volumes are transshipment cargoes, which are subject to competition from other regional ports like Singapore, Shanghai, and Busan. Hence, pricing for transshipment cargoes is likely to be continuously under pressure. Furthermore, transshipment 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 2019 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.

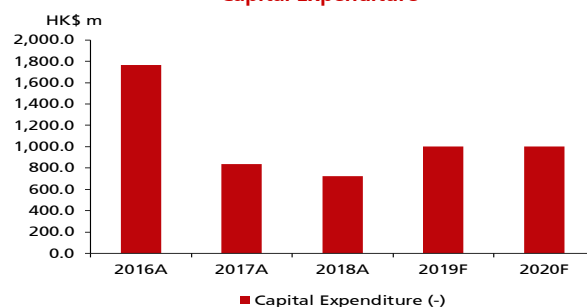
Company Background

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.

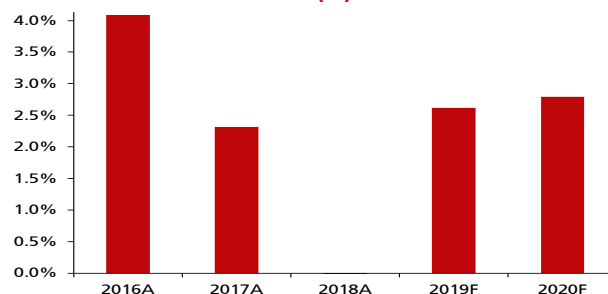
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2016A	2017A	2018A	2019F	2020F
HIT Throughput ('000	8,377	7,876	7,357	7,357	7,504
Yantian Throughput ('000	11,697	12,704	13,160	13,160	13,423
HIT Tariff / TEU	575	525	528	528	531
Yantian Tariff / TEU	606	584	577	572	572
Operating Margin (%)	35.5	31.2	30.9	29.8	30.2

Segmental Breakdown

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenues (HK\$m)					
HK	4,820	4,138	3,884	3,884	3,981
PRC	7,092	7,413	7,599	7,523	7,673
Total	11,912	11,551	11,483	11,407	11,655

Income Statement (HK\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	11,912	11,551	11,483	11,407	11,655
Cost of Goods Sold	(4,251)	(4,132)	(4,144)	(4,144)	(4,248)
Gross Profit	7,661	7,419	7,339	7,263	7,407
Other Opng (Exp)/Inc	(3,437)	(3,818)	(3,787)	(3,844)	(3,865)
Operating Profit	4,224	3,602	3,552	3,419	3,542
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	76.9	(40.0)	(52.6)	(40.0)	(30.0)
Net Interest (Exp)/Inc	(701)	(857)	(1,022)	(1,023)	(1,066)
Exceptional Gain/(Loss)	0.0	0.0	(12,289)	0.0	0.0
Pre-tax Profit	3,600	2,705	(9,812)	2,356	2,446
Tax	(646)	(487)	(434)	(431)	(446)
Minority Interest	(1,240)	(1,273)	(1,305)	(1,232)	(1,280)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,714	944	(11,551)	693	720
Net Profit before Except.	1,714	944	738	693	720
EBITDA	7,218	6,565	6,575	6,458	6,591
Growth					
Revenue Gth (%)	(5.6)	(3.0)	(0.6)	(0.7)	2.2
EBITDA Gth (%)	(1.3)	(9.0)	0.2	(1.8)	2.1
Opg Profit Gth (%)	(3.0)	(14.7)	(1.4)	(3.7)	3.6
Net Profit Gth (Pre-ex) (%)	(1.8)	(44.9)	(21.9)	(6.1)	3.9
Margins & Ratio					
Gross Margins (%)	64.3	64.2	63.9	63.7	63.6
Opg Profit Margin (%)	35.5	31.2	30.9	30.0	30.4
Net Profit Margin (%)	14.4	8.2	(100.6)	6.1	6.2
ROAE (%)	4.1	2.3	(34.5)	2.6	2.8
ROA (%)	1.5	0.8	(11.2)	0.7	0.8
ROCE (%)	3.3	2.8	3.7	3.2	3.4
Div Payout Ratio (%)	155.6	190.1	N/A	188.6	193.6
Net Interest Cover (x)	6.0	4.2	3.5	3.3	3.3

Source: Company, DBS Bank

Quarterly / Interim Income Statement (HK\$m)

FY Dec	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	2,857	2,667	2,789	3,027	2,999
Cost of Goods Sold	(1,111)	(992)	(1,006)	(1,017)	(1,128)
Gross Profit	1,746	1,675	1,783	2,010	1,871
Other Oper. (Exp)/Inc	(963)	(912)	(946)	(957)	(972)
Operating Profit	783	763	837	1,052	900
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(18.7)	(25.4)	(10.0)	(13.6)	(3.6)
Net Interest (Exp)/Inc	(215)	(229)	(252)	(270)	(270)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(12,289)
Pre-tax Profit	550	509	575	768	(11,663)
Tax	51.7	(87.2)	(102)	(128)	(118)
Minority Interest	(364)	(276)	(303)	(401)	(326)
Net Profit	238	145	170	240	(12,106)
Net profit bef Except.	238	145	170	240	183
EBITDA	1,534	1,514	1,594	1,803	1,665

Growth

Revenue Gth (%)	(11.3)	(6.6)	4.6	8.5	(0.9)
EBITDA Gth (%)	(19.7)	(1.3)	5.3	13.1	(7.6)
Opg Profit Gth (%)	(32.2)	(2.6)	9.7	25.8	(14.5)
Net Profit Gth (Pre-ex) (%)	(12.1)	(38.9)	16.9	40.9	(23.7)

Margins

Gross Margins (%)	61.1	62.8	63.9	66.4	62.4
Opg Profit Margins (%)	27.4	28.6	30.0	34.8	30.0
Net Profit Margins (%)	8.3	5.5	6.1	7.9	(403.6)

Balance Sheet (HK\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	67,799	66,321	63,999	61,921	59,842
Invts in Associates & JVs	4,712	4,590	3,629	3,489	3,359
Other LT Assets	29,932	29,574	17,697	17,697	17,697
Cash & ST Invts	7,000	6,768	6,566	6,926	7,445
Inventory	112	110	103	112	115
Debtors	3,818	3,446	3,061	3,367	3,441
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	113,373	110,809	95,056	93,512	91,898
ST Debt	4,242	4,241	2,518	2,518	2,518
Creditor	7,648	6,742	5,928	6,153	6,319
Other Current Liab	259	410	358	358	358
LT Debt	29,241	28,249	28,974	27,938	26,902
Other LT Liabilities	11,301	10,846	10,610	10,610	10,610
Shareholder's Equity	41,249	40,294	26,768	26,154	25,480
Minority Interests	19,433	20,028	19,900	19,782	19,712
Total Cap. & Liab.	113,373	110,809	95,056	93,512	91,898
Non-Cash Wkg. Capital	(3,977)	(3,595)	(3,122)	(3,032)	(3,122)
Net Cash/(Debt)	(26,483)	(25,722)	(24,925)	(23,530)	(21,974)
Debtors Turn (avg days)	115.5	114.8	103.4	102.8	106.6
Creditors Turn (avg days)	2,043.4	2,327.5	2,166.0	2,070.1	1,947.8
Inventory Turn (avg days)	32.2	35.9	36.4	36.8	35.4
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.9	0.9	1.1	1.2	1.2
Quick Ratio (x)	0.9	0.9	1.1	1.1	1.2
Net Debt/Equity (X)	0.4	0.4	0.5	0.5	0.5
Net Debt/Equity ex MI (X)	0.6	0.6	0.9	0.9	0.9
Capex to Debt (%)	5.3	2.6	2.3	3.3	3.4

Source: Company, DBS Bank

Cash Flow Statement (HK\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	3,600	2,705	(9,812)	2,356	2,446
Dep. & Amort.	2,917	3,003	3,076	3,078	3,079
Tax Paid	(968)	(646)	(826)	(431)	(446)
Assoc. & JV Inc/(loss)	(76.9)	40.0	52.6	40.0	30.0
Chg in Wkg.Cap.	270	(532)	(422)	(90.6)	90.1
Other Operating CF	(577)	1,170	12,175	0.0	0.0
Net Operating CF	5,164	5,740	4,245	4,952	5,199
Capital Exp.(net)	(1,765)	(839)	(722)	(1,000)	(1,000)
Other Invt.(net)	0.0	21.6	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(673)	142	0.0	0.0
Div from Assoc & JV	83.0	131	127	100	100
Other Investing CF	56.2	(249)	100	0.0	0.0
Net Investing CF	(1,626)	(1,609)	(353)	(900)	(900)
Div Paid	(2,849)	(2,274)	(1,709)	(1,307)	(1,394)
Chg in Gross Debt	441	(1,039)	(1,036)	(1,036)	(1,036)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(971)	(1,050)	(1,349)	(1,350)	(1,350)
Net Financing CF	(3,379)	(4,363)	(4,094)	(3,693)	(3,780)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	159	(232)	(202)	360	519
Opg CFPS (US cts.)	7.16	9.17	6.83	7.38	7.47
Free CFPS (US cts.)	4.97	7.17	5.15	5.78	6.14

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Apr 18	0.33	0.38	BUY
2:	24 Jul 18	0.27	0.38	HOLD

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

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: 13 Feb 2019 08:14:02 (SGT)

Dissemination Date: 13 Feb 2019 08:20:29 (SGT)

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

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