

Hutchison Port Holdings Trust

Bloomberg: HPHT SP | Reuters: HPHT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Feb 2022

BUY

Last Traded Price (9 Feb 2022): US\$0.260 (STI : 3,420.04)
Price Target 12-mth: US\$0.37 (42% upside) (Prev US\$0.33)

Analyst

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What's New

- FY21 net profit rose 110% y-o-y to HK\$1,747m on exceptional storage income, above expectations
- Final dividend of HK8cts brings FY21 DPU to HK14.5cts, above our street high forecast of HK14cts
- FY22 core profit to stay resilient on continued high storage income; DPU guidance of HK14.5-15.5cts
- Maintain BUY with higher TP of US\$0.37

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Revenue	10,706	13,244	11,887	11,953
EBITDA	6,576	8,470	7,165	7,347
Pre-tax Profit	2,731	4,796	3,418	3,576
Net Profit	831	1,747	1,185	1,209
Net Pft (Pre Ex.)	831	1,747	1,185	1,209
Net Pft Gth (Pre-ex) (%)	57.4	110.1	(32.2)	2.0
EPS (US cts.)	1.22	2.57	1.74	1.78
EPS Pre Ex. (US cts.)	1.22	2.57	1.74	1.78
EPS Gth Pre Ex (%)	57	110	(32)	2
Diluted EPS (US cts.)	1.22	2.57	1.74	1.78
Net DPS (US cts.)	1.54	1.86	2.05	2.18
BV Per Share (US cts.)	38.3	39.9	39.6	39.2
PE (X)	21.2	10.1	14.9	14.6
PE Pre Ex. (X)	21.2	10.1	14.9	14.6
P/Cash Flow (X)	3.9	2.6	3.2	3.4
EV/EBITDA (X)	8.9	6.6	7.5	7.0
Net Div Yield (%)	5.9	7.2	7.9	8.4
P/Book Value (X)	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.5	0.4	0.3	0.3
ROAE (%)	3.2	6.6	4.4	4.5
Earnings Rev (%):			25	-
Consensus EPS (US			2.1	2.0
Other Broker Recs:		B: 2	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Stellar FY21 results and dividends

Investment Thesis

Recommend BUY with a higher TP of US\$0.37 on the back of strong FY21 earnings and a resilient outlook. HPHT's strong performance in FY21 was mainly led by higher storage income, which we expect to partially continue into FY22F, as port congestions remain high. We've lifted our FY22F estimates by 25% on account of this and expect FY23F earnings to remain stable from FY22F on higher container handling rates and lower costs offsetting lower storage income.

Reaping the benefit of stringent cost management measures and debt repayment. We see HPHT's earnings staying resilient in the next few years, despite throughput volume uncertainty in the near term and higher interest rates, as the trust has undertaken a series of cost management programmes to lower its cost base and has reduced its total debt by nearly HK\$5bn in the last five years.

More upside to DPU guidance of HK14.5-15.5cts in FY22.

With strong cash flow generation, resilient earnings, and a rapidly improving balance sheet, we believe there is room for HPHT to raise dividends further in the next few years. Stock is attractive at 7.9% prospective yield in our view.

Valuation:

Maintain BUY with a raised TP of US\$0.37. Our discounted cash flow (DCF)-based TP assumes a weighted average cost of capital (WACC) of 8.0% (cost of equity 10.0%).

Where we differ:

We have the highest target price on the street, as we believe HPHT will see a sustained improvement in earnings and DPU.

Key Risks to Our View:

A global recession would materially impact trade and throughput numbers for HPHT, which would then have an impact on the trust's earnings, cash flows, and dividends.

At A Glance

Issued Capital (m shrs)	8,711
Mkt. Cap (US\$m/US\$m)	2,265 / 2,265
Major Shareholders (%)	
Hutchison Ports	27.6
Temasek Holdings Private Ltd	14.0
Port Capital Limited	10.4
Free Float (%)	48.0
3m Avg. Daily Val (US\$m)	1.5
GIC Industry : Industrials / Transportation	



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WHAT'S NEW

Stellar FY21 results and dividends

HPHT reported FY21 net profit of HK\$1,747m, which is 58% above our forecast, representing 110% growth y-o-y. Revenue grew by 24% y-o-y to HK\$13.2bn, driven partially by higher volumes (+6% y-o-y) at Yantian, but mainly by higher storage income at both the Yantian and HK ports.

The firm outperformance comes on the back of tight cost control leading to strong operating leverage, as well as exceptionally high storage income due to the various port congestions and transport bottlenecks due to COVID outbreaks.

HPHT declared a final dividend of HK8cts, bringing full-year dividends to HK14.5cts, which is **above** our top of consensus estimate of HK14cts and the company's own guidance of HK11-13cts at the start of the year.

Our View

While it remains to be seen if the same magnitude of storage income (estimated at over 10% of total revenue in FY21) can be recorded in FY22, we think that this revenue stream will remain significant in FY22, given the still ongoing port congestions and COVID outbreaks in China and globally. We've lifted our FY22F estimates by 25% on account of this and expect FY23F earnings to remain stable from FY22F on higher container handling rates and lower costs offsetting lower storage income. Meanwhile, over 80% of the trust's debt is on fixed rates, which should help to mitigate expected increases in the Fed Funds Rate in the next few years.

Company Background

Hutchison Port Holdings Trust (HPHT) has controlling interests in container port assets located in two of the world's busiest container port cities by throughput – Kwai Tsing, Hong Kong and Yantian Port, Shenzhen, China.

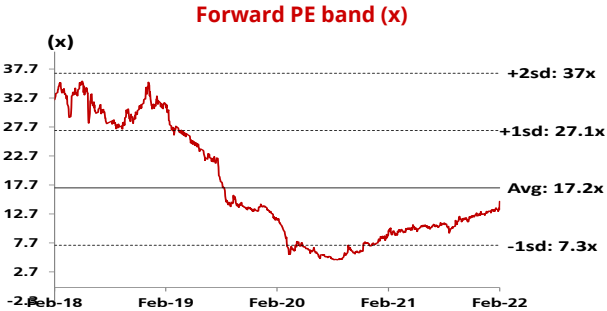
FY21 Results at a Glance

Currency HK\$ millions			
FY Dec	FY20	FY21	% chg y-o-y
Sales	10,705.8	13,244.1	23.7%
Cost of Goods Sold	(3,568.4)	(4,474.7)	25.4%
Gross Profit	7,137.4	8,769.4	22.9%
Other Operating Income	193.2	417.9	116.3%
<i>Staff Costs</i>	(256.4)	(257.2)	0.3%
<i>Depreciation & Amortization</i>	(3,054.0)	(3,050.9)	-0.1%
<i>Others</i>	(513.3)	(500.4)	-2.5%
Total Operating Expenses	(3,630.5)	(3,390.6)	-6.6%
EBIT	3,506.9	5,378.8	53.4%
Interest Expense	(766.3)	(616.5)	-19.6%
Share of Associates' or JV Income	(10.1)	34.1	-437.1%
Pretax Profit	2,730.5	4,796.4	75.7%
Tax	(718.0)	(1,269.2)	76.8%
Minority Interests	(1,181.1)	(1,780.0)	50.7%
Net Profit	831.4	1,747.2	110.1%

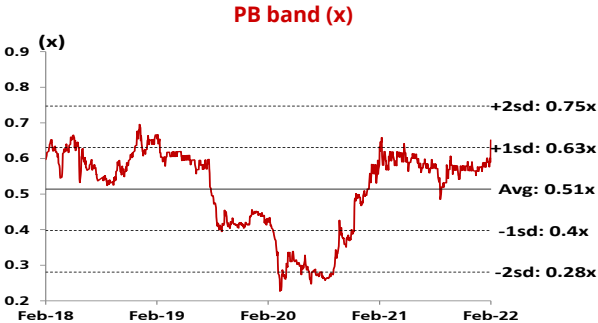
Source: Company, DBS Bank estimates

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Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Hong Kong Throughput	9,991	10,055	10,040	10,040	10,140
Yantian Throughput	13,069	13,347	14,161	14,303	14,589
HIT Tariff / TEU	352	325	370	340	344
Yantian Tariff / TEU	581	557	673	592	580
Operating Margin (%)	30.9	32.8	40.6	34.6	35.9

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$m)					
HK	3,522	3,267	3,715	3,418	3,487
PRC	7,599	7,439	9,529	8,469	8,466
Total	11,121	10,706	13,244	11,887	11,953

Income Statement (HK\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	11,121	10,706	13,244	11,887	11,953
Cost of Goods Sold	(3,882)	(3,568)	(4,475)	(4,051)	(3,909)
Gross Profit	7,239	7,137	8,769	7,836	8,043
Other Opng (Exp)/Inc	(3,808)	(3,631)	(3,391)	(3,728)	(3,748)
Operating Profit	3,431	3,507	5,379	4,108	4,295
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(54.0)	(10.1)	34.1	20.0	35.0
Net Interest (Exp)/Inc	(1,075)	(766)	(616)	(711)	(754)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2,302	2,731	4,796	3,418	3,576
Tax	(480)	(718)	(1,269)	(849)	(921)
Minority Interest	(1,294)	(1,181)	(1,780)	(1,384)	(1,446)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	528	831	1,747	1,185	1,209
Net Profit before Except.	528	831	1,747	1,185	1,209
EBITDA	6,455	6,576	8,470	7,165	7,347
Growth					
Revenue Gth (%)	(3.1)	(3.7)	23.7	(10.2)	0.5
EBITDA Gth (%)	(1.8)	1.9	28.8	(15.4)	2.5
Opg Profit Gth (%)	(3.4)	2.2	53.4	(23.6)	4.5
Net Profit Gth (Pre-ex) (%)	(28.4)	57.4	110.1	(32.2)	2.0
Margins & Ratio					
Gross Margins (%)	65.1	66.7	66.2	65.9	67.3
Opg Profit Margin (%)	30.9	32.8	40.6	34.6	35.9
Net Profit Margin (%)	4.7	7.8	13.2	10.0	10.1
ROAE (%)	2.0	3.2	6.6	4.4	4.5
ROA (%)	0.6	0.9	1.9	1.3	1.3
ROCE (%)	3.1	3.0	4.6	3.6	3.8
Div Payout Ratio (%)	181.4	125.7	72.3	117.6	122.5
Net Interest Cover (x)	3.2	4.6	8.7	5.8	5.7

Source: Company, DBS Bank

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Balance Sheet (HK\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	61,485	59,161	56,881	54,744	52,626
Invt in Associates & JVs	3,609	3,626	3,976	3,819	3,678
Other LT Assets	17,368	16,982	16,940	16,640	16,340
Cash & ST Invt	7,040	7,767	11,048	12,508	13,525
Inventory	102	99.3	86.6	113	109
Debtors	3,056	3,034	4,033	3,420	3,438
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	92,661	90,668	92,964	91,244	89,717
ST Debt	4,097	3,991	7,190	7,190	7,190
Creditor	5,783	5,518	6,713	6,263	6,045
Other Current Liab	474	279	422	422	422
LT Debt	26,459	25,328	21,730	20,730	19,730
Other LT Liabilities	10,284	9,949	9,509	9,309	9,109
Shareholder's Equity	25,851	26,002	27,107	26,898	26,626
Minority Interests	19,712	19,602	20,292	20,431	20,595
Total Cap. & Liab.	92,661	90,668	92,964	91,244	89,717
Non-Cash Wkg. Capital	(3,099)	(2,663)	(3,015)	(3,153)	(2,919)
Net Cash/(Debt)	(23,516)	(21,552)	(17,872)	(15,412)	(13,395)
Debtors Turn (avg days)	100.4	103.8	97.4	114.4	104.7
Creditors Turn (avg days)	2,661.0	4,213.9	1,575.0	2,336.1	2,518.8
Inventory Turn (avg days)	46.7	75.2	23.9	35.9	45.3
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.0	1.1	1.1	1.2	1.3
Quick Ratio (x)	1.0	1.1	1.1	1.1	1.2
Net Debt/Equity (X)	0.5	0.5	0.4	0.3	0.3
Net Debt/Equity ex MI (X)	0.9	0.8	0.7	0.6	0.5
Capex to Debt (%)	1.9	1.5	0.8	2.1	2.2
Z-Score (X)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)

Source: Company, DBS Bank

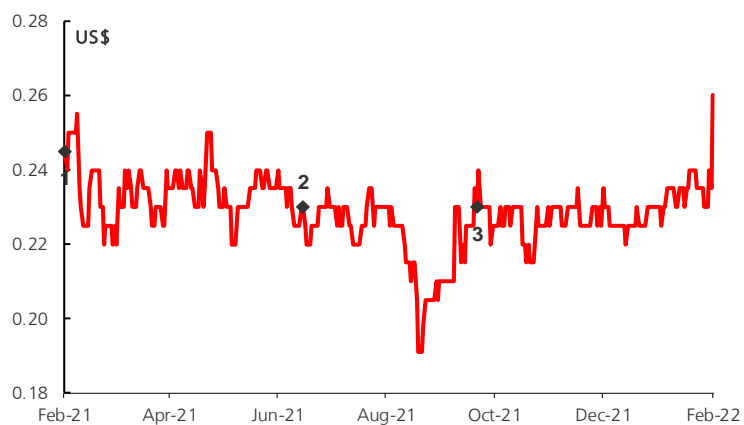
Cash Flow Statement (HK\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	2,302	2,731	4,796	3,418	3,576
Dep. & Amort.	3,078	3,079	3,058	3,037	3,018
Tax Paid	(735)	(1,286)	(1,389)	(1,049)	(1,121)
Assoc. & JV Inc/(loss)	54.0	10.1	(34.1)	(20.0)	(35.0)
Chg in Wkg.Cap.	(140)	(240)	209	138	(234)
Other Operating CF	75.2	291	94.9	0.0	0.0
Net Operating CF	4,635	4,585	6,735	5,523	5,204
Capital Exp.(net)	(566)	(439)	(219)	(600)	(600)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(132)	(98.3)	(831)	0.0	0.0
Div from Assoc & JV	128	176	176	176	176
Other Investing CF	148	84.9	336	0.0	0.0
Net Investing CF	(421)	(276)	(538)	(424)	(424)
Div Paid	(1,261)	(810)	(1,237)	(1,394)	(1,481)
Chg in Gross Debt	(1,054)	(1,301)	(459)	(1,000)	(1,000)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(1,424)	(1,471)	(1,219)	(1,245)	(1,282)
Net Financing CF	(3,740)	(3,582)	(2,915)	(3,639)	(3,763)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	474	726	3,281	1,460	1,017
Opg CFPS (US cts.)	7.03	7.11	9.61	7.93	8.01
Free CFPS (US cts.)	5.99	6.11	9.60	7.25	6.78

Source: Company, DBS Bank

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Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Paul YONG, CFA

Singapore Research Team

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 10 Feb 2022 06:35:39 (SGT)

Dissemination Date: 10 Feb 2022 08:33:59 (SGT)

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