FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | TRANSPORT | PORT OWNER & OPERATOR
17 APRIL 2020

Napier Port
Sailing a Different Course

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

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

NEUTRAL

Napier Port's (NPH) half year trade volume data reflects the relative calm before the COVID-19 storm, with container volume growth offset by log export weakness. The business will be hard hit by the lock-down given its exposure to non-essential services including forestry. However, customer operational pressures will ease as New Zealand heads into Alert Level 3, though not fully given the impending recession both domestically and offshore will have consequences for demand of both imports and exports. A prolonged closure of international borders will also impact next year's cruise season. That said, much of NPH's revenue shortfall will be deferred rather than lost, given its reliance on forestry. While investors can expect a lower income stream over the next 12 months, we believe the current risk/reward is fair and retain a NEUTRAL rating.

NZX Code	NPH
Share price	NZ$2.96
Target price	NZ$2.95
Risk rating	Medium
Issued shares	200.0m
Market cap	NZ$592m
Avg daily turnover	303.6k (NZ$940k)

Financials: Sep/	19A	20E	21E	22E
NPAT* (NZ$m)	19.8	17.1	20.1	24.1
EPS* (NZc)	16.5	8.6	10.0	12.1
EPS growth* (%)	n/a	-48.0	17.1	20.3
DPS (NZc)	2.5	3.0	7.8	9.7
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	15.0	16.6	15.3	12.5
EV/EBIT	21.3	26.3	23.3	18.1
PE	18.0	34.6	29.5	24.5
Price / NTA	1.1	1.7	1.6	1.6
Cash div yld (%)	0.8	1.0	2.6	3.3
Gross div yld (%)	1.2	1.4	3.6	4.5

What's changed?

- **Earnings forecasts:** NPAT cut by -16% in FY20 and -17% in FY21, but just -3% in FY22
- **Target price:** Lowered from NZ$3.05 to NZ$2.95

Robust container growth

NPH grew container volumes by +7% in 1H20 driven principally by the earlier re-positioning of empty containers ahead of the peak primary export season. Containerised exports from the Hawke's Bay region were flat year on year. Higher volumes of pulp and timber products were offset by a later start to the apple export season, and reduced dry food and beverage exports.

Bulk impacted by lower log exports

Bulk cargos fell -7% compared year on year driven by (1) a -5% decline in log exports arising from adverse Chinese market conditions late in the period, and (2) lower fertiliser import volumes. In contrast, cruise vessel visits climbed by 10 to 76, albeit fell short of schedule visits due to COVID-19 cancellations late in the period. Total ship visits were down -2% implying broadly flat marine income relative to 1H19.

Uncertain outlook for 2H20

The Alert Level 4 lock-down and anticipated transition to less restrictive conditions on trade, will have a material impact on 2H20 performance, in our opinion. NPH withdrew its IPO earnings guidance for FY21 on the eve of the lock-down. There remains a large degree of uncertainty as to cargo volumes through 2H20 and what cost measures NPH will undertake to mitigate the overall impact. We assume it applies for the government's wage subsidy (worth NZ$1.5m–NZ$2.0m), though hasn't yet. Consequently, we assume the company refrains from paying a 2H20 dividend. The Wharf 6 development is currently on hold given lock-down restrictions, though we expect work to resume during Alert Level 3.

FORSYTH BARR

Napier Port Ltd (NPH)

Priced as at 16 Apr 2020 (NZ$)	**2.96**

12-month target price (NZ$)*	**2.95**
Expected share price return	-0.3%
Net dividend yield	2.0%
Estimated 12-month return	1.6%

Spot valuations (NZ$)	
1. DCF	2.88
2. Invested capital multiple	2.70
3. n/a	n/a

Key WACC assumptions	
Risk free rate	2.50%
Equity beta	0.72
WACC	6.4%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	545
(Net debt)/cash	30
Less: Capitalised operating leases	0
Value of equity	575

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	91.7	99.6	94.9	104.1	115.8
Normalised EBITDA	**37.3**	**40.5**	**35.1**	**40.2**	**49.1**
Depreciation and amortisation	n/a	(12.0)	(12.9)	(13.8)	(15.2)
Normalised EBIT	**n/a**	**28.5**	**22.1**	**26.4**	**33.9**
Net interest	n/a	(0.5)	0.1	1.5	(0.4)
Associate income	n/a	(1.1)	(0.1)	0	0
Tax	n/a	(8.1)	(6.7)	(7.8)	(9.4)
Minority interests	n/a	0	0	0	0
Normalised NPAT	**n/a**	**19.8**	**17.1**	**20.1**	**24.1**
Abnormals/other	n/a	13.0	0	0	0
Reported NPAT	**n/a**	**6.8**	**17.1**	**20.1**	**24.1**
Normalised EPS (cps)	n/a	16.5	8.6	10.0	12.1
DPS (cps)	0	2.5	3.0	7.8	9.7

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	17.9	15.0	16.6	15.3	12.5
EV/EBIT (x)	n/a	21.3	26.3	23.3	18.1
PE (x)	n/a	18.0	34.6	29.5	24.5
Price/NTA (x)	n/a	1.1	1.7	1.6	1.6
Free cash flow yield (%)	n/a	2.0	-6.3	-8.7	-7.9
Net dividend yield (%)	0.0	0.8	1.0	2.6	3.3
Gross dividend yield (%)	0.0	1.2	1.4	3.6	4.5

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	n/a	57.4	n/a	n/a	79.5
Interest cover EBITDA (x)	n/a	81.5	n/a	n/a	>100x
Net debt/ND+E (%)	27.5	-10.3	7.9	17.2	27.1
Net debt/EBITDA (x)	2.2	n/a	0.8	1.9	2.9

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	5.8	8.6	-4.7	9.6	11.3
EBITDA (%)	4.4	8.6	-13.3	14.5	22.2
EBIT (%)	n/a	n/a	-22.3	19.0	28.7
Normalised NPAT (%)	n/a	n/a	-13.7	17.1	20.3
Normalised EPS (%)	n/a	n/a	-48.0	17.1	20.3
Ordinary DPS (%)	n/a	n/a	20.0	>100	24.5

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	n/a	7.7	5.4	5.4	6.1
Return on equity (%)	n/a	5.9	5.0	5.4	6.4
Return on funds employed (%)	0.0	8.9	5.9	5.7	6.0
EBITDA margin (%)	40.6	40.7	37.0	38.6	42.4
EBIT margin (%)	n/a	28.6	23.3	25.3	29.3
Capex to sales (%)	n/a	17.5	72.4	82.0	74.2
Capex to depreciation (%)	n/a	145	531	618	566
Imputation (%)	0	100	100	100	100
Pay-out ratio (%)	n/a	15	35	77	80

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**37.3**	**40.5**	**35.1**	**40.2**	**49.1**
Working capital change	n/a	1.2	0	0	0
Interest & tax paid	n/a	(15.6)	(6.6)	(6.3)	(9.8)
Other	n/a	3.2	2.7	0	0
Operating cash flow	**n/a**	**29.3**	**31.2**	**33.9**	**39.3**
Capital expenditure	n/a	(17.4)	(68.7)	(85.4)	(85.9)
(Acquisitions)/divestments	n/a	(0.1)	(0.1)	0	0
Other	n/a	(79.9)	(1.1)	0	0
Funding available/(required)	**n/a**	**(68.0)**	**(38.7)**	**(51.5)**	**(46.6)**
Dividends paid	n/a	(54.0)	(11.0)	(6.2)	(17.0)
Equity raised/(returned)	n/a	234.0	(0.3)	0	0
(Increase)/decrease in net debt	**n/a**	**112.0**	**(50.0)**	**(57.7)**	**(63.6)**

Operating Performance	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (NZ$m)					
Container Services	58.0	61.2	59.4	66.6	70.8
Bulk Cargo	29.0	32.3	28.3	33.8	38.1
Cruise	2.6	3.7	4.8	1.2	4.3
Sundry	0.4	0.2	0.4	0.4	0.4
Property	1.9	2.2	2.1	2.1	2.1
Total revenue	**91.8**	**99.6**	**94.9**	**104.1**	**115.8**
Container volumes (TEU'000)					
Dry	107	106	96	104	107
Reefer	53	58	53	57	59
Empties	100	103	100	108	106
Other	7	4	7	7	7
Total containers	**267**	**271**	**256**	**276**	**280**
Bulk cargo (m tonnes)					
Log exports	2,208	2,581	2,200	2,650	3,000
Other exports	177	167	137	153	166
Imports	686	656	558	625	662
Total bulk cargo volume	**3,071**	**3,404**	**2,895**	**3,428**	**3,828**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	2.8	0.7	0.3	1.0	1.2
Fixed assets	309.6	317.2	383.1	454.7	525.4
Intangibles	1.3	1.1	1.8	1.8	1.8
Right of use asset	0	0	0.7	0.7	0.7
Other assets	8.8	8.4	8.2	8.2	8.2
Total funds employed	**322.6**	**327.4**	**394.0**	**466.4**	**537.2**
Net debt/(cash)	80.6	(31.2)	29.6	76.5	140.1
Lease liability	0	0.9	0.7	0.7	0.7
Other liabilities	29.6	22.2	19.8	19.8	19.8
Shareholder's funds	212.4	335.5	344.0	369.3	376.5
Minority interests	0	0	0	0	0
Total funding sources	**322.6**	**327.4**	**394.0**	**466.4**	**537.2**

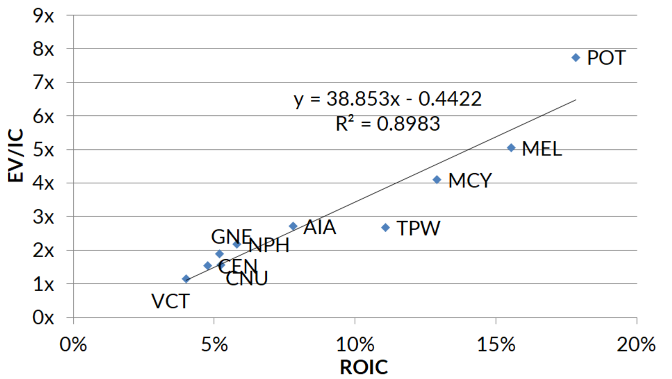
* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

NOTE: EBITDA referenced on this page reflects pro-forma EBITDA

Fair risk/reward; NEUTRAL

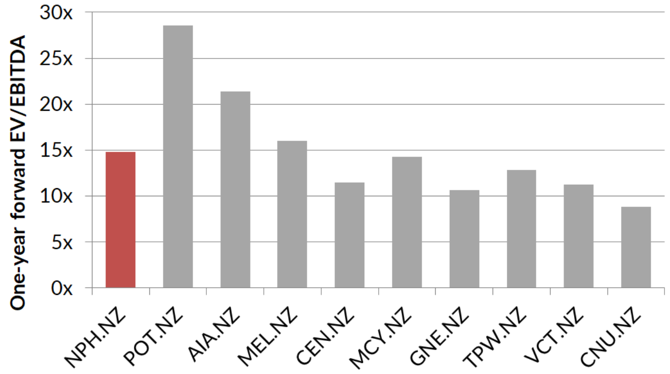
Napier Port (NPH) has been hit hard by COVID-19 restrictions on trade and will continue to be impacted, albeit to a lessening extent as New Zealand's alert levels are lowered. Importantly, the forestry sector can reopen under Alert Level 3, albeit under strict health and safety and physical distancing rules. Nonetheless, we expect a material hit to 2H20 profitability given port volumes will be down at least -50% during lock-down, on our estimates. We recognise a large proportion of 'lost' volume will be in forestry. However, 'lost' is the wrong word as trees are still in the ground and remain available for harvest. 'Deferred' is a better word, and therefore the valuation impact is limited. We lower our target price by just 10c to NZ$2.95.

Figure 1. NPH trading consistently with infrastructure players



Source: Eikon, Forsyth Barr analysis

Figure 2. Fair relative to domestic peers despite lofty POT



Source: Eikon, Forsyth Barr analysis

First half trade volume data

NPH's 1H20 trade data shows positive momentum in container traffic, albeit driven by lower margin empties. Bulk cargos suffered late in the period from a slowdown in log exports bound for China.

Figure 3. 1H20 container volume growth (TEU'000)

	1H19	1H20	Change
Dry	37	37	0%
Reefer	20	21	5%
Empties	2	2	0%
Total exports	**59**	**60**	**2%**
Dry	15	14	-7%
Reefer	2	2	0%
Empties	47	53	13%
Total imports	**63**	**69**	**10%**
Total containers	**126**	**135**	**7%**

Source: NPH, Forsyth Barr analysis NOTE: Total containers include 'other movements'

Figure 4. 1H20 bulk volumes and ship visits

	1H19	1H20	Change
Log exports	1,247	1,184	-5%
Other exports	95	80	-16%
Imports	382	333	-13%
Total bulk (kT)	**1,724**	**1,597**	**-7%**
Containers	151	147	-3%
Bulk charters	167	153	-8%
Cruise	66	76	15%
Total vessel calls	**384**	**376**	**-2%**

Source: NPH, Forsyth Barr analysis

Earnings revisions

We make material cuts to our FY20 and FY21 earnings forecasts as outlined in Figure 5. We assume that NPH receives a wage subsidy payment of ~NZ$1.7m in FY20 and consequently refrains from paying a final dividend. Dividends resume in FY21, albeit at a lower level than previously anticipated given lower earnings.

Figure 5. Earnings revisions (NZ$m)

	FY20E			FY21E			FY22E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Log exports (JASM)	2,500	2,200	-12.0%	2,800	2,650	-5.4%	2,900	3,000	3.4%
Containers (TEU)	272	256	-5.8%	280	276	-1.5%	289	280	-3.1%
Sales revenue	102.8	94.9	-7.6%	111.4	104.1	-6.5%	118.6	115.8	-2.3%
EBITDA	41.2	35.1	-14.8%	46.5	40.2	-13.6%	51.0	49.1	-3.6%
Underlying NPAT	**20.3**	**17.1**	**-15.5%**	**24.2**	**20.1**	**-17.2%**	**25.0**	**24.1**	**-3.4%**
Underlying EPS (cents)	10.1	8.6	-15.5%	12.1	10.0	-17.2%	12.5	12.1	-3.4%
DPS (cents)	7.5	3.0	-60.1%	9.2	7.8	-15.8%	10.0	9.7	-3.0%

Source: 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 that industry headwinds as a result of COVID-19 and the resulting nationwide lock-down will impact NPH's earnings in the near-term. 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 cashflow 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 varietals 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).

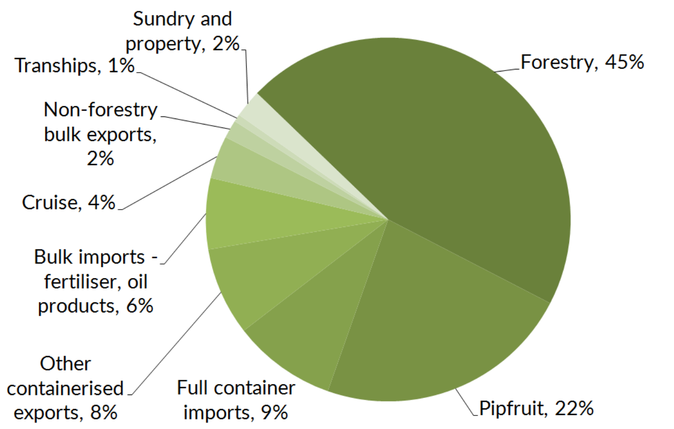
Financial structure

- **Rising debt levels:** NPH is currently cum-capex and will experience a leveraging up of its balance sheet over the medium term.

Risk factors

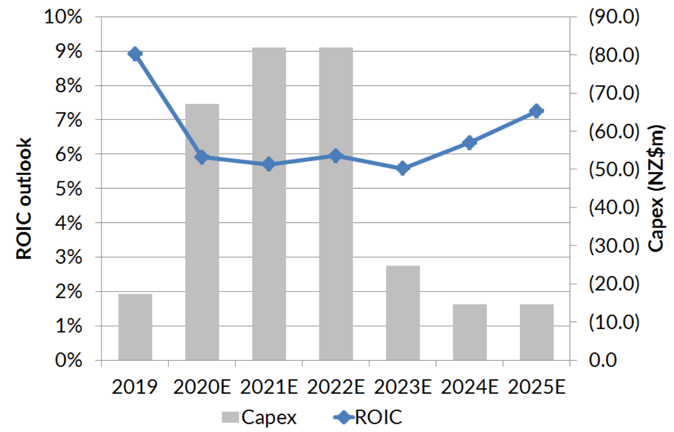
- **Industry sector risk:** Any change in the supply, or demand for NZ forestry/pipfruit could have a material impact on the Ports financial performance.
- **Competition from other ports:** Increased competition from other ports may mean that NPH loses cargo in future, particularly current contestable cargo.

Figure 6. NPH estimated revenue mix (FY19)



Source: Forsyth Barr analysis

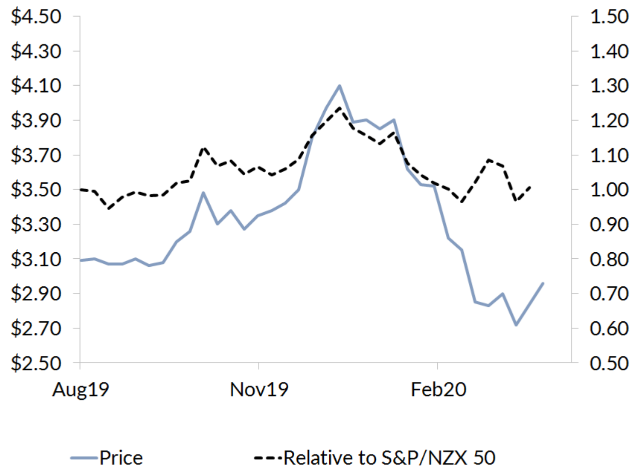
Figure 7. Returns under pressure from 6 Wharf capex



Source: Forsyth Barr analysis

FORSYTH BARR

Figure 8. Price performance



Source: Forsyth Barr analysis

Figure 9. Substantial shareholders

Shareholder	Latest Holding
Hawke's Bay Regional Council	55.0%

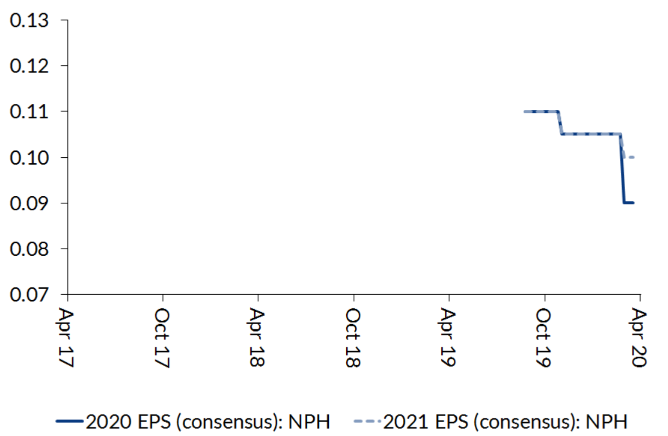
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 10. 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)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Napier Port	**NPH NZ**	**NZ$2.96**	**NZ$592**	**34.6x**	**29.5x**	**16.0x**	**14.0x**	**25.3x**	**21.3x**	**2.6%**
MITSUBISHI LOGISTICS CORP	9301 JP	¥2017.00	¥177,417	13.7x	12.9x	9.0x	8.4x	n/a	n/a	3.4%
WESTSHORE TERMINALS INVESTME	WTE CN	C$12.61	C$870	6.4x	8.6x	4.8x	6.1x	5.4x	7.1x	6.6%
HAMBURGER HAFEN UND LOGISTIK	HHFA GR	€12.34	€898	8.3x	7.5x	3.9x	3.7x	6.8x	6.2x	7.9%
GLOBAL PORTS INV-GDR REG S	GLPR LI	US$2.50	US$478	6.1x	5.1x	5.7x	5.2x	7.4x	6.6x	0.0%
EUROKAI KGAA	EUK2 GR	€26.00	€327	9.3x	9.3x	5.0x	5.2x	7.7x	8.2x	n/a
Auckland Airport *	AIA NZ	NZ$4.94	NZ$6,002	<0x	<0x	30.7x	50.6x	>75x	>75x	0.2%
SYDNEY AIRPORT	SYD AT	A$4.99	A$11,277	36.0x	29.7x	18.0x	16.3x	28.4x	24.2x	7.6%
QUBE HOLDINGS	QUB AT	A$1.86	A$3,024	23.1x	20.1x	16.6x	14.6x	30.2x	24.3x	3.5%
PORT OF TAURANGA	POT	NZ$5.60	NZ$3,809	39.2x	35.8x	25.5x	23.7x	30.3x	28.0x	2.8%
			Compco Average:	**17.8x**	**16.1x**	**13.2x**	**14.9x**	**16.6x**	**15.0x**	**4.0%**
EV = Current Market Cap + Actual Net Debt			**NPH Relative:**	**95%**	**83%**	**21%**	**-6%**	**53%**	**42%**	**-35%**

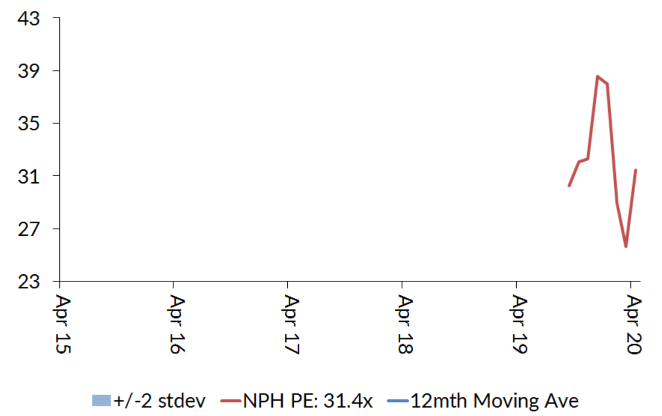
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NPH) companies fiscal year end

Figure 11. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 12. One year forward PE (x)



Source: Forsyth Barr analysis

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 report.

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.

Ratings distributions: As at 15 Apr 2020, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
42.0%	42.0%	16.0%

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.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") 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. Forsyth Barr 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 within the past 12 months been engaged to provide investment banking services to the following issuers that are the subject of this publication: FRE

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication 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. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: 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. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, 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. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. 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. 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.