

Hutchison Port Holdings Trust

Upgrading to OW, pessimism over the trust's outlook appears overdone

- **HPHT has fallen by c20% since Nov (vs -4% for FTSTI) driven by concerns over the sustainability of its payout**, given: (1) Yantian's weak volume since the beginning of the peak season (throughput dropped 5% Y/Y during Aug-Oct); (2) Potential negative impact on HK's transshipment ("T/S") with the upcoming formation of P3 network; (3) Challenges to HK's status with China's establishment of free trade zones, first started in Shanghai and to be rolled out to other major ports in the coming years.
- **Recent sharp correction appears overdone as such concerns may have been overblown.** In our view: (1) Yantian's throughput recovered strongly in November, up 7% Y/Y, driven by ladens (up 8% Y/Y) – a positive surprise; (2) The planned alliance among the world's top three container shipping companies – Maersk, MSC and CMA CGM (expected to function from mid-2014), though potentially affecting HK's T/S flow should benefit Yantian and hence the net impact may be neutral as estimated by HPHT's mgmt and our industry contacts; (3) Despite high expectations on what China's free trade zone can achieve, no concrete policies have yet been introduced, proving such plans could effectively promote free cross-border commodity and capital flows to hamper HK's status. It is also unlikely that China will abolish the cabotage rule in the near future.
- **Takeaways from the JPM infra & industrial CAD (held on Dec. 3-4):** Though the Trust has not yet released its volume growth guidance for 2014, existing guidance of ASP increase of c2% has been maintained (to be driven by positive mix changes at HK and Yantian as well as continued conversion of billings at Yantian), offsetting the increase in operating expense (at 3~4%, driven by an estimated c7% rise in labor costs). Mgmt expressed optimism at the 3Q briefing towards achieving the lower end of the distribution target for this year, while noting its intent to keep distribution steady in coming years.
- **Upgrade to OW:** We make minor revisions (DPU changed by -2%/0% for FY13/14E), while keeping our Dec-2014 DCF-based PT unchanged at \$0.75, which offers c20% potential upside from current levels. HPHT's current yield of c8% appears compelling in our view. We hence upgrade to OW in light of the attractive risk-reward trade-off.

▲ Overweight

Previous: Neutral

HPHT.SI, HPHT SP

Price: \$0.62

Price Target: \$0.75

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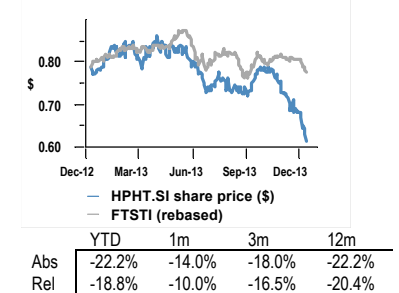
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Price Performance



Hutchison Port Holdings Trust (Reuters: HPHT.SI, Bloomberg: HPHT SP)

HK\$ in mn, year-end Dec	FY11A	FY12A	FY13E	FY14E	FY15E
Total Revenue (HK\$ mn)	9,735	12,427	12,704	13,267	14,005
EBITDA (HK\$ mn)	5,868	7,151	7,250	7,695	8,238
Trust EBITDA (HK\$ mn)	7,799	7,941	8,173	8,526	9,038
EPU to Unitholders (HK\$)	0.23	0.26	0.23	0.23	0.26
DPU to Unitholders (HK\$)	0.38	0.51	0.40	0.40	0.40
Dividend Yield	7.9%	10.7%	8.4%	8.3%	8.5%
EV/EBITDA (x)	14.8	12.3	12.6	11.8	11.0
P/BV (x)	0.5	0.5	0.5	0.5	0.5
Gearing (= D/A)	19.4%	21.2%	23.2%	23.0%	22.5%
Interest coverage (x)	15.27	12.44	9.06	8.04	8.63
Operating CF (HK\$ mn)	4,786	4,411	6,011	5,833	6,326
Investing CF (HK\$ mn)	(57,956)	(422)	(4,692)	(1,226)	(1,219)
Free Cash Flow (HK\$ mn)	3,339	4,196	1,811	5,186	5,666

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	8,709
Market Cap (HK\$ mn)	41,528
Market Cap (\$ mn)	5,356
Price (\$)	0.62
Date Of Price	11 Dec 13
Free Float(%)	58.9%
3M - Avg daily vol (mn)	20.65
3M - Avg daily val (\$ mn)	15.04
3M - Avg daily val (\$ mn)	15.0
FTSTI	3081.72
Exchange Rate	1.00
Price Target End Date	31-Dec-14
Price Target (\$)	0.75

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:

- Strong recovery in throughput growth for Yantian and Hong Kong (Yantian's throughput rose by 7% Y/Y in November, which was just released recently and may not have been well-flagged).
- Potential value- and DPU-accretive acquisitions.

Upside risks to our view:

- Unexpected rebound in global trade
- Better-than-expected market share gains against other peer ports in the same region;
- Value- and DPU-accretive M&As

Downside risks to our view:

- Unexpected collapse in global trade
- Accelerating ongoing factory migration from the captive hinterlands resulting in weaker-than-expected throughput volume
- Changes in China's withholding taxes (currently at 5% for repatriation into HK)
- Successful implementation of China's free trade zones and abolishment of the cabotage rule

Key financial metrics	FY12A	FY13E	FY14E	FY15E
Revenues (LC)	12,427	12,704	13,267	14,005
Revenue growth (%)	22%	0%	4%	6%
EBITDA (LC)	7,151	7,250	7,695	8,238
EBITDA margin (%)	58%	57%	58%	59%
Tax rate (%)	10%	14%	18%	19%
Net profit (LC)	2,288	2,005	2,033	2,274
EPS (LC)	0.26	0.23	0.23	0.26
EPS growth (%)	-8%	-12%	1%	12%
DPS (LC)	0.51	0.40	0.40	0.40
BVPS (LC)	9.82	9.65	9.54	9.45
Operating cash flow (LC mn)	4,411	6,011	5,833	6,326
Free cash flow (LC mn)	4,196	1,811	5,186	5,666
Interest cover (X)	12.4	9.1	8.0	8.6
Net margin (%)	18.4%	15.8%	15.3%	16.2%
Sales/assets (X)	0.09	0.09	0.10	0.10
Debt/equity (%)	34%	39%	40%	40%
Net debt/equity (%)	27%	30%	30%	29%
ROE (%)	3.4%	3.0%	3.2%	3.6%
Key model assumptions	FY12A	FY13E	FY14E	FY15E
Average tariff growth	1%	0%	0%	1%
Attributable container throughput	5%	-1%	5%	5%

Source: Company, J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
Sensitivity to	FY13E	FY14E	FY13E	FY14E
5% chg in average tariff	5%	5%	10%	10%
5% chg in container throughput	5%	5%	9%	9%

Source: J.P. Morgan estimates.

Comparative metrics

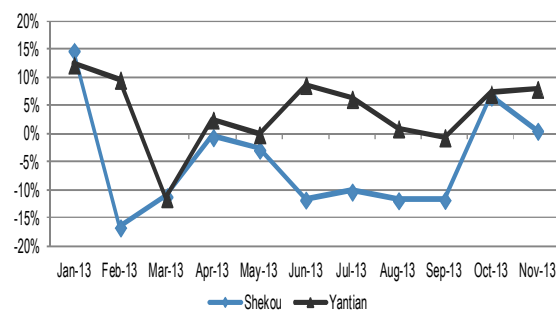
	CMP	Mkt Cap	P/E		EV/EBITDA		P/BV		YTD
	LC	\$Mn	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	Stock perf.
Hutchinson Port Holding Trust	0.615	5,357	NM	NM	10.5	9.9	NM	NM	-22.2
COSCO Pacific	10.94	4,109	9.4	9.4	12.7	12.5	0.8	0.8	2.9
Tianjin Port*	1.29	1,024	9.1	8.6	7.2	6.8	1.3	1.3	17.3
Dalian Port*	1.9	1,762	7.9	7.6	9.9	9.9	0.5	0.4	1.1
CMHI	28.80	9,384	15.9	14.8	22.6	21.0	1.4	1.4	15.9
SIPG*	5.34	20,012	21.1	20.2	15.0	14.4	2.2	2.1	103.0

Source: Bloomberg for NC companies*, Company and J.P. Morgan estimates. Prices are as of 12/11/2013

Valuation and price target basis

Our Dec-14 based PT of US\$0.75 is unchanged, derived based on DCF valuation with a terminal growth of 1% and a discount rate of 9.6%. Our PT implies a target dividend yield of 6.8%/6.9%, and a target EV/EBITDA of 10.7x/10.1x on FY14E/FY15E.

Yantian's laden container growth has recovered since September



Source: Company, J.P. Morgan estimates.

JPM vs. consensus, change in estimates

DPU	FY13E	FY14E
JPM old	0.41	0.40
JPM new	0.40	0.40
% chg	-2%	0%
Consensus	0.40	0.42

Source: Bloomberg, J.P. Morgan estimates.

Global port valuation comp sheet

Table 1: Global port terminal business- Valuation comps

Name	Ticker	JPM rating	JPM PT (LC)	Last price LC	Mkt cap US\$MM	P/E (x)		P/B (x)		EV/EBITDA(x)		ROE (%)	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
HK-listed port operators:													
COSCO Pacific	1199 HK	OW	16.00	10.94	4,109	5.2	9.7	0.9	0.8	8.4	8.6	8.7	8.8
China Merchants	144 HK	UW	18.50	28.80	9,384	17.7	15.9	1.5	1.4	14.2	13.3	8.7	9.2
Hutchison Port Trust	HPHT SP	OW	0.75	0.62	5,357	NM	NM	NM	NM	12.1	11.4	NM	NM
Dalian Port	2880 HK	NC	NA	1.86	1,762	8.8	7.9	0.5	0.5	10.6	9.9	5.5	5.6
Xiamen Int'l Port	3378 HK	NC	NA	1.12	394	9.6	9.1	NA	NA	4.8	4.7	5.9	5.7
Tianjin Port Dvlp	3382 HK	NC	NA	1.29	1,024	10.0	9.1	1.3	1.3	7.8	7.2	6.9	7.3
Average						10.3	10.4	1.0	1.0	9.6	9.2	7.1	7.3
China-listed port operators:													
Ningbo Port Co. Ltd	601018 CH	NC	NA	2.56	5,397	11.6	10.4	NA	NA	NA	NA	NA	NA
Shenzhen Chiwan Wharf	000022 CH	NC	NA	16.90	1,639	21.1	19.9	2.7	2.5	11.9	9.6	13.0	12.7
SIPG	600018 CH	NC	NA	5.34	20,013	22.9	21.1	2.4	2.2	15.4	15.0	10.4	10.7
Average						18.6	17.2	2.5	2.3	13.7	12.3	11.7	11.7
Overseas port operators:													
Hamburger Hafen Und Logistik	HHFA GR	OW	21.00	18.19	1,888	23.1	19.6	2.3	2.2	6.0	5.4	10.7	12.6
Port of Tauranga	POT NZ	NC	NA	13.17	1,460	22.4	21.5	2.2	2.1	14.5	13.5	9.7	9.8
Mundra Port and SEZ Ltd	ADSEZ IN	OW	165.00	157.05	5,302	16.6	13.6	3.9	3.2	14.1	11.2	27.0	26.1
DP WORLD LTD	DPW DU	OW	18.00	16.55	13,737	20.0	23.9	1.5	1.4	11.6	10.8	6.4	6.5
INTL Container Svc	ICT PM	N	64.00	101.50	4,675	34.1	26.4	3.8	3.4	15.0	12.1	11.6	13.6
NCB Holdings	NCB MK	NC	NA	3.52	515	21.6	16.2	1.1	1.1	5.9	4.8	16.5	8.3
Bintulu Port	BPH MK	NC	NA	7.55	1,080	24.6	22.7	3.4	3.3	11.8	11.3	15.7	14.7
Essar Port	ESRS IN	OW	120.00	57.70	403	6.8	6.0	0.8	0.7	6.0	5.1	12.5	12.6
Asciano	AIO AU	OW	5.80	5.47	4,864	15.8	13.5	1.4	1.3	7.8	7.1	9.5	10.1
Average						20.4	17.7	2.1	2.0	9.7	8.5	12.6	12.2

Source: Bloomberg, Bloomberg consensus for stocks Not Covered (NC), J.P. Morgan estimates. Prices and valuations are as of 12/11/2013. Note: For Indian ports, the next fiscal year's financial figures are taken as the year ends in March.

Investment Thesis, Valuation and Risks

Hutchison Port Holdings Trust *(Overweight; Price Target: \$0.75)*

Investment Thesis

HPHT's current yield appears compelling, at c8%, following the recent sharp correction. Concerns about the trust's sustainability of its payout may have been overblown given: (1) Yantian's throughput recovered strongly in November (+7% Y/Y) as compared to the sluggish performance during August-October (-5% Y/Y); (2) The planned formation of the P3 network might have a neutral impact at net level with HK's loss offset by Yantian's gain; (3) HK's free port status may not be reversed or hampered in a meaningful way with China's establishment of free trade zone, details of which are still lacking specifics to prove such plan can bring effective free cross-border commodity and capital flows.

Valuation

Our Dec-14 based PT of US\$0.75 is derived based on DCF valuation with a terminal growth of 1% and a discount rate of 9.6%. Our PT implies a target dividend yield of 6.8%/6.9%, and a target EV/EBITDA of 10.7x/10.1x on FY14E/FY15E.

Risks to Rating and Price Target

Key downside risks include: (1) Unexpected collapse in global trade; (2) Accelerating ongoing factory migration from the captive hinterlands resulting in weaker-than-projected throughput volume; (3) Changes in China's withholding taxes (currently 5%); (4) Potential policy changes resulting in loss of free port status for Hong Kong port; (5) Successful implementation of China's free trade zones and abolishment of the cabotage rule.

JPM Q-Profile

Hutchison Port Holdings Trust (SINGAPORE / Industrials)

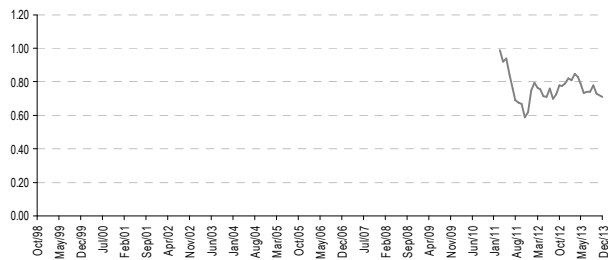
As Of: 06-Dec-2013

Global Equity Quantitative Analysis

Quant_Strategy@jpmorgan.com

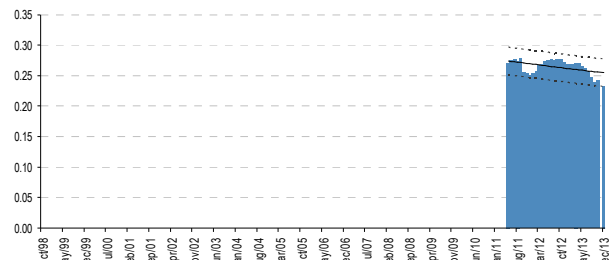
Local Share Price

Current: 0.71



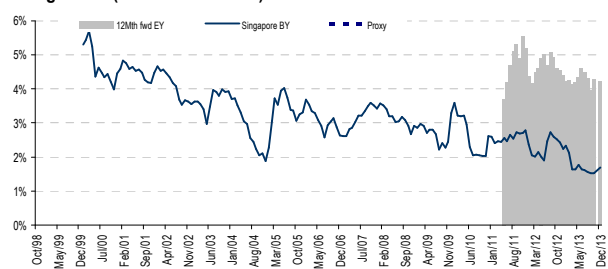
12 Mth Forward EPS

Current: 0.23



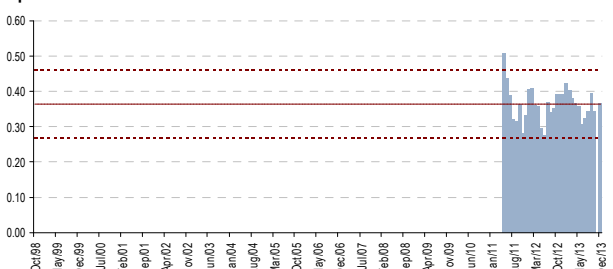
Earnings Yield (& local bond Yield)

Current: 4%



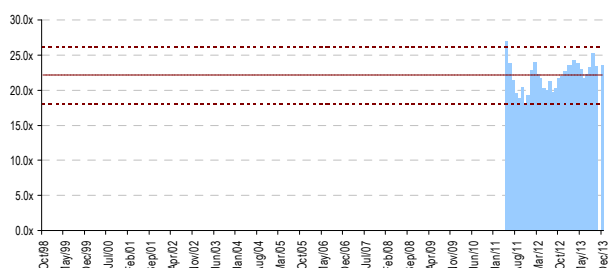
Implied Value Of Growth*

Current: 36.72%



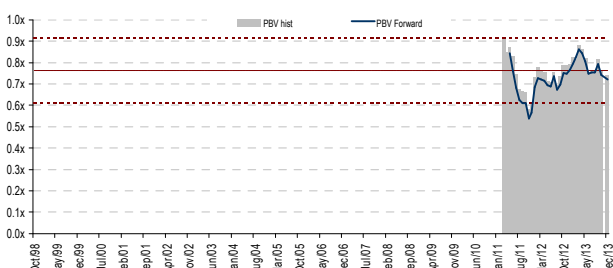
PE (1Yr Forward)

Current: 23.6x



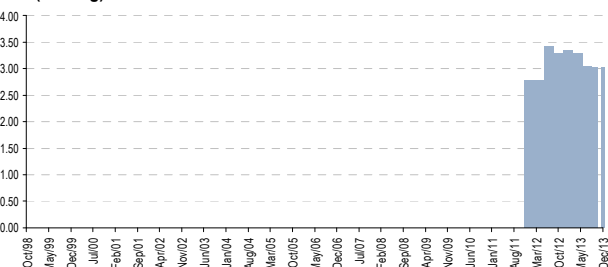
Price/Book Value

Current: 0.7x



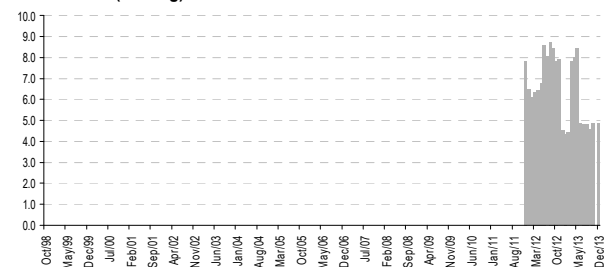
ROE (Trailing)

Current: 3.02



Dividend Yield (Trailing)

Current: 4.90



Summary

Hutchison Port Holdings Trust		SEDOL		B56ZM74		As Of:		6-Dec-13			
SINGAPORE						Local Price:		0.71			
Industrials						EPS:		0.23			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	23.59x	18.05	26.95	22.29	22.12	26.16	18.08	-23%	14%	-6%	-6%
P/BV (Trailing)	0.74x	0.58	0.92	0.76	0.76	0.91	0.61	-22%	23%	3%	3%
Dividend Yield (Trailing)	4.90	0.00	8.74	4.90	4.73	11.21	-1.75	-100%	78%	0%	-3%
ROE (Trailing)	3.02	2.77	3.42	3.16	3.12	3.61	2.63	-8%	13%	5%	3%
Implied Value of Growth	36.7%	0.28	0.51	0.36	0.36	0.46	0.27	-25%	38%	-1%	-1%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = $(1 - EY / \text{Cost of equity})$ where cost of equity = Bond Yield + 5.0% (ERP)

Hutchison Port Holdings Trust: Summary of Financials

Income Statement					Cash flow statement				
HK\$ in millions, year end Dec	FY12	FY13E	FY14E	FY15E	HK\$ in millions, year end Dec	FY12	FY13E	FY14E	FY15E
Revenues	12,427	12,704	13,267	14,005	Operating Profit	4,398	4,317	4,707	5,193
% change Y/Y	27.6%	2.2%	4.4%	5.6%	Depr. & amortization	2,753	2,933	2,988	3,045
EBITDA of consolidated ports	7,151	7,250	7,695	8,238	Change in working capital	(1,080)	293	42	112
Adjusted EBITDA	7,312	7,403	7,865	8,423	Income tax paid	(745)	(902)	(1,099)	(1,224)
% change Y/Y	21.7%	1.2%	6.2%	7.1%	Interest and other finance costs paid	(479)	(828)	(992)	(991)
Adj. EBITDA Margin	58.8%	58.3%	59.3%	60.1%	Others	(436)	198	187	191
EBITDA of the Trust	7,941	8,173	8,526	9,038	Net cash flow from operations	4,411	6,011	5,833	6,326
EBITDA of the Trust Margin	63.9%	64.3%	64.3%	64.5%	Trust acquisition	0	0	0	0
Operating Profit	4,398	4,317	4,707	5,193	Capex spending	(747)	(4,904)	(1,450)	(1,453)
% change Y/Y	18.3%	(1.8%)	9.0%	10.3%	Others	325	212	224	235
Operating Margin	35.4%	34.0%	35.5%	37.1%	Cashflow from investing	(422)	(4,692)	(1,226)	(1,219)
Net Interest	(588)	(817)	(978)	(977)	Equity raised	0	14	0	0
Earnings before tax	3,961	3,643	3,884	4,387	Distributable income paid to Unitholders	(4,132)	(3,501)	(3,468)	(3,524)
% change Y/Y	15.1%	(8.0%)	6.6%	12.9%	Issuance/(Repayment) of other financial liabilities	(33)	3,967	(33)	(33)
Tax	(377)	(502)	(699)	(824)	Other financing charges, net	(1,545)	(656)	(664)	(798)
as % of EBT	9.5%	13.8%	18.0%	18.8%	Cash flow from financing	(5,710)	(175)	(4,164)	(4,356)
Net income (reported)	2,288	2,005	2,033	2,274	Changes in cash	(1,722)	1,144	443	752
% change Y/Y	16.1%	(12.4%)	1.4%	11.8%	Ending cash	6,169	7,712	8,227	9,096
Distribution to unitholders	4,462	3,501	3,468	3,524	Free cash flow	4,196	1,811	5,186	5,666
EPU to unitholders	0.26	0.23	0.23	0.26					
DPU to unitholders	0.51	0.40	0.40	0.40					
Balance sheet					Ratio Analysis				
HK\$ in millions, year end Dec	FY12	FY13E	FY14E	FY15E	HK\$ in millions, year end Dec	FY12	FY13E	FY14E	FY15E
Assets					EBITDA margin	58.8%	58.3%	59.3%	60.1%
Cash and cash equivalents	6,169	7,712	8,227	9,096	Operating margin	35.4%	34.0%	35.5%	37.1%
Trade & other receivables	3,023	2,782	2,905	3,066	Net margin	18.4%	15.8%	15.3%	16.2%
Inventories	132	136	140	144					
Others	0	0	0	0	Sales growth	27.6%	2.2%	4.4%	5.6%
Current assets	9,324	10,630	11,271	12,306	EBITDA growth	21.7%	1.2%	6.2%	7.1%
AFS Investments	820	820	820	820	Operating profit growth	18.3%	(1.8%)	9.0%	10.3%
Net fixed assets	72,538	74,509	72,971	71,380	Net profit growth	16.1%	(12.4%)	1.4%	11.8%
Interest in associates & JCEs	2,689	2,689	2,689	2,689					
Intangible assets & Goodwill	49,470	50,012	49,682	49,352					
Total Assets	134,850	138,669	137,442	136,555	Interest coverage (x)	12.44	9.06	8.04	8.63
					Net debt/Adj. EBITDA (x)	314.2%	343.1%	316.0%	284.3%
Liabilities					Net debt/(Net debt + equity)	21.2%	23.2%	23.0%	22.5%
Short-term loans	33	33	33	33	Net debt to equity	26.9%	30.2%	29.9%	29.1%
Trade & other payables	7,714	7,770	7,938	8,216					
Other CL	220	220	220	220					
Total current liabilities	7,967	8,023	8,192	8,469					
Long-term debt	29,109	33,076	33,043	33,011					
Other LT liabilities	12,268	13,546	13,146	12,746					
Total Liabilities	49,343	54,645	54,381	54,226					
Equity (excluding non-controlling interests)	67,156	65,193	63,743	62,521					
BPU to unitholders	9.82	9.65	9.54	9.45					

Source: Company reports and J.P. Morgan estimates.

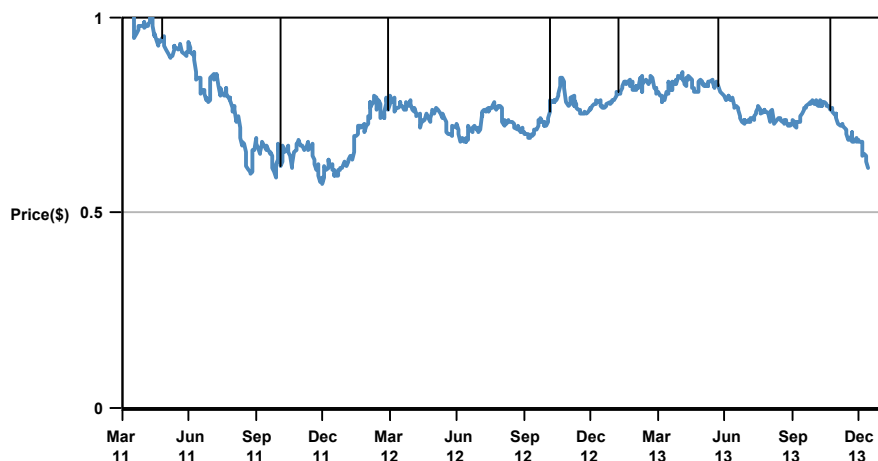
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Hutchison Port Holdings Trust (HPHT.SI, HPHT SP) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
25-Apr-11	OW	0.95	1.15
03-Oct-11	OW	0.62	0.80
26-Feb-12	OW	0.76	0.95
04-Oct-12	OW	0.76	1.00
04-Jan-13	OW	0.81	0.95
22-May-13	N	0.82	0.84
21-Oct-13	N	0.76	0.75

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 25, 2011.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.

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