

## Kingston Wharves Limited (KW)

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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 30 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.

Our estimation of the fair value of KW's shares is \$62.15, which is 0.1% below the close price of \$62.19 as at September 20, 2019. We continue to recommend KW as a 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. We believe the expansion work done to transform the company into a Global Logistics Centre will continue to support revenue and profitability growth.

### Company Background

Kingston Wharves Limited is the region's leading multipurpose port terminal operator, connecting Jamaica's importers and exporters to over 30 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: multi-cargo handling services for break-bulk cargo, as well as dry and liquid bulk cargo; mooring and unmooring of vessels; stevedoring; equipment rental; container stripping, stuffing and reconsolidation; multi-storage and warehousing; transshipment; refrigerated container management and support; third and fourth party logistics services; labour services; and port and industrial security.

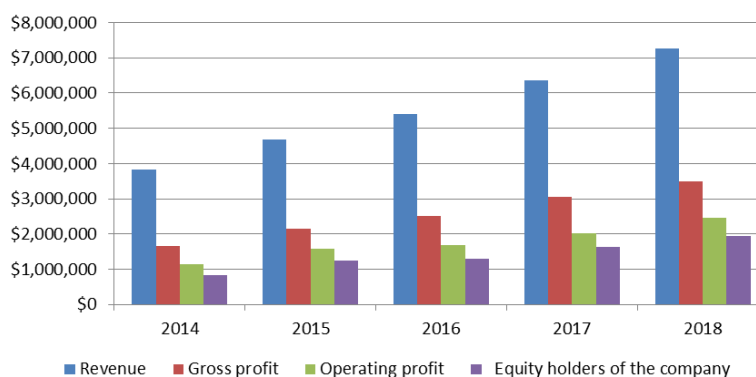
## Kingston Wharves Limited (KW)

### Financial Performance – Six Months ended June 2019

#### Profitability

KW produced net profits attributable to shareholders of \$1.18B for the six months ended June 2019, a 40.3% or \$339.17M increase year-over-year. Driving these results were revenues of \$3.8B, up 12.2% or \$411.93M. The Terminal Operations Division reported external revenues of \$2.84B, up 9.8% year-over-year, driven by diversification in the services offered as management noted in its report that high performance in some areas made up for flat performance in others. The Logistics and Ancillary Services Division generated revenues of \$960.33M, up 19.7% from the comparable period of 2018. KW noted that its investment in logistics facilities and systems have positioned the company to capitalize on a rapidly growing logistics services market.

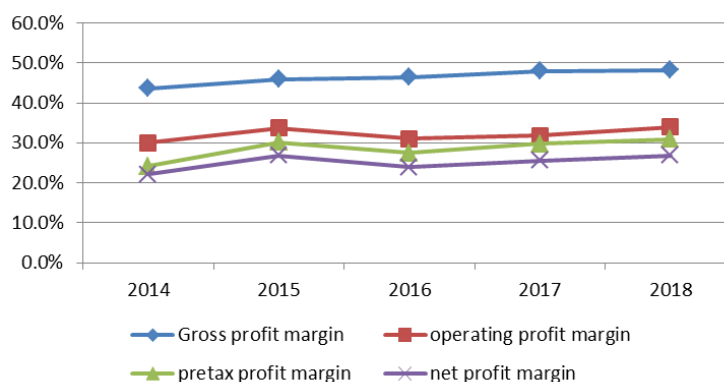
**KW 5-year Operating Performance**



Gross profits for the six month period rose 23.0% from a year ago to \$1.96B as direct costs rose only 2.6% to \$1.84B. As a result, the gross profit margin for the period rose to 51.5% from 46.9% for the comparable period of 2018. Operating profits increased 28.5% to \$1.51B as other income rose 1.4% to \$166.4M while administrative expenses grew by 5.9% to \$618.11M.

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### KW Profitability Margins



The operating profit margin improved to 39.6%, up from 34.6% in 6M18. Pre-tax profits were up 33.8%, amounting to \$1.41B as finance costs fell 19.6% to \$93.52M in the first half of the year. The pre-tax profit margin improved to 37.1% for the period, up from 31.1% in the comparable period of 2018. The effective tax rate fell to 15.2% from 19.0% in 6M18 resulting in an improvement in the net profit margin to 31.1%, from 24.8% in 6M18.

### Solvency & Liquidity

As at June 30, 2019, total assets for KW's amounted to \$32.74B, a 7.9% or \$2.39B increase from the June 2018 balance. Driving the increase was a 69.0% or \$810.58M increase in retirement benefit asset to \$1.99B, a 16.0% or \$653.9M increase in short term investments to \$4.75B and the \$470.0M booking of other financial assets at amortised cost and the booking of \$969.94M in right of use asset. Property, plant & equipment fell 1.7% or \$393.31M to \$22.44B while trade and other receivables were down 17.6% or \$214.65M to \$1.00B. Inventories amounted to \$413.1M, up 13.9% year-over-year.

Cash & bank was relatively unchanged, down 0.2% to close the period at \$404.92M. The cash ratio rose to 2.31x, compared to 1.74x as at June 2018. Net cash provided by operating activities amounted to \$947.48M for the six months period, a 21.2% decline year-over-year. The current ratio stood at 3.17x as at June 2019, up from 2.36x a year prior as current assets rose 15.6% while current liabilities fell 13.9%.

Long-term debt rose 15.7% to \$2.91B while short-term debt was up 6.4% to \$583.2M. Total debt amounted to \$3.49B, a 14.1% or \$430.42M increase, year-over-year. KW reported an interest coverage ratio of 15.05x for the six months ended June 2018, up from 13.88x for the 6M18, indicating an improvement in its debt-servicing capacity. Shareholders' equity rose 9.8% or

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\$2.28B to \$25.55B. As such, leverage as measured by the debt-to-equity ratio moved from 0.13x to just 0.14x as at June 2018. Book value per share stood at \$17.86 at the close of the period.

### Outlook & Valuation

KW's performance in the first half of 2019 highlights the success of the projects undertaken in the past few years. The company invested resources to not only improve its core services but to also build its capacity to serve a wider range of local and transshipment requirements. The Company built out on-dock bulk storage facilities, a Global Auto Logistics Centre and launched a Total Logistics Facility. During 2018, both facilities made improvements to security, systems, technology and equipment that reinforced inventory control and operational efficiency.

Objectives for the year include profitability maintenance and market position consolidation. The Company also aims to achieve full Special Economic Zone status during the year. The company faces headwinds from international trade uncertainty but our outlook remains positive given the significant capital expenditure made over the past five years to diversify KW's product offering.

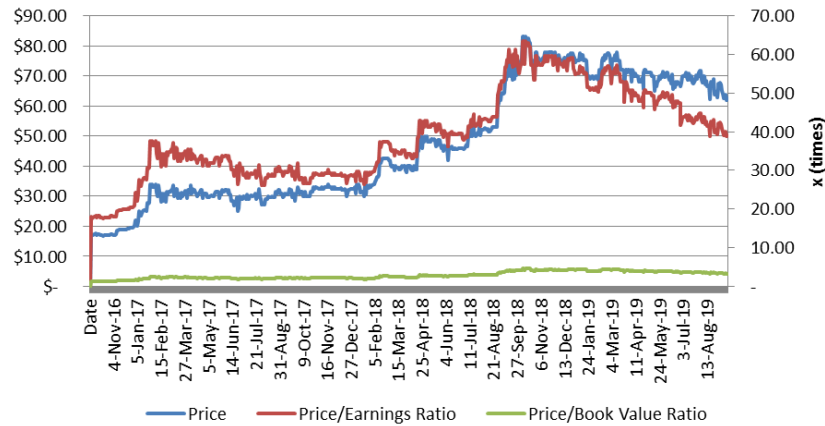
Based on these factors, we are projecting a 15.8% increase in revenues for the 2019 financial year to \$8.40B and net profits attributable to shareholders of \$2.70B, a 20.7% increase on the 2018FY results, which corresponds to an EPS (earnings per share) of \$1.64 (2018: \$1.36). Shareholders' equity is forecasted to increase 6.6% year-over-year to \$26.41B which corresponds to a BVPS (book value per share) of \$18.47.

Applying the 2-year average P/E ratio of 38.79x to the forward EPS of \$1.64 yields a price of \$63.78 while the forward BVPS of \$18.47 and the 2-year average P/B ratio of 3.28x yields a price of \$60.52. **As such, our estimation of the fair value of KW's shares is \$62.15, which is 0.1% below the close price of \$62.19 as at September 20, 2019.**

The chart above displays KW's three year stock performance; the share price has depreciated 18.7% since the start of the year and 13.6% over the last twelve months. This performance comes as a surprise as the company has reported positive financial performance thus far. This decline could be explained by the 1-year average P/E ratio of 51.51x. This relative high price multiple would indicate that investors had very high expectations for profit appreciation for the company, expectations in excess of what materialised, resulting in the subsequent fall off.

## Kingston Wharves Limited (KW)

### KW 3-year Price Performance



### 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. We believe the expansion work done to transform the company to into a Global Logistics Centre will continue to support revenue and profitability growth. Investors should be mindful that the Company is exposed economic and geo-political headwinds which affect international trade which may have a negative impact on the company's earnings. We believe this risk is mitigated by the diversification of product offering.

## Kingston Wharves Limited (KW)

### Abridged Financials

J\$000	Year Ended December 31					6M18	6M19	Change %
	2014	2015	2016	2017	2018			
<b>Turnover</b>	<b>3,819,691</b>	<b>4,672,884</b>	<b>5,409,801</b>	<b>6,369,238</b>	<b>7,253,571</b>	<b>3,390,280</b>	<b>3,802,209</b>	<b>12.2%</b>
Direct Costs	2,154,472	2,525,895	2,897,704	3,310,521	3,753,080	1,798,889	1,844,798	2.6%
<b>Gross Profit</b>	<b>1,665,219</b>	<b>2,146,989</b>	<b>2,512,097</b>	<b>3,058,717</b>	<b>3,500,491</b>	<b>1,591,391</b>	<b>1,957,411</b>	<b>23.0%</b>
Operating Expenses	798,069	823,978	1,033,488	1,063,061	1,199,841	583,714	618,105	5.9%
<b>Operating Profit</b>	<b>1,145,267</b>	<b>1,572,056</b>	<b>1,675,251</b>	<b>2,026,685</b>	<b>2,460,166</b>	<b>1,171,802</b>	<b>1,505,703</b>	<b>28.5%</b>
Profit Before Taxation	921,116	1,409,338	1,488,843	1,891,762	2,239,217	1,055,547	1,412,186	33.8%
<b>Profit for the year</b>	<b>842,730</b>	<b>1,256,397</b>	<b>1,293,480</b>	<b>1,628,538</b>	<b>1,945,450</b>	<b>855,384</b>	<b>1,198,139</b>	<b>40.1%</b>
<b>Total Assets</b>	<b>21,001,026</b>	<b>21,411,543</b>	<b>23,536,808</b>	<b>29,475,959</b>	<b>31,456,820</b>	<b>30,348,168</b>	<b>32,736,311</b>	<b>7.9%</b>
<b>Total Liabilities</b>	<b>3,976,569</b>	<b>3,837,389</b>	<b>4,899,997</b>	<b>6,378,642</b>	<b>6,549,688</b>	<b>6,948,053</b>	<b>7,031,163</b>	<b>1.2%</b>
<b>Shareholder's Equity</b>	<b>16,958,261</b>	<b>17,496,896</b>	<b>18,540,246</b>	<b>22,981,794</b>	<b>24,765,896</b>	<b>23,271,653</b>	<b>25,547,021</b>	<b>9.8%</b>
EPS (\$)	0.59	0.88	0.90	1.14	1.36	0.59	0.83	
Book Value per Share (\$)	11.86	12.23	12.96	16.07	17.32	16.27	17.86	
<b>Key Ratios</b>								
Gross profit margin	43.6%	45.9%	46.4%	48.0%	48.3%	46.9%	51.5%	
Operating profit margin	30.0%	33.6%	31.0%	31.8%	33.9%	34.6%	39.6%	
Interest Coverage ratio	8.70	12.84	12.42	14.43	11.43	13.88	15.05	
Net Margin	22.1%	26.9%	23.9%	25.6%	26.8%	24.8%	31.1%	
Return on Average Equity	5.7%	7.3%	7.2%	7.8%	8.1%			
Return on Average Assets	4.5%	5.9%	5.8%	6.1%	6.4%			
Debt/Equity (x)	0.12	0.10	0.13	0.13	0.11	0.13	0.14	

**Source:** <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Company Financials; Consent Waiver Letter, Information Memorandum

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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**.

**PLEASE NOTE** THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

**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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