

Hutchison Port Holdings Trust

Bloomberg: HPHT SP | Reuters: HPHT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Oct 2015

BUY

Last Traded Price: US\$0.555 (STI : 3,068.46)

Price Target: US\$0.63 (14% upside) (Prev US\$0.62)

Reason for Report: 3Q15 results

Potential Catalyst: Stronger economic recovery in the US and Europe

Where we differ: Our forecasts are below consensus

Analyst

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Result Summary

FY Dec (HK\$ m)	3Q 2015	3Q 2014	2Q 2015	% chg yoy	% chg qoq
P&L Items					
Turnover	3,501.7	3,422.0	3,127.9	2.3	12.0
Gross Profit	2,290.6	2,159.3	1,970.8	6.1	16.2
Opg Profit	1,329.3	1,236.6	1,004.8	7.5	32.3
EBITDA	2,072.3	1,976.4	1,746.5	4.9	18.7
Net Profit	525.9	490.7	400.2	7.2	31.4
Other Data					
Gross Margin (%)	65.4	63.1	63.0		
Opg Margin (%)	38.0	36.1	32.1		
Net Margin (%)	15.0	14.3	12.8		

Financial Summary

FY Dec (HK\$ m)	2014A	2015F	2016F	2017F
Turnover	12,622	12,933	13,371	13,856
Operating Profit	3,916	3,903	3,996	4,110
EBITDA	6,860	6,933	7,021	7,134
Net Pft (Pre Ex.)	1,564	1,515	1,539	1,561
EPS (US cts.)	(25.5)	2.2	2.3	2.3
EPS Pre Ex. (US cts.)	2.3	2.2	2.3	2.3
EPS Gth (%)	nm	nm	2	1
EPS Gth Pre Ex (%)	(7)	(3)	2	1
Net DPS (US cts.)	5.3	4.4	4.4	4.4
BV Per Share (US cts.)	65.7	63.1	61.0	58.9
PE (X)	nm	24.7	24.3	24.0
PE Pre Ex. (X)	23.9	24.7	24.3	24.0
EV/EBITDA (X)	12.0	12.0	11.8	11.5
Net Div Yield (%)	9.5	7.9	7.9	8.0
P/Book Value (X)	0.8	0.9	0.9	0.9
Net Debt/Equity (X)	0.4	0.5	0.5	0.5
ROAE (%)	(31.4)	3.5	3.7	3.9

At A Glance

Issued Capital (m shrs)	8,711
Mkt. Cap (US\$m/US\$m)	4,835 / 4,835
3m Avg. Daily Val (US\$m)	9.8

ICB Industry: Financials

ICB Sector: Equity Investment Instruments

Principal Business: Hutchison Port Holdings Trust 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.

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

Margins improve on higher ASPs

- 3Q net profit rose 7.3% y-o-y to HK\$948.5m, mainly on higher tariffs and productivity improvements
- Earnings are above our expectations, with better ASPs helping to improve margins
- Cost efficiencies and tariff increases to drive revenue improvement beyond FY15
- Maintain BUY for its prospective dividend yield of 7.9%. TP of US\$0.63 is based on DCF

Highlights

Modest top-line growth as tariff increases offset weakness in throughput volumes. Revenue grew 2% y-o-y in 3Q15 to HK\$3,501.7m, mainly on higher ASPs as throughput volumes remained flat. During the period, throughput handled in HIT declined by 9.2% while container throughput in YICT grew 6% y-o-y. Despite a weaker trading environment, the Group's NPAT rose by 7.3% to HK\$948.5m as HPHT benefitted from lower fuel price and productivity improvements.

Lower contributions from associates and JVs. While share of profits from associates grew 46.5% y-o-y to HK\$6.3m in 3Q15, contribution from JVs fell 21.7% y-o-y to HK\$28.5m, largely due to ACT's weaker performance as its container throughput fell 20.1% vs 3Q14.

Outlook

Export outlook remains mixed... Although outward-bound cargoes to the US are likely to extend their growth over the rest of the year, they could be offset by continued softness in outward cargoes to Europe.

... but further upside could come from tariff hikes and greater cost efficiencies. With half of HPHT's customers due for renewal in FY16, further tariff increases, alongside efficiency gains from ongoing efforts to boost productivity, could help drive earnings beyond FY15.

Factoring in higher ASPs ahead, we revise our forecasts by 5% across FY15-17 and adjust our TP to US\$0.63.

Valuation:

Maintain BUY; TP of US\$0.63. At current prices, a 7.9% yield is attractive as a defensive play. Our TP is based on a discounted cash flow valuation framework (weighted average cost of capital of 7.0% and terminal growth rate of 0%). While DPU is projected to be lower at around 4.4 UScts in FY15/16 from 5.3 UScts in FY14 as HPHT restarts its capital expenditure programme, the stock still offers an attractive yield of c.7.9% at its current price level.

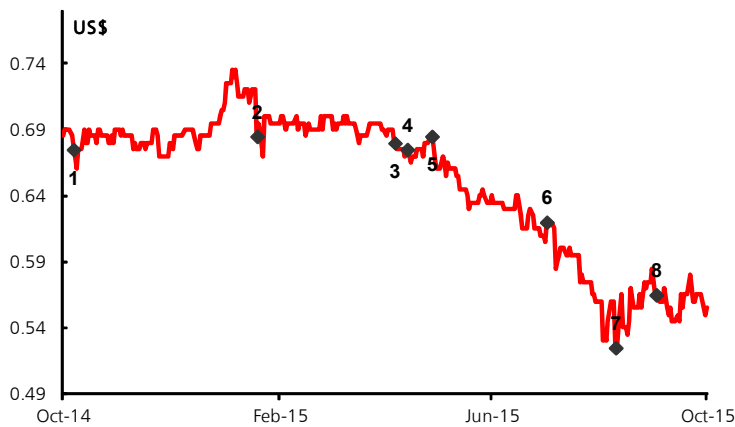
Hutchison Port Holdings Trust

Key Risks:

Transshipment cargoes open to competition. About 60% of Hong Kong Port volumes are transshipment cargoes, which are subject to competition from other regional ports like Singapore, Shanghai, and Busan. Hence, pricing for transshipment cargoes is likely to be continuously under pressure.

Ability to maintain dividend yield at current levels. At its current price and expected payout of 4.3 UScts, HPHT's implied dividend yield would be c.7.5%. Inability to maintain its high dividend payout policy would thus weigh on the relative attractiveness of the stock.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	28 Oct 14	0.68	0.78	BUY
2:	09 Feb 15	0.69	0.65	HOLD
3:	28 Apr 15	0.68	0.65	HOLD
4:	05 May 15	0.68	0.65	HOLD
5:	19 May 15	0.69	0.65	HOLD
6:	23 Jul 15	0.62	0.65	HOLD
7:	31 Aug 15	0.53	0.62	BUY
8:	23 Sep 15	0.57	0.62	BUY

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

Source: DBS Bank

DBS Bank 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 catalysts within this time frame)

Share price appreciation + dividends

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