

China / Hong Kong Company Update

China Merchants Port Hldgs

Bloomberg: 144 HK EQUITY | Reuters: 0144.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

6 Apr 2022

BUY

Last Traded Price (4 Apr 2022): HK\$14.38 (HSI : 22,502)
Price Target 12-mth: HK\$19.00 (32% upside) (Prev HK\$18.50)

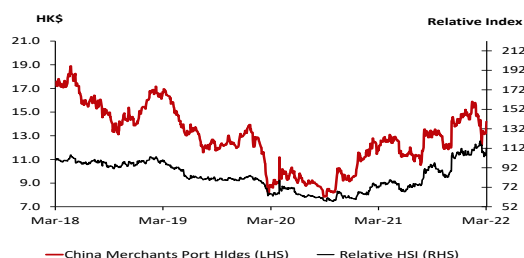
Analyst

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Regional Research Team

What's New

- FY21 net profit rose by 58% y-o-y to HK\$8,144m, slightly above expectations
- Final dividend of HK72cts brings FY21 DPS to HK94cts, above our forecast of HK86cts
- Steady growth ahead on higher volumes and tariffs
- Maintain BUY with higher TP of HK\$19.00

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2020A	2021A	2022F	2023F
Turnover	8,945	11,850	13,318	13,835
EBITDA	10,715	14,327	14,623	15,278
Pre-tax Profit	7,158	10,626	10,735	11,287
Net Profit	5,151	8,144	8,252	8,704
Net Profit Gth (Pre-ex) (%)	23.7	58.1	1.3	5.5
EPS (HK\$)	1.45	2.19	2.18	2.30
Core EPS (HK\$)	1.45	2.19	2.18	2.30
EPS Gth (%)	(41.3)	51.0	(0.3)	5.5
Core EPS Gth (%)	18.0	51.0	(0.3)	5.5
DPS (HK\$)	0.69	0.94	0.95	1.00
BV Per Share (HK\$)	24.01	25.96	27.20	28.55
PE (X)	9.9	6.6	6.6	6.3
P/Cash Flow (X)	12.6	9.8	8.9	8.5
P/Free CF (X)	22.3	22.0	17.4	16.0
EV/EBITDA (X)	9.9	7.5	7.5	7.2
Net Div Yield (%)	4.8	6.5	6.6	7.0
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	6.1	8.7	8.2	8.2
Earnings Rev (%)			27	New
Consensus EPS (HK\$)			1.99	2.17
Other Broker Recs:		B:9	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Steady growth at cheap valuations

Investment Thesis

Maintain BUY with a higher TP of HK\$19.00, pegged to a 0.7x FY22F P/BV. China Merchants Port's strong performance in FY21 was mainly driven by 1) container/bulk throughput growth and 2) an increase in the share of profit of associates. We've lifted our FY22F earnings estimate by 27% considering higher container handling rates and margin assumptions.

Steady core earnings growth ahead. With the recent container shipping boom, we will finally see an increase in container handling charges for the Chinese ports this year, after a decade of flattish charges. We expect at least a mid-single-digit increase in container handling charges, which would boost revenue and earnings. Throughput is also expected to grow at a single-digit pace in 2022, which would drive a core profit growth of 9.5% in FY22F.

Undemanding valuations. The stock is trading at a 0.5x FY22F P/BV, which is close to its five-year mean, against a projected ROE of 8.2% with a high FY22F dividend yield of 6.6%. We believe that it can continue to re-rate, given improved profitability ahead.

Valuation:

Our TP of HK\$19.00 is based on a 0.7x FY22F P/B against a projected core ROE of 8.2%.

Where we differ:

There is an upside risk to our relatively conservative throughput growth and ASP assumptions in the event overall global trade can sustain its growth momentum from FY21.

Key Risks to Our View:

COVID-19 variant is a key risk. The resurgence of COVID-19 may slow down the global economy and erode trade demand.

At A Glance

Issued Capital (m shrs)	3,786
Mkt Cap (HK\$m/US\$m)	54,443 / 6,949
Major Shareholders (%)	
China Merchants Port Group Co Ltd	43.2
China Merchants Union (BVI) Ltd.	21.6
Free Float (%)	35.2
3m Avg. Daily Val. (US\$m)	7.89
GICS Industry: Industrials / Transportation	



Watchlist the stock on Insights Direct to receive prompt updates



China Merchants Port Hldgs

WHAT'S NEW

FY21 net profit slightly higher than expected

China Merchants Port reported FY21 earnings that were slightly above our expectations, rising 58% y-o-y to HK\$8,144m on the back of revenue growth of 32.5% y-o-y to HK\$11,850m. Recurrent net profit was up by 81% y-o-y to HK\$7,537m, implying a core ROAE of 8.1%, driven by 1) container/bulk throughput growth and 2) an increase in the share of profit of associates.

Throughput of containers handled reached 135.0m TEUs, up 12.0% y-o-y, while throughput of bulk cargoes handled reached 567m tonnes, up 38.0% y-o-y.

A final dividend of HK72cts was declared, bringing the full-year dividend to HK94cts, above our forecast of HK86cts. The dividend payout ratio stood at 44%.

Our View

We anticipate steady growth ahead with mid to high single-digit increases in both throughput volume and tariff. The strong momentum is expected to continue on the back of COVID-19 recovery and newly added shipping routes, thereby driving continued revenue and earnings improvement.

We maintain our BUY call and raise the TP to HK\$19.00. The stock is trading at an undemanding 0.5x P/B against FY22F ROE of 8.2% and offering an attractive dividend yield of 6.6%.

Throughput growth forecast

		FY22F
China Merchants Port	Greater China	+5.3%
	Overseas	+4.4%

Source: DBS HK Estimates

Results Summary

	FY20	FY21	y-o-y change (%)
Revenue (HK\$m)	8,945	11,850	+32.5%
Profit attributable to shareholders (HK\$m)	5,151	8,144	+58.1%
EPS (HK cents)	146	220	+50.3%
Dividend per share (HK cents)	69	94	+36.2%
Payout ratio	49%	44%	
Recurrent profit attributable to shareholders (HK\$m)	4,158	7,537	+81.3%
Recurrent EPS (HK cents)	118	204	+72.1%

Source: Company, DBS HK

Company Background

China Merchants Port Holdings (CM Ports) is the largest public port operator in China, with throughput volume of its invested terminals in Mainland China accounting for nearly one-third of China's total container throughput. It also has port investments in HK, Taiwan, Africa, and Europe. It is over 70%-owned by the China Merchants Group, a leading state-owned enterprise in China.

China Merchants Port Hldgs

Interim Income Statement (HK\$m)

FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Revenue	4,868	5,663	6,187	27.1	9.3
Cost of Goods Sold	(2,798)	(3,016)	(3,477)	24.3	15.3
Gross Profit	2,070	2,647	2,710	30.9	2.4
Other Oper. (Exp)/Inc	1,126	(397)	(173)	(115.4)	(56.4)
Operating Profit	3,196	2,250	2,537	(20.6)	12.8
Other Non Opg (Exp)/Inc	0	0	0	nm	nm
Associates & JV Inc	2,858	4,206	3,048	6.6	(27.5)
Net Interest (Exp)/Inc	(712)	(655)	(760)	(6.7)	(16.0)
Exceptional Gain/(Loss)	(615)	0	0	nm	nm
Pre-tax Profit	4,727	5,801	4,825	2.1	(16.8)
Tax	(647)	(527)	(714)	10.4	35.5
Minority Interest	(475)	(563)	(678)	(42.7)	20.4
Net Profit	3,605	4,711	3,433	(4.8)	(27.1)
Net profit bef Except.	4,220	4,711	3,433	(18.6)	(27.1)
EBITDA	7,116	7,518	6,647	(6.6)	(11.6)
Margins (%)					
Gross Margins	42.5	46.7	43.8		
Opg Profit Margins	65.7	39.7	41.0		
Net Profit Margins	74.1	83.2	55.5		

Source: Company, DBS HK

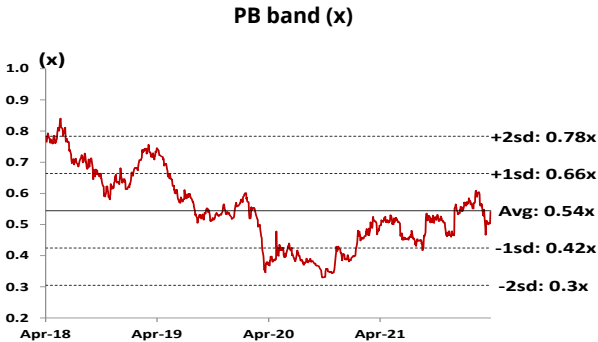
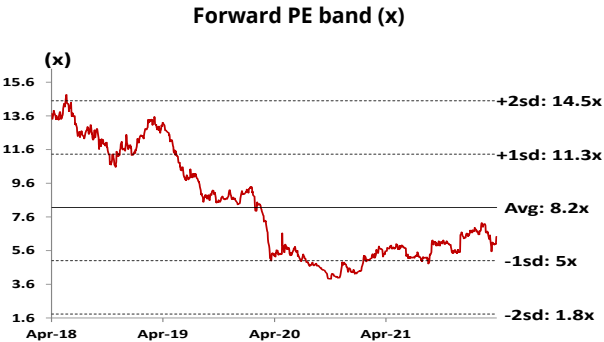
Income Statement (HK\$ m)

FY Dec	2020A	2021A	% cha v-o-v
Revenue	8,945	11,850	32.5
Cost of Goods Sold	(5,201)	(6,493)	24.8
Gross Profit	3,744	5,357	43.1
Other Opng (Exp)/Inc	481	(570)	(218.5)
Operating Profit	4,225	4,787	13.3
Other Non Opg (Exp)/Inc	0	0	nm
Associates & JV Inc	4,457	7,254	62.8
Net Interest (Exp)/Inc	(1,524)	(1,415)	7.2
Exceptional Gain/(Loss)	0	0	nm
Pre-tax Profit	7,158	10,626	48.4
Tax	(1,077)	(1,241)	15.2
Minority Interest	(930)	(1,241)	(33.4)
Net Profit	5,151	8,144	58.1
Net Profit before Except.	5,151	8,144	58.1
EBITDA	10,715	14,327	33.7
Margins & Ratio			
Gross Margins (%)	41.9	45.2	
Opg Profit Margin (%)	47.2	40.4	
Net Profit Margin (%)	57.6	68.7	

Source: Company, DBS HK

China Merchants Port Hldgs

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Merchants Port Hldgs

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Subsidiaries' Container Throughput ('000 TEUs)	16,159.0	16,410.0	17,816.0	19,042.7	19,428.2
Subsidiary Port Operations' Average ASP/TEU (HK\$)	374.0	369.2	402.5	419.8	427.9
Associates and Jointly-Controlled Entities' Container Throughput ('000 TEUs)	31,461.0	35,201.0	36,748.0	39,558.2	40,923.6
Share of Results of Associates and Jointly-Controlled Entities	4,295.0	4,457.0	7,254.0	7,042.0	7,368.0
Operating Margin(%)	41.8	47.2	40.4	38.9	39.0

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Port Operations	8,243	8,304	11,069	12,509	12,997
Bonded logistics & Cold chain operations	467	469	560	588	617
Others (Investments & Property)	188	172	221	221	221
Total	8,898	8,945	11,850	13,318	13,835
Operating profit (HK\$ m)					
Port Operations	9,346	3,976	4,742	5,137	5,346
Bonded logistics & Cold chain operations	161	135	126	132	139
Port-Related Manufacturing	0	0	0	0	0
Others (Investments & Property)	202	193	152	152	152
Corporate	(466)	(79)	(233)	(240)	(247)
Total	9,243	4,225	4,787	5,181	5,390
Operating profit Margins (%)					
Port Operations	113.4	47.9	42.8	41.1	41.1
Bonded logistics & Cold chain operations	34.5	28.8	22.5	22.5	22.5
Others (Investments & Property)	107.4	112.2	68.8	68.8	68.8
Total	103.9	47.2	40.4	38.9	39.0

Source: Company, DBS HK

China Merchants Port Hldgs

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	8,898	8,945	11,850	13,318	13,835
Cost of Goods Sold	(5,182)	(5,201)	(6,493)	(6,772)	(6,870)
Gross Profit	3,716	3,744	5,357	6,545	6,965
Other Opng (Exp)/Inc	2	481	(570)	(1,364)	(1,575)
Operating Profit	3,718	4,225	4,787	5,181	5,390
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	4,295	4,457	7,254	7,042	7,368
Net Interest (Exp)/Inc	(1,782)	(1,524)	(1,415)	(1,488)	(1,471)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	5,525	0	0	0	0
Pre-tax Profit	11,756	7,158	10,626	10,735	11,287
Tax	(2,518)	(1,077)	(1,241)	(1,343)	(1,397)
Minority Interest	(876)	(930)	(1,241)	(1,140)	(1,186)
Preference Dividend	0	0	0	0	0
Net Profit	8,362	5,151	8,144	8,252	8,704
Net Profit before Except.	4,163	5,151	8,144	8,252	8,704
EBITDA	10,009	10,715	14,327	14,623	15,278
Growth					
Revenue Gth (%)	(12.4)	0.5	32.5	12.4	3.9
EBITDA Gth (%)	19.0	7.1	33.7	2.1	4.5
Opg Profit Gth (%)	130.4	13.6	13.3	8.2	4.0
Net Profit Gth (%)	15.4	(38.4)	58.1	1.3	5.5
Margins & Ratio					
Gross Margins (%)	41.8	41.9	45.2	49.1	50.3
Opg Profit Margin (%)	41.8	47.2	40.4	38.9	39.0
Net Profit Margin (%)	94.0	57.6	68.7	62.0	62.9
ROAE (%)	10.8	6.1	8.7	8.2	8.2
ROA (%)	5.8	3.2	4.7	4.6	4.7
ROCE (%)	2.1	2.3	2.5	2.6	2.6
Div Payout Ratio (%)	32.9	48.8	43.6	43.6	43.6
Net Interest Cover (x)	2.1	2.8	3.4	3.5	3.7

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	4,434	4,077	4,868	5,663	6,187
Cost of Goods Sold	(2,675)	(2,403)	(2,798)	(3,016)	(3,477)
Gross Profit	1,759	1,674	2,070	2,647	2,710
Other Oper. (Exp)/Inc	(436)	(645)	1,126	(397)	(173)
Operating Profit	1,323	1,029	3,196	2,250	2,537
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	2,202	1,599	2,858	4,206	3,048
Net Interest (Exp)/Inc	(893)	(812)	(712)	(655)	(760)
Exceptional Gain/(Loss)	225	615	(615)	0	0
Pre-tax Profit	2,857	2,431	4,727	5,801	4,825
Tax	(409)	(430)	(647)	(527)	(714)
Minority Interest	(615)	(455)	(475)	(563)	(678)
Net Profit	1,833	1,546	3,605	4,711	3,433
Net profit bef Except.	1,608	931	4,220	4,711	3,433
Growth					
Revenue Gth (%)	(3.6)	(8.7)	9.8	38.9	27.1
Opg Profit Gth (%)	558.2	(57.0)	141.6	118.7	(20.6)
Net Profit Gth (%)	2.0	(76.3)	96.7	204.7	(4.8)

Margins

Gross Margins (%)	39.7	41.1	42.5	46.7	43.8
Opg Profit Margins (%)	29.8	25.2	65.7	39.7	41.0
Net Profit Margins (%)	41.3	37.9	74.1	83.2	55.5

Source: Company, DBS HK

China Merchants Port Hldgs

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	39,305	43,062	44,496	45,096	45,575
Invt in Associates & JVs	67,700	76,517	84,083	88,778	93,799
Other LT Assets	29,567	33,029	34,395	34,395	34,395
Cash & ST Invt	7,800	11,290	9,980	9,416	9,094
Inventory	125	179	166	173	172
Debtors	3,435	5,493	2,134	2,398	2,491
Other Current Assets	1,150	494	3,436	3,436	3,436
Total Assets	149,082	170,064	178,690	183,692	188,962
ST Debt	9,079	9,028	14,591	14,591	14,591
Creditors	4,707	4,152	4,304	4,473	4,450
Other Current Liab	1,736	2,412	2,294	2,294	2,294
LT Debt	30,337	31,126	23,117	22,117	21,117
Other LT Liabilities	9,089	9,711	9,586	9,586	9,586
Shareholder's Equity	79,783	87,889	98,262	102,955	108,063
Minority Interests	14,351	25,746	26,536	27,676	28,862
Total Cap. & Liab.	149,082	170,064	178,690	183,692	188,962
Non-Cash Wkg. Capital	(1,733)	(398)	(862)	(760)	(644)
Net Cash/(Debt)	(31,616)	(28,864)	(27,728)	(27,292)	(26,614)
Debtors Turn (avg days)	139.7	182.2	117.5	62.1	64.5
Creditors Turn (avg days)	480.7	510.3	366.8	366.4	374.4
Inventory Turn (avg days)	13.3	17.5	15.0	14.1	14.4
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.8	1.1	0.7	0.7	0.7
Quick Ratio (x)	0.7	1.1	0.6	0.6	0.5
Net Debt/Equity (X)	0.3	0.3	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.4	0.3	0.3	0.3	0.2
Capex to Debt (%)	6.8	4.4	8.0	8.2	8.4
Z-Score (X)	1.1	1.0	1.1	1.1	1.1

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	11,756	7,158	10,626	10,735	11,287
Dep. & Amort.	1,996	2,033	2,286	2,401	2,522
Tax Paid	(623)	(476)	(1,241)	(1,343)	(1,397)
Assoc. & JV Inc/(loss)	(4,295)	(4,457)	(7,254)	(7,042)	(7,368)
(Pft)/Loss on disposal of FAs	(5,487)	(2,052)	281	0	0
Chg in Wkg. Cap.	(154)	(651)	3,524	(102)	(116)
Other Operating CF	1,138	2,505	(2,784)	1,487	1,469
Net Operating CF	4,331	4,060	5,438	6,136	6,398
Capital Exp. (net)	(2,673)	(1,764)	(3,000)	(3,000)	(3,000)
Other Invt. (net)	(266)	105	0	0	0
Invt in Assoc. & JV	(8,905)	(6,116)	(1,000)	(1,000)	(1,000)
Div from Assoc & JV	1,979	1,762	3,347	3,347	3,347
Other Investing CF	9,434	1,612	(82)	372	339
Net Investing CF	(431)	(4,401)	(735)	(281)	(314)
Div Paid	(1,639)	(2,649)	(2,690)	(3,559)	(3,596)
Chg in Gross Debt	(271)	7,024	(2,815)	(2,860)	(2,810)
Capital Issues	0	0	0	0	0
Other Financing CF	(182)	0	(624)	0	0
Net Financing CF	(2,092)	4,375	(6,129)	(6,419)	(6,406)
Currency Adjustments	(1,183)	(617)	116	0	0
Chg in Cash	625	3,417	(1,310)	(564)	(322)
Opg CFPS (HK\$)	1.32	1.33	0.51	1.65	1.72
Free CFPS (HK\$)	0.49	0.65	0.65	0.83	0.90

Source: Company, DBS HK

China Merchants Port Hldgs

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	6-May-21	HK\$12.60	HK\$16.30	Buy
2:	28-Sep-21	HK\$12.84	HK\$18.50	Buy

Source: DBS HK

Analyst: Paul YONG, CFA

Regional Research Team

China Merchants Port Hldgs

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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

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Sources for all charts and tables are DBS HK unless otherwise specified.

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