



Kingston Wharves Limited

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Executive Summary

Kingston Wharves Limited is the region's leading Multipurpose Port Terminal Operator, connecting Jamaica's importers and exporters to over 20 international ports in the Caribbean, Latin and North America. The port terminal provides full-range cargo handling and logistics services 24 hours per day, 7 days per week.

KW produced net profits attributable to shareholders of \$741.88M for the six months ended June 2017, a 33.8% or \$187.32M increase year-over-year. Driving these results were revenues of \$2.94B, up 18.9% or \$467.42M. The Terminal Operations Division reported revenues of \$2.30B, up 19.5% year-over-year, while the Logistics and Ancillary Services Division generated revenues of \$643.02M, up 17%.

KW is continuing to improve its core services, while building its capacity to serve a wider range of local and transshipment requirements for the loading, discharge and storage of bulk, break-bulk, containerised and automated cargo. The commissioning of on-dock bulk storage facilities, a near-port domestic automotive centre and a terminal resurfacing and rehabilitation programme are some of the projects KW currently has underway. In addition to these initiatives, the company aims to launch its Total Logistics facility prior to the end of the financial year.

We are projecting a 16.9% increase in revenues for the 2017 financial year to \$6.32B and net profits attributable to shareholders of \$1.66B, a 28.6%. We continue to recommend KW as HOLD for investors with a medium risk appetite and a medium to long-term investment horizon. We believe the stock currently trades at its fair price based on current earnings potential.

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Company Background

Kingston Wharves Limited (KW) is the region's leading Multipurpose Port Terminal Operator, connecting Jamaica's importers and exporters to over 20 international ports in the Caribbean, Latin and North America. The port terminal provides full-range cargo handling and logistics services 24 hours per day, 7 days per week, including: mooring and unmooring of vessels; stevedoring; equipment rental; stripping and stuffing of containers; storage and warehousing; reconsolidation of containers; cargo handling services; transshipment; refrigerated container management & support.

Commencing January 1, 2016, KW revised its segment reporting to reflect its key operating units based on KW's strategic direction for the company. Segment reporting now differentiates terminal and non-terminal operations, which now includes KW's logistics activities, into the Terminal Operations Segment and the Logistics & Ancillary Services Segment.

Financial Performance – Six Months ended June 2017

Profitability

KW produced net profits attributable to shareholders of \$741.88M for the six months ended June 2017, a 33.8% or \$187.32M increase year-over-year. Driving these results were revenues of \$2.94B, up 18.9% or \$467.42M. The Terminal Operations Division reported revenues of \$2.30B, up 19.5% year-over-year, driven by growth in container handling, motor units and break bulk operations. The Logistics and Ancillary Services Division generated revenues of \$643.02M, up 17% from the comparable period of 2016. This increase was attributed to expansion of KW's service offering, a widening of the company's customer base and improved operational efficiencies gained through the increased use of technology in warehousing operations and security services.

Gross profits for the six month period rose 33.1% from a year ago to \$1.42B as direct costs rose just 8.1% to \$1.52B. As a result, the gross profit margin for the period rose to 48.3% from 43.2% for the comparable period of 2016. Operating profits increased 21.4% to \$918.26M despite a 18.2% increase in administrative expenses to \$542.62M and a 73.0% decline in other operating income to \$40.03M. The operating profit margin improved to 31.2%, up from 30.6% in 6M16. Pre-tax profits were up 31.8%, amounting to \$856.76M as finance costs fell 42.3% to \$61.5M in the first half of the year. The pre-tax profit margin improved to 29.1% for the period, up from 26.3% in the comparable period of 2016. The effective tax rate fell to 12.4% from 13.3% in 6M16 resulting in an improvement of the net profit margin to 25.2%, in comparison to 22.4% in 6M16.

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Solvency & Liquidity

As at June 30, 2017, total assets for KW's amounted to \$23.94B, an 8.2% or \$1.82B increase from the June 2016 balance. Driving the increase was a 9.9% or \$1.66B increase in property, plant & equipment, which amounted to \$18.50B, and a \$317.09 increase in retirement benefit assets to \$936.18B, partially offset by an \$223.46M decline in short-term investments to \$2.83B. Inventories rose 39.8% to \$354.07M while trade and other receivables were up 19.9% year-over-year to \$680.05M.

Cash & bank was relatively unchanged, up 1.3% to close the period at \$299.54M. The cash ratio was down to 2.03x, compared to 2.72x as at June 2016. Net cash provided by operating activities amounted to \$882.41M for the six months period, a 54.8% or \$312.22M increase year-over-year. The current ratio stood at 2.70x as at June 2017, down from 3.39x a year prior as current liabilities rose 25.2% to \$1.54B as trade and other payables rose 67.8% to \$948.19M whereas current assets were down 0.1% to \$4.18B. Non-current liabilities were up 15.0% to \$3.25B resulting in an overall 18.0% increase in total liabilities to \$4.80B.

Long-term debt rose 35.7% to \$1.82B while short-term debt was up 1.6% to \$545.98M. Total debt amounted to \$3.54B, an 11.7% or \$367.17M increase, year-over-year. KW reported an interest coverage ratio of 9.18x for the six months ended June 2017, up from 8.96x for the 6M16, indicating an improvement in its debt-servicing capacity. Shareholders' equity rose 6.0% or \$1.07B to \$19.04B. As such, leverage as measured by the debt-to-equity ratio moved from 0.18x to just 0.19x as at June 2017. Book value per share stood at \$13.31 as at June 2017.

Outlook & Valuation

In its second quarter report, KW noted that it is continuing to improve its core services, while building its capacity to serve a wider range of local and transshipment requirements for the loading, discharge and storage of bulk, break-bulk, containerised and automated cargo. The commissioning of on-dock bulk storage facilities, a near-port domestic automotive centre and a terminal resurfacing and rehabilitation programme are some of the projects KW currently has underway.

In addition to these initiatives, the company aims to launch its Total Logistics Facility prior to the end of the financial year. The warehousing complex will host Jamaica Customs as well as other shipping service providers. This development is expected to simplify the receiving, storage and delivery process for shipments of any size into and out of the Port of Kingston.

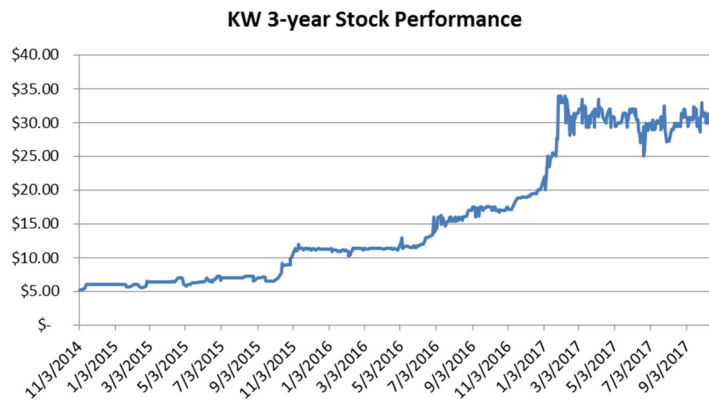
Based on these factors, we are projecting a 16.9% increase in revenues for the 2017 financial year to \$6.32B and net profits attributable to shareholders of \$1.66B, a 28.6% increase on the 2016FY results, which corresponds to an EPS (earnings per share) of \$1.16 (2016: \$0.90). Shareholders' equity is

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forecasted to increase 13.2% year-over-year to \$19.81B which corresponds to a BVPS (book value per share) of \$13.85.

Applying the 1-year average P/E ratio of 29.80x to the forward EPS of \$1.16 yields a price of \$34.66 while the forward BVPS of \$13.85 and the 1-year average P/B ratio of 2.11x yields a price of \$29.22. As such, our estimation of the fair value of KW's shares is \$31.94, which is 4.88% below the close price of \$33.50 as at January-25-2018.



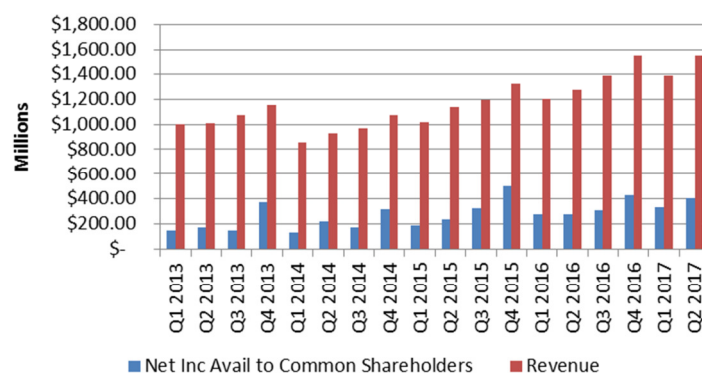
The chart above displays KW's three year stock performance, indicating the significant capital appreciation at the start of the year which has seen the price rising 63.2% year-to-date. The current P/E ratio is 31.53x while the P/B ratio is 2.31x, which compares to the main market averages of 23.44x and 6.49x , respectively.

Recommendation

We continue to recommend KW as HOLD for investors with a medium risk appetite and a medium to long-term investment horizon. We believe the stock currently trades at its fair price based on current earnings potential. However, given the significant expansion work being conducted and the steps being taken to transform the company into global logistics centre, we maintain our positive outlook on the company.

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KW Quarterly Performance



Abridged Financials

J\$000	Year Ended December 31					6M16	6M17	Change %
	2012	2013	2014	2015	2016			
Turnover	3,670,177	4,232,408	3,819,691	4,672,884	5,409,801	2,472,386	2,939,801	18.9%
Direct Costs	2,118,034	2,428,476	2,154,472	2,525,895	2,897,704	1,405,063	1,518,949	8.1%
Gross Profit	1,552,143	1,803,932	1,665,219	2,146,989	2,512,097	1,067,323	1,420,852	33.1%
Operating Expenses	785,896	815,792	798,069	823,978	1,033,488	459,003	542,616	18.2%
Operating Profit	1,075,667	1,477,042	1,145,267	1,572,056	1,675,251	756,451	918,263	21.4%
Profit Before Taxation	809,337	1,151,296	921,116	1,409,338	1,488,843	649,863	856,763	31.8%
Profit for the year	550,203	839,255	842,730	1,256,397	1,293,480	563,305	750,571	33.2%
Total Assets	16,386,680	16,716,664	21,001,026	21,411,543	23,536,808	22,115,591	23,939,551	8.2%
Total Liabilities	4,198,705	3,967,737	3,976,569	3,837,389	4,899,997	4,059,851	4,795,303	18.1%
Shareholder's Equity	12,136,160	12,689,393	16,958,261	17,496,896	18,540,246	17,969,742	19,038,996	6.0%
EPS (\$)	0.38	0.59	0.59	0.88	0.90	0.39	0.52	
Book Value per Share (\$)	8.49	8.87	11.86	12.23	12.96	12.56	13.31	
Key Ratios								
Gross profit margin	42.3%	42.6%	43.6%	45.9%	46.4%	43.2%	48.3%	
Operating profit margin	29.3%	34.9%	30.0%	33.6%	31.0%	30.6%	31.2%	
Interest Coverage ratio	7.11	11.59	8.70	12.84	12.42	8.96	9.18	
Net Margin	15.0%	19.8%	22.1%	26.9%	23.9%	22.4%	25.2%	
Return on Average Equity	5.1%	6.8%	5.7%	7.3%	7.2%			
Return on Average Assets	3.6%	5.1%	4.5%	5.9%	5.8%			
Debt/Equity (x)	0.17	0.16	0.12	0.10	0.13	0.18	0.19	

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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