

Hutchison Port Holdings (HPH) Trust (HPHT.SI)

1Q13 Results Disappoint – Labor Disruption Remains Unresolved

- **1Q13 Earnings Decline 6% YoY (ex the ACT Acquisition-related Impact)** — reported 1Q13 earnings declined 15.5% to HK\$380m, principally reflecting the flat YoY throughput volume and impact associated with the acquisition of ACT). Adjusting for the ACT acquisition-related impact, results declined 6% YoY. While 1Q results were not impacted by the labor disruption at HIT (which began March 28), April throughput at HIT likely declined over 20% YoY (vs. the 7.4% decline in 1Q). As a result, we have trimmed our current HIT growth forecast and FY13/14 earnings by 2-4%.
- **Maintain Sell Rating and US\$0.71 TP** — In short, with flat throughput growth in 1Q12 (and HIT volume down over 20% in April, due to labor-related disruptions), negative transshipment yield mix, annual cost-side inflation and higher interest expense, earnings are expected to struggle, particularly as certain tax holidays/benefits expire. Further, without the prefunded CapEx 'safety net' going forward, the distribution in FY13 may decline by ~12% YoY. Our unchanged TP of US\$0.71 reflects the sell-off in COSCO Pacific and China Merchants (and thus lower peer P/E multiples, now at 14.5x and 9.5x, respectively, vs. 24.5x for HPHT, or 14.7x adjusting for a large D&A charge).
- **HK Port Labor Issue Unresolved** — Since March 28th, operations at HPHT's HK port have been impacted by a labor disruption over pay involving its subcontracted labor force (principally crane operators and dockworkers). While handling capacity is now back to 80-90% according to the company (from 50% initially), a resolution has yet to be reached as of time of publication. In our view the real concern is the impact to labor flexibility and likely pressure on wage rates (which we believe could be closer to ~10% this year on an annual basis at HIT as each of its subcontractors come to the table to negotiate their terms, vs. the 5% annual wage-rate inflation built into our model for HIT currently). More important, the flexibility that HIT enjoys regarding its current subcontractor labor structure (~two-thirds of its operational staff) could also be in jeopardy.

- Company Update
- Estimate Change

Sell	3
Price (30 Apr 13)	US\$0.83
Target price	US\$0.71
Expected share price return	-14.5%
Expected dividend yield	7.0%
Expected total return	-7.4%
Market Cap	US\$7,232M

Price Performance (RIC: HPHT.SI, BB: HPHT SP)



Statistical Abstract

FYE	Net Profit	EPS	P/E	D. Yld
31 Dec	(HK\$M)	(HK\$)	(x)	(%)
2010A	na	na	na	na
2011A	1,970	0.23	28.5	5.9
2012A	2,288	0.26	24.5	8.0
2013E	2,292	0.26	24.5	7.1
2014E	2,471	0.28	22.7	7.4
2015E	2,603	0.30	21.6	7.8

Source: Powered by dataCentral

Earnings Revision

FYE	Net Profit	EPS	%	DPS
31 Dec	(HK\$M)	(HK\$)	chg	(HK\$)
2013E	2,292	0.26	-4.4	0.45
Prev	2,398	0.28		0.46
2014E	2,471	0.28	-2.0	0.48
Prev	2,521	0.29		0.48
2015E	2,603	0.30	-1.8	0.50
Prev	2,651	0.30		0.51

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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HPHT.SI: Fiscal year end 31-Dec						Price: US\$0.83; TP: US\$0.71; Market Cap: US\$7,232m; Recomm: Sell					
Profit & Loss (HK\$m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	9,735	12,427	12,975	13,711	14,399	PE (x)	28.5	24.5	24.5	22.7	21.6
Cost of sales	-3,242	-4,268	-4,380	-4,593	-4,780	PB (x)	0.8	0.8	0.9	0.9	0.9
Gross profit	6,493	8,160	8,595	9,118	9,618	EV/EBITDA (x)	na	13.8	13.5	12.8	12.0
Gross Margin (%)	66.7	65.7	66.2	66.5	66.8	FCF yield (%)	6.9	6.5	8.5	8.3	8.7
EBITDA (Adj)	5,635	7,001	7,313	7,823	8,250	Dividend yield (%)	5.9	8.0	7.1	7.4	7.8
EBITDA Margin (Adj) (%)	57.9	56.3	56.4	57.1	57.3	Payout ratio (%)	167	196	173	169	169
Depreciation	-2,150	-2,753	-2,821	-2,962	-3,081	ROE (%)	na	3.4	3.5	3.8	4.1
Amortisation	0	0	0	0	0	Cashflow (HK\$m)					
EBIT (Adj)	3,718	4,398	4,634	5,010	5,329	EBITDA	5,869	7,151	7,455	7,972	8,410
EBIT Margin (Adj) (%)	38.2	35.4	35.7	36.5	37.0	Working capital	0	0	0	0	0
Net interest	-416	-598	-693	-753	-798	Other	-1,083	-2,739	-1,692	-1,873	-2,076
Associates	13	21	22	22	23	Operating cashflow	4,786	4,411	5,763	6,099	6,334
Non-op/Except	127	141	152	166	176	Capex	-894	-751	-1,014	-1,414	-1,425
Pre-tax profit	3,443	3,961	4,115	4,444	4,730	Net acq/disposals	-56,525	4	4	4	4
Tax	-425	-377	-467	-533	-615	Other	-534	328	-3,530	349	360
Extraord./Min.Int./Pref.div.	-1,047	-1,296	-1,356	-1,440	-1,512	Investing cashflow	-57,954	-419	-4,540	-1,062	-1,062
Reported net profit	1,970	2,288	2,292	2,471	2,603	Dividends paid	-1,483	-5,683	-5,832	-5,629	-5,878
Net Margin (%)	20.2	18.4	17.7	18.0	18.1	Financing cashflow	61,061	-5,710	-1,864	-4,379	-4,628
Core NPAT	1,970	2,288	2,292	2,471	2,603	Net change in cash	7,893	-1,718	-641	659	645
Per share data						Free cashflow to s/holders					
Reported EPS (\$)	0.23	0.26	0.26	0.28	0.30		3,892	3,661	4,749	4,685	4,909
Core EPS (\$)	0.23	0.26	0.26	0.28	0.30						
DPS (\$)	0.38	0.52	0.45	0.48	0.50						
CFPS (\$)	0.55	0.51	0.66	0.70	0.73						
FCFPS (\$)	0.45	0.42	0.55	0.54	0.56						
BVPS (\$)	7.93	7.71	7.52	7.33	7.13						
Wtd avg ord shares (m)	8,709	8,709	8,711	8,711	8,711						
Wtd avg diluted shares (m)	8,709	8,709	8,711	8,711	8,711						
Growth rates											
Sales revenue (%)	na	27.6	4.4	5.7	5.0						
EBIT (Adj) (%)	na	18.3	5.4	8.1	6.4						
Core NPAT (%)	na	16.1	0.1	7.8	5.3						
Core EPS (%)	na	16.1	0.1	7.8	5.3						
Balance Sheet (HK\$m)											
Cash & cash equiv.	7,891	6,169	5,524	6,179	6,820						
Accounts receivables	3,004	3,020	2,820	2,961	3,109						
Inventory	0	0	0	1	2						
Net fixed & other tangibles	77,887	76,047	79,111	79,025	78,950						
Goodwill & intangibles	49,774	49,479	50,479	50,479	50,479						
Financial & other assets	146	135	135	142	149						
Total assets	138,702	134,850	138,069	138,787	139,509						
Accounts payable	8,871	7,714	6,557	5,901	5,311						
Short-term debt	33	33	3,000	0	0						
Long-term debt	29,020	29,109	29,988	34,238	35,488						
Provisions & other liab	12,755	12,488	16,066	19,284	22,556						
Total liabilities	50,679	49,343	55,610	59,423	63,355						
Shareholders' equity	69,090	67,156	65,516	63,844	62,080						
Minority interests	18,933	18,351	16,943	15,518	14,072						
Total equity	88,023	85,507	82,459	79,363	76,152						
Net debt	21,162	22,973	27,464	28,059	28,668						
Net debt to equity (%)	24.0	26.9	33.3	35.4	37.6						

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For definitions of the items in this table, please click [here](#).

1Q13 Results Summary

Figure 1. HPH Trust Results Summary

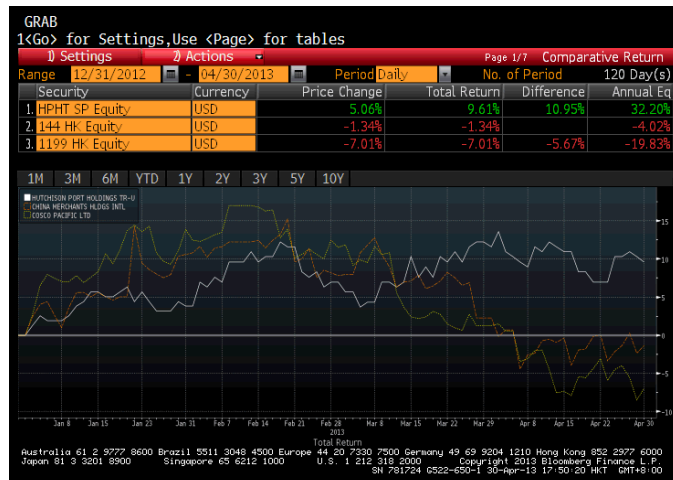
	2012E					2013E			
	1Q12A	2Q12A	3Q12A	4Q12A	FY12A	1Q13A	Prior FY13	Revised FY13	Adj Change
Container Throughput									
Hong Kong					10,366		10,972	10,637	-3.1%
Growth YoY					N/A		6%	3%	
Yantian					10,667		11,092	11,306	1.9%
Growth YoY	Restated				N/A		4%	6%	
Revenue and Other Income	2,836.2	3,113.2	3,329.8	3,147.8	12,427.0	2,866.5	13,029.1	12,975.1	-0.4%
Costs of Service Rendered Incl Associated Staff	(1,009.9)	(1,053.5)	(1,152.8)	(1,051.3)	(4,267.5)	(1,006.6)	(4,398.6)	(4,380.4)	-0.4%
Gross Margin	64.4%	66.2%	65.4%	66.6%	65.7%	64.9%	66.2%	66.2%	0.0%
Staff Costs (non-operational)	(68.6)	(65.6)	(67.3)	(60.2)	(261.7)	(73.2)	(281.3)	(282.6)	0.5%
Depreciation & Amortization (3)	(687.3)	(686.0)	(694.4)	(684.8)	(2,752.5)	(695.8)	(2,821.3)	(2,821.3)	0.0%
Other Operating Income (2)	1.5	11.6	9.3	60.9	83.3	5.5	82.0	82.0	0.0%
Other Operating Expense	(152.1)	(182.3)	(183.5)	(154.7)	(672.6)	(206.4)	(706.2)	(758.9)	7.5%
Management Fees	(4.8)	(5.1)	(5.2)	(5.0)	(20.1)	(4.8)	(21.1)	(21.1)	0.0%
Trust Expenses	(31.7)	(34.0)	(34.0)	(38.2)	(137.9)	(45.7)	(144.8)	(158.8)	9.7%
Total Operating Expense	(1,952.9)	(2,014.9)	(2,127.9)	(1,933.3)	(8,029.0)	(2,027.0)	(8,291.4)	(8,341.2)	0.6%
Operating Profit	883.3	1,098.3	1,201.9	1,214.5	4,398.0	839.5	4,737.7	4,633.9	-2.2%
Growth YoY					0%		8%	5%	
Operating Margin	31%	35%	36%	39%	35%	29%	36%	36%	
Consolidated EBITDA (4)	1,552.5	1,756.1	1,870.4	1,821.8	7,000.8	1,513.2	7,413.3	7,313.1	-1.4%
Growth YoY					4%		6%	4%	
EBITDA Margin	55%	56%	56%	58%	56%	53%	57%	56%	
Interest and Other Finance Costs (6)	(152.1)	(148.6)	(149.9)	(147.8)	(598.4)	(149.0)	(674.7)	(692.8)	2.7%
Share of Profits Less Losses After Tax of Associated Companies	3.5	3.9	7.4	6.1	20.9	3.6	21.5	21.5	0.0%
Share of Profits Less Losses After Tax of Jointly Controlled Entities (5)	38.3	41.3	39.2	21.8	140.6	30.8	155.2	151.8	-2.1%
Profit Before Tax	773.0	994.9	1,098.6	1,094.6	3,961.1	724.9	4,239.7	4,114.6	-3.0%
Tax	(86.3)	(103.7)	(97.4)	(89.1)	(376.5)	(82.9)	(487.6)	(466.6)	-4.3%
Effective Tax Rate	11%	10%	9%	8%	10%	11%	12%	11%	
Profit for the Year	686.7	891.2	1,001.2	1,005.5	3,584.6	642.0	3,752.1	3,648.0	-2.8%
Attributable to Non-controlling Interests	(236.8)	(310.9)	(399.5)	(349.0)	(1,296.2)	(261.7)	(1,354.6)	(1,356.3)	0.1%
Profit Attributable to Unitholders of HPH Trust (7)	449.9	580.3	601.7	656.5	2,288.4	380.3	2,397.5	2,291.7	-4.4%
Growth YoY	N/A	0%	-15%	8%	16%	-15%	5%	0%	
Adjusted Earnings (1Q13 – we have added back the 41.7m ACT acquisition related impact)						422.0		2,333.4	
Change YoY						-6%		2%	
Attributable Earnings per HPH Trust Unit (HK\$)	0.052	0.067	0.069	0.075	0.263	0.048	0.275	0.263	-4.4%
Attributable Earnings per HPH Trust Unit (US\$)	0.007	0.009	0.009	0.010	0.034	0.006	0.036	0.034	-4.4%
Estimated Distribution per HPH Trust Unit (US\$)		0.031		0.035	0.066		0.059	0.058	-0.5%
Distribution Yield		4.0%		4.3%	8.1%		7.0%	7.0%	
HPHT.SI Price		0.775		0.820			0.830	0.830	
Average Number of Trust Units Outstanding	8,708.9	8,708.9	8,708.9	8,708.9	8,708.9	8,711.1	8,708.9	8,711.1	

Note (1) 2011 reflects a nine and one-half month period from 16 March 2011 to 31 December 2011. "(2) Other operating income includes mainly sundry income and HPH Trust's share of net dividend income from the River Ports. No foreign exchange gain or loss a "(4) EBITDA is defined as operating profit after deducting (i) interest income and adding (ii) depreciation and amortization, (iii) the share of EBITDA of associated companies, (iv) the share of EBITDA of jointly controlled entities (including, among others, the EBITDA contribution from COSCO-HIT) and (v) the River Ports Economic Benefits. "Consolidated EBITDA" is defined as EBITDA after excluding (i) the share of EBITDA of associated companies (ii) the share of EBITDA of jointly controlled entities and (iii) the River Ports Economic Benefits. Attributable EBITDA is defined as HPH Trust's proportionate ownership share of EBITDA." Source: Citi Research

Since March 28th, operations at HPHT's HK port have been impacted by a labor disruption over pay involving its subcontracted labor force (principally crane operators and dockworkers).

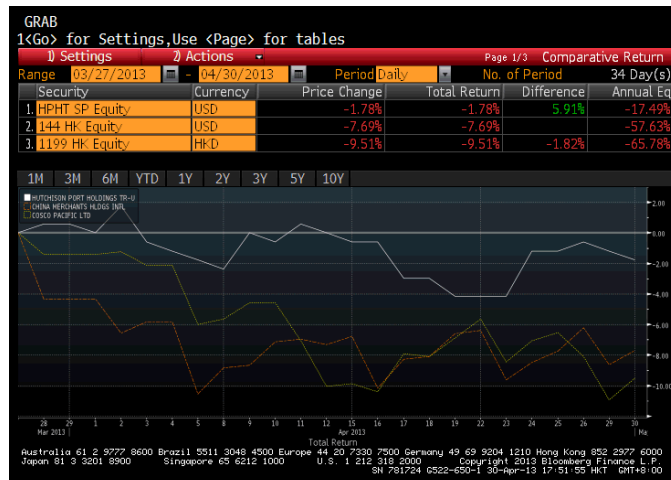
YTD, HPHT shares have notably outperformed its peers, COSCO Pacific and China Merchants (see below), despite uninspiring volume growth trends. While we do appreciate the relatively higher dividend/distribution yield, uninspiring fundamentals (and now a labor disruption) should weigh on the name in our view (post inclusion into the Straits Times Index (STI) early this month). However, since the labor dispute began on March 28, HPHT has continued to outperform its peers by 6-8%.

Figure 2. HPHT vs COSCO Pacific and China Merchants Share Performance (YTD)



Source: Bloomberg; Citi Research

Figure 3. HPHT vs COSCO Pacific and China Merchants Share Performance (Since the Dockworkers strike began, March 28, 2013)



Source: Bloomberg; Citi Research

Maintain Our Sell Rating and US\$0.71 TP

Our US\$0.71 TP reflects an average of the 2013 consensus P/E for its closest listed comparables (COSCO Pacific - 1199.HK and China Merchants - 144.HK) as well as the value implied by our DDM. If we apply the average 11.9x P/E to our estimated FY13 earnings at HPH Trust (adjusted for the depreciation revaluation adjustment following the acquisition from Hutchison Whampoa, versus the 24.5x for HPHT on a reported basis), we arrive at an implied equity value of US\$0.68. By weighting this equally with the ~US\$0.72 value implied by our DDM, we arrive at a target price of ~US\$0.71. On our estimates and assuming terminal growth of ~4% and a discount rate of 10% our DDM generates net present values of between US\$0.70-\$0.74/unit.

Figure 4. Comparative Multiple Analysis

Name	Ticker	Price Market Cap (US\$m) 4/30/2013	2013 EPS	2013 P/E	2013 Dividend Per Share	Yield (2)
HPH Trust	HPHT.SG	0.83	0.034	24.5x	0.058	7.0%
Citi D&A Adjusted - -> 14.7x			0.034	24.2x		
HPH Trust Consensus						
Terminal Operator Peers						
COSCO Pacific	1199.HK	HK\$10.28	3,696	1.087	9.5x	3.8%
China Merchants	0144.HK	HK\$24.55	7,893	1.703	14.4x	2.9%

Note: (1) Shown D&A Adjusted P/E excluding the majority of the pro forma D&A increase (net of tax shelter) which adds US\$0.02 to our 2013 estimate of US\$0.034. Adjusted EV/EBITDA using Attributable EBITDA excluding the share of COSCO HIT and River Ports not held by HPH Trust. Source: Bloomberg; Citi Research estimates.

The P/E valuation takes into account current investor sentiment in the space, while the DDM captures the better cash flow/yield profile at HPH Trust. However, without the deferred CapEx and reflecting a challenged macro environment (as well as higher tax rate and increased interest expense), we expect the yield to decline to US 5.82 cents per share in FY13, yielding ~7%.

Figure 5. HPH Trust Distribution Discount Model

	2011E (1)	2012E (1)	2013E	2014E	2015E	2016E	2017E	Terminal Value
Dividend (US\$)	0.048	0.066	0.058	0.061	0.065	0.068	0.071	0.735
Growth % YoY		11.9%	-11.9%	5.4%	5.4%	4.5%	4.5%	4.0%
NPV			0.06	0.06	0.05	0.05	0.05	0.46

2016-2017 Distribution Growth Rate	Terminal Growth Rate	NPV Per Share
2.5%	3.0%	0.70
3.5%	3.5%	0.71
4.5%	4.0%	0.72
5.5%	4.5%	0.73
6.5%	5.0%	0.74

Discount Rate
10%

Source: Company reports; Citi Research estimates

HPH Trust Summary Financials and Estimates

Figure 6. HPH Trust Income Statement

	<i>Pro Forma</i>					
Income Statement (HK\$m)	2010 ⁽³⁾	2011A ⁽¹⁾	2012A	2013E	2014E	2015E
Revenue and Other Income						
Hong Kong	5,433.7	4,578.5	5,687.4	5,842.0	6,234.9	6,553.2
Growth YoY	N/A	-16%	2%	3%	7%	5%
Yantian	5,905.0	5,077.2	6,673.2	7,073.0	7,412.3	7,775.5
Growth YoY	N/A	-14%	12%	6%	5%	5%
Interest Income	69.3	79.6	66.4	60.1	64.2	70.0
Revenue and Other Income	11,408.0	9,735.3	12,427.0	12,975.1	13,711.3	14,398.6
Growth YoY	N/A	-15%	6%	4%	6%	5%
Costs of Service Rendered Incl Associated Staff	(3,691.5)	(3,242.0)	(4,267.5)	(4,380.4)	(4,593.3)	(4,780.3)
Gross Margin	67.6%	66.7%	65.7%	66.2%	66.5%	66.8%
Staff Costs (non-operational)	(280.0)	(190.4)	(261.7)	(282.6)	(303.8)	(328.1)
Depreciation and Amortization	(2,772.3)	(2,150.1)	(2,752.5)	(2,821.3)	(2,962.4)	(3,080.9)
Other Operating Income (including RMB FX Swings) ⁽²⁾	132.8	153.7	83.3	82.0	85.0	90.0
Other Operating Expense	(723.0)	(465.4)	(672.6)	(758.9)	(741.5)	(778.6)
Management Fees		(15.4)	(20.1)	(21.1)	(22.2)	(23.3)
Trust Expenses		(107.3)	(137.9)	(158.8)	(163.6)	(168.5)
Total Operating Expense	(7,333.9)	(6,016.9)	(8,029.0)	(8,341.2)	(8,701.8)	(9,069.7)
Growth YoY	N/A	-18%	10%	4%	4%	4%
Operating Profit	4,074.1	3,718.4	4,398.0	4,633.9	5,009.6	5,328.9
Growth YoY	N/A	-9%	0%	5%	8%	6%
Operating Margin	35.7%	38.2%	35.4%	35.7%	36.5%	37.0%
Consolidated EBITDA ⁽⁴⁾	6,706.1	5,635.2	7,000.8	7,313.1	7,822.8	8,249.8
Growth YoY	N/A	-16%	4%	4%	7%	5%
EBITDA Margin	59.1%	57.9%	56.3%	56.4%	57.1%	57.3%
Growth YoY	N/A	-13%	3%	4%	7%	5%
Interest and Other Finance Costs	(648.5)	(416.2)	(598.4)	(692.8)	(753.2)	(798.5)
Share of Profits Less Losses After Tax of Associated Companies	17.8	13.4	20.9	21.5	22.2	23.3
Share of Profits Less Losses After Tax of Jointly Controlled Entities	148.8	126.9	140.6	151.8	165.8	176.0
Profit Before Tax	3,592.2	3,442.5	3,961.1	4,114.6	4,444.3	4,729.7
Tax	(253.1)	(425.0)	(376.5)	(466.6)	(533.3)	(614.9)
Effective Tax Rate	7.0%	12.3%	9.5%	11.3%	12.0%	13.0%
Profit for the Year	3,339.1	3,017.5	3,584.6	3,648.0	3,911.0	4,114.9
Attributable to Non-controlling Interests	(1,208.2)	(1,047.2)	(1,296.2)	(1,356.3)	(1,439.9)	(1,512.0)
Profit Attributable to Unitholders of HPH Trust ^(*)	2,130.9	1,970.3	2,288.4	2,291.7	2,471.1	2,602.9
Growth YoY	N/A	-8%	N/A	0%	8%	5%

Note (1) 2011 reflects the period from 25 Feb 2011 to 31 December 2011. (2) Other operating income includes mainly HPH Trust's share of net dividend income from the River Ports. (3) EBITDA is defined as operating profit after deducting (i) interest income and adding (ii) depreciation and amortization, (iii) the share of EBITDA of associated companies, (iv) the share of EBITDA of jointly controlled entities (including, among others, the EBITDA contribution from COSCO-HIT) and (v) the River Ports Economic Benefits. Consolidated EBITDA is defined as EBITDA after excluding (i) the share of EBITDA of associated companies (ii) the share of EBITDA of jointly controlled entities and (iii) the River Ports Economic Benefits. Attributable EBITDA is defined as HPH Trust's proportionate ownership share of EBITDA. (4) Share of profits less losses after tax

Source: Company, Citi Research estimates.

Figure 7. HPH Trust Cash Flow Statement

<i>Proforma</i>						
Cash Flow Statement (HK\$m)	2010 ⁽³⁾	2011	2012A	2013E	2014E	2015E
Operating Activities						
Operating Profit, Dividend Income and Net Gain on Sales	3,998.1	3,841.1	4,556.0	4,813.8	5,195.3	5,520.7
Depreciation and Amortization	2,772.3	2,150.1	2,752.5	2,821.3	2,962.4	3,080.9
Interest Income	(69.3)	(79.6)	(63.3)	(52.6)	(52.7)	(58.5)
Management Fees		(15.4)	(20.1)	(21.1)	(22.2)	(23.3)
Trust Expenses		(107.3)	(137.9)	(158.8)	(163.6)	(168.5)
Other	214.8	(256.0)	(1,452.7)	(350.0)	(400.0)	(500.0)
Interest and other finance costs paid	(411.0)	(314.4)	(478.7)	(692.8)	(753.2)	(798.5)
Tax paid	(507.6)	(432.8)	(744.7)	(596.6)	(666.6)	(718.9)
Net Cash from Operating Activities	5,997.2	4,785.7	4,411.1	5,763.3	6,099.4	6,333.9
Investing Activities						
Acquisition of ACT				(3,868.1)		
Payment for acquisition of HPH Trust Business Portfolio	(64,452.7)	(56,527.4)	0.0	0.0	0.0	0.0
Purchase of fixed assets, additions to projects under development and leasehold land	(959.7)	(1,793.8)	(750.5)	(1,014.0)	(1,414.0)	(1,425.0)
Proceeds on disposal of fixed assets and leasehold land and land use rights	30.2	2.0	3.6	3.6	3.6	3.6
Proceed on redemption of available-for-sale investments	935.6	0.0	0.0	0.0	0.0	0.0
Dividends received from available-for-sale investments	73.1	87.1	29.4	29.4	29.4	29.4
Dividends received from associated companies and jointly controlled entities	197.0	169.0	200.9	210.9	221.5	232.6
Interest received	125.4	107.2	94.2	94.2	94.2	94.2
Net cash Used in Investing Activities	(64,051.1)	(57,955.9)	(422.4)	(4,544.0)	(1,065.3)	(1,065.2)
Financing Activities						
Issuance of units	45,374.7	42,494.7	0.0	0.0	0.0	0.0
Drawdown of bank loans	22,992.9	26,170.0	0.0	4,000.0	4,250.0	1,250.0
Drawdown of loans from non-controlling interests	246.9	0.0	0.0	0.0	0.0	0.0
Repayment of bank loans	(5,002.3)	(5,774.8)	(32.6)	(32.6)	(3,000.0)	0.0
Repayment of loans from a non-controlling interest	0.0	5.0	5.0	0.0	0.0	0.0
Repayment of loan from a former holding company	(4.7)	0.0	0.0	0.0	0.0	0.0
Facilities fee of bank loans	(13.9)	(351.2)	0.0	0.0	0.0	0.0
Capital contribution from non-controlling interests in a subsidiary for development capex		0.0	0.0	0.0	0.0	0.0
Distribution to unitholders	0.0	(1,245.4)	(4,132.4)	(4,250.1)	(4,016.0)	(4,232.4)
Dividends paid to a former holding company	(30.0)	0.0	0.0	0.0	0.0	0.0
Distribution/Dividends paid to non-controlling interests	(908.5)	(237.6)	(1,550.4)	(1,581.4)	(1,613.0)	(1,645.3)
Net Cash from Financing Activities	62,655.0	61,060.7	(5,710.4)	(1,864.1)	(4,379.1)	(4,627.7)
Net change in cash and cash equivalents	4,601.1	7,890.5	(1,721.7)	(644.8)	655.0	641.0
Effects on pro forma adjustments arising from the different basis of preparation of the pro forma statement of financial position and income statement	(29.8)	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents at 31 December	11,353.8	7,890.5	6,168.8	5,524.0	6,179.0	6,820.0
EBITDA to Distribution Reconciliation						
EBITDA	6,107.4	7,457.0	7,782.3	8,325.1	8,781.9	
Less:						
Share of Associated and JCEs	(318.5)	(372.9)	(387.2)	(417.3)	(442.1)	
Changes in WC	(27.7)	(50.0)	(150.0)	(150.0)	(150.0)	
Cap Ex (Maint and Devel)	(1,793.8)	(750.5)	(1,014.0)	(1,414.0)	(1,425.0)	
Interest and Other Finance Costs Paid (Ex Facility Fee Amortization)	(314.4)	(478.7)	(692.8)	(753.2)	(798.5)	
Tax Paid	(432.8)	(744.7)	(596.6)	(666.6)	(718.9)	
Add:						
Dividend Income from Associates/JCEs	169.0	200.9	210.9	221.5	232.6	
Interest Income	79.6	63.3	52.6	52.7	58.5	
Management Fees Paid in Units	0	0	0	0	0	
Development Cap Ex	1,677.0	586.5	850.0	1,250.0	1,250.0	
Development Cap Ex Savings	0.0	587.5	0.0	0.0	0.0	
Capital Contribution from Non-controlling Interests	0.0	0.0	0.0	0.0	0.0	
Other	(133.5)	0.0	(100.0)	(175.0)	(175.0)	
Total Distribution to Unitholders	3,283.1	4,462.4	3,930.5	4,140.2	4,364.9	
Calculated Distribution per HPH Trust Unit (US\$)	0.0483	0.0661	0.0582	0.0613	0.0647	
Distribution to Attributable EBITDA Payout Ratio	74%	82%	69%	68%	68%	

Source: Company, Citi Research estimates

Figure 8. HPH Trust Summary Balance Sheet

Balance Sheet (HK\$m)	2010 ⁽³⁾	2011A ⁽¹⁾	2012A	2013E	2014E	2015E
Non-current Assets						
Fixed assets	27,062.6	26,765.0	26,247.9	28,547.9	28,547.9	28,547.9
Projects under development	944.2	1,349.7	1,315.4	1,579.4	2,993.4	4,418.4
Leasehold land and land use rights	50,348.9	46,221.3	44,958.9	45,458.9	43,958.9	42,458.9
Railway usage rights	16.2	16.4	16.0	16.0	16.0	16.0
Intangible assets	8,563.4	8,180.0	7,850.2	7,850.2	7,850.2	7,850.2
Associated companies	116.3	129.2	139.7	139.7	139.7	139.7
Jointly controlled entities	2,833.9	2,595.5	2,548.8	2,548.8	2,548.8	2,548.8
Available-for-sale investments	806.6	809.6	820.4	820.4	820.4	820.4
Goodwill	41,125.8	41,594.1	41,629.0	42,629.0	42,629.0	42,629.0
Total Non-current Assets	131,817.8	127,660.8	125,526.3	129,590.3	129,504.3	129,429.3
Current Assets						
Cash and cash equivalents	4,571.3	7,890.5	6,168.8	5,524.0	6,179.0	6,820.0
Trade and other receivables	2,576.2	3,003.8	3,019.7	2,819.7	2,960.7	3,108.7
Tax recoverable	2.9	2.9	2.9	2.9	2.9	2.9
Available for sale investments						
Inventories	140.9	143.6	132.4	132.4	139.0	146.0
Total Current Assets	7,291.2	11,040.8	9,323.8	8,479.0	9,281.6	10,077.6
Current Liabilities						
Trade and other payables	8,221.9	8,871.1	7,713.6	6,556.6	5,900.9	5,310.8
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Bank loans	2,774.7	32.6	32.7	3,000.0	0.0	0.0
Current tax liabilities	265.7	279.7	220.4	231.4	243.0	255.1
Promissory notes	0.0	0.0	0.0	0.0	0.0	0.0
Current liabilities	11,262.3	9,183.4	7,966.7	9,788.0	6,143.9	5,566.0
Non-current Liabilities						
Bank loans ⁽⁶⁾	26,125.9	29,019.7	29,108.7	29,988.1	34,238.1	35,488.1
Pension obligations	112.8	265.3	347.5	351.0	358.0	365.2
Deferred tax liabilities	13,546.0	12,210.2	11,920.1	15,483.2	18,683.4	21,935.5
Total Non-current Liabilities	39,784.7	41,495.2	41,376.3	45,822.3	53,279.5	57,788.8
Net Current Liabilities	(3,971.1)	1,857.4	1,357.1	(1,309.0)	3,137.7	4,511.6
Total assets less current liabilities	127,846.7	129,518.2	126,883.4	128,281.3	132,642.0	133,940.9
Net assets	88,062.0	88,023.0	85,507.1	82,459.0	79,362.5	76,152.2
Unitholders' Funds						
Units in issue	68,441.5	69,090.3	67,156.0	65,516.0	63,844.5	62,080.3
Non-controlling interests	19,620.6	18,932.7	18,351.1	16,943.1	15,518.0	14,072.0
Total Unitholders' Funds	88,062.1	88,023.0	85,507.1	82,459.0	79,362.5	76,152.3

Source: Company, Citi Research estimates

Acquisition of ACT Container Terminal 8W

On 7 March 2013, HPHT announced the acquisition of Asia Container Terminals Holdings Limited ("ACT Holdings") for a total cash consideration of ~HK\$3,167m (~US\$406m) from DP World and PSA China, which held roughly 55% and 45%, respectively. In addition, HPHT will assume HK\$750m of debt, for an all-in cost of HK\$3,917 (US\$502m).

ACT owns/operates Container Terminal 8 West in HK (located at Kwai Chung, adjacent to HPHT's existing operations), under a lease through mid 2047. ACT's Container Terminal 8 West has two container berths (see below), which handled 1m TEUs in 2012. HPHT currently operates 12 berths in HK (Terminals 4, 6, 7 and two berths in Terminal 9) and maintains a 50/50 JV with COSCO Pacific called COSCO-HIT (including two berths on the eastern side of Terminal 8).

To maintain its distributable cash flow, we expect HPHT will fund the acquisition and associated CapEx entirely through debt (likely at a cost of debt of around 2%), raising its gearing level to ~31% from 27%, as total debt would then amount to ~HK\$33bn. Notwithstanding the weaker utilization of the incremental capacity (and lower margins) by our estimate, we still believe the added cash contribution will exceed the additional interest expense by roughly HK\$250m on a first full-year basis. That said, with only low- to mid-single volume growth envisioned at HIT in FY13E on a like-for-like basis (vs. FY12 growth of 5.7%), we believe the new capacity is likely to remain underutilized for the foreseeable future (although the berth has been better utilized during the recent labor disruption at HIT).

Figure 9. Container Terminal 8 West (in Green Circle)



Note: Ports in red are owned by HPHT. Source: Citi Research

Hutchison Port Holdings (HPH) Trust

Company description

HPH Trust is the first publicly listed container port trust, providing unitholders a vehicle in which to invest in South China's largest trading hub, situated strategically around the Pearl River Delta. The sponsor and trustee manager of HPH Trust is Hutchison Whampoa Limited by way of the Hutchison Port Holdings Limited entity (of which both HIT and Yantian have been a part previously). The main deepwater ports in the HPH Trust include: HIT, COSCO-HIT in Hong Kong and Yantian in Shenzhen, PRC. Together, HPH's deepwater ports have a 53% market share of total throughput in the PRD (as of 1H12).

Investment strategy

We Maintain a Sell (3) rating on HPH Trust, which was spun out as a Singapore-listed entity in March 2011 by Hutchison Whampoa. While Hutch created significant value for its own shareholders through the spinout, we find it hard to avoid the conclusion it was maximizing the value of mature assets at an opportune time. HPH Trust is trading at twice the average 2013E P/E multiple of its peers, COSCO Pacific and China Merchants (or a 24% premium based upon the estimated adjustment at HPHT for the increased Depreciation associated with the revaluation following the sale by Hutchison Whampoa). However, an annualized ~7% distribution to unit-holders could be attractive to yield-seeking investors.

Valuation

Our US\$0.71 TP reflects an average of the 2013 consensus P/E for its closest listed comparables (COSCO Pacific - 1199.HK and China Merchants - 144.HK) as well as the value implied by our DDM. If we apply the average 11.9x P/E to our estimated FY13 earnings at HPH Trust (adjusted for the depreciation revaluation adjustment following the acquisition from Hutchison Whampoa, versus the 24.5x for HPHT on a reported basis), we arrive at an implied equity value of US\$0.68. By weighting this equally with the ~US\$0.72 value implied by our DDM, we arrive at a target price of ~US\$0.71. On our estimates and assuming terminal growth of ~4% and a discount rate of 10% our DDM generates net present values of between US\$0.70-\$0.74/unit.

The P/E valuation takes into account current investor sentiment in the space, while the DDM captures the better cash flow/yield profile at HPH Trust. However, without the deferred CapEx and reflecting a challenged macro environment (as well as higher tax rate and increased interest expense), we expect the yield to decline to US 5.82 cents per share in FY13, yielding ~7%.

Risks

Upside risks that could cause the stock to rise above our target price include: i) stronger earnings growth than we are expecting, resulting from more resilient volumes and yields at its port assets; ii) borrowing costs coming in below our forecasts, if interest rates remain low; iii) greater-than-expected distributions, if our current forecasts prove too pessimistic or if the company significantly reduce capex. We also believe HWL (the parent and trust manager) could inject to support acquisitions as it relates to its broader port footprint.

Downside risks that could cause the stock to continue to decline below our target price include: i) a further deterioration in end-market demand; ii) a large asset impairment; iii) failure to make annual distribution payments. We also believe recent labor disruptions have added yet another risk to operations.

COSCO Pacific

(1199.HK; HK\$10.28; 1)

Valuation

Our target price of HK\$12.84 is based on 1.1x 2013E P/B. We choose P/B to derive our target price as we believe in the current down-cycle investors are keen to identify the support level of the stock. Infrastructure companies such as CP generally trade above book given their solid asset base. CP has historically traded between 0.5-2.9x P/B, with an average of 1.5x P/B. During the 2008-09 downcycle, CP traded as low as 0.5x P/B, but we do not expect a repeat given that the current downcycle is less severe and CP's portfolio is now better balanced.

Risks

Downside risks that could cause the shares to trade below our target price include: i) lower-than-expected port volumes; ii) more volatile earnings from Florens and CIMC; iii) a severe economic downturn; and iv) a worse than expected slowdown in container traffic. Upside risks include: i) stronger than expected export growth and ii) better than expected ASP.

China Merchants Holdings Int'l

(0144.HK; HK\$24.55; 3)

Valuation

Our target price of HK\$21.24 is based on 1.1x 2013E PB. We choose P/B methodology to derive our target price for ports as we believe investors are more interested in finding out the bottom value of the company during the downcycle. Historically, CMHI trades at an average of 1.8x P/B with 1 stdev of 0.7x. During the 2008~09 downcycle, CP traded as low as 0.74x P/B.

Risks

Downside risks to our target price include 1) stronger-than-expected export growth; and ii) better-than-expected ASP. Upside risks include: i) lower-than-expected port volume; ii) more volatile earnings from CIMC, and iii) the further worsening competitive landscape in the PRD region.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Hutchison Port Holdings (HPH) Trust (HPHT.SI)

Ratings and Target Price History Fundamental Research

Analyst: Michael Beer

Covered since April 26 2011



Date	Rating	Target Price	Closing Price
1 26-Apr-11	*3L	*0.80	0.96
2 22-Jun-11	3L	*0.78	0.81
3 3-Aug-11	3L	*0.63	0.74
4 30-Sep-11	3L	*0.55	0.68

* Indicates change

Date	Rating	Target Price	Closing Price
5 7-Oct-11	Stock rating system changed		
6 7-Oct-11	*3	0.55	0.66
7 21-Feb-12	3	*0.66	0.75
8 26-Jul-12	3	*0.70	0.78

Date	Rating	Target Price	Closing Price
9 15-Oct-12	3	*0.72	0.80
10 6-Nov-12	3	*0.68	0.78
11 3-Feb-13	3	*0.74	0.82
12 14-Apr-13	3	*0.71	0.85

Rating/target price changes above reflect Eastern Standard Time

Hutchison Port Holdings (HPH) Trust (HPHT.SI)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Michael Beer

Covered since April 26 2011



Date	Rating	Target Price	Closing Price
1 14-Nov-11	*ADD LP	-	0.68

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

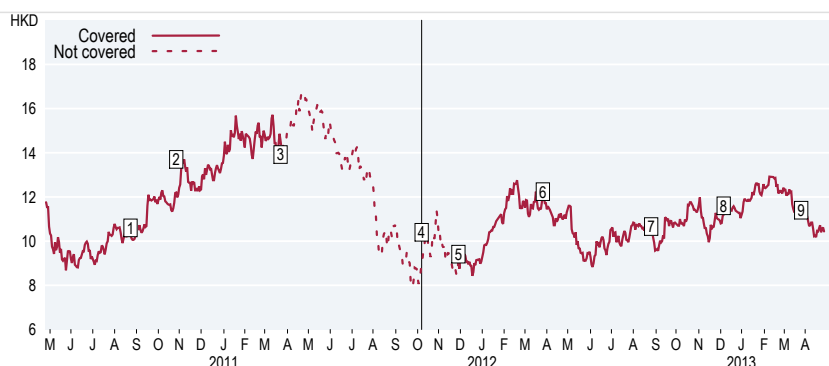
COSCO Pacific (1199.HK)

Ratings and Target Price History

Fundamental Research

Analyst: Vivian Tao

Covered since November 29 2011



	Date	Rating	Target Price	Closing Price
1	24-Aug-10	2L	*10.50	10.32
2	27-Oct-10	*1L	*15.00	12.20
3	23-Mar-11	Coverage terminated		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	7-Oct-11	Stock rating system changed		
5	29-Nov-11	*1	*10.93	9.18
6	27-Mar-12	*2	*12.24	12.10

	Date	Rating	Target Price	Closing Price
7	27-Aug-12	2	*11.04	10.44
8	6-Dec-12	*1	*12.89	11.20
9	26-Mar-13	1	*12.84	11.12

Rating/target price changes above reflect Eastern Standard Time

COSCO Pacific (1199.HK)

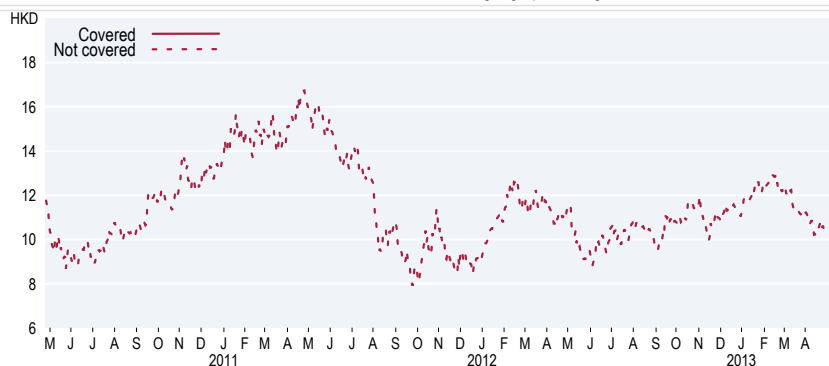
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Vivian Tao

Covered since November 29 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

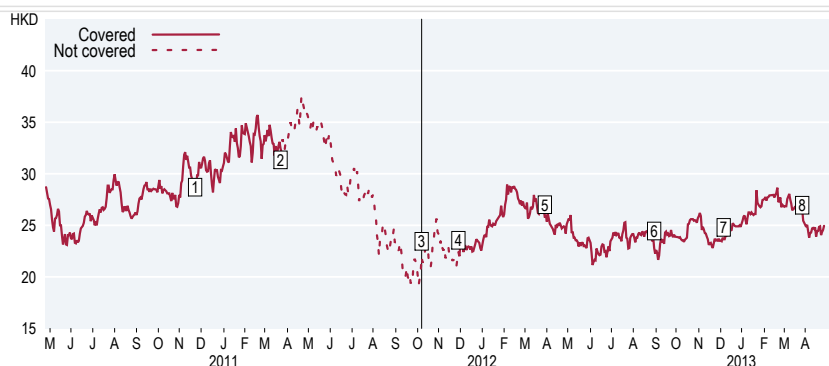
China Merchants Holdings Int'l (0144.HK)

Ratings and Target Price History

Fundamental Research

Analyst: Vivian Tao

Covered since November 29 2011



	Date	Rating	Target Price	Closing Price
1	23-Nov-10	1L	*35.40	28.70
2	23-Mar-11	Coverage terminated		
3	7-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	29-Nov-11	*3	*18.21	22.40
5	29-Mar-12	3	*20.60	25.75
6	30-Aug-12	3	*20.46	22.80

	Date	Rating	Target Price	Closing Price
7	6-Dec-12	3	*21.40	23.65
8	27-Mar-13	3	*21.24	26.60

Rating/target price changes above reflect Eastern Standard Time

China Merchants Holdings Int'l (0144.HK)

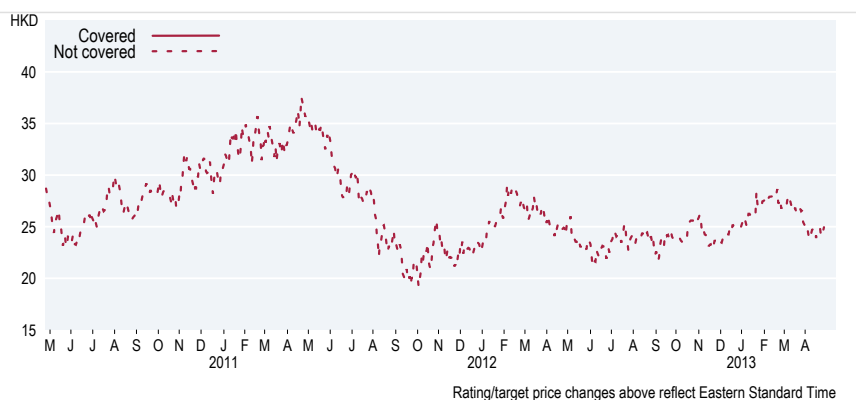
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Vivian Tao

Covered since November 29 2011



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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
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48%	39%	12%	7%	87%	7%
53%	49%	43%	65%	49%	51%

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