FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | TRANSPORT | PORT OWNER & OPERATOR
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Napier Port
FY20 Result — Sitting Lower in the Water

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NEUTRAL

Napier Port's (NPH) FY20 provided few surprises though outlook commentary highlights a more subdued backdrop for FY21 and perhaps lower earnings capacity in later years than we previously expected. In particular, we forecast greater compression of medium/longer term return on capital given its reliance on pricing (to lift returns) which may be less forthcoming than anticipated and suspect the next material pricing move may not be until 6 Wharf is completed in 2022. We recognise that returns will benefit from a volume rebound associated with (1) cruise ships returning, and (2) the wall of wood, though both of these are well known by investors. NPH trades at a material one year forward EV/EBITDA discount (~17x vs ~32x) to Port of Tauranga (POT), which reflects its inferior return on capital and POT's more attractive strategic/competitive positioning in the Upper North Island with scope for further container market share gains. We retain a NEUTRAL rating.

NZX Code	NPH
Share price	NZ$3.54
Target price	NZ$3.45
Risk rating	Medium
Issued shares	200.0m
Market cap	NZ$708m
Avg daily turnover	168.5k (NZ$561k)

Financials: Sep/	20A	21E	22E	23E
NPAT* (NZ$m)	20.4	18.9	21.7	22.9
EPS* (NZc)	10.2	9.5	10.8	11.4
EPS growth* (%)	-37.5	-7.4	14.7	5.4
DPS (NZc)	5.0	6.9	8.6	11.0
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	34.6	37.4	32.6	31.0
EV/EBIT	24.3	27.8	25.4	24.9
EV/EBITDA	16.6	18.7	17.2	15.0
Price / NTA	2.1	2.0	1.9	1.9
Cash div yld (%)	1.4	2.0	2.4	3.1
Gross div yld (%)	2.0	2.7	3.4	4.3

What's changed?

- **Earnings:** Material downgrades to FY21 and FY22 forecasts
- **Target price:** Lowered to NZ$3.45 from NZ$3.80

Guidance may be conservative but still paints subdued picture

First time FY21 EBITDA guidance of NZ$34m–NZ$38m implies a -7% to -17% drop year on year. The material drop reflects a number of drivers including (1) the (temporary) loss of cruise revenue due to COVID-19 , (2) temporary opex measures that will reverse, (3) further investment in people and capability, and (4) a reasonable degree of conservatism on behalf of management, in our opinion. The last point reflects our view that trade tonnage will grow during FY21 given the cycling of COVID-19 Alert Levels 3 and 4, particularly for wood product exports.

Price path on lower trajectory; return on capital follows

A further opportunity cost (/lost) for FY21 reflects our previous expectation that NPH would remain aggressive on pricing. CPI+ unit revenue gains were again evident in FY20 for both containers (+3%) and bulk products (+6%). However, the magnitude of increases, mix changes aside, over the next several years (until 6 Wharf is completed) is unlikely to be greater than CPI. This has consequences for NPH's medium and longer term return on capital profile, which is under pressure from the 6 Wharf investment.

Volume uncertainty

Total cargo fell -8% in FY20, led by log and dry container exports. Management highlights month-to-month trading volatility and impending challenges in key trades – namely, pip fruit exports given the potential unavailability of seasonal labour, and cruise. We expect the pip fruit industry will muddle through the former with some political support, but the latter may will take longer to resolve. The cruise industry recovery may begin in FY22 and could be gradual.

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Napier Port Ltd (NPH)

Priced as at 18 Nov 2020 (NZ$)	**3.54**

12-month target price (NZ$)*	**3.45**
Expected share price return	-2.5%
Net dividend yield	2.0%
Estimated 12-month return	-0.5%

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.78
WACC	5.1%
Terminal growth	1.0%

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	99.6	100.4	103.3	112.1	121.7
Normalised EBITDA	**40.5**	**41.0**	**38.9**	**44.6**	**51.0**
Depreciation and amortisation	n/a	(13.0)	(12.6)	(14.4)	(20.2)
Normalised EBIT	**n/a**	**28.0**	**26.3**	**30.1**	**30.8**
Net interest	n/a	0.1	0.0	0.0	1.0
Associate income	n/a	(0.1)	0	0	0
Tax	n/a	(6.0)	(7.4)	(8.4)	(8.9)
Minority interests	n/a	0	0	0	0
Normalised NPAT	**n/a**	**20.4**	**18.9**	**21.7**	**22.9**
Abnormals/other	n/a	(1.9)	0	0	0
Reported NPAT	**n/a**	**22.0**	**18.9**	**21.7**	**22.9**
Normalised EPS (cps)	n/a	10.2	9.5	10.8	11.4
DPS (cps)	2.5	5.0	6.9	8.6	11.0

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	8.6	0.8	2.9	8.5	8.6
EBITDA (%)	9.0	1.3	-5.2	14.6	14.3
EBIT (%)	n/a	n/a	-6.3	14.7	2.1
Normalised NPAT (%)	n/a	n/a	-7.4	14.7	5.4
Normalised EPS (%)	n/a	n/a	-7.4	14.7	5.4
Ordinary DPS (%)	n/a	n/a	39.0	23.1	28.3

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**40.5**	**41.0**	**38.9**	**44.6**	**51.0**
Working capital change	n/a	(4.9)	0.0	0	0
Interest & tax paid	n/a	(7.2)	(7.4)	(8.4)	(7.9)
Other	n/a	0.3	0	0	0
Operating cash flow	**n/a**	**29.3**	**31.6**	**36.1**	**43.1**
Capital expenditure	n/a	(46.0)	(101.2)	(99.3)	(35.0)
(Acquisitions)/divestments	n/a	(0.0)	0	0	0
Other	n/a	(1.1)	0	0	0
Funding available/(required)	**n/a**	**(17.8)**	**(69.6)**	**(63.1)**	**8.1**
Dividends paid	n/a	(5.0)	(5.6)	(15.2)	(19.0)
Equity raised/(returned)	n/a	(0.3)	0	0	0
(Increase)/decrease in net debt	**n/a**	**(23.3)**	**(75.2)**	**(78.3)**	**(11.0)**

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	0.7	(1.3)	1.0	1.1	1.2
Fixed assets	316.3	350.5	439.0	523.8	538.7
Intangibles	1.1	1.4	1.4	1.4	1.4
Right of use asset	0.9	0.7	0.7	0.7	0.7
Other assets	8.4	9.2	9.2	9.2	9.2
Total funds employed	**327.4**	**360.4**	**451.3**	**536.2**	**551.2**
Net debt/(cash)	(31.2)	(7.9)	67.3	145.6	156.5
Lease liability	0.9	0.7	0.7	0.7	0.7
Other liabilities	22.2	21.4	21.4	21.4	21.4
Shareholder's funds	335.5	346.2	361.9	368.6	372.5
Minority interests	0	0	0	0	0
Total funding sources	**327.4**	**360.4**	**451.3**	**536.2**	**551.2**

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

Spot valuations (NZ$)	
1. DCF	3.22
2. Invested capital multiple	3.25
3. DDM	3.32

DCF valuation summary (NZ$m)	
Total firm value	636
(Net debt)/cash	8
Less: Capitalised operating leases	0
Value of equity	643

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	17.9	16.6	18.7	17.2	15.0
EV/EBIT (x)	25.4	24.3	27.8	25.4	24.9
PE (x)	21.7	34.6	37.4	32.6	31.0
Price/NTA (x)	1.3	2.1	2.0	1.9	1.9
Free cash flow yield (%)	1.7	-2.4	-9.8	-8.9	1.1
Net dividend yield (%)	0.7	1.4	2.0	2.4	3.1
Gross dividend yield (%)	1.0	2.0	2.7	3.4	4.3

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-10.3	-2.3	15.7	28.3	29.6
Net debt/EBITDA (x)	n/a	n/a	1.7	3.3	3.1

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	7.7	7.3	5.6	5.4	5.4
Return on equity (%)	5.9	5.9	5.2	5.9	6.1
Return on funds employed (%)	8.9	8.3	6.1	5.4	4.9
EBITDA margin (%)	40.7	40.9	37.7	39.8	41.9
EBIT margin (%)	28.6	27.9	25.4	26.9	25.3
Capex to sales (%)	17.5	45.8	97.9	88.5	28.7
Capex to depreciation (%)	145	354	801	687	173
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	15	49	73	79	96

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (NZ$m)					
Container Services	61.2	62.3	65.1	68.1	73.6
Bulk Cargo	32.3	31.3	35.6	39.0	39.4
Cruise	3.7	4.3	0	2.3	5.9
Sundry	0.2	0.3	0.3	0.3	0.3
Property	2.2	2.3	2.4	2.4	2.5
Total revenue	**99.6**	**100.4**	**103.3**	**112.1**	**121.7**
Container volumes (TEU'000)					
Dry	106	97	103	106	109
Reefer	58	58	60	62	63
Empties	103	103	102	105	108
Other	4	11	11	12	12
Total containers	**271**	**268**	**276**	**284**	**293**
Bulk cargo (m tonnes)					
Log exports	2,581	2,365	2,700	3,000	3,000
Other exports	167	140	157	157	157
Imports	656	616	653	653	653
Total bulk cargo volume	**3,404**	**3,121**	**3,510**	**3,810**	**3,810**

NOTE: EBITDA reflects pro-forma EBITDA

Subdued outlook; NEUTRAL

Napier Port's (NPH) FY20 result was in-line with company guidance though management's outlook commentary suggests a step down in FY21 earnings. Guidance for FY21 EBITDA is NZ$34m–NZ$38m (vs NZ$41.0m in FY20). Management cites three key drivers for the subdued outlook — (1) loss of cruise revenue (NZ$4.3m in FY20), (2) temporary cost savings unwinding (NZ$2.2m), and (3) strategic investments in people and capability. Pricing gains, which were a driver in FY20 (and FY19 thanks to the infrastructure levy uplift, cruise charges and annual tariff increases), are unlikely to be a material feature until the 6 Wharf development is completed, in our opinion. A lower profit path outlook is corroborated by management comments around the likely net debt/EBITDA breach of its internal upper limit of 3.5x. We continue to believe that NPH is reliant on pricing gains longer term to meet its return hurdles for 6 Wharf.

NPH is now trading at a one year forward EV/EBITDA of ~17x. While this remains a material discount to POT (justified by the inferior return on capital, exacerbated by the 6 Wharf investment, and POT's strategic/competitive positioning in the Upper North Island) it is broadly inline with our New Zealand infrastructure players. We retain a NEUTRAL rating.

Result summary

Underling NPAT of NZ$20.4m was up +4% on a +1% increase in underlying EBITDA, and +1% increase in revenue. Despite the impact of COVID-19 underlying NPAT is consistent with company forecasts provided at the time of the IPO. NPH has reinstated its dividend at 5c having cancelled the interim dividend in light of COVID-19 uncertainty and receipt of the wage subsidy (since repaid).

NPH ended FY20 with a net cash position (NZ$8m) having deferred capex as a result of COVID-19. We expect an up-tick in capex through FY21 and a subsequent draw down of its NZ$180m debt facilities as the 6 Wharf development continues (NZ$70m–NZ$90m expected in FY21).

Figure 1. Summary of FY20 P&L (NZ$m)

	FY19	FY20	Change	Forsyth Barr
Sales revenue	99.6	100.4	0.8%	101.0
EBITDA	40.5	40.5	1.3%	40.3
EBIT	28.5	28.0	-1.7%	27.8
Underlying NPAT	**19.7**	**20.4**	**3.7%**	**20.1**
Underlying EPS	16.3	10.2	-37.5%	10.1
Final DPS (cents)	2.5	5.0	n/a	5.1

Source: NPH, Forsyth Barr analysis

Figure 2. Revenue split in FY20 (NZ$m)

	FY19	FY20	Change
Containers	61.2	62.3	1.8%
Bulk	32.3	31.3	-3.0%
Cruise	3.7	4.3	14.9%
Other	0.2	0.3	9.0%
Property	2.2	2.3	3.5%
Total revenue	**99.6**	**100.4**	**0.8%**

Source: NPH, Forsyth Barr analysis

Earnings revisions

The first time FY21 EBITDA guidance range is materially below our previous forecast (NZ$42.7m) albeit we recognise that (1) the company is typically conservative in its guidance as illustrated through FY20 when guidance was removed in light of COVID-19, but later reinstated at the same level despite a decline in log exports, and (2) NPH's earnings are highly leveraged to trade activity — despite a likely lack of cruise visitation over the next 12 months (already in our expectations) we project a rebound in log export volumes. We lower our earnings forecasts for FY21, but to a level above the guidance range, as summarised below.

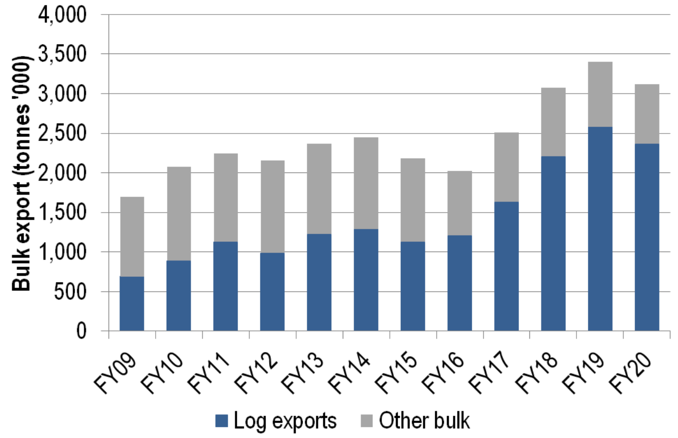
Figure 3. Earnings revisions (NZ$m)

	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Log exports ('000 tonnes)	2,700	2,700	0.0%	3,000	3,000	0.0%	n/a	3,000	n/a
Containers ('000 TEU)	279	276	-1.2%	288	284	-1.2%	n/a	293	n/a
Sales revenue	104.8	103.3	-1.4%	118.1	112.1	-5.0%	n/a	121.7	n/a
EBITDA	**42.7**	**38.9**	**-8.9%**	**51.6**	**44.6**	**-13.5%**	**n/a**	**51.0**	**n/a**
Underlying NPAT	21.1	18.9	-10.3%	25.5	21.7	-14.9%	n/a	22.9	n/a
Underlying EPS (cents)	10.5	9.5	-10.3%	12.8	10.8	-14.9%	n/a	11.4	n/a
DPS (cents)	7.8	6.9	-11.2%	10.1	8.6	-15.6%	n/a	11.0	n/a

Source: Forsyth Barr analysis

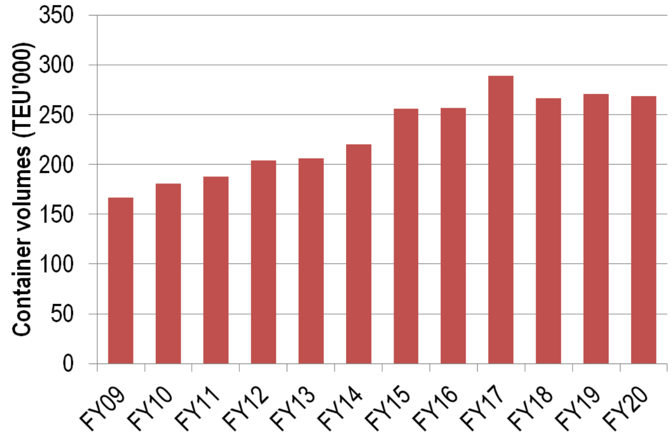
Key result charts

Figure 4. Log exports impacted by (1) price collapse in mid-2019, and (2) COVID-19 impact on forestry harvesting and log supply chain



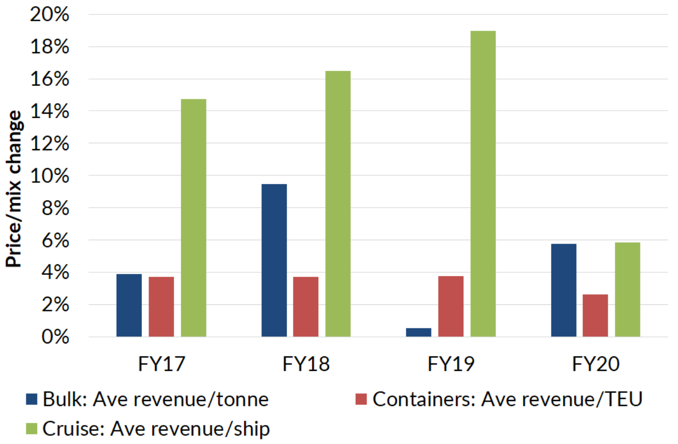
Source: NPH, Forsyth Barr analysis

Figure 5. Container volumes have been steady. Lowest number of dry containers in FY20 for five years reflecting COVID-19 impact on non-essential exports



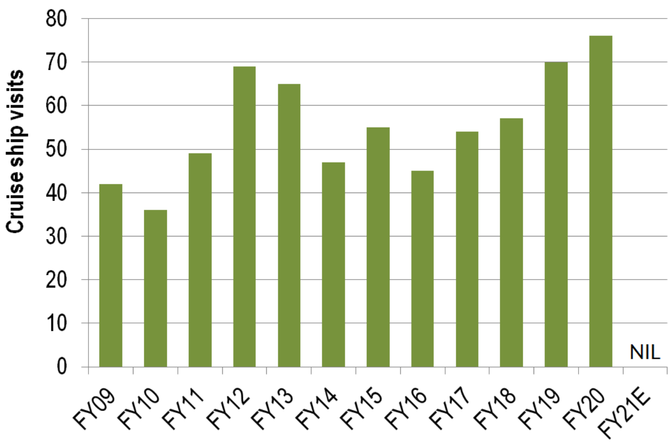
Source: NPH, Forsyth Barr analysis

Figure 6. Price increases have moderated but remain a key lever to lift medium/long term returns given 6 Wharf investment



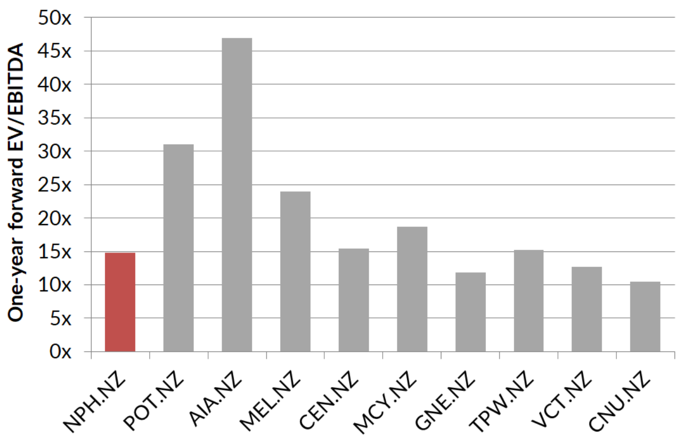
Source: Forsyth Barr analysis

Figure 7. Cruise ships impacted by COVID-19 with no visits likely in FY21



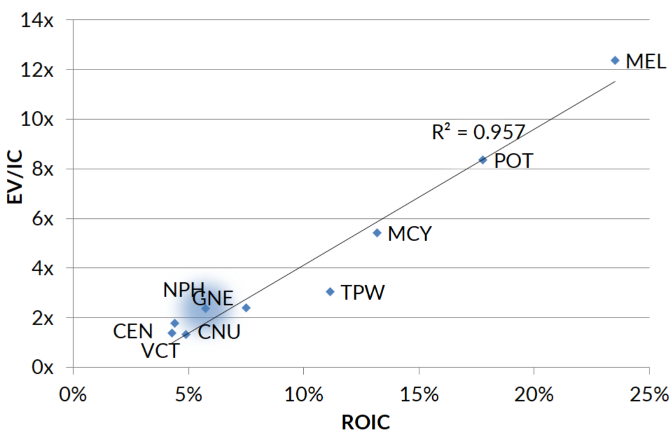
Source: NPH, Forsyth Barr analysis

Figure 8. NPH trades at a material discount to other NZ 'ports' but in-line with other infrastructure peers



Source: Refinitiv, Forsyth Barr analysis

Figure 9. Valuation will likely be impacted by returns dilution from 6 Wharf investment



Source: Refinitiv, Forsyth Barr analysis

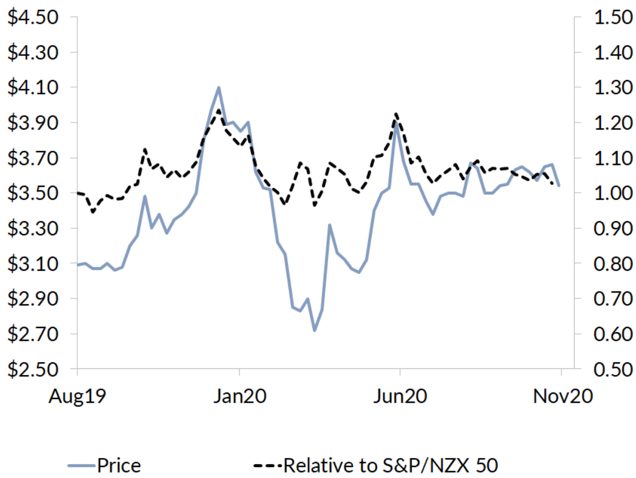
Result analysis

Figure 10. FY20 result summary (NZ$m)

	FY19	FY20	Change	Comments
Profit and loss account				
Sales revenue	**99.6**	**100.4**	**1%**	**Increase due to Cruise and Container revenue growth**
Container Services	61.2	62.3	2%	Lower trade volumes offset by +3% average revenue per unit increase
Bulk Cargo	32.3	31.3	-3%	Forestry deemed 'non-essential' during Alert Level 4, causing an -8% reduction in log exports. Unit revenue increase of +6%
Cruise	3.7	4.3	15%	+6 additional visits to total 76. Passenger levy implementation leading to a +6% unit revenue increase
Sundry	0.2	0.3	9%	
Property	2.2	2.3	3%	
Unallocated expenses	(59.1)	(59.4)	0%	Increased employee benefit expense, flat as a portion of revenue
EBITDA	**40.5**	**41.0**	**1%**	**In line with PFI forecasts**
Depreciation and amortisation	(12.0)	(13.0)	8%	Impacted by NZ$0.6m impairment of infratsructure assets for 6 Wharf development
EBIT	**28.5**	**28.0**	**-2%**	
Associate income	(1.1)	(0.1)	-93%	
One-time items	(5.0)	1.2	n/a	One off release of NZ$0.3m from IPO costs
Interest expense	(10.4)	0.1	n/a	
Profit before tax	**12.0**	**29.3**	**144%**	
Taxation	(5.2)	(7.3)	41%	Effective tax rate of ~28%
Reported NPAT	**6.8**	**22.0**	**221%**	**FY19 NPAT impacted by one-off IPO and capital restructuring costs**
Abnormals (post tax)	13.0	(1.9)	n/a	Includes an NZ$0.7m reinstatement of tax depreciation
Underlying NPAT	**19.7**	**20.4**	**4%**	**In-line with PFI forecasts, and guidance of approximately NZ$20m**
Underlying EPS (cents)	16.3	10.2	-38%	Shares on issue of 200m
Final DPS (cents)	2.5	5.0	100%	Fully imputed, payable on 18 December 2020
Cashflow and net debt				
Operating cashflow	29.3	29.3	0%	
Maintenance capex = depreciation	(12.0)	(13.0)	8%	
Free cash flow	**17.4**	**16.3**	**-6%**	
Gross capex	18.1	53.1	193%	Majority of spend (NZ$34.3m) on 6 Wharf, NZ$70m–NZ$90m of 6 Wharf capex expected in FY21
Net debt	31.2	7.9	-75%	Deferred capex due to COVID-19, started drawing down on NZ$180m bank facilities in October 2020
Divisional data				
Log exports ('000s tonnes)	2,581	2,365	-8%	Forestry deemed 'non-essential' in Alert Level 4, and China disruptions in 2Q20
Other exports ('000s tonnes)	167	140	-16%	
Imports ('000s tonnes)	656	616	-6%	A result of lower demand for oil products and reduction in fertiliser volumes
Total bulk tonnage ('000s tonnes)	**3,404**	**3,121**	**-8%**	**304 charter vessel calls, down -3%**
Container exports ('000s TEU)	134	128	-4%	Dry exports down -10%, refridgerated flat
Container imports ('000s TEU)	133	130	-2%	Small reductions in imports of dry goods and empties
Other containers ('000s TEU))	4	11	175%	
Terminal containers ('000s TEU)	**271**	**269**	**-1%**	**293 container vessel calls, down -3%**
Cruise ship visits	**70**	**76**	**9%**	**No cruise visits expected in FY21**

Source: NPH, Forsyth Barr analysis

Figure 11. Price performance



Source: Forsyth Barr analysis

Figure 12. Substantial shareholders

Shareholder	Latest Holding
Hawke's Bay Regional Council	55.0%

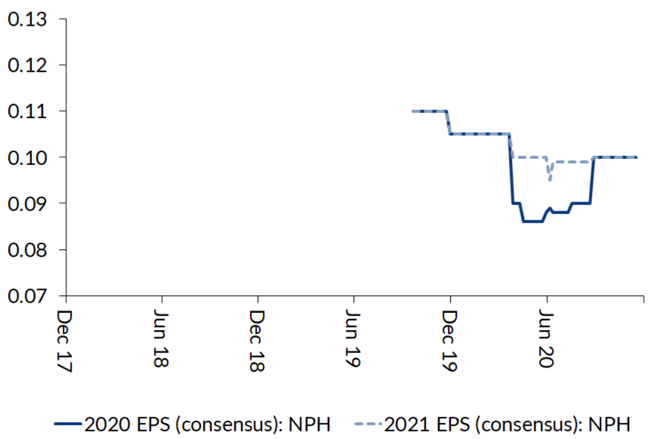
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 13. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect NPH's balance date - September)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Napier Port	**NPH NZ**	**NZ$3.54**	**NZ$708**	**37.4x**	**32.6x**	**18.0x**	**15.7x**	**26.6x**	**23.2x**	**2.4%**
PORT OF TAURANGA *	POT NZ	NZ$7.25	NZ$4,931	>50x	48.2x	32.8x	30.7x	40.3x	37.6x	1.9%
QUBE HOLDINGS	QUB AT	A$3.01	A$5,726	48.8x	38.0x	24.0x	20.8x	45.7x	36.8x	1.8%
GLOBAL PORTS INV-GDR REG S	GLPR LI	US$2.82	US$539	8.3x	5.5x	5.6x	5.3x	7.1x	6.7x	12.4%
HAMBURGER HAFEN UND LOGISTIK	HHFA GR	€17.68	€1,315	18.8x	13.7x	5.6x	5.0x	11.7x	9.2x	3.9%
WESTSHORE TERMINALS INVESTME	WTE CN	C$16.16	C$1,053	11.4x	15.2x	7.3x	9.0x	8.4x	11.2x	4.0%
MITSUBISHI LOGISTICS CORP	9301 JP	¥3155.00	¥277,516	14.5x	21.4x	12.7x	11.9x	n/a	n/a	2.2%
EUROKAI KGAA	EUK2 GR	€28.00	€360	12.9x	20.6x	7.0x	6.5x	10.0x	8.9x	n/a
AUCKLAND AIRPORT *	AIA NZ	NZ$7.79	NZ$11,471	<0x	>50x	65.4x	28.9x	>75x	40.1x	0.9%
SYDNEY AIRPORT	SYD AT	A$6.91	A$18,648	>50x	>50x	46.5x	29.4x	>75x	57.8x	3.1%
			Compco Average:	**19.1x**	**23.2x**	**23.0x**	**16.4x**	**20.6x**	**26.0x**	**3.8%**
EV = Current Market Cap + Actual Net Debt			**NPH Relative:**	**96%**	**40%**	**-22%**	**-4%**	**30%**	**-11%**	**-36%**

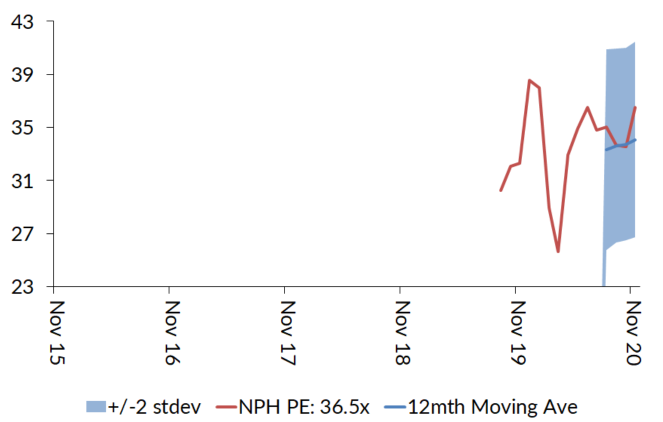
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NPH) companies fiscal year end

Figure 14. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 15. One year forward PE (x)



Source: Forsyth Barr analysis

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