

Napier Port

NEUTRAL

Volumes Support First Port Call

Napier Port's (NPH) year-end volume update suggests it's on track to exceed its pre-listing forecasts for FY19. Log exports and container volumes are above management's forecasts, and therefore suggest the company will report a positive inaugural full year result as a listed company on 19 November 2019. However, actual log exports are not as high as NZ Statistics export data suggests, which means we cut our FY19 earnings estimates modestly. Notwithstanding post-listing share price strength, which now places NPH on a one year forward EV/EBITDA multiple of ~16x, we retain a NEUTRAL rating and an NZ\$3.00 target price.

What's changed?

Earnings: FY19E EBITDA: -2%, FY20E: no change

Volume update

NPH's FY19 cargo volumes are modestly ahead of PFI (prospectus financial information) forecasts from the time the company issued its pre-listing product disclosure statement in July 2019. Both containers and log exports are up relative to management's expectations, while other bulk products are lower. Our previous log export forecasts were based on NZ Statistics data, which suggests that volumes were +4% ahead of that reported by NPH. The variance may reflect shipment timing differences. As a result, we lower our FY19 estimates.

WPI risk remains

A key risk to NPH remains its contestable WPI (Winstone Pulp International) contract which is currently being touted by other ports. WPI exports wood pulp via rail from Ohakune through NPH. We estimate WPI accounts for ~8% of group revenue and a higher proportion of profitability. We provide no discount to our earnings forecasts or valuation in relation to this contract risk and continue to believe that NPH will retain it.

Valuation; size discount has been eroded

We retain an NZ\$3.00 target price. NPH now trades at a one year forward EV/EBITDA of ~16x and PE of ~34x. These both represent sizeable, albeit justifiable, discounts to Port of Tauranga (POT) given the latter's superior growth return on capital profile. In particular, NPH's returns outlook is depressed by the imminent and sizeable 6 Wharf investment. NPH now trades on an enterprise value to invested capital multiple consistent with its larger cap infrastructure peers after adjusting for return on capital differences. The market no longer applies a discount for size or liquidity.

Investment View

NPH offers investors exposure to a long term infrastructure asset, which has a favourable catchment in Hawke's Bay. We expect cargo growth momentum to continue over the medium term supported by positive outlooks for both the forestry and pipfruit sectors. NPH's pricing power will be key in improving economic returns following the significant capital investment in a new wharf. While NPH trades at a (justifiably) large earnings valuation discount to Port of Tauranga (POT), we believe it is fairly priced at a modest premium to its smaller sector peers. NEUTRAL.

NZX Code				NPH		
Share price			NZ	Z\$3.46		
Target price	NZ\$3.00					
Risk rating			M	ledium		
Issued shares			2	00.0n		
Market cap			\$692n			
Average daily turnover		571.7k	(NZ\$1	,723k		
Share Price Performance	•					
\$4.00				1.50		
\$3.50 -	_	_/		4.00		
\$3.00				1.00		
\$2.50				0.50		
\$2.50 Aug19 Sep1 Price		Oct19				
Aug19 Sep1				50		
Aug19 Sep1 Price Financials: September	Rela	tive to S&	P/NZX 5	50 21 E		
Aug19 Sep1 Price Financials: September NPAT* (NZ\$m)	Rela	tive to S&	20E	21E		
Aug19 Sep1 Price Financials: September NPAT* (NZ\$m) EPS* (NZc)	18A n/a	19E 19.7	20E 20.0	21E 23.8 11.9		
Aug19 Sep1 Price Price Financials: September NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%)	18A n/a n/a	19E 19.7 9.8	20E 20.0 10.0	21E 23.8 11.9		
Aug19 Sep1 Price Financials: September NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%) DPS (NZc)	18A n/a n/a n/a	19E 19.7 9.8 n/a	20E 20.0 10.0 1.5	21E 23.8 11.9 19.2		
Aug19 Sep1 Price Financials: September NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%)	18A n/a n/a n/a 0.0	19E 19.7 9.8 n/a 2.5	20E 20.0 10.0 1.5 7.5	21E 23.8 11.9 19.2 9.7		
Aug19 Sep1 Price Financials: September NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%) Valuation (x)	18A n/a n/a n/a 0.0	19E 19.7 9.8 n/a 2.5 100	20E 20.0 10.0 1.5 7.5 100	21E 23.8 11.9 19.2 9.7 100		
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Aug19 Sep1 Price Financials: September NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%) Valuation (x) EV/EBITDA EV/EBIT PE	18A n/a n/a n/a 0.0 0	19E 19.7 9.8 n/a 2.5 100 19E 17.7 24.9	20E 20.0 10.0 1.5 7.5 100 20E 16.2 23.7	21E 23.8 11.9.2 9.100 21E 14.4 20.6 29.0		
Aug19 Sep1	18A n/a n/a n/a 0.0 0 18A 20.6 n/a n/a	19E 19.7 9.8 n/a 2.5 100 19E 17.7 24.9 35.1	20E 20.0 10.0 1.5 7.5 100 20E 16.2 23.7 34.6			

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Napier Port Ltd									S	eptember	year end
Forsyth Barr valuation				Valuation Ratios	2017A	2018A	2019E	2020E	2021E		
Valuation methodology		DC	F and inve	sted capita	al muliple	EV/EBITDA (x)	n/a	20.6	17.7	16.2	14.4
						EV/EBIT (x)	n/a	n/a	24.9	23.7	20.6
12-month target price (NZ\$)*	3.00	Spot va	luations (l	NZ\$)		PE (x)	n/a	n/a	35.1	34.6	29.0
Expected share price return	-13.3%	1. DCF 2.85		Price/NTA (x)	n/a	n/a	2.1	2.0	2.0		
Net dividend yield	2.2%	2. Invested capital multiple 2.85		Free cash flow yield (%)	n/a	n/a	0.1	-5.6	-6.9		
Estimated 12-month return	-11.1%	3. n/a			n/a	Net dividend yield (%)	0.0	0.0	0.7	2.2	2.6
						Gross dividend yield (%)	0.0	0.0	1.0	3.0	3.6
Key WACC assumptions		DCF va	luation su	mmary (N	Z\$m)	Imputation (%)	0	0	100	100	100
Risk free rate	2.50%	Total fin	m value	• `	549	Pay-out ratio (%)	n/a	n/a	25	75	76
Equity beta	0.72	(Net del	ot)/cash		21						
WACC	6.4%	`	,		569	Capital Structure	2017A	2018A	2019E	2020E	2021E
Terminal growth	1.5%		Shares (m) 200		Interest cover EBIT (x)	n/a	n/a	42.9	n/a	n/a	
- comman grown	1.070	01.01.00	(···)			Interest cover EBITDA (x)	n/a	n/a	60.4	n/a	n/a
Profit and Loss Account (NZ\$m)	2017A	2018A	2019E	2020E	2021E	Net debt/ND+E (%)	28.9	27.5	-7.0	7.9	21.0
Sales revenue	86.7	91.7	98.0	102.5	110.9	Net debt/EBITDA (x)	2.3	2.2	n/a	0.7	2.0
Normalised EBITDA	35.7	37.3	40.3	40.9	46.0	Net debitEBITBA (X)	2.0	2.2	Π/α	0.1	2.0
	n/a	n/a		(12.9)	(13.8)	Key Ratios	2017A	2018A	2019E	2020E	2021E
Depreciation and amortisation Normalised EBIT	n/a	n/a	(11.7) 28.6	(12.9) 27.9	(13.6) 32.1	•	2017A n/a	n/a	2019E 7.7	2020E 6.9	6.6
						Return on assets (%)					
Net interest	n/a	n/a	(0.7)	0.1	0.9	Return on equity (%)	n/a	n/a	5.9	5.8	6.8
Associate income	n/a	n/a	(1.1)	(0.1)	- (0.0)	Return on funds employed (%)	n/a	n/a 40.6	8.8	7.4	6.8
Tax	n/a	n/a	(8.0)	(7.9)	(9.3)	EBITDA margin (%)	41.2	40.6	41.1	39.9	41.5
Minority interests	n/a	n/a	-	-	-	EBIT margin (%)	n/a	n/a	29.2	27.3	29.0
Normalised NPAT	n/a	n/a	19.7	20.0	23.8	Capex to sales (%)	n/a	n/a	25.3	68.0	77.0
Abnormals/other	n/a	n/a	13.6	-	-	Capex to depreciation (%)	n/a	n/a	212	538	618
Reported NPAT	n/a	n/a	6.1	20.0	23.8						
Normalised EPS (cps)	n/a	n/a	9.8	10.0	11.9	Operating Performance	2017A	2018A	2019E	2020E	2021E
DPS (cps)	n/a	n/a	2.5	7.5	9.1	Revenue (NZ\$m)					
						Container Services	61	58	60	63	68
Growth Rates	2017A	2018A	2019E	2020E	2021E	Bulk Cargo	22	29	32	32	36
Revenue (%)	19.3	5.8	6.8	4.6	8.2	Cruise	2	3	4	5	5
EBITDA (%)	24.1	4.4	8.0	1.5	12.4	Sundry	0	0	1	0	0
EBIT (%)	n/a	n/a	n/a	-2.3	15.0	Property	2	2	2	2	2
Normalised NPAT (%)	n/a	n/a	n/a	1.5	19.2	Total revenue	87	92	98	103	111
Normalised EPS (%)	n/a	n/a	n/a	1.5	19.2						
Ordinary DPS (%)	n/a	n/a	n/a	>100	21.7	Expenses (NZ\$m)					
						Employee benefit	26	26	28	31	33
Cash Flow (NZ\$m)	2017A	2018A	2019E	2020E	2021E	Maintenance	9	9	9	9	10
EBITDA	35.7	37.3	40.3	40.9	46.0	Other operating expenses	16	19	20	21	22
Working capital change	n/a	n/a	-	-	-	Total	51	54	58	62	65
Interest & tax paid	n/a	n/a	(15.6)	(7.8)	(8.3)						
Other	n/a	n/a	0.7	(1.8)	-	Container volumes (TEU'000)					
Operating cash flow	n/a	n/a	25.4	31.2	37.6	Dry	125	102	105	103	106
Capital expenditure	n/a	n/a	(24.8)	(69.7)	(85.4)	Reefer	57	58	59	59	61
(Acquisitions)/divestments	n/a	n/a	(0.2)	(0.1)	-	Empties	99	100	103	102	105
Other	n/a	n/a	(53.9)	(12.6)	(16.2)	Other	7	7	4	8	8
Funding available/(required)	n/a	n/a	(53.5)	(51.2)	(63.9)	Total containers	288	266	271	272	280
Dividends paid	n/a	n/a	(54.0)	(11.0)	(16.2)	. Tan vontamore	200	200		212	200
Equity raised/(returned)	n/a	n/a	156.0	(0.3)	(10.2)	Bulk cargo (m tonnes)					
Increase/(decrease) in net debt	n/a	n/a	(102.4)	51.0	63.9	Log exports	1,630	2,208	2,581	2,500	2,800
	11/4	:1/4	(.02.7)	01.0	55.5	Other exports	241	177	167	2,300	2,000
Balance Sheet (NZ\$m)	2017A	2018A	2019E	2020E	2021E	Imports	634	686	656	609	621
Working capital	2017A 0.7	2010A 2.8	2.3	0.3	1.1	Total bulk cargo volume	2,505	3,071	3,404		3,638
· ·	307.2	309.6	2.3 324.8	383.1	454.7	i otai buik cai yo volulile	2,505	3,071	3,404	3,317	3,038
Fixed assets						Chin viaita					
Intangibles	1.7	1.3	1.5	1.8	1.8	Ship visits	070	200	244	242	040
*		8.8	8.9	8.7	8.7	Container	372	329	314	313	313
Other assets	8.1			000		DI III	262				
Other assets Total funds employed	317.7	322.6	337.5	393.8	466.2	Bulk		298	314	301	301
Other assets Total funds employed Net debt/(cash)	317.7 83.3	322.6 80.6	(21.9)	29.6	93.5	Cruise	54	57	70	87	90
Other assets Total funds employed Net debt/(cash) Other non current liabilities	317.7 83.3 29.2	322.6 80.6 29.6	(21.9) 23.2	29.6 20.5	93.5 20.0						
Other assets Total funds employed Net debt/(cash) Other non current liabilities Shareholder's funds	317.7 83.3	322.6 80.6	(21.9)	29.6	93.5	Cruise Total	54 688	57 684	70 698	87	90
Other assets Total funds employed Net debt/(cash) Other non current liabilities	317.7 83.3 29.2	322.6 80.6 29.6	(21.9) 23.2	29.6 20.5	93.5 20.0	Cruise	54 688	57 684	70 698	87	90

^{*} Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend



Earnings revisions

We lower our FY19 earnings forecasts in light of NPH's year-end volume update. Our forecasts now incorporate company provided actual volumes. The key differences between our previous estimates and actual are as follows:

- Log exports: The company reports 2.58MT of log exports vs. our forecast based on Stats NZ export data of 2.70MT. We suspect the difference relates to timing differences around shipment cut-offs between the NZ Stats data (sourced from exporters) and NPH.
- Containers: Partially offsetting the lower than expected log exports was a modestly better container outcome. Total containers were 271k TEU compared to our previous forecast of 269k TEU.

Figure 1. Earnings revisions (NZ\$m)

	FY19E					FY20E		FY21E			
	PFI	Old	New	Chg	Old	New	Chg	Old	New	Chg	
Log exports (JASM)	2,500	2,700	2,581	-4.4%	2,500	2,500	0.0%	2,800	2,800	0.0%	
Containers (TEU)	269	269	271	0.7%	272	272	0.0%	280	280	0.0%	
Sales revenue	97.4	99.2	98.0	-1.2%	102.5	102.5	0.0%	110.9	110.9	0.0%	
EBITDA	39.8	41.0	40.3	-1.8%	40.9	40.9	0.0%	46.0	46.0	0.0%	
Underlying NPAT	19.2	20.4	19.7	-3.6%	20.0	20.0	0.0%	23.8	23.8	0.0%	
Underlying EPS (cents)	9.6	10.2	9.8	-3.6%	10.0	10.0	0.0%	11.9	11.9	0.0%	
DPS (cents)	n/a	2.5	2.5	0.0%	7.5	7.5	0.0%	9.1	9.1	0.0%	

Source: Forsyth Barr analysis

Valuation

We make no changes to our target price of NZ\$3.00. This incorporates a -20% size discount relative to NPH's larger cap infrastructure players within our EV/IC valuation framework. Figure 2 suggests that the market is not imposing any size discount on NPH.

Figure 2. No longer a size discount for NPH

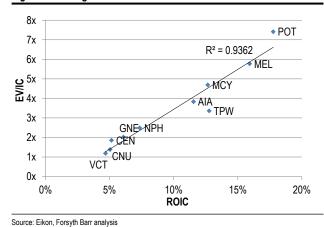
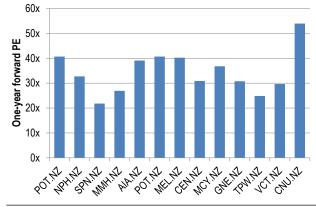


Figure 3. Infrastructure players aren't cheap



Source: Eikon, Forsyth Barr analysis



Investment summary

Napier Port (NPH) is New Zealand's fourth largest container terminal and sixth largest bulk cargo port. The majority of its cargo is export and its productive hinterland drives most of its throughput with key trades including forestry and pipfruit. The Port is building a new wharf to ease congestion and provide greater capacity for growth. While it trades at a material discount to Port of Tauranga, we believe current valuation levels are fair in light of its lower return on capital and longer term growth outlook. NEUTRAL.

Business quality

- Long term infrastructure: NPH is the gateway for Hawke's Bay favourable catchment of exports. Land transport costs provide a barrier to entry for other ports.
- Pricing power: NPH has a track record of being more aggressive with its approach to pricing than other NZ ports. We expect it to enhance returns following its 6 Wharf investment in part through higher pricing.

Earnings and cash flow outlook

- Wall of wood: Hawke's Bay has approximately 134,000 ha of planted forests. Due
 to the significant tree planting in the 1990s, particularly among smaller private forest
 owners, harvest volume should increase materially over the next five years (the 'wall
 of wood').
- Pipfruit: Hawke's Bay is NZ's largest region for producing pipfruit. The emergence of new apple varietals and ongoing tree planting programmes by the larger growers provide a favourable outlook.
- 6 Wharf: NPH's significant investment in a new container wharf will provide capacity for longer term growth but will act as a headwind to earnings over the medium term given the associated costs (i.e. depreciation and interest).

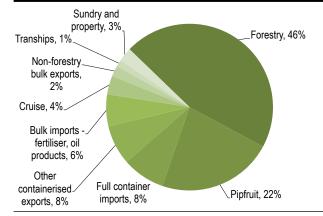
Financial structure

Rising debt levels: NPH is currently cum-capex and will experience a leveraging up
of its balance sheet over the medium term.

Risks factors

- Industry sector risk: Any change in the supply, or demand for NZ forestry/ pipfruit could have a material impact on the Port's financial performance.
- Competition from other ports: Increased competition from other ports may mean that NPH loses cargo in future, particularly current contestable cargo.

Figure 4. NPH estimated revenue mix (FY19E)



Source: Forsyth Barr analysis

Company description

(apple and pears).

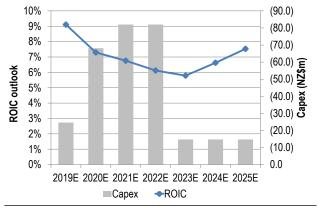
Napier Port is New Zealand's 4th largest

container terminal and the 5th largest port, as measured by cargo tonnage. Cargo is

export driven accounting for \sim 79% of throughput in FY18. Key export

commodities include forestry product (logs, sawn timber, and pulp) and pipfruits

Figure 5. Returns under pressure from 6 Wharf capex



Source: Forsyth Barr analysis



Figure 6. Substantial Shareholders

Shareholder	Latest Holding
Hawke's Bay Regional Council	55.0%

Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 7. International Compcos

Company	Code	Price	Mkt Cap PE			EV/EBITDA		EV/EBIT		Cash D/Yld	
(metrics re-weighted to reflect NPH's balance date - September)			(m)	2019E	2020E	2019E	2020E	2019E	2020E	2020E	
Napier Port	NPH NZ	NZ\$3.46	NZ\$692	35.1x	34.6x	19.2x	18.9x	27.0x	27.6x	2.2%	
Mitsubishi Logistics Corp	9301 JP	¥2764.00	¥243,123	20.3x	19.4x	11.7x	11.4x	24.3x	24.3x	2.3%	
Westshore Terminals Investment Corp	WTE CN	C\$21.85	C\$1,506	11.4x	11.3x	8.5x	8.2x	9.3x	9.2x	2.9%	
Hamburger Hafen und Logistik AG	HHFA GR	€23.18	€1,686	15.5x	14.9x	6.4x	6.1x	10.7x	10.3x	3.9%	
Global Ports Investments PLC	GLPR LI	US\$2.80	US\$535	<0x	5.9x	6.0x	5.5x	8.1x	7.0x	0.0%	
Eurokai GmbH & Co KGaA	EUK2 GR	€33.60	€444	10.3x	12.1x	5.5x	6.3x	8.2x	9.8x	n/a	
Auckland Airport *	AIA NZ	NZ\$8.92	NZ\$10,837	39.4x	40.1x	23.4x	23.1x	28.8x	29.0x	2.5%	
Sydney Airport	SYD AT	A\$8.73	A\$19,718	>50x	47.2x	22.1x	21.1x	32.9x	30.8x	4.6%	
Qube Holdings	QUB AT	A\$3.30	A\$5,365	29.5x	36.5x	16.9x	19.7x	24.9x	32.6x	1.8%	
Port of Tauranga	POT	NZ\$6.48	NZ\$4,408	42.9x	41.1x	27.8x	26.5x	33.0x	31.1x	2.4%	
		Com	pco Average:	24.2x	25.4x	14.2x	14.2x	20.0x	20.5x	2.5%	
EV = Current Market Cap + Actual Net Debt			NPH Relative:	+45%	+36%	+35%	+33%	+35%	+35%	-15%	

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NPH) companies fiscal year end

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