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Port equity investments: Risks and returns

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17th ASEAN Ports & Shipping 2019

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Introduction

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Ocean Shipping Consultants (OSC) is the maritime economic consultancy group of Royal HaskoningDHV, and a leading brand in the maritime sector with more than 35-years of experience

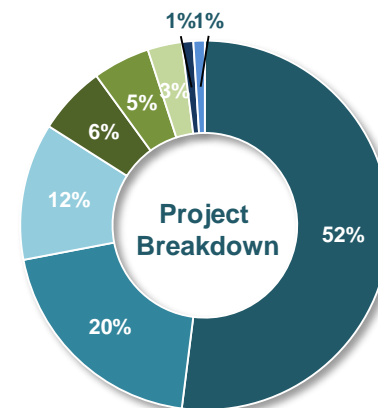
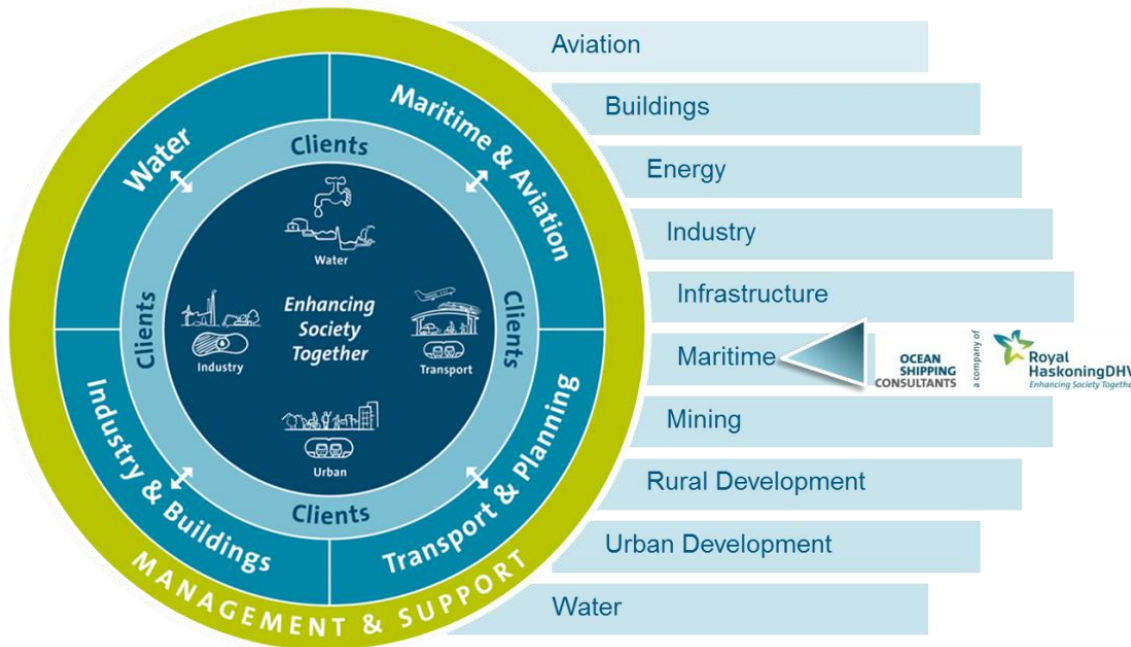
Key profile	Top International Design Firm	Resources
<ul style="list-style-type: none"> - Originally founded in 1881 - 138 years of experience - Turnover €607m (2017) 	<p>Ranked 4th in Top International Design Firms – Marine & Ports by ENR (2018)</p>	<ul style="list-style-type: none"> - 5,700 employees - 100 offices in 35 countries - 650 dedicated ports and maritime professionals

OCEAN SHIPPING CONSULTANTS

With over 350 projects in more than 65 countries successfully completed over the last 5 years, OSC provides global bespoke consultancy services from offices in London, the Netherlands and

Singapore to more than 200 different clients, including port authorities, terminal operating companies, governments, shipping lines, logistics operators and the wider financial community.

These range of services are undertaken for all cargo types and sectors ensuring that clients are able to make appropriate, well informed decisions at all times.



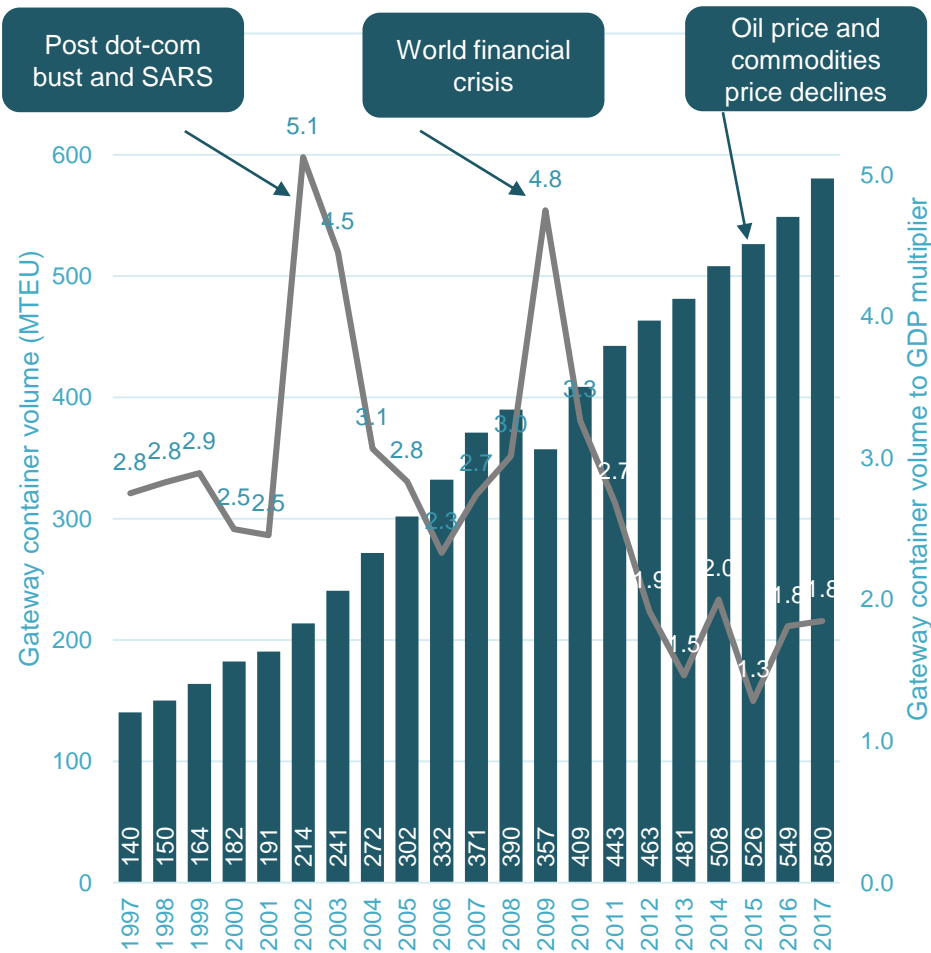
- Market Study
- Due Diligence
- Feasibility Study
- Strategy
- Investment Services
- Publication
- Logistic Study
- Benchmark / Operations



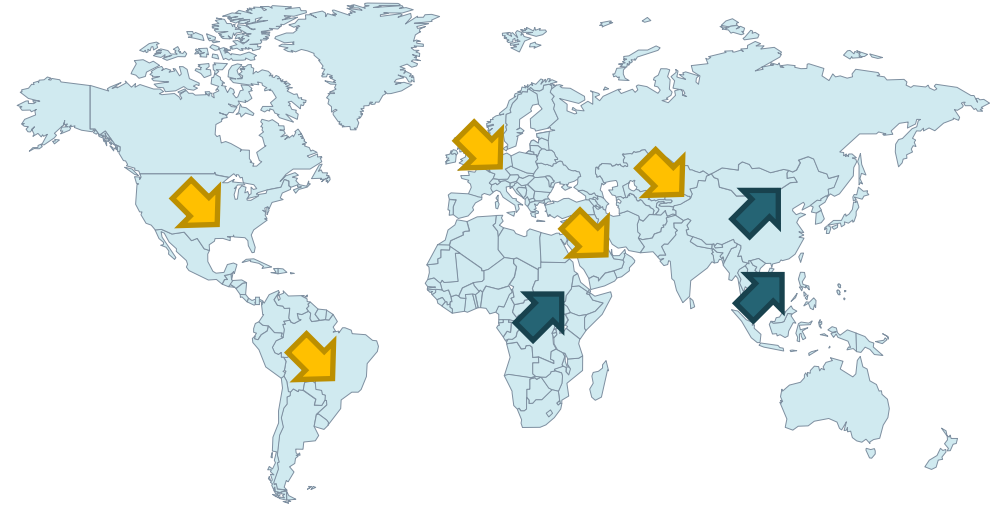
Outlook positive in ASEAN, Cambodia shines

SE Asia and China are expected to outperform other regional economies.

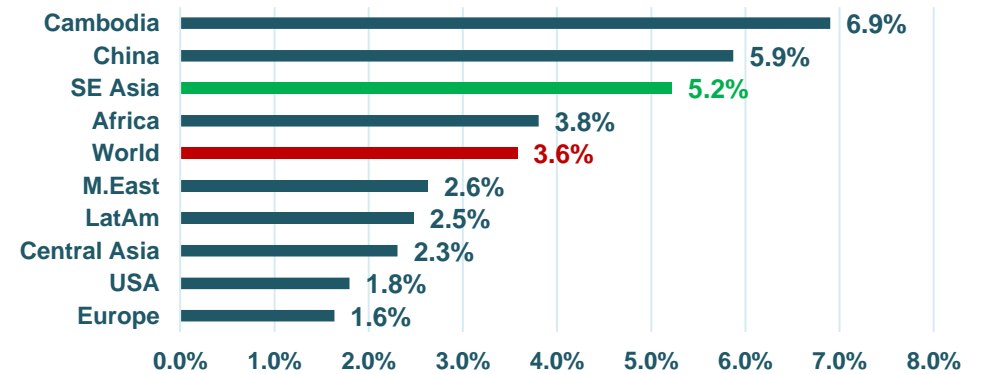
Declining container volume to GDP



Future GDP Performance* Outlook by Region (2018-2024)



GDP forecast CAGR, 2018-2024 (%)



Source: OSC / IMF

Source: OSC / IMF
*Performance as compared to Average World GDP Growth

The declining TEU/GDP multiplier is driven by underlying changes in the market.

Less offshoring, more reshoring:

- Offshoring to lower-cost countries is a onetime effect
- Increased reshoring (e.g. US)
- Chinese economy shifts toward domestic consumption / regional sourcing




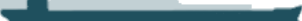


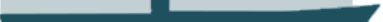


Plateauing in the levels of containerization:

- Most commodities suitable for containerized transportation have already been migrated to containers
- Increasing trend toward miniaturization of manufactured goods

Improvement of port facilities to accommodate larger ships:

- More ports can be part of direct main line services
- Cascading of vessels means larger ships deployed on secondary routes
- Reduced need for transshipment

Driven by market share & economies of scale, the ship size revolution has continued

Container Ship Size Evolution		
Early Containerships (1956) 500-800 TEU		LOA (m) : 137 Beam (m): 17 Draft (m): 9
Fully Cellular (1970) 1000-2500 TEU		LOA (m) : 215 Beam (m): 20 Draft (m): 10
Panamax (1980) 3,000-4,000 TEU		LOA (m) : 250 Beam (m): 32 Draft (m): 12.5
Panamax Max (1985) 3,400-4,500 TEU		LOA (m) : 290 Beam (m): 32 Draft (m): 12.5
Post Panamax (1988) 4,000-5,000 TEU		LOA (m) : 285 Beam (m): 40 Draft (m): 13
Post Panamax Plus (2000) 6,000-8,000 TEU		LOA (m) : 300 Beam (m): 43 Draft (m): 14.5
New Panamax (2014) 12,500 TEU		LOA (m) : 366 Beam (m): 49 Draft (m): 15.2
Post New Panamax (2006) 15,000 TEU & Triple E Class (2013) 18,000 TEU		LOA (m) : 400 Beam (m): 59 Draft (m): 15.5
New Generation 22,000 TEU*		LOA (m) : 430 Beam (m): 59 Draft (m): 15.5

Source: OSC, Alphaliner

Effect of Container Shipping Market

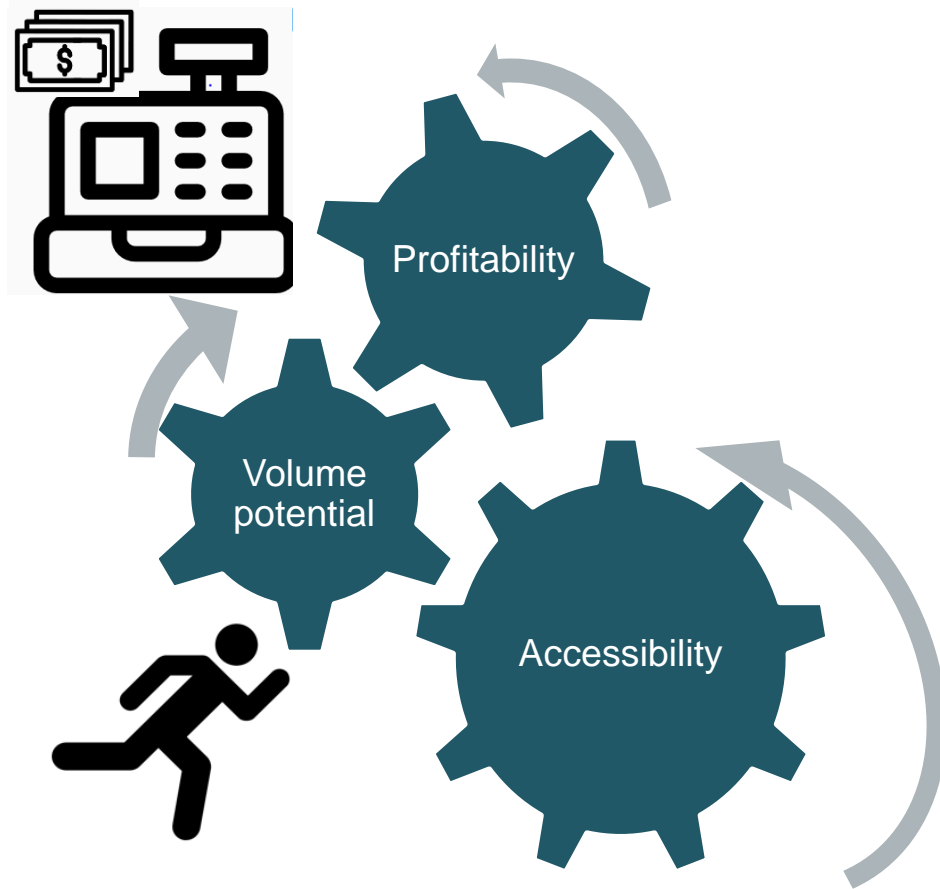
- Larger container volume exchanges on primary trade routes, but with a lower port call frequency
- Cascading of vessels as replaced ships are moved to other Secondary and Tertiary trade lanes
- Formation of fewer, larger alliances in an effort to maximise vessel utilisation



Growth and value investing in ports

Growth and value investing in ports

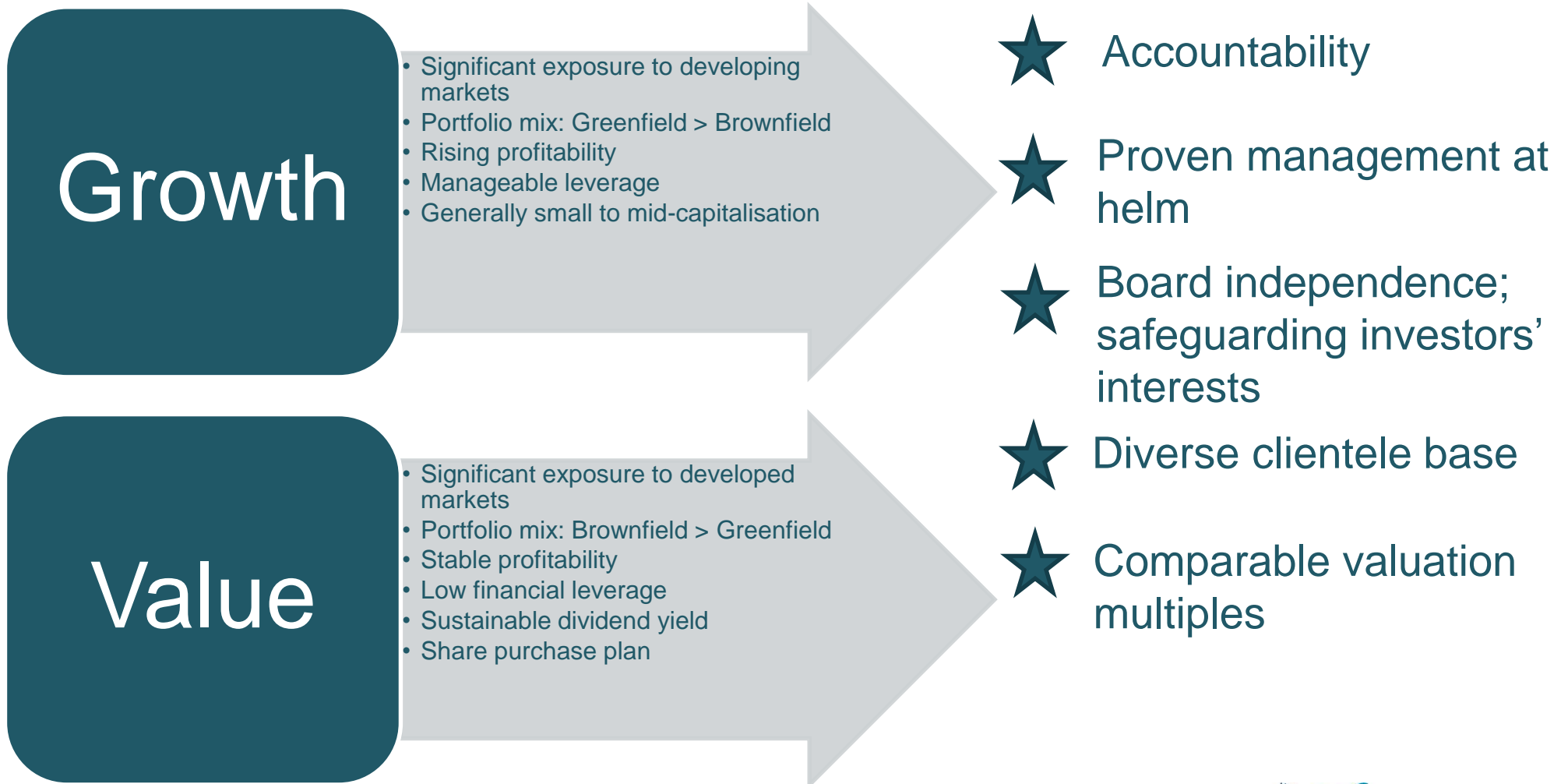
For a terminal operator to invest in an ASEAN country, there are 3 essential considerations. Growth lies in the last few frontier economies.



	Accessibility	Volume	Profitability
Singapore	Red	Red	Yellow
Indonesia	Green	Green	Yellow
Malaysia	Yellow	Yellow	Yellow
Vietnam	Green	Green	Red
Myanmar	Yellow	Green	Green
Cambodia	Red	Green	Green
Philippines	Yellow	Yellow	Yellow
Thailand	Green	Yellow	Yellow
Brunei	Red	Red	Yellow

No money to buy port, some say. Let's buy equity stake.

Key investment criteria:



Listed port operators and their throughput growths

	Listing	Market capitalisation	Portfolio exposure		Reported handling volume (TEU)		
	Country	USD'm	Markets	Container nature	2017	2018	Growth
DP World	Dubai	11,720	Emerging	Gateway	70,079	71,419	1.9%
ICTSI	Manila	5,064	Emerging	Gateway	9,153	9,737	6.4%
China Merchants Port	Hong Kong	5,372	Emerging	Gateway	102,900	109,060	6.0%
Cosco Shipping Ports	Hong Kong	2,734	Emerging	Gateway	87,932	98,045	11.5%
HPH Trust	Singapore	1,350	Developed	T/S	24,281	24,029	-1.0%
Global Ports	London	535	Emerging	Gateway	1,205	1,352	12.2%
Hamburger Hafen	Berlin	1,802	Developed	Gateway	7,196	7,336	1.9%
Westports	Kuala Lumpur	3,346	Emerging	T/S	9,020	9,520	5.5%
Port Sihanoukville (PAS)	Phnom Penh	344	Emerging	Gateway	460	541	17.7%
Phnom Penh Port (PPAP)	Phnom Penh	50	Emerging	Gateway	185	205	11.0%

Growth and value investing in ports

Profitability and leverage of listed terminals. EBITDA margin between 30% and 60%, and leverage at about 3 times EBITDA.

	Sales		Profitability			Leverage		Shareholders	
	Revenue (USD'000)	growth	EBITDA (USD'000)	EBITDA margin	EBITDA growth	Net debt (USD'000)	Net debt to EBITDA	PATMI (USD'000)	Yield (%)
DP World	5,646,280	19.8%	2,808,000	49.7%	13.7%	7,937,289	2.8x	1,270,116	3.1%
ICTSI	1,385,785	11.4%	642,221	46.3%	11.1%	859,974	1.3x	221,494	2.3%
China Merchants Port	1,295,918	16.9%	1,018,367	78.6%	170%	4,040,944	3.1x	465,944	7.7%
Cosco Shipping Ports	1,000,350	57.6%	652,800	65.3%	-18.0%	1,873,214	2.9x	324,583	4.7%
HPH Trust	382,577	5.0%	212,806	55.6%	7.5%	3,204,477	15.1x	23,316*	9.8%
Global Ports	343,575	4.0%	219,128	63.8%	10.2%	780,336	3.6x	-59,279	Nil
Hamburger Hafen	1,390,629	3.1%	329,025	23.7%	8.5%	237,751	0.7x	113,712	3.6%
Westports	386,549	-5.9%	238,870	61.8%	7.3%	252,740	1.1x	127,686	3.2%
Port Sihanoukville (PAS)	68,127	21.2%	24,727	36.3%	13.5%	100,180	4.1x	11,265	1.6%
Phnom Penh Port (PPAP)	20,723	9.9%	11,716	56.5%	12.4%	2,914	0.2x	8,101	2.6%



A port for every investor type?

A port for every investor

Size and Style profiling. Conventional wisdom: Returns commensurable with risks.

Qualitative port pick



Matrix adapted from Morningstar size and style profiling

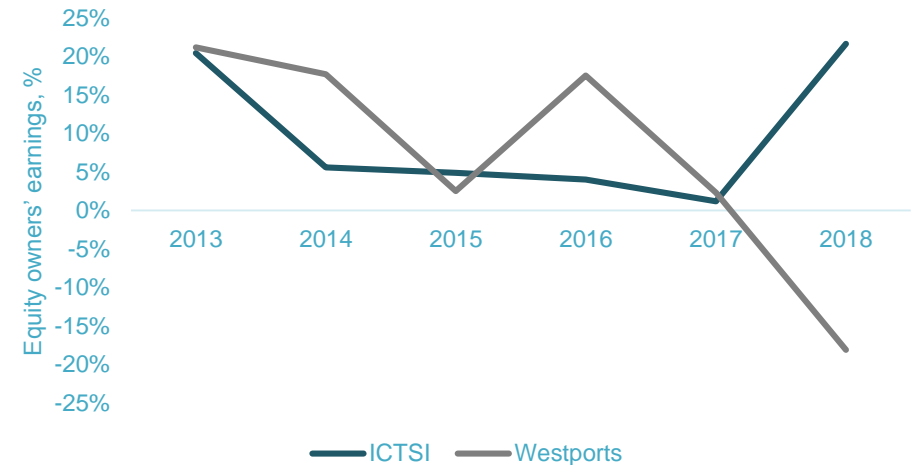
ICTSI vs Westports

Top right quadrant: Port investments that are too good to be true

Share price performance, Sept 2014 – Aug 2019



Equity owners' earnings growth, 2013 – 2018, percentage



- Share price growth vs Earnings growth
- Westports: Lacklustre earnings growth is not reflected in share price
- ICTSI: Swallowed a bitter pill in 2015 for a better earnings prospect. The dominant Philippines operator duly delivered in subsequent years.

Source: Bloomberg, Company annual report filings

A port for every investor

Size and Style profiling.

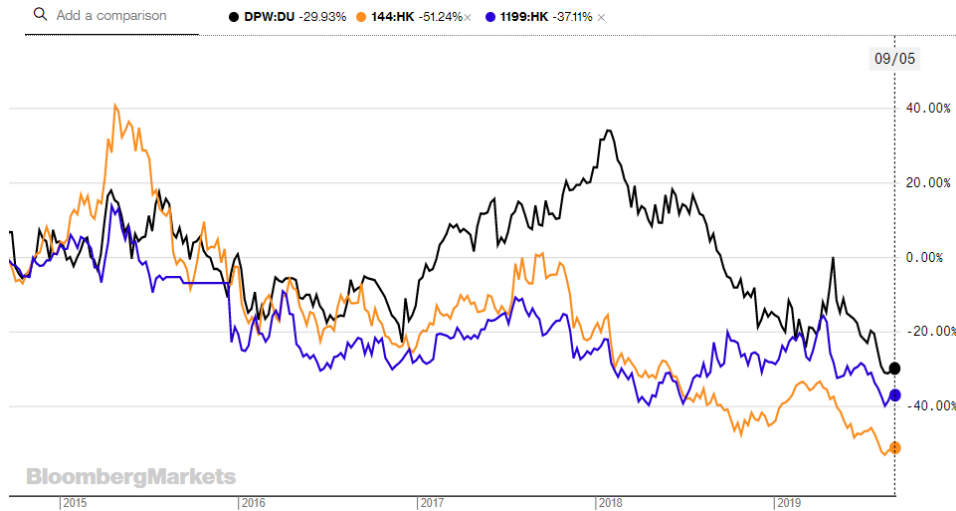
Qualitative port picks



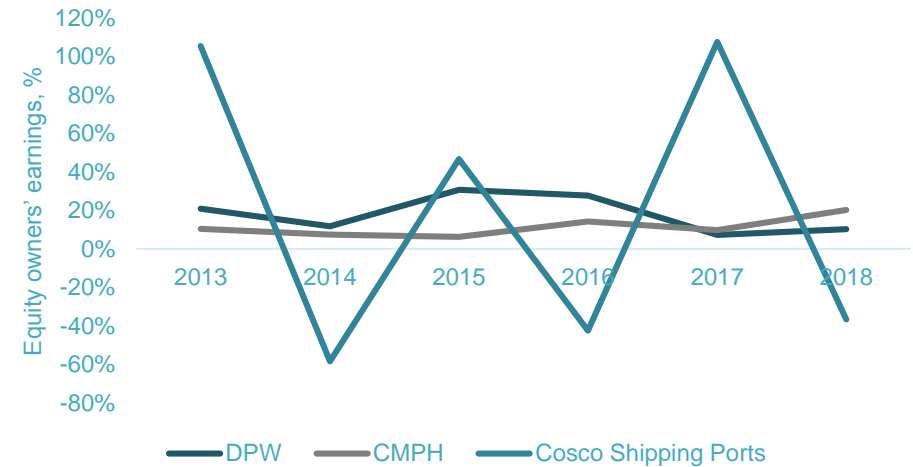
Matrix adapted from Morningstar size and style profiling

Top left quadrant: Boring and unloved

Share price performance, Sept 2014 – Aug 2019



Equity owners' earnings growth, 2013 – 2018, percentage



- China Merchants Port is the worst share price performer, despite positive earnings momentum
- Cosco Shipping Ports' earnings are very volatile, driven by its non-controlling (JVs and Associates) stakes. The affiliation with Cosco Shipping dampens interest.
- DP World is delivering earnings on diversification. Investors are not as excited as management.

A port for every investor

Size and Style profiling.

Qualitative port picks



Matrix adapted from Morningstar size and style profiling

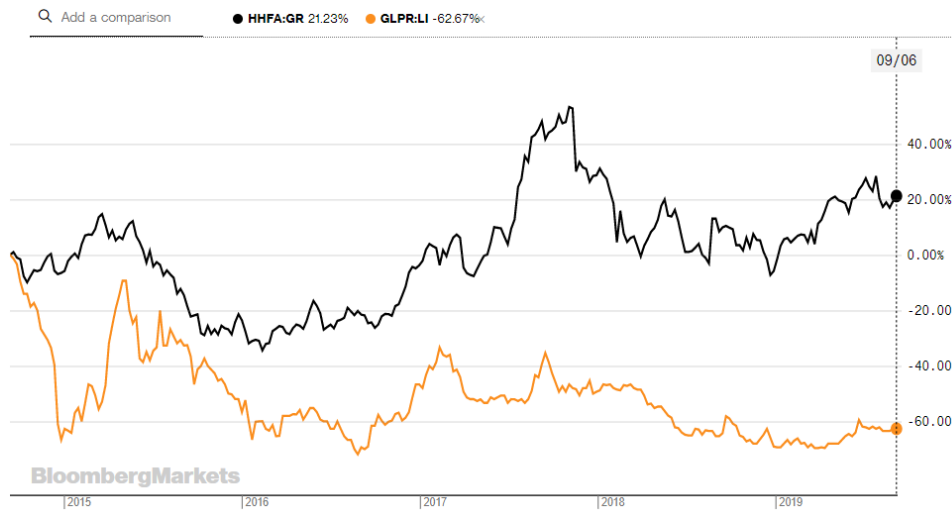
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HHLA vs GLPR vs Phnom Penh Port

Bottom left quadrant: Uncompensated risk or hunting ground for discerning investors?



Historical share price performance of PPAP, Dec 2015 – Sept 2019



Source: Cambodia Securities Exchange

Hamburger Hafen und Logistik AG (HHLA)

- Integrates Intermodal business with its core Container business.
- Resilient gateway throughput, constituting 70-75% of total volume.
- A resurgent Baltic throughput to raise transshipment volume
- A hideout for European yield investors with 3.6% dividend yield
- Takes one year to turn debt into net cash position

Global Ports Investments

- Sitting lonely in London, overshadowed by a more prominent cruise port business that bears similar name
- Sanctions post-Crimea hurt the largest port operator in Russia, which handles more than 50% of Russian volumes.
- Backed by APM Terminals. If it is cheap enough, easy takeover target.

Phnom Penh Autonomous Port (PPAP)

- Port expansion to escalate earnings
- Almost debt-free. EBITDA at US\$12m vs net debt at US\$3m.
- Access to the Cambodian market is difficult for foreign investors though.

A port for every investor

Size and Style profiling.

Qualitative port picks



Matrix adapted from Morningstar size and style profiling

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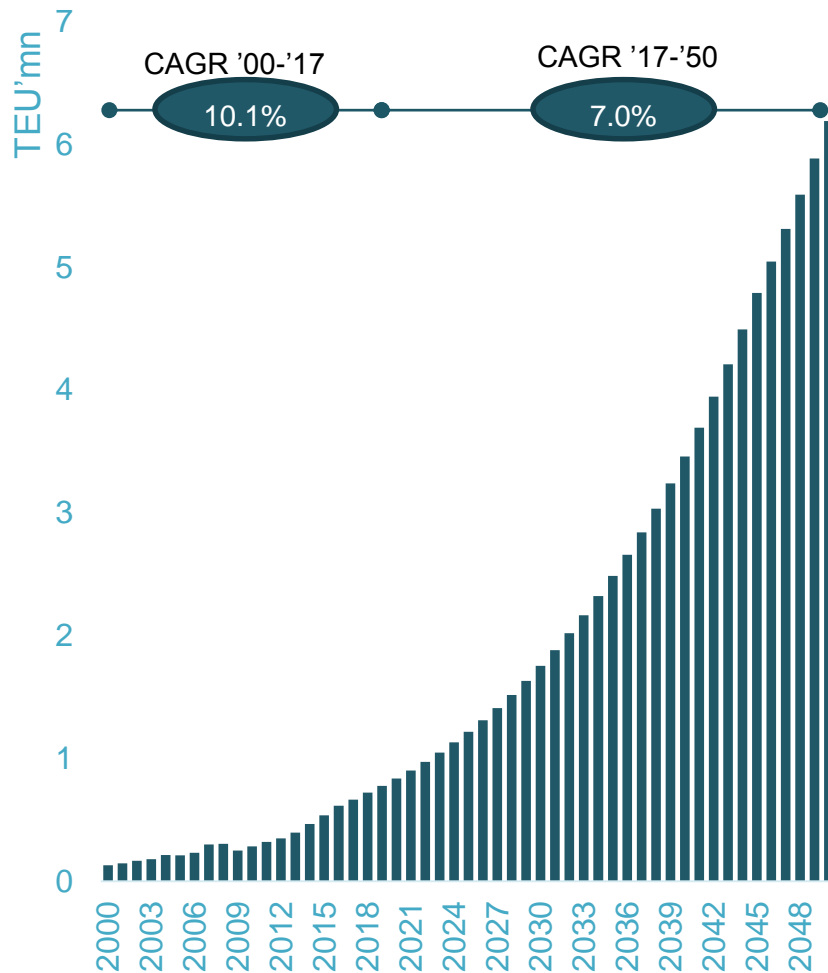
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Hutchison Port Trust vs Sihanoukville Port

Bottom left quadrant: Getting a fair bang for buck.
Cambodia's throughput growth the envy of many countries.

Gateway container growth of Cambodia, 2000 - 2050



Source: RHDHV

Port cargo traffic at Sihanoukville sees 16% first quarter rise

in Piset | Publication date 03 May 2019 | 09:12 ICT
Source: Phnom Penh Post, 2 May 2019

Business | November 26, 2018

Port of Sihanoukville poised for double digit growth

Source: Khmer Times, 26 Nov 2018

Cambodia's port congestion impacts feeder services

Hapag-Lloyd informed its customers that terminal productivity at Cambodia's Sihanoukville port has deteriorated because of port and yard traffic. The company said in a statement that 'Feeder services and turnaround times are affected and feeder space is tight.'

Source: Safety4sea, 4 Jul 2019

Port Autonomous Sihanoukville (PAS)

Capacity: 0.62MTEU
Expansion: +0.67MTEU

Phnom Penh Autonomous Port (PPAP)

Capacity: 0.3MTEU
Expansion: 0.2MTEU

Cambodia's 2 largest ports see remarkable profit surge in 2018

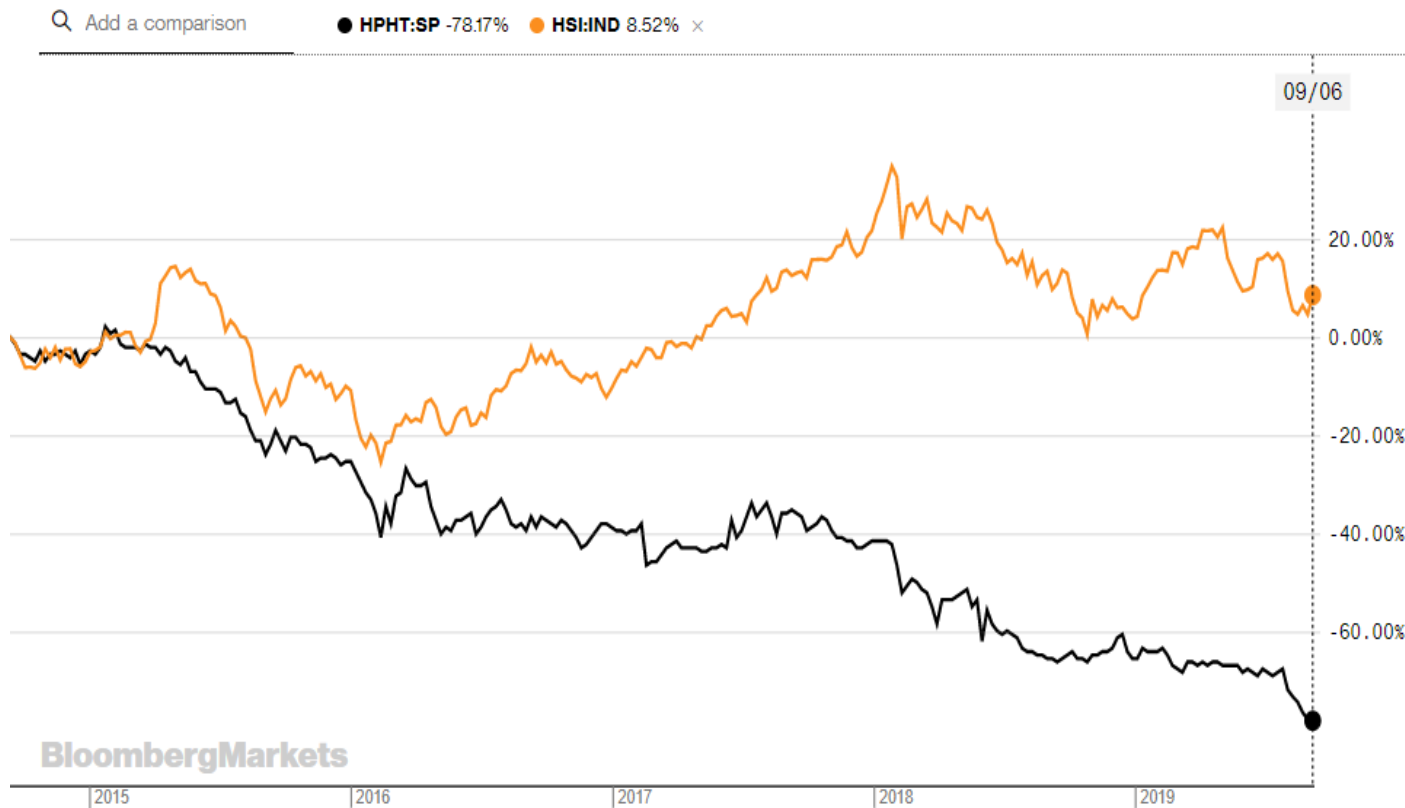
Source: Xinhua | 2019-01-10 23:01:32 | Editor: Mu Xuequan

Sihanoukville port's throughput to dip to 15 percent in 2019, meets five-year average

Source: Capital Cambodia, 12 Apr 2019

Hutchison Port is beaten down since its IPO, but how much is too much? A contrarian pick

Share price performance of HPHT vs Hang Seng Index, Sept 2014 – Sept 2019



Hutchison Port Trust

- Holding period loss of 50% since IPO price: USD 1.010
- Company took a second round of impairment to prop future earnings
- Hong Kong gateway volume is small, transshipment unaffected by current crisis.
- Consolidation of terminals in Hong Kong under one management
- HPHT sits on valuable land with 28 years to go.
- Chinese port operators are likely interested in HPHT stake, if not for the sensitive political climate.

Source: Bloomberg



Conclusion

In conclusion...

- Compression in container volume growth to GDP growth multiplier
- Ports face with customers with stronger bargaining power
- Investors' accessibility to a market is policy driven
- Corporate governance is a bearing for investors
- Variance in market capitalisation and earnings growth profile presents opportunities for stock pickers

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