

# Napier Port

## Bond rate, Congestion and Labour Headwinds; Downgrade to UNDERPERFORM

**ANDY BOWLEY**

andy.bowley@forsythbarr.co.nz  
+64 4 495 8246

**SCOTT ANDERSON**

scott.anderson@forsythbarr.co.nz  
+64 4 914 2219

### UNDERPERFORM

We downgrade our rating on Napier Port (NPH) to UNDERPERFORM from NEUTRAL to reflect (1) pip-fruit harvest constraints as a result of labour shortages, (2) shipping industry congestion impacting the availability of empties, (3) the deteriorating returns outlook given the 6 Wharf investment, and (4) the recent rise in bond yields. The latter has little noticeable impact on NPH's share price to-date. Trading at a ~36x one year forward PE and ~18x one year forward EV/EBITDA, NPH doesn't appear to be expensive when compared to Port of Tauranga (POT) (~48x and ~30x respectively). However, the latter enjoys significantly higher returns on capital and has a better growth track record. NPH is due to release its 1H21 results on 25 May 2021.

NZX Code	NPH	Financials: Sep/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.51	NPAT* (NZ\$m)	20.4	17.6	21.5	17.5	PE	34.4	39.9	32.6	40.0
Target price	NZ\$3.00	EPS* (NZc)	10.2	8.8	10.8	8.8	EV/EBIT	24.1	29.6	25.5	25.0
Risk rating	Medium	EPS growth* (%)	-37.5	-13.9	22.3	-18.5	EV/EBITDA	16.4	19.5	17.2	15.0
Issued shares	200.0m	DPS (NZc)	5.0	6.5	8.5	9.1	Price / NTA	2.0	2.0	1.9	1.9
Market cap	NZ\$702m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.4	1.8	2.4	2.6
Avg daily turnover	127.6k (NZ\$439k)	*Based on normalised profits					Gross div yld (%)	2.0	2.6	3.4	3.6

#### What's changed?

- **Earnings:** FY21 EBITDA forecast reduced by -5%
- **Target price:** Reduced to NZ\$3.00 from NZ\$3.45 on lower earnings and WACC revisions (risk free rate to 2.3% from 1.3%)
- **Rating:** Downgraded to UNDERPERFORM from NEUTRAL

#### Earnings revisions largely focussed on FY21

We make modest reductions to our FY21 earnings forecasts to reflect lower than previously anticipated container volumes. Two key themes are playing out. First, global shipping congestion issues are resulting in a shortage of empty containers arriving at port. This was evident in NPH's 1Q21 volume update and we expect it to feature again in 2Q21. Second, the pipfruit harvesting season will be impacted by a shortage of labour, which will likely impact export volumes transiting through NPH.

#### Container pressures partially mitigated by log export strength

Log exports remain a bright spot for NPH, helped by rising log export prices. NZ Stats data suggests FY21-to-date volumes are up +10% against the prior year. Moreover, NPH will cycle some easier comparatives through 2H21 given the COVID-19 lockdown related harvesting stoppage last year. Our modelling assumes 2.7mT of log exports in FY21, rising to 3.0mT in FY22, which will represent the peak of the 'wall of wood'.

#### Return on capital impact from 6 Wharf

NPH's investment in 6 Wharf is having a material impact on its returns on capital. This is expected, but as the commissioning date nears (towards the end of CY22) the need for a clearly defined strategy for the company to navigate back to above cost of capital returns is more apparent.

## Napier Port Ltd (NPH)

Priced as at 14 Apr 2021 (NZ\$) **3.51**

<b>12-month target price (NZ\$)*</b>	<b>3.00</b>
Expected share price return	-14.5%
Net dividend yield	2.2%
Estimated 12-month return	-12.3%

<b>Key WACC assumptions</b>	
Risk free rate	2.30%
Equity beta	0.81
WACC	5.6%
Terminal growth	1.0%

<b>Spot valuations (NZ\$)</b>	
1. DCF	3.11
2. Invested capital multiple	2.83
3. DDM	2.77

<b>DCF valuation summary (NZ\$m)</b>	
Total firm value	625
(Net debt)/cash	(2)
Less: Capitalised operating leases	0
Value of equity	623

<b>Profit and Loss Account (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales revenue	99.6	100.4	100.9	111.8	121.4	EV/EBITDA (x)	17.8	16.4	19.5	17.2	15.0
<b>Normalised EBITDA</b>	<b>40.5</b>	<b>41.0</b>	<b>37.1</b>	<b>44.3</b>	<b>50.7</b>	EV/EBIT (x)	25.2	24.1	29.6	25.5	25.0
Depreciation and amortisation	n/a	(13.0)	(12.6)	(14.4)	(20.2)	PE (x)	21.5	34.4	39.9	32.6	40.0
<b>Normalised EBIT</b>	<b>n/a</b>	<b>28.0</b>	<b>24.4</b>	<b>29.9</b>	<b>30.5</b>	Price/NTA (x)	1.3	2.0	2.0	1.9	1.9
Net interest	n/a	0.1	0.0	0.0	(6.1)	Free cash flow yield (%)	1.7	-2.4	-10.1	-9.0	0.4
Associate income	n/a	(0.1)	0	0	0	Net dividend yield (%)	0.7	1.4	1.8	2.4	2.6
Tax	n/a	(6.0)	(6.8)	(8.4)	(6.8)	Gross dividend yield (%)	1.0	2.0	2.6	3.4	3.6
Minority interests	n/a	0	0	0	0						
<b>Normalised NPAT</b>	<b>n/a</b>	<b>20.4</b>	<b>17.6</b>	<b>21.5</b>	<b>17.5</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Abnormals/other	n/a	(1.9)	0	0	0	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	5.0
<b>Reported NPAT</b>	<b>n/a</b>	<b>22.0</b>	<b>17.6</b>	<b>21.5</b>	<b>17.5</b>	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	8.3
Normalised EPS (cps)	n/a	10.2	8.8	10.8	8.8	Net debt/ND+E (%)	-10.3	-2.3	15.9	28.4	30.4
DPS (cps)	2.5	5.0	6.5	8.5	9.1	Net debt/EBITDA (x)	n/a	n/a	1.8	3.3	3.2

<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue (%)	8.6	0.8	0.5	10.8	8.6	Return on assets (%)	7.7	7.3	5.2	5.4	5.3
EBITDA (%)	9.0	1.3	-9.6	19.6	14.3	Return on equity (%)	5.9	5.9	4.9	5.8	4.8
EBIT (%)	n/a	n/a	-12.8	22.3	2.0	Return on funds employed (%)	8.9	8.3	5.6	5.4	4.9
Normalised NPAT (%)	n/a	n/a	-13.9	22.3	-18.5	EBITDA margin (%)	40.7	40.9	36.7	39.6	41.7
Normalised EPS (%)	n/a	n/a	-13.9	22.3	-18.5	EBIT margin (%)	28.6	27.9	24.2	26.7	25.1
Ordinary DPS (%)	n/a	n/a	29.7	30.9	7.3	Capex to sales (%)	17.5	45.8	100.3	88.8	28.8
						Capex to depreciation (%)	145	354	801	687	173
						Imputation (%)	100	100	100	100	100
						Pay-out ratio (%)	15	49	74	79	104

<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>EBITDA</b>	<b>40.5</b>	<b>41.0</b>	<b>37.1</b>	<b>44.3</b>	<b>50.7</b>	<b>Revenue (NZ\$m)</b>					
Working capital change	n/a	(4.9)	0	0	0	Container Services	61.2	62.3	62.7	67.8	73.3
Interest & tax paid	n/a	(7.2)	(6.8)	(8.4)	(13.0)	Bulk Cargo	32.3	31.3	35.6	39.0	39.4
Other	n/a	0.3	0	0	0	Cruise	3.7	4.3	0	2.3	5.9
<b>Operating cash flow</b>	<b>n/a</b>	<b>29.3</b>	<b>30.2</b>	<b>36.0</b>	<b>37.7</b>	Sundry	0.2	0.3	0.3	0.3	0.3
Capital expenditure	n/a	(46.0)	(101.2)	(99.3)	(35.0)	Property	2.2	2.3	2.4	2.4	2.5
(Acquisitions)/divestments	n/a	(0.0)	0	0	0	<b>Total revenue</b>	<b>99.6</b>	<b>100.4</b>	<b>100.9</b>	<b>111.8</b>	<b>121.4</b>
Other	n/a	(1.1)	0	0	0						
<b>Funding available/(required)</b>	<b>n/a</b>	<b>(17.8)</b>	<b>(71.0)</b>	<b>(63.3)</b>	<b>2.7</b>	<b>Container volumes (TEU'000)</b>					
Dividends paid	n/a	(5.0)	(5.2)	(14.6)	(17.5)	Dry	106	97	100	106	109
Equity raised/(returned)	n/a	(0.3)	0	0	0	Reefer	58	58	56	61	63
(Increase)/decrease in net debt	n/a	(23.3)	(76.2)	(77.9)	(14.8)	Empties	103	103	98	105	108
						Other	4	11	11	12	12

<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>Total containers</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Working capital	0.7	(1.3)	1.0	1.1	1.2		<b>271</b>	<b>268</b>	<b>266</b>	<b>283</b>	<b>292</b>
Fixed assets	316.3	350.5	439.1	523.9	538.7	<b>Bulk cargo (m tonnes)</b>					
Intangibles	1.1	1.4	1.4	1.4	1.4	Log exports	2,581	2,365	2,700	3,000	3,000
Right of use asset	0.9	0.7	0.7	0.7	0.7	Other exports	167	140	157	157	157
Other assets	8.4	9.2	9.2	9.2	9.2	Imports	656	616	653	653	653
<b>Total funds employed</b>	<b>327.4</b>	<b>360.4</b>	<b>451.3</b>	<b>536.3</b>	<b>551.2</b>	<b>Total bulk cargo volume</b>	<b>3,404</b>	<b>3,121</b>	<b>3,510</b>	<b>3,810</b>	<b>3,810</b>
Net debt/(cash)	(31.2)	(7.9)	68.2	146.1	160.9						
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	361.0	368.0	368.2						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>327.4</b>	<b>360.4</b>	<b>451.3</b>	<b>536.3</b>	<b>551.2</b>						

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

NOTE: EBITDA reflects pro-forma EBITDA

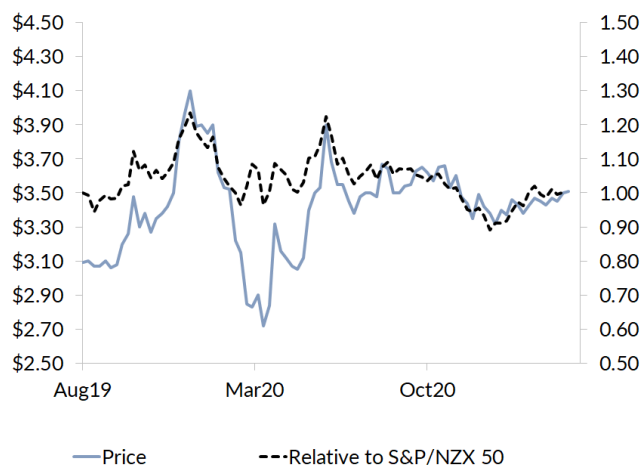
## Earnings revisions

We summarise our earnings revisions in Figure 1. Our revised EBITDA estimate falls within management's FY21 guidance range of NZ\$34m–NZ\$38m.

**Figure 1. Earnings revision summary (NZ\$m)**

	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old		Chg
Log exports (JASM)	2,700	2,700	0.0%	3,000	3,000	0.0%	3,000	3,000	0.0%
Containers (TEU)	276	266	-3.7%	284	283	-0.4%	293	292	-0.4%
Sales revenue	103.3	100.9	-2.3%	112.1	111.8	-0.3%	121.7	121.4	-0.3%
<b>EBITDA</b>	<b>38.9</b>	<b>37.1</b>	<b>-4.7%</b>	<b>44.6</b>	<b>44.3</b>	<b>-0.5%</b>	<b>51.0</b>	<b>50.7</b>	<b>-0.5%</b>
Underlying NPAT	18.9	17.6	-7.0%	21.7	21.5	-0.8%	17.7	17.5	-1.2%
Underlying EPS (cents)	9.5	8.8	-7.0%	10.8	10.8	-0.8%	8.9	8.8	-1.2%
DPS (cents)	6.9	6.5	-6.6%	8.6	8.5	-0.7%	9.2	9.1	-0.8%

Source: Forsyth Barr analysis

**Figure 2. Price performance**


Source: Forsyth Barr analysis

**Figure 3. Substantial shareholders**

Shareholder	Latest Holding
Hawke's Bay Regional Council	55.0%

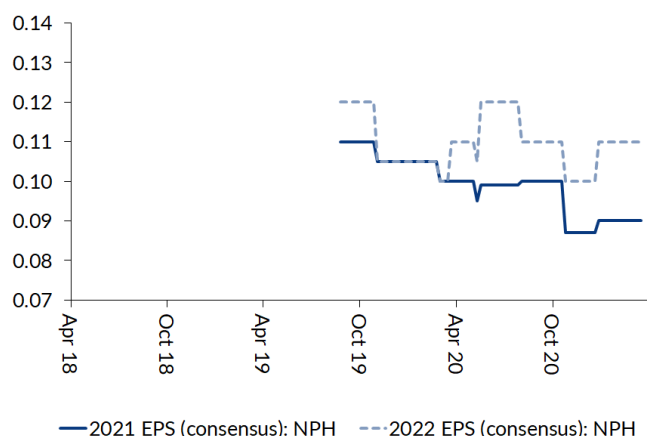
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 4. International valuation comparisons**

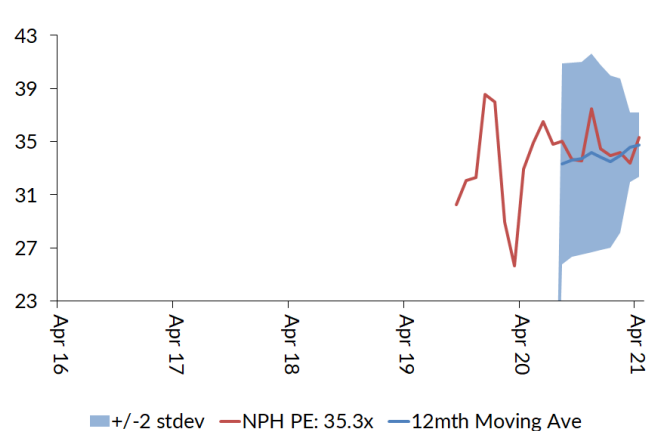
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect NPH's balance date - September)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Napier Port	NPH NZ	NZ\$3.51	NZ\$702	39.9x	32.6x	18.7x	15.7x	28.4x	23.2x	2.4%
PORT OF TAURANGA *	POT NZ	NZ\$7.43	NZ\$5,054	50.4x	47.2x	32.1x	29.8x	40.0x	36.8x	1.9%
QUBE HOLDINGS	QUB AT	A\$3.01	A\$5,740	41.0x	35.1x	23.2x	21.2x	43.7x	38.8x	2.0%
GLOBAL PORTS INV-GDR REG S	GLPR LI	US\$3.70	US\$707	18.3x	8.0x	6.2x	6.0x	7.9x	7.4x	4.3%
HAMBURGER HAFEN UND LOGISTIK	HHFA GR	€19.34	€1,439	23.2x	16.6x	6.3x	5.7x	13.0x	10.6x	3.6%
WESTSHORE TERMINALS INVESTME	WTE CN	C\$19.95	C\$1,265	12.6x	17.4x	7.8x	10.0x	9.1x	12.6x	4.4%
MITSUBISHI LOGISTICS CORP	9301 JP	¥3425.00	¥301,266	15.0x	22.4x	13.6x	12.7x	n/a	n/a	2.1%
EUROKAI KGAA	EUK2 GR	€31.00	€381	14.3x	22.8x	7.4x	6.8x	10.5x	9.4x	n/a
AUCKLAND AIRPORT *	AIA NZ	NZ\$7.69	NZ\$11,325	<0x	>50x	70.7x	39.3x	>75x	65.1x	0.7%
SYDNEY AIRPORT	SYD AT	A\$6.08	A\$16,408	<0x	22.0x	41.5x	27.5x	>75x	68.5x	3.1%
Compco Average:				25.0x	24.0x	23.2x	17.7x	20.7x	31.2x	2.8%
NPH Relative:				60%	36%	-19%	-11%	37%	-25%	-13%

EV = Current Market Cap + Actual Net Debt

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

**Figure 5. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 6. One year forward PE (x)**


Source: Forsyth Barr analysis

#### Important information about this publication

Forsyth Barr Limited ("Forsyth Barr") holds a licence issued by the Financial Markets Authority to provide financial advice services. In making this publication available, Forsyth Barr (and not any named analyst personally) is giving any financial advice it may contain. Some information about us and our financial advice services is publicly available. You can find that on our website at [www.forsythbarr.co.nz/choosing-a-financial-advice-service](http://www.forsythbarr.co.nz/choosing-a-financial-advice-service)

**Any recommendations or opinions in this publication do not take into account your personal financial situation or investment goals, and may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser.**

The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

**Ratings distributions:** As at 13 Apr 2021, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
45.5%	40.0%	14.5%

This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. If there are material inaccuracies or omissions in the information it is likely that our recommendations or opinions would be different. Any analyses or valuations will also typically be based on numerous assumptions (such as the key WACC assumptions); different assumptions may yield materially different results. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. In giving financial advice, Forsyth Barr is bound by duties under the Financial Markets Conduct Act 2013 ("FMCA") to:

- exercise care, diligence, and skill,
- give priority to the client's interests, and
- when dealing with retail clients, comply with the Code of Professional Conduct for Financial Advice Services, which includes standards relating to competence, knowledge, skill, ethical behaviour, conduct, and client care.

There are likely to be fees, expenses, or other amounts payable in relation to acting on any recommendations or opinions in this publication. If you are Forsyth Barr client we refer you to the Advice Information Statement for your account for more information.

**Analyst certification:** The research analyst(s) primarily responsible for the preparation and content of this publication ("Analysts") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this publication.

**Analyst holdings:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Other disclosures:** Forsyth Barr and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr Group") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Members of the Forsyth Barr Group may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

**Investment banking engagements:** Other than confidential engagements, Forsyth Barr has not within the past 12 months been engaged to provide investment banking services to the issuer that is the subject of this publication. For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to any other issuer referred to in this publication, please refer to the most recent research report for that issuer's financial products.

**Managing conflicts:** Forsyth Barr follows a research process (including through the Analyst certification above) designed to ensure that the recommendations and opinions in our research publications are not influenced by the interests disclosed above.

**Complaints:** Information about Forsyth Barr's complaints process and our dispute resolution process is available on our website – [www.forsythbarr.co.nz](http://www.forsythbarr.co.nz).

**Disclaimer:** Where the FMCA applies, liability for the FMCA duties referred to above cannot by law be excluded. However to the maximum extent permitted by law, Forsyth Barr otherwise excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction.

**Distribution:** This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

**Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.