

Napier Port

Cargo Offsets Cruise

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UNDERPERFORM

Napier Port (NPH) reported robust 1H21 cargo volume growth and upgraded FY21 earnings guidance. The better-than-expected first half trading is due to strong log export growth, largely offsetting the absence of cruise ship calls. Container volumes were flat relative to the prior year. FY21 EBITDA guidance was increased to NZ\$39m–NZ\$42m from NZ\$34m–NZ\$38m, a +13% upgrade at the midpoint. Despite NPH navigating short term industry congestion issues well, valuation headwinds remain in the form of (1) the return on capital dilution arising from 6 Wharf investment, and (2) the recent rise in bond rates. Trading at an ~18x one year forward EV/EBITDA and a ~34x one year forward PE, we view NPH as expensive and retain our UNDERPERFORM rating. 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\$3.55	NPAT* (NZ\$m)	20.4	19.9	21.9	17.5	PE	34.7	35.6	32.4	40.5
Target price	NZ\$3.10	EPS* (NZc)	10.2	10.0	10.9	8.8	EV/EBIT	24.3	26.4	25.3	25.2
Risk rating	Medium	EPS growth* (%)	-37.5	-2.5	9.8	-19.8	EV/EBITDA	16.6	18.1	17.1	15.2
Issued shares	200.0m	DPS (NZc)	5.0	7.3	8.6	9.1	Price / NTA	2.1	2.0	1.9	1.9
Market cap	NZ\$710m	Imputation (%)	100	100	100	100	Cash div yld (%)	1.4	2.1	2.4	2.6
Avg daily turnover	121.7k (NZ\$423k)	*Based on normalised profits					Gross div yld (%)	2.0	2.9	3.4	3.6

What's changed?

- **Earnings:** FY21 EBITDA forecast increased by +9%. FY22 and FY23 largely unchanged
- **Target price:** Increased +3% to NZ\$3.10

1H21 earnings pre-released and FY21 guidance upgraded

NPH pre-released 1H21 EBITDA of "approximately NZ\$21.0m", down from NZ\$21.7m in 1H20. The company also upgraded guidance by +13% at the midpoint to a new range of between NZ\$39m and NZ\$42m, reflecting management's confidence in the near-term outlook and better than expected cargo volumes in recent months. We have increased our FY21 EBITDA forecast to NZ\$40.3m due to higher volume expectations, and now assume 2.8mT of log exports for the year.

Log export growth offsets lack of cruise ships

NPH grew log exports by +21% in 1H21 against the prior year, driven by the sharp recovery in log export prices. NPH's container volumes were flat on 1H20, albeit this is better than expected given seasonal labour shortages for the pip-fruit harvest and ongoing global supply chain congestion, reducing the availability of empties. Total vessel calls were down -20% due to the lack of cruise ships.

6 Wharf returns dilution

NPH's 6 Wharf development is on track for completion in late CY22. 6 Wharf should provide some operational cost benefits given current port congestion, but overall we expect it to dent profits due to the associated depreciation and interest expense when commissioned. In the meantime, ongoing 6 Wharf capex will continue to increase capital employed and therefore dampen returns. Our current modelling suggests that pre-tax return on capital employed (ROCE) falls to ~6.8% in FY23. We anticipate NPH will use a combination of pricing and targeted volume initiatives to drive a recovery in ROCE over the medium to longer term.

Napier Port Ltd (NPH)

 Priced as at 16 Apr 2021 (NZ\$) 3.55

12-month target price (NZ\$)*	3.10
Expected share price return	-12.7%
Net dividend yield	2.3%
Estimated 12-month return	-10.4%

Key WACC assumptions	
Risk free rate	2.30%
Equity beta	0.81
WACC	5.6%
Terminal growth	1.0%

Spot valuations (NZ\$)	
1. DCF	3.23
2. Invested capital multiple	2.83
3. DDM	2.85

DCF valuation summary (NZ\$m)	
Total firm value	648
(Net debt)/cash	(2)
Less: Capitalised operating leases	0
Value of equity	646

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	99.6	100.4	105.2	112.7	121.7	EV/EBITDA (x)	18.0	16.6	18.1	17.1	15.2
Normalised EBITDA	40.5	41.0	40.3	44.8	50.7	EV/EBIT (x)	25.5	24.3	26.4	25.3	25.2
Depreciation and amortisation	n/a	(13.0)	(12.6)	(14.4)	(20.2)	PE (x)	21.7	34.7	35.6	32.4	40.5
Normalised EBIT	n/a	28.0	27.7	30.4	30.5	Price/NTA (x)	1.3	2.1	2.0	1.9	1.9
Net interest	n/a	0.1	0.0	0.0	(6.1)	Free cash flow yield (%)	1.7	-2.3	-9.7	-8.9	0.4
Associate income	n/a	(0.1)	0	0	0	Net dividend yield (%)	0.7	1.4	2.1	2.4	2.6
Tax	n/a	(6.0)	(7.7)	(8.5)	(6.8)	Gross dividend yield (%)	1.0	2.0	2.9	3.4	3.6
Minority interests	n/a	0	0	0	0						
Normalised NPAT	n/a	20.4	19.9	21.9	17.5	Capital Structure					
Abnormals/other	n/a	(1.9)	0	0	0	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	5.0
Reported NPAT	n/a	22.0	19.9	21.9	17.5	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	8.3
Normalised EPS (cps)	n/a	10.2	10.0	10.9	8.8	Net debt/ND+E (%)	-10.3	-2.3	15.5	28.2	30.2
DPS (cps)	2.5	5.0	7.3	8.6	9.1	Net debt/EBITDA (x)	n/a	n/a	1.7	3.2	3.2

Growth Rates	2019A	2020A	2021E	2022E	2023E	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	8.6	0.8	4.7	7.1	8.1	Return on assets (%)	7.7	7.3	5.9	5.5	5.3
EBITDA (%)	9.0	1.3	-1.8	11.2	13.0	Return on equity (%)	5.9	5.9	5.5	5.9	4.8
EBIT (%)	n/a	n/a	-1.3	9.8	0.3	Return on funds employed (%)	8.9	8.3	6.4	5.5	4.9
Normalised NPAT (%)	n/a	n/a	-2.5	9.8	-19.8	EBITDA margin (%)	40.7	40.9	38.3	39.8	41.6
Normalised EPS (%)	n/a	n/a	-2.5	9.8	-19.8	EBIT margin (%)	28.6	27.9	26.3	27.0	25.0
Ordinary DPS (%)	n/a	n/a	46.0	18.1	5.7	Capex to sales (%)	17.5	45.8	96.2	88.1	28.7

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Operating Performance	2019A	2020A	2021E	2022E	2023E
EBITDA	40.5	41.0	40.3	44.8	50.7	Revenue (NZ\$m)					
Working capital change	n/a	(4.9)	0	0	0	Container Services	61.2	62.3	65.6	68.8	74.4
Interest & tax paid	n/a	(7.2)	(7.7)	(8.5)	(12.9)	Bulk Cargo	32.3	31.3	36.9	39.3	39.7
Other	n/a	0.3	0	0	0	Cruise	3.7	4.3	0	1.7	4.7
Operating cash flow	n/a	29.3	32.6	36.3	37.7	Sundry	0.2	0.3	0.3	0.3	0.3
Capital expenditure	n/a	(46.0)	(101.2)	(99.2)	(35.0)	Property	2.2	2.3	2.4	2.4	2.5
(Acquisitions)/divestments	n/a	(0.0)	0	0	0	Total revenue	99.6	100.4	105.2	112.7	121.7
Other	n/a	(1.1)	0	0	0						
Funding available/(required)	n/a	(17.8)	(68.6)	(62.9)	2.7	Container volumes (TEU'000)					
Dividends paid	n/a	(5.0)	(5.8)	(15.7)	(17.6)	Dry	106	97	102	105	108
Equity raised/(returned)	n/a	(0.3)	0	0	0	Reefer	58	58	57	60	61
(Increase)/decrease in net debt	n/a	(23.3)	(74.5)	(78.6)	(14.9)	Empties	103	103	103	106	110

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Other	4	11	17	17	17
Working capital	0.7	(1.3)	1.1	1.1	1.2	Total containers	271	268	278	287	296
Fixed assets	316.3	350.5	439.0	523.8	538.6	Bulk cargo (m tonnes)					
Intangibles	1.1	1.4	1.4	1.4	1.4	Log exports	2,581	2,365	2,800	3,000	3,000
Right of use asset	0.9	0.7	0.7	0.7	0.7	Other exports	167	140	168	168	168
Other assets	8.4	9.2	9.2	9.2	9.2	Imports	656	616	678	678	678
Total funds employed	327.4	360.4	451.3	536.2	551.1	Total bulk cargo volume	3,404	3,121	3,646	3,846	3,846
Net debt/(cash)	(31.2)	(7.9)	66.5	145.1	160.0						
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	362.7	369.0	369.0						
Minority interests	0	0	0	0	0						
Total funding sources	327.4	360.4	451.3	536.2	551.1						

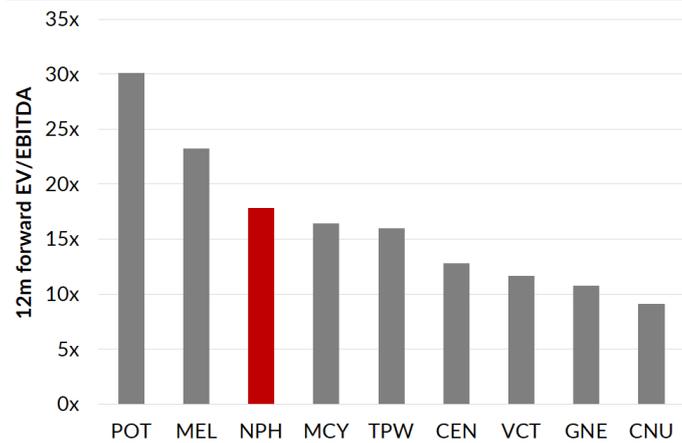
NOTE: EBITDA reflects pro-forma EBITDA

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

Investment thesis unchanged

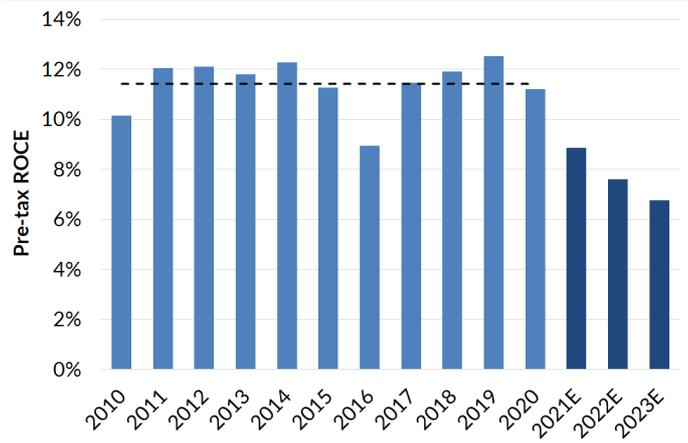
Napier Port is trading at a premium to other listed infrastructure companies, despite its expected return on capital decline due to 6 Wharf capex investment. The recent rise in government bond yields provides a valuation head wind, which has had little impact on NPH to date.

Figure 1. NPH EV/EBITDA multiple at the higher end of listed infrastructure companies



Source: NPH, Forsyth Barr analysis

Figure 2. Meanwhile, return on capital employed is expected to decline materially due to 6 Wharf investment



Source: NPH, Forsyth Barr analysis

First half volumes beat expectations

1H21 trade volumes indicate that NPH is navigating current industry congestion headwinds well. Bulk exports grew +17% whilst containers were flat.

Figure 3. 1H21 container volume growth (TEU '000)

	1H19	1H20	1H21	Change
Dry	37	37	35	-5%
Reefer	20	21	22	5%
Empties	2	2	2	0%
Total exports	59	60	59	-2%
Dry	15	14	15	7%
Reefer	2	2	2	0%
Empties	47	53	48	-9%
Imports	64	69	65	-6%
Other	4	7	11	57%
Total containers	127	135	135	0%

Source: NPH, Forsyth Barr analysis

Figure 4. 1H21 bulk volumes and ship visits

	1H19	1H20	1H21	Change
Log export volumes	1,247	1,184	1,428	21%
Other exports	95	80	98	23%
Imports	382	333	344	3%
Total bulk (kT)	1,724	1,597	1,870	17%
Containers	151	147	133	-10%
Bulk charters	167	153	167	9%
Cruise	66	76	-	-100%
Total vessel calls	384	376	300	-20%

Source: NPH, Forsyth Barr analysis

Earnings revisions

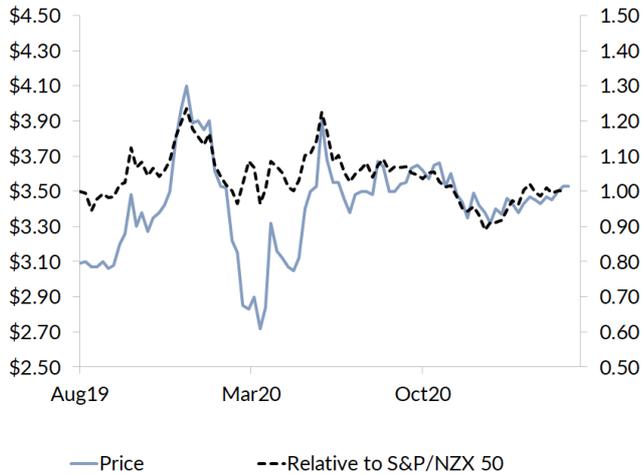
We have increased our FY21 volume and earnings forecasts. Our revised EBITDA estimate of NZ\$40.3m is in the middle of the new guidance range. Our FY22 and FY23 forecasts are largely unchanged.

Figure 5. Earnings revision summary (NZ\$m)

	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Log exports (JASM)	2,700	2,800	3.7%	3,000	3,000	0.0%	3,000	3,000	0.0%
Containers (TEU)	266	278	4.6%	283	287	1.5%	292	296	1.5%
Sales revenue	100.9	105.2	4.2%	111.8	112.7	0.7%	121.4	121.7	0.3%
EBITDA	37.1	40.3	8.7%	44.3	44.8	1.1%	50.7	50.7	-0.1%
Underlying NPAT	17.6	19.9	13.2%	21.5	21.9	1.7%	17.5	17.5	0.1%
Underlying EPS (cents)	8.8	10.0	13.2%	10.8	10.9	1.7%	8.8	8.8	0.1%
DPS (cents)	6.5	7.3	12.6%	8.5	8.6	1.5%	9.1	9.1	0.0%

Source: Forsyth Barr analysis

Figure 6. Price performance



Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
Hawke's Bay Regional Council	55.0%

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

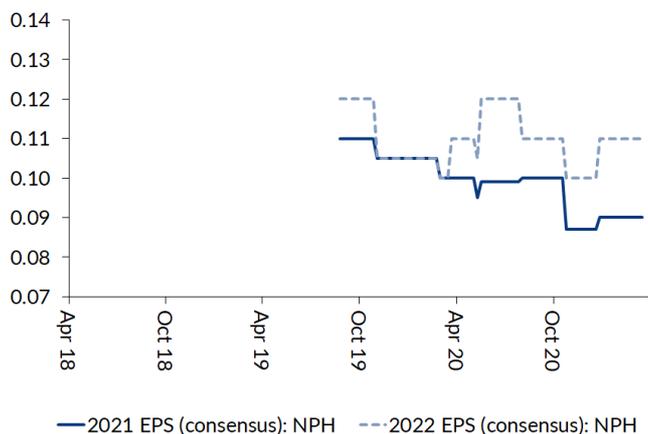
Figure 8. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Napier Port	NPH NZ	NZ\$3.55	NZ\$710	35.6x	32.4x	17.4x	15.7x	25.4x	23.1x	2.4%
PORT OF TAURANGA *	POT NZ	NZ\$7.55	NZ\$5,136	51.2x	48.0x	32.6x	30.3x	40.6x	37.4x	1.9%
QUBE HOLDINGS	QUB AT	A\$2.95	A\$5,626	40.5x	34.1x	22.9x	21.0x	43.0x	38.2x	2.0%
GLOBAL PORTS INV-GDR REG S	GLPR LI	US\$3.60	US\$688	17.4x	7.3x	6.0x	5.7x	7.6x	7.1x	5.4%
HAMBURGER HAFEN UND LOGISTIK	HHFA GR	€19.46	€1,448	23.3x	16.7x	6.3x	5.7x	13.0x	10.7x	3.6%
WESTSHORE TERMINALS INVESTME	WTE CN	C\$20.01	C\$1,268	12.6x	17.5x	7.8x	10.0x	9.1x	12.6x	4.4%
MITSUBISHI LOGISTICS CORP	9301 JP	¥3420.00	¥300,826	15.0x	22.4x	13.6x	12.7x	n/a	n/a	2.1%
EUROKAI KGAA	EUK2 GR	€31.20	€387	14.4x	22.9x	7.4x	6.8x	10.6x	9.5x	n/a
AUCKLAND AIRPORT *	AIA NZ	NZ\$7.50	NZ\$11,045	<0x	>50x	69.1x	38.4x	>75x	63.6x	0.8%
SYDNEY AIRPORT	SYD AT	A\$6.07	A\$16,381	<0x	23.2x	42.1x	27.7x	>75x	68.4x	3.1%
Compcpo Average:				24.9x	24.0x	23.1x	17.6x	20.7x	30.9x	2.9%
NPH Relative:				43%	35%	-25%	-11%	23%	-25%	-17%

EV = Current Market Cap + Actual Net Debt

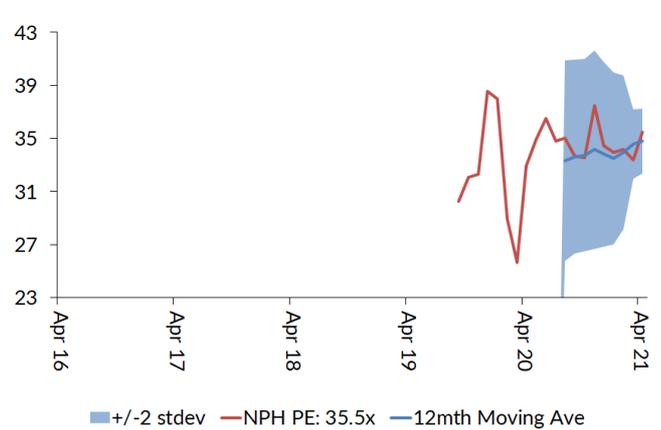
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcpo metrics re-weighted to reflect headline (NPH) companies fiscal year end

Figure 9. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 10. One year forward PE (x)



Source: Forsyth Barr analysis

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