

Napier Port

NEUTRAL

FY19 — Safely Navigated

Napier Port (NPH) reported a solid first result as a listed company with no surprises and has kept to its IPO script for the FY20 outlook. Pro-forma FY19 EBITDA growth of +9% stems from a combination of volume, pricing, and cargo mix improvements. In contrast, the earnings growth outlook is more subdued for FY20 given log export volumes are likely to be hindered by the recent decline in log prices. With NPH trading at ~15x one year forward EV/EBITDA and EV/IC of ~2.4x, we believe the risk/reward is evenly matched. We retain a NEUTRAL rating.

What's changed?

- **Earnings:** Small uplift to FY20 and FY21 estimates
- **Target Price:** Increased to NZ\$3.05 from NZ\$3.00

FY19 marginally ahead of PFI

NPH reported FY19 underlying NPAT +3% ahead of PFI (prospective financial information issued ahead of the IPO). While the margin for error was limited given the late stage nature of PFI forecast issuance through FY19 and the stable nature of port cargo flows, it was still important for the company to meet/exceed its first PFI hurdle.

Container mix benefit

Having already provided a volume update last month, enhanced granularity highlighted an improved container mix in FY19, given +10% growth in reefer exports compared to total container volume growth of +2%. This explains the higher average rate per container achieved in the year relative to PFI forecasts. Most containerised categories were up year on year, the exception being canned food exports.

Capex deferred

The capex outlay for FY20 increases by ~NZ\$9m due to several small project deferrals. Construction of 6 Wharf will commence in 2Q20 and is due to be completed in 2022. Project phasing is on plan with ~NZ\$50m due to be spent in FY20 out of a total NZ\$173m–NZ\$190m cost. Total capex should amount to ~NZ\$80m in each of the next three years.

NPH sticks to FY20 PFI forecasts

Management is retaining its FY20 PFI forecasts, which imply +1% EBITDA growth and flat NPAT performance relative to FY19. Our revised estimates suggest it will do slightly better. In summary, we expect FY20 to be (1) a year of growth, albeit marginal, given the constraints in the log export trade, and (2) transformational given the commencement of 6 Wharf construction.

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\$3.35
Target price	NZ\$3.05
Risk rating	Medium
Issued shares	200.0m
Market cap	NZ\$670m
Average daily turnover	464.9k (NZ\$1,416k)

Share Price Performance



Financials: September	19A	20E	21E	22E
NPAT* (NZ\$m)	19.8	20.3	24.2	25.0
EPS* (NZc)	16.5	10.1	12.1	12.5
EPS growth* (%)	n/a	-38.4	19.5	3.1
DPS (NZc)	2.5	7.5	9.2	10.0
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	17.0	16.1	14.9	13.6
EV/EBIT	24.1	23.4	21.2	19.3
PE	20.4	33.1	27.7	26.8
Price / NTA	1.2	2.0	1.9	n/a
Cash dividend yield (%)	0.7	2.2	2.8	3.0
Gross dividend yield (%)	1.0	3.1	3.8	4.1

*Historic and forecast numbers based on underlying profits

Andy Bowley

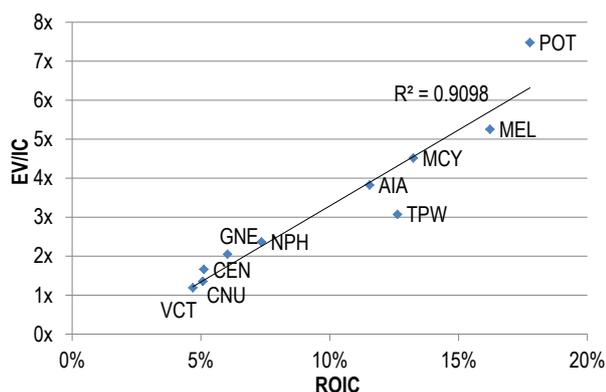
andy.bowley@forsythbarr.co.nz

+64 4 495 8246

1H19 result review

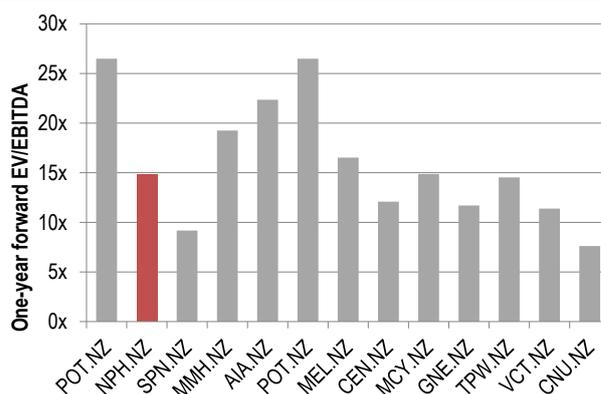
Napier Port (NPH) has made a solid start as a listed company. However, as log export volumes are being held back by lower export prices and the company's WPI container contract has a cloud hovering over it, we see little to get excited about near term. Medium term earnings upside will stem from higher log exports if pricing recovers, but the costs (interest and depreciation) of 6 Wharf will impact from FY23. NEUTRAL.

Figure 1. NPH trading consistently with infrastructure peers



Source: Eikon, Forsyth Barr analysis

Figure 2. Sizeable but justifiable discount to POT



Source: Eikon, Forsyth Barr analysis

Result summary

NPH reported FY19 earnings above its PFI (prospective financial information) forecasts but broadly consistent with our estimates. Pro-forma EBITDA is up +9% against the prior year on a similar rate of revenue growth. Operationally there were no surprises helped by the late stage of the IPO during 2H19, and the company providing a year end volume update last month. Operating cashflows were comfortably ahead of PFI and boosted by the termination of interest rate swaps. NPH will pay a 2.5c final dividend (100% imputed).

Figure 3. Result summary (NZ\$m)

	FY18	FY19	Change	PFI	Forsyth Barr
Sales revenue	91.7	99.6	8.6%	97.4	98.0
Pro-forma EBITDA	37.3	40.5	8.6%	39.7	40.3
Underlying NPAT	n/a	19.8	n/a	19.2	19.7
Final DPS (cents)	n/a	2.50	n/a	2.50	2.50
Operating cash flow	n/a	29.3	n/a	24.2	25.4
Net debt/(net cash)	n/a	(31.2)	n/a	(21.9)	(21.9)

Source: NPH, Forsyth Barr analysis

Earnings revisions

We make small upwards moves to our earnings forecasts as shown in Figure 1, reflecting marginally higher average rate increases relative to management's PFI forecasts.

Figure 4. Earnings revisions (NZ\$m)

	PFI	FY20E			FY21E			FY22E		
		Old	New	Chg	Old	New	Chg	Old	New	Chg
Log exports (JASM)	2,500	2,500	2,500	0.0%	2,800	2,800	0.0%	n/a	2,900	n/a
Containers (TEU)	272	272	272	0.0%	280	280	0.0%	n/a	289	n/a
Sales revenue	102.5	102.5	102.8	0.2%	110.9	111.4	0.4%	n/a	118.6	n/a
EBITDA	40.9	40.9	41.2	0.7%	46.0	46.5	1.1%	n/a	51.0	n/a
Underlying NPAT	20.0	20.0	20.3	1.4%	23.8	24.2	1.7%	n/a	25.0	n/a
Underlying EPS (cents)	10.0	10.0	10.1	1.4%	11.9	12.1	1.7%	n/a	12.5	n/a
DPS (cents)	n/a	7.5	7.5	0.8%	9.1	9.2	1.5%	n/a	10.0	n/a

Source: Forsyth Barr analysis

Result analysis

Figure 5. FY19 result analysis (NZ\$m)

	FY18	FY19	Change	Comments
Profit and loss account				
Sales revenue	91.7	99.6	9%	+2.3% ahead of IPO forecasts
Container Services	58.0	61.2	5%	TEU increase of +3.4%; mix benefit from +10% growth in reefer exports
Bulk Cargo	29.0	32.3	11%	Average revenue per tonne increase of +0.5%
Cruise	2.6	3.7	46%	+13 extra cruise ship calls
Sundry	0.4	0.2	-31%	
Property	1.9	2.2	17%	
Unallocated expenses	(54.5)	(57.6)	6%	Increased staff numbers, higher employee & site entrance safety cost
EBITDA	37.3	40.5	9%	+2.1% ahead of IPO forecasts
Depreciation and amortisation	(11.0)	(12.0)	9%	
EBIT	26.3	28.5	8%	
Associate income	n/a	(1.1)	n/a	Impairment of NZ\$0.8m
One-time items	n/a	(5.0)	n/a	Includes IPO costs of NZ\$6.4m
Interest expense	n/a	(10.4)	n/a	Includes NZ\$7.1m interest rate swap repayment
Profit before tax	n/a	12.0	n/a	
Taxation	n/a	(5.2)	n/a	Pro-forma effective tax rate ~29%
Reported NPAT	n/a	6.8	n/a	+NZ\$1.2m above IPO forecasts
Abnormals (post tax)	n/a	13.0	n/a	Adjustments include: removal of IPO cost, swap repayment, JV impairment
Underlying NPAT	n/a	19.8	n/a	+NZ\$0.6m above IPO forecasts
Underlying EPS (cents)	n/a	16.5	n/a	Weighted average shares on issue of 120.5m
Final DPS (cents)	n/a	2.5	n/a	Fully imputed and payable on 20 December 2019
Cashflow and net debt				
Operating cashflow	n/a	29.3	n/a	
Capex	(11.0)	(12.0)	9%	NZ\$9m deferred to FY20
Free cash flow	(11.0)	17.4	n/a	
Net debt	(80.6)	31.2	n/a	No bank debt, NZ\$180m undrawn facilities, awaiting 6 wharf construction
Divisional data				
Log exports ('000s tonnes)	2,208	2,581	17%	Record result in August 2019
Other exports ('000s tonnes)	177	167	-6%	Decrease in bulk timber and lower tallow volumes
Imports ('000s tonnes)	686	656	-4%	
Total bulk tonnage ('000s tonnes)	3,071	3,404	11%	Largely due to log export increase
Container exports ('000s TEU)	131	134	2%	+8.6% increase in containerised apple exports
Container imports ('000s TEU)	129	133	3%	Includes 99K TEU of empties
Other containers ('000s TEU)	7	4	-43%	
Terminal containers ('000s TEU)	267	271	2%	
Cruise ship visits	57	70	23%	In line with IPO forecasts

Source: NPH, 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 varieties 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.

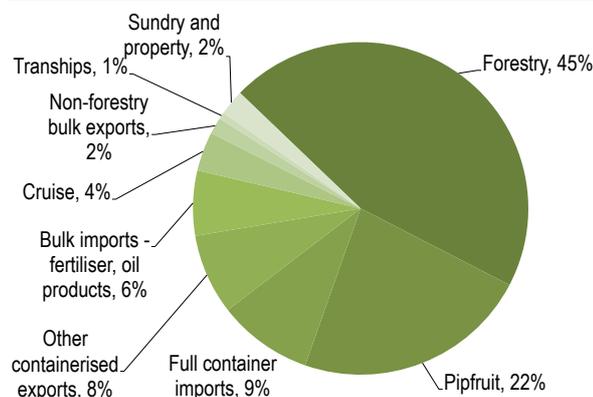
Risks factors

- **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.

Company description

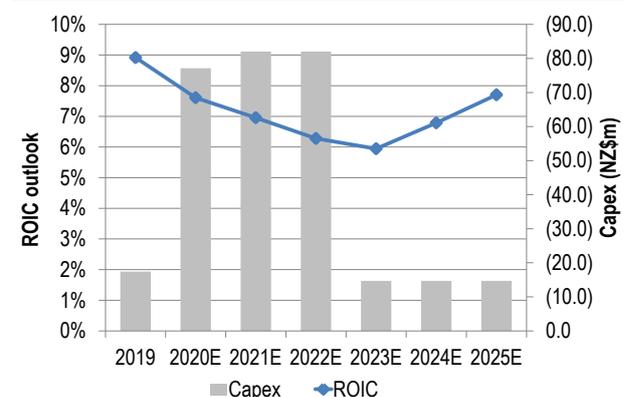
Napier Port is New Zealand’s 4th largest container terminal and the 5th largest port, as measured by cargo tonnage. Cargo is export driven accounting for ~79% of throughput in FY18. Key export commodities include forestry product (logs, sawn timber, and pulp) and pipfruits (apple and pears).

Figure 6. NPH estimated revenue mix (FY19)



Source: Forsyth Barr analysis

Figure 7. Returns under pressure from 6 Wharf capex



Source: Forsyth Barr analysis

Figure 8. Substantial Shareholders

Shareholder	Latest Holding
Hawke's Bay Regional Council	55.0%

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

Figure 9. International Compco's

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	2021E
<i>(metrics re-weighted to reflect NPH's balance date - September)</i>										
Napier Port	NPH NZ	NZ\$3.35	NZ\$670	33.1x	27.7x	15.5x	13.7x	22.6x	19.6x	2.8%
Mitsubishi Logistics Corp	9301 JP	¥2872.00	¥252,623	20.1x	17.3x	11.6x	10.7x	24.9x	22.8x	2.4%
Westshore Terminals Investment Corp	WTE CN	C\$22.63	C\$1,561	11.3x	12.5x	8.1x	8.7x	9.2x	10.0x	4.9%
Hamburger Hafen und Logistik AG	HHFA GR	€24.70	€1,797	15.9x	14.8x	6.2x	5.9x	10.9x	10.2x	3.9%
Global Ports Investments PLC	GLPR LI	US\$3.02	US\$577	6.4x	5.5x	5.7x	5.5x	7.2x	6.7x	1.6%
Eurokai GmbH & Co KGaA	EUK2 GR	€34.40	€455	12.4x	12.3x	6.4x	6.8x	10.0x	10.7x	n/a
Auckland Airport *	AIA NZ	NZ\$9.00	NZ\$10,934	40.5x	40.9x	23.3x	22.4x	29.3x	29.1x	2.4%
Sydney Airport	SYD AT	A\$8.94	A\$20,192	48.4x	45.1x	21.4x	20.4x	31.3x	29.5x	4.7%
Qube Holdings	QUB AT	A\$3.32	A\$5,398	36.8x	32.6x	19.6x	17.4x	33.8x	28.7x	1.9%
Port of Tauranga	POT	NZ\$6.46	NZ\$4,394	41.6x	38.9x	26.8x	25.3x	31.5x	29.6x	2.5%
Compco Average:				25.9x	24.4x	14.4x	13.7x	20.9x	19.7x	3.0%
<i>EV = Current Market Cap + Actual Net Debt</i>				NPH Relative:	+28%	+13%	+8%	+1%	+8%	-1%

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

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