

Port of Tauranga

FY20 Preview — Keeping an Even Keel

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UNDERPERFORM

We expect Port of Tauranga (POT) to release a subdued FY20 result when it reports on 28 August 2020, reflective of lower log export volumes and a slowdown in container growth. COVID-19 had an initial impact on POT by means of lower log export volumes, but the 'essential' nature of many of its trades has, and continues to, provide a reasonable level of immunity. We believe the bigger COVID-19 related issue for POT will be the resultant impact on the broader economic backdrop, which may influence cargo flows over the near to medium term.

NZX Code	POT	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$7.48	NPAT* (NZ\$m)	100.6	94.0	102.2	110.8	EV/EBITDA	31.1	33.3	30.5	27.7
Target price	NZ\$6.20	EPS* (NZc)	14.8	13.8	15.0	16.3	EV/EBIT	36.9	40.6	36.9	33.1
Risk rating	Low	EPS growth* (%)	5.8	-6.6	8.7	8.4	PE	50.6	54.2	49.8	46.0
Issued shares	680.6m	DPS (NZc)	18.3	15.8	16.2	17.3	Price / NTA	4.4	4.4	4.2	4.4
Market cap	NZ\$5,091m	Imputation (%)	100	100	100	100	Cash div yld (%)	2.4	2.1	2.2	2.3
Avg daily turnover	156.6k (NZ\$1,070k)	*Based on normalised profits					Gross div yld (%)	3.4	2.9	3.0	3.2

Key things to look out for in POT's FY20 result:

- **Container growth softens:** We estimate that POT's container volume was down -2% on FY19. Container volumes were up +4% in 1H20, however, we expect there has been a softening of volumes through the fourth quarter, leading to an overall volume decline.
- **Reduced log exports:** NZ Stats data suggests that POT's log exports were down -22% in FY20, as a result of; (1) weak log prices through the start of the financial year, (2) Chinese demand decline in February 2020 as ports closed, and (3) forestry being deemed 'non-essential' during Alert Level 4.
- **Bulk trades:** Lower oil products as a result of COVID-19 will weigh on 2H20 bulk products and exacerbate the weakness in both fertilizer and grain/dairy feed imports in 1H20.
- **Associates:** We expect a meaningful increase in associate income, despite a subdued period for Northport (Stats NZ data shows log export volumes down -10%). Coda's recovery is a key driver as it cycles losses in 2H19.
- **Upper North Island Supply Chain Study:** The Upper North Island Supply Chain Study has become less politically relevant as a result of COVID-19. The continuation of the process will be up to the next government.

Figure 1. Forecast summary (NZ\$m)

	FY19	FY20E	Change	Consensus
Sales revenue	313.3	304.5	-2.8%	304.4
EBITDA	173.2	162.4	-6.2%	165.2
Associates	8.1	12.0	48.1%	n/a
Reported NPAT	100.6	94.0	-6.6%	n/a
Underlying NPAT	100.6	94.0	-6.6%	94.2
Underlying EPS (cents)	14.8	13.8	-6.6%	14.0
Final DPS (cents)	7.3	7.3	0.0%	n/a
Special DPS (cents)	5.0	2.5	-50.0%	n/a

Source: Bloomberg, POT, Forsyth Barr analysis

Figure 2. Volume summary

	FY19	FY20E	Change
Transhipments (TEU)	257,645	257,645	0.0%
Metroport (TEU)	311,913	315,032	1.0%
Terminal containers (TEU)	1,214,713	1,212,250	-0.2%
Container tonnage (mT)	14.5	14.4	-0.2%
Logs (mT)	7.1	5.5	-22.0%
Other bulk (mT)	5.4	4.9	-10.0%
Total trade tonnage (mT)	26.9	24.8	-7.9%

Source: POT, Forsyth Barr analysis

Port of Tauranga Ltd (POT)

Priced as at 21 Aug 2020 (NZ\$) **7.48**

12-month target price (NZ\$)*	6.20
Expected share price return	-17.1%
Net dividend yield	2.2%
Estimated 12-month return	-14.9%

Key WACC assumptions	
Risk free rate	2.00%
Equity beta	0.75
WACC	6.2%
Terminal growth	2.5%

Spot valuations (NZ\$)	
1. DCF	6.01
2. Sum-of-the-parts	5.87
3. n/a	n/a

DCF valuation summary (NZ\$m)	
Total firm value	4,642
(Net debt)/cash	(530)
Less: Capitalised operating leases	(25)
Value of equity	4,088

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	283.7	313.3	304.5	326.7	351.1
Normalised EBITDA	154.1	173.2	162.4	177.9	195.9
Depreciation and amortisation	(25.3)	(27.6)	(29.1)	(30.7)	(32.1)
Normalised EBIT	128.8	145.6	133.3	147.2	163.8
Net interest	(18.0)	(18.2)	(19.4)	(22.4)	(26.7)
Associate income	15.1	8.1	12.0	13.0	13.5
Tax	(31.8)	(34.4)	(31.9)	(35.6)	(39.7)
Minority interests	0	0	0	0	0
Normalised NPAT	95.1	100.6	94.0	102.2	110.8
Abnormals/other	0.8	0	0	0	0
Reported NPAT	94.3	100.6	94.0	102.2	110.8
Normalised EPS (cps)	14.0	14.8	13.8	15.0	16.3
DPS (cps)	17.7	18.3	15.8	16.2	17.3

Growth Rates	2018A	2019A	2020A	2021A	2022A
Revenue (%)	10.6	10.4	-2.8	7.3	7.5
EBITDA (%)	11.3	12.4	-6.2	9.5	10.1
EBIT (%)	13.1	13.0	-8.4	10.4	11.3
Normalised NPAT (%)	13.4	5.8	-6.6	8.7	8.4
Normalised EPS (%)	13.4	5.8	-6.6	8.7	8.4
Ordinary DPS (%)	13.4	4.7	0.0	2.9	8.4

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	154.1	173.2	162.4	177.9	195.9
Working capital change	0	0	0	0	0.0
Interest & tax paid	(50.1)	(52.6)	(50.3)	(56.9)	(65.4)
Other	(4.5)	(10.1)	(1.6)	7.9	(1.7)
Operating cash flow	99.4	110.4	110.4	128.8	128.8
Capital expenditure	(17.7)	(35.0)	(35.0)	(110.0)	(110.0)
(Acquisitions)/divestments	0.4	0	0	0	0
Other	10.1	9.0	9.0	10.1	10.1
Funding available/(required)	92.1	84.4	84.4	28.9	28.9
Dividends paid	(115.0)	(122.9)	(122.9)	(116.5)	(116.5)
Equity raised/(returned)	(1.6)	0	0	0	0
(Increase)/decrease in net debt	(24.5)	(38.5)	(38.5)	(87.6)	(87.6)

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	19.4	28.3	16.6	17.7	18.9
Fixed assets	1,446.3	1,531.2	1,567.8	1,647.7	1,672.2
Intangibles	18.5	19.0	19.0	19.0	19.0
Right of use asset	0	0	23.9	23.9	23.9
Other assets	134.4	132.7	144.7	157.7	171.2
Total funds employed	1,618.5	1,711.3	1,772.0	1,866.0	1,905.2
Net debt/(cash)	399.5	442.3	480.8	525.6	613.1
Lease liability	0	0	24.1	24.1	24.1
Other liabilities	97.0	103.1	102.8	102.8	102.8
Shareholder's funds	1,122.0	1,165.9	1,164.3	1,213.6	1,165.2
Minority interests	0	0	0	0	0
Total funding sources	1,618.6	1,711.3	1,772.0	1,866.0	1,905.2

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

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	34.7	31.1	33.3	30.5	27.7
EV/EBIT (x)	41.5	36.9	40.6	36.9	33.1
PE (x)	53.5	50.6	54.2	49.8	46.0
Price/NTA (x)	4.6	4.4	4.4	4.2	4.4
Free cash flow yield (%)	1.6	1.5	1.5	0.4	0.4
Net dividend yield (%)	2.4	2.4	2.1	2.2	2.3
Gross dividend yield (%)	3.3	3.4	2.9	3.0	3.2

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	7.1	8.0	6.9	6.6	6.1
Interest cover EBITDA (x)	8.5	9.5	8.4	7.9	7.3
Net debt/ND+E (%)	26.3	27.5	29.2	30.2	34.5
Net debt/EBITDA (x)	2.6	2.6	3.0	3.0	3.1

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	7.8	8.3	7.3	7.7	8.4
Return on equity (%)	8.5	8.6	8.1	8.4	9.5
Return on funds employed (%)	18.4	19.4	17.6	17.3	17.3
EBITDA margin (%)	54.3	55.3	53.3	54.5	55.8
EBIT margin (%)	45.4	46.5	43.8	45.1	46.6
Capex to sales (%)	6.2	11.2	11.5	33.7	31.3
Capex to depreciation (%)	70	127	120	358	342
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	127	124	114	108	107

Operating Performance	2018A	2019A	2020E	2021E	2022E
Revenue (NZ\$m)					
Port operations	251.4	276.8	269.3	290.3	313.5
Property services	26.9	28.8	30.2	31.1	32.0
Marshalling Services	4.9	4.9	5.0	5.3	5.5
Total revenue	283.7	313.3	304.5	326.7	351.1

Port operations revenue (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Container revenue	164.1	182.5	183.7	197.7	213.0
Bulk revenue	51.3	58.3	50.2	55.1	60.7
Marine revenue	36.0	36.0	35.3	37.5	39.8
Total	251.4	276.8	269.3	290.3	313.5

EBITDA (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Port operations	251.4	276.8	269.3	290.3	313.5
Property services	26.9	28.8	30.2	31.1	32.0
Marshalling Services	3.7	4.6	4.9	5.1	5.4
Unallocated expenses	(128.0)	(140.5)	(142.0)	(148.7)	(155.0)
Other income	0.1	3.4	0.0	0.0	0.0
Total EBITDA	154.1	173.2	162.4	177.9	195.9

	2018A	2019A	2020E	2021E	2022E
Containers (TEU'000)	1,161	1,215	1,212	1,289	1,371
Logs (JAS m)	6.3	7.1	5.5	6.1	6.7
Other bulk (tonnes m)	5.1	5.4	4.9	5.2	5.5

FY20 result preview

Figure 3. Summary of earnings forecasts for POT's FY20 result (NZ\$m)

	1H19	2H19	FY19	1H20	2H20E	FY20E	1H20 Chg	2H20E Chg	FY20E Chg
Profit and loss account									
Sales revenue	153.0	160.3	313.3	154.8	149.7	304.5	1%	-7%	-3%
Port operations	136.3	140.5	276.8	137.4	131.9	269.3	1%	-6%	-3%
Property services	14.3	14.5	28.8	15.0	15.2	30.2	5%	5%	5%
Marshalling services	2.3	2.3	4.6	2.3	2.5	4.9	2%	8%	5%
Unallocated expenses and other	(69.0)	(68.0)	(137.1)	(71.8)	(70.2)	(142.0)	-4%	-3%	-4%
EBITDA	83.9	89.3	173.2	83.0	79.4	162.4	-1%	-11%	-6%
Depreciation and amortisation	(13.8)	(13.8)	(27.6)	(14.7)	(14.4)	(29.1)	-6%	-5%	-6%
EBIT	70.0	75.5	145.6	68.3	64.9	133.3	-2%	-14%	-8%
Associate income	4.8	3.3	8.1	5.9	6.1	12.0	24%	83%	48%
One-time items	0.0	(0.5)	(0.5)	0.0	0.0	0.0	n/a	100%	100%
Interest expense	(8.9)	(9.3)	(18.2)	(9.1)	(9.4)	(18.5)	-2%	-1%	-2%
Profit before tax	65.9	69.1	135.0	65.2	61.7	126.8	-1%	-11%	-6%
Taxation	(17.0)	(17.5)	(34.4)	(16.4)	(15.5)	(31.9)	4%	11%	7%
Reported NPAT	49.0	51.6	100.6	48.8	46.1	94.9	0%	-11%	-6%
Abnormals (post tax)	0.0	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a
Underlying NPAT	49.0	51.6	100.6	48.3	45.7	94.0	-1%	-12%	-7%
Underlying EPS (cents)	7.3	7.7	15.0	7.2	6.8	14.0	-1%	-12%	-7%
Ordinary DPS (cents)	6.0	7.3	13.3	6.0	7.3	13.3	0%	0%	0%
Special dividend (cents)	0.0	5.0	5.0	0.0	2.5	2.5	n/a	-50%	-50%
Divisional data									
Container revenue	87.1	95.3	182.5	90.8	93.0	183.7	4%	-2%	1%
Bulk revenue	29.7	28.6	58.3	26.5	23.8	50.2	-11%	-17%	-14%
Marine revenue	19.5	16.5	36.0	20.1	15.2	35.3	4%	-8%	-2%
Port operations revenue	136.3	140.5	276.8	137.4	131.9	269.3	1%	-6%	-3%
Metroport (TEU)	159,464	152,449	311,913	165,287	149,745	315,032	4%	-2%	1%
Transhipments (TEU)	200,216	190,219	390,437	206,140	184,342	390,437	3%	-3%	0%
Other containers	251,728	260,637	512,363	263,091	243,645	506,781	5%	-7%	-1%
Terminal containers (TEU)	611,408	603,305	1,214,713	634,518	577,732	1,212,250	4%	-4%	0%
Logs ('000 tonnes)	3,666	3,397	7,063	3,358	2,151	5,509	-8%	-37%	-22%
Other ('000 tonnes)	2,694	2,714	5,408	2,310	2,557	4,867	-14%	-6%	-10%
Total bulk tonnage ('000 tonnes)	6,360	6,111	12,471	5,668	4,709	10,376	-11%	-23%	-17%

Source: POT, Forsyth Barr analysis

Investment Summary

Port of Tauranga (POT) is a key strategic asset within New Zealand's international export/import supply chain. The company is sensibly pursuing a hub port strategy by investing in capacity and enhancing its cargo aggregation capabilities. However, other ports are also investing which is damaging industry returns given industry over-investment. Following several years of above trend growth, activity rates are slowing given weaker log prices and more subdued economic conditions. UNDERPERFORM.

Business quality

- **Hub-port:** POT's strategy evolves around its objective of being New Zealand's hub port. Its favourable draught following recent dredging facilitates bigger ships and greater transshipments from elsewhere in NZ.
- **Multi-year agreements:** POT has long term agreements with key shippers including Kotahi and Zespri. These agreements provide volume certainty.

Earnings and cashflow outlook

- **Earnings growth phase:** De-synchronisation of log export and container growth mean the company has entered into another soft patch.
- **Container handling:** POT's business model is focussed on container terminal expansion, container aggregation and inland supply chains. A key requirement of the Kotahi deal was transshipments of South Island exports through Tauranga. This doesn't appear likely near term.
- **Log export volumes:** Higher margin logs represent a key earnings stream. The location of POT and the central North Island forestry harvest role are supportive to long term log revenues at or around current levels.

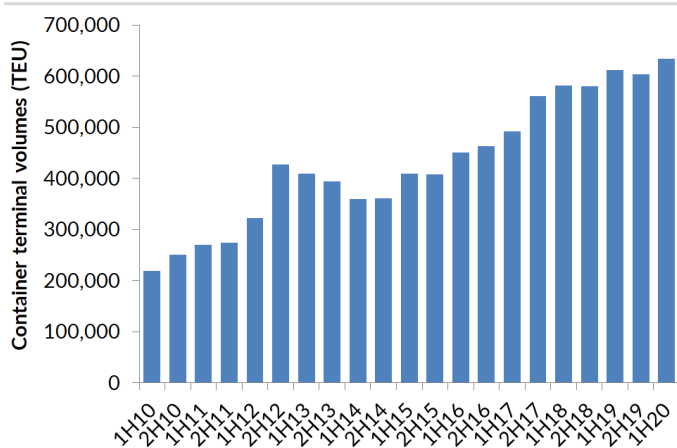
Financial structure

- **Balance sheet:** Net debt has doubled over the past six years given the capex bulge which has facilitated the hub port strategy.
- **Dividends:** POT has extended its special dividend programme for a further four years from FY20 albeit at a lower level than previously (2.5c compared to 5c each year). The current ordinary dividend pay-out is ~90% within the targeted range of 70%–100%.

Risk factors

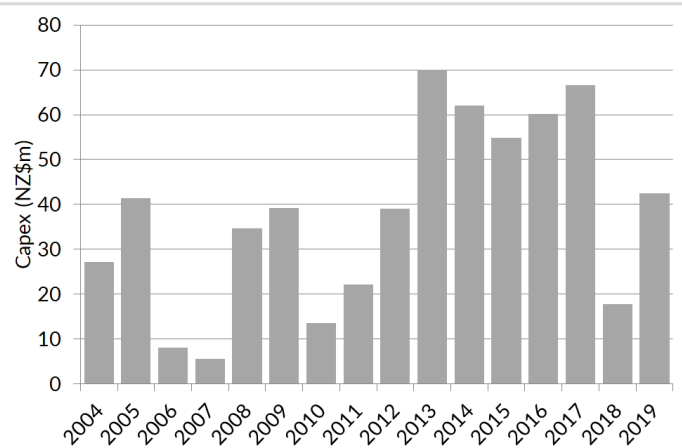
- **Industry competition:** Over investment by other ports is impacting industry ROIC.
- **Chinese log demand:** POT's log exporters are heavily exposed to Chinese construction industry demand for unprocessed timber.

Figure 4. Container volumes in recent periods

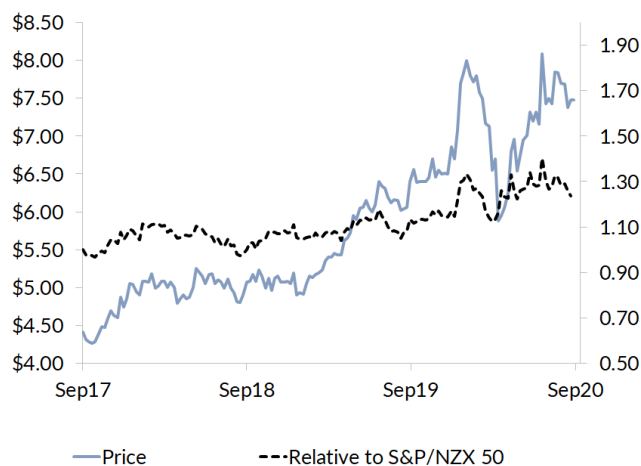


Source: Forsyth Barr analysis

Figure 5. Capex necessary to facilitate growth



Source: Forsyth Barr analysis

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
Quayside Securities	54.1%

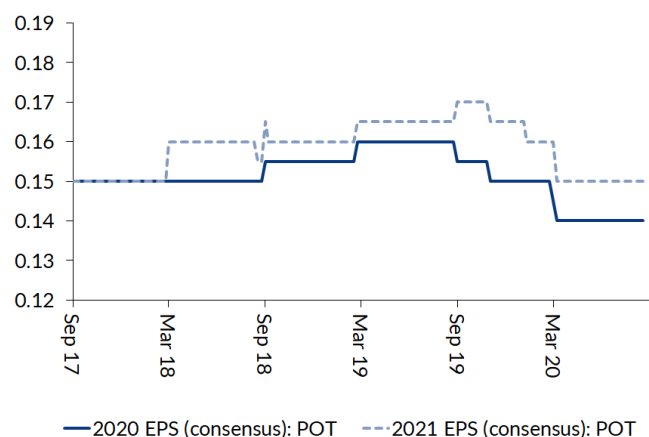
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

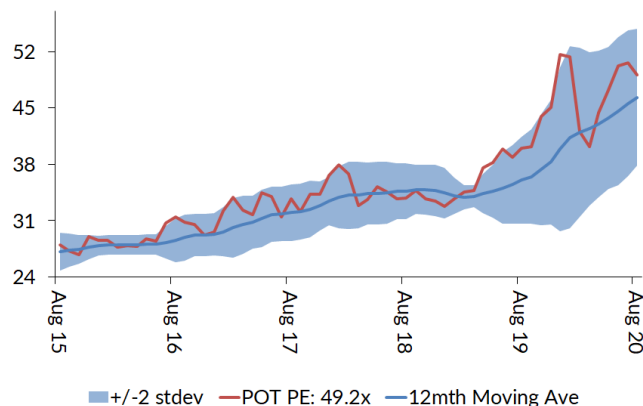
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect POT's balance date - June)										
Port of Tauranga	POT NZ	NZ\$7.48	NZ\$5,091	>50x	49.8x	34.1x	31.1x	41.5x	37.6x	1.8%
NAPIER PORT *	NPH NZ	NZ\$3.49	NZ\$698	33.6x	35.4x	17.7x	16.9x	26.7x	25.7x	2.0%
QUBE HOLDINGS	QUB AT	A\$2.84	A\$5,349	44.4x	43.0x	26.5x	24.4x	49.0x	45.6x	1.8%
GLOBAL PORTS INV-GDR REG S	GLPR LI	US\$3.28	US\$627	17.9x	7.7x	6.4x	5.9x	8.7x	8.0x	0.7%
HAMBURGER HAFEN UND LOGISTIK	HHFA GR	€16.52	€1,202	36.8x	39.0x	5.7x	6.0x	12.7x	13.8x	3.0%
WESTSHORE TERMINALS INVESTME	WTE CN	C\$17.76	C\$1,157	8.9x	11.3x	6.2x	7.5x	7.0x	8.8x	4.4%
MITSUBISHI LOGISTICS CORP	9301 JP	¥3075.00	¥270,479	22.1x	19.9x	13.2x	13.2x	n/a	n/a	2.0%
EUROKAI KGAA	EUK2 GR	€31.40	€368	27.2x	31.7x	6.7x	7.7x	9.4x	11.0x	n/a
AUCKLAND AIRPORT *	AIA NZ	NZ\$6.39	NZ\$9,410	40.2x	<0x	27.8x	64.8x	39.2x	>75x	0.0%
SYDNEY AIRPORT	SYD AT	A\$5.37	A\$12,467	<0x	>50x	34.3x	41.2x	>75x	>75x	1.3%
Compco Average:				28.9x	26.9x	16.0x	20.8x	21.8x	18.8x	1.9%
POT Relative:				n/a	86%	113%	49%	90%	100%	-4%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (POT) 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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