EDISON

Ocean Wilsons Holdings

H117 and trading update

Making headway in a challenging environment

Investment companies

Ocean Wilsons' (OCN) first-half figures reported in August showed that its quoted Brazilian operating subsidiary, Wilson Sons (WSON), made progress despite a still difficult trading background, particularly for its offshore JV. The main container terminal and towage businesses are well invested and positioned to exploit a longer-term revival in the local economy. Confidence in this appears to be growing if strength in the currency and Bovespa equity index are taken as indicators.

Year end	Revenue ($m)	PBT* ($m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	508.9	69.0	43.7	63	34.1	4.2
12/16	457.2	117.5	127.4	63	11.7	4.2
12/17e	489.1	117.7	135.4	64	11.0	4.3
12/18e	507.8	115.9	125.5	67	11.9	4.5

Note: *PBT and EPS (fully diluted) exclude exceptional items.

H117 results and offshore JV update

First-half revenues increased by 14.5% compared with the prior year period, largely reflecting strength in the Brazilian real (BRL). Within this, container terminals showed stronger growth while a sharp reduction in special operations income muted towage growth. Operating profit increased by 10% and a strong performance from the investment portfolio (+10% in the six months) helped boost the pre-tax profit increase to 31%. Reflecting the tough oil sector background Wilson Sons recently announced that its offshore joint venture (WSUT) is in negotiations with Petrobras that may lead to a temporary suspension of up to eight platform support vessel contracts and a reduction in average daily rates.

Outlook: Cloudy with brighter intervals

The background in Brazil remains difficult as the economic recovery is still tentative and subject to setbacks if political developments upset the process of reform that President Michel Temer is trying to pursue. However, global GDP growth estimates, such as those prepared by the IMF, have been increased in recent months. The Ocean Wilsons investment portfolio (32% of our look-through valuation; see page 8) saw a revival in performance in the first half which could be sustained if the global economy and hence emerging markets remain resilient. The main operating businesses at Wilson Sons are exercising continuing cost discipline and have strong market positions so are well positioned to benefit if the background in Brazil becomes more favourable. Our estimates make allowance for tough near-term prospects for WSUT.

Valuation: Wide discount belies business qualities

A look-through valuation that includes the current market value of Ocean Wilsons' stake in Wilson Sons (1,154p) and the value of the investment portfolio (555p) at the end of June shows that OCN shares trade at a 34% discount. This appears conservative given that Wilson Sons is not expensively rated relative to peers or in the light of a recently agreed purchase of a container terminal asset (Paranaguá) by China Merchants.

11 October 2017

Price	**1130p**
Market cap	**£400m**
	US$1.32/£
Net debt (US$m) at 30 June 2017 including finance leases & excluding JV	303.3
Shares in issue	35.4m
Free float	36%
Code	OCN
Primary exchange	LSE
Secondary exchange	Bermuda

Share price performance

%	1m	3m	12m
Abs	3.2	5.7	20.1
Rel (local)	1.0	2.9	11.7
52-week high/low		1125.0p	932.5p

Business description

Ocean Wilsons Holdings is an investment company based in Bermuda. It has a controlling shareholding in Wilson Sons, a quoted maritime services company in Brazil, and holds a portfolio of international investments.

Next events

OCN quarterly update and WSON Q3 results	November 2017

Analyst

Andrew Mitchell +44 (0)20 3681 2500

financials@edisongroup.com

Edison profile page

Ocean Wilsons Holdings is a research client of Edison Investment Research Limited

H117 results

Ocean Wilsons released its H1 interim management statement in August coinciding with the announcement of Q2 figures from Wilson Sons. Exhibit 1 gives a summary of the main P&L items and the main points were as follows (all comparisons with H116 unless stated):

- **Net revenue** at Wilson Sons (which accounts for all of Ocean Wilsons' revenue) increased by 14.5% mainly reflecting a strengthening in the Brazilian real versus the US dollar.
- The **Brazilian real's average exchange rate** versus the US dollar appreciated by 17% and in BRL terms revenue was marginally down: still a resilient performance against a difficult macroeconomic backdrop.
- The currency move also pushed up **costs** in US dollar terms but growth here was contained at 14.5%, partly due to lower tugboat rental costs (following the purchase of six boats last year) and a one-off provision write-back of $3.9m.
- **Operating profit** was up 10%. The reported operating profit margin edged modestly lower but was maintained at 21% before the $2.0m loss on sale of plant, property and equipment.
- The **investment revenues** (mainly dividend income) and **investment gains** (realised and fair value movements) taken together saw a big swing (+$31m) into positive territory, reflecting increased dividend income and a strong positive return of over 10% in the first half from the OWIL investment portfolio.
- The net **contribution from joint ventures** (Wilson Sons' 50% share in the offshore support vessels business – WSUT) was only lower because the prior year period benefited from a positive foreign exchange item relating to monetary items of $5.1m versus a negative $0.5m in H117. Operating profit in this business was up 35%. We discuss the Wilson Sons Q217 results in more detail below.

Exhibit 1: First half results summary

US$m except where stated	H116	H216	H117	Change y-o-y	Sequential change
Revenue	**214.7**	**242.5**	**245.8**	**14%**	**1%**
Raw materials and consumables	(16.3)	(21.4)	(18.8)	15%	-12%
Employee benefits	(68.3)	(76.0)	(83.8)	23%	10%
Depreciation and amortisation	(24.4)	(28.2)	(28.9)	19%	3%
Other operating expenses	(61.2)	(65.3)	(63.4)	4%	-3%
Profit on disposals of PPE	0.1	0.7	(2.0)	Positive to negative	Positive to negative
Operating profit	**44.6**	**52.3**	**48.9**	**10%**	**-6%**
Share of results of joint ventures	2.9	5.2	1.8	-37%	-65%
Investment revenue	6.0	9.1	9.8	64%	7%
Investment movements/disposal gains	(7.3)	3.2	20.3	Negative to positive	535%
Finance costs incl. FX movements on borrowings	7.9	(8.5)	(8.1)	Positive to negative	-4%
FX gains/(losses) on monetary items	3.1	(0.9)	2.2	-30%	-357%
Profit before tax	**57.1**	**60.4**	**74.9**	**31%**	**24%**
Income tax	(17.2)	(19.6)	(19.4)	13%	-1%
Non-controlling interests	(20.1)	(15.6)	(14.1)	-30%	-9%
Earned	19.8	25.3	41.3	109%	64%
EPS (cents)	**56.0**	**71.4**	**116.9**	**109%**	**64%**
Operating profit margin (%)	**20.8**	**21.6**	**19.9**		

Source: Ocean Wilsons Holdings, Edison Investment Research

Where there have been significant changes in the BRL/US$ rate there can be marked foreign exchange related items that affect the reported P&L at the pre-tax profit and net earnings level. We have collated these items for the latest three half-year periods in Exhibit 2. As a reminder, the gains/losses on monetary items include foreign exchange-related movements in the value of working capital items and cash and cash equivalents; gains/losses on foreign currency borrowings relate to US dollar-denominated debt in subsidiaries reporting in BRL; and changes in deferred tax arise from foreign exchange-related changes in the value of debt and fixed assets, which in turn increases or reduces the value of future tax deductions.

Exhibit 2: Foreign exchange rate (FX) movements and related P&L items

US$m except where stated	H116	H216	H117	Change y-o-y	Sequential change
BRL appreciation/-depreciation versus US$					
Average US$/BRL rate	3.71	3.27	3.18	17%	3%
US$/BRL end period rate	3.21	3.26	3.34	-4%	-3%
Items relating to FX movement					
FX gain/(loss) on monetary items	3.1	(0.8)	2.2	-29%	Negative to positive
FX gain/(loss) on foreign currency borrowings	13.9	(1.1)	(1.1)	Positive to negative	0%
Deferred tax on retranslation of fixed assets	22.2	0.2	0.2	-99%	0%
Deferred tax on exchange variance on loans	(14.4)	0.1	(0.2)		Positive to negative
Total	**24.8**	**(1.6)**	**1.1**	**-96%**	**Negative to positive**

Source: Ocean Wilsons Holdings, Bank of England, Edison Investment Research

As noted earlier, first half revenues and costs were enlarged by the strengthening of the average rate of the BRL versus the US$ (+17%) while the change in exchange rate since H216 was only +3%. The movement in end-period exchange rates was muted and negative at -4% y-o-y and -3% sequentially; it is these movements that drive the FX items listed in Exhibit 2. These were marginal for H117 compared with a substantial net positive item within the H116 P&L figures.

Wilson Sons' Q217 results

Here we focus on the Q217 results for Wilson Sons, making comparisons with Q216 and Q117 (see Exhibit 3). Within the overall revenue gain of 14.2% y-o-y in US$ terms (+4.2% in BRL) there were considerable variations (total revenue here includes the Offshore Support Vessels JV on a pro forma basis).

Container Terminals and Towage together account for 74% of total revenue and the terminals operation showed particular strength (+28% y-o-y). The revenue performance in **Container Terminals** did benefit from a 6.5 percentage point (or $2.4m) one-off boost from a provision write-back while overall container volumes were modestly down year on year. However, full container volume was nearly level with the prior year period and the revenue mix was richer, reflecting increases in import volumes. This and BRL strength explain the c 21% growth reported excluding the one-off write-back. For **Towage**, revenue grew by 7.3% y-o-y and was down marginally in BRL terms. Within the total, harbour manoeuvre revenues were up 15.5% but special operations were down 55% reflecting the more volatile nature of this activity, which includes salvage, fire-fighting and oil and gas operations.

Otherwise the **Offshore Support Vessels** JV reported revenues up 20% y-o-y, reflecting increased days in operation together with an increased daily rate; both measures benefited from the start of operation of two large new vessels (Larus and Pinguim). Since the half-year announcement Wilson Sons has announced it is negotiating changes in certain contracts with Petrobras (see below). A sharp revenue decline compared with the prior year period was seen in the **Oil and Gas Support Base** (Brasco) reflecting the absence of one client contract in October last year and the subdued oil industry background.

Turning to **profitability**, overall EBITDA was up 22% y-o-y (again including the JV). The strongest improvement was seen in Container Terminals (+42%), which benefited from the write-back of a provision (larger at the profit level, at $4m) and excluding this there was a still healthy 15% increase. Both Rio Grande and Salvador terminals are benefiting from delivery of new handling equipment earlier in the year that has helped them achieve higher productivity levels. Towage achieved a slightly higher EBITDA margin at just over 50%, with year-on-year growth of nearly 13%. Offshore Support Vessels reported a 23% EBITDA increase helped by the two new vessels starting operation. EBITDA for other areas saw substantial percentage reductions, reflecting difficult trading conditions, notably in the oil industry. However, these areas only account for a small percentage of the total, while corporate expenses have been contained at the same level as the prior year period despite BRL strength, as a result of the group's continuing cost discipline.

Exhibit 3: Wilson Sons Q217 results comparison

US$m unless stated	Q116	Q216	Q117	Q217	Change y-o-y (%)	Sequential change (%)
Net revenues						
Container Terminals ("TECONs")	29.3	36.9	43.8	47.2	27.8	7.8
O&G Terminal ("Brasco")	5.1	5.9	3.7	4.1	-30.5	10.8
Towage	48.6	50.8	48.4	54.5	7.3	12.8
Shipyards	4.9	6.1	6.2	6.2	0.7	0.0
Shipping Agency	3.3	3.4	2.7	2.9	-14.6	7.4
Logistics	10.6	9.9	12.9	13.2	33.7	2.3
Offshore*	14.7	16.9	17.3	20.3	20.0	17.3
Total	**116.5**	**129.8**	**135.0**	**148.3**	**14.2**	**9.9**
EBITDA						
Container Terminals ("TECONs")	11.6	15.1	19.4	21.4	42.1	10.3
O&G Terminal ("Brasco")	1.3	1.2	-0.1	0.2	-80.8	N/A
Towage	24.0	24.4	22.6	27.5	12.8	21.7
Shipyards	-0.2	1.8	0.6	0.4	-80.3	-33.3
Shipping Agency	1.0	0.5	0.3	0.2	-60.0	-33.3
Logistics	1.0	-1.6	-0.2	-0.4	N/A	N/A
Corporate	-4.3	-4.6	-7.1	-4.6	0.0	N/A
Offshore *	6.6	8.9	8.3	10.9	22.9	31.3
Total	**41.0**	**45.7**	**43.8**	**55.6**	**21.7**	**26.9**
EBITDA margins (%)						
Container Terminals ("TECONs")	39.6	40.9	44.3	45.3		
O&G Terminal ("Brasco")	25.5	20.3	-2.7	4.9		
Towage	49.4	48.0	46.7	50.5		
Shipyards	-4.1	29.5	9.7	6.5		
Shipping Agency	30.3	14.7	11.1	6.9		
Logistics	9.4	-16.2	-1.6	-3.0		
Offshore*	44.9	52.7	48.0	53.7		
Total	**35.2**	**35.2**	**32.4**	**37.5**		

Source: Wilson Sons, Edison Investment Research. Note: *WSUT 50% JV included on a pro forma basis. Totals may not sum due to rounding differences.

Exhibit 4 gives a summary of Wilson Sons' operating metrics for the nine months to the end of September. Points to note here include the fact that overall terminal volume was up 2.6% compared with the same period last year. Rio Grande (southern Brazil) was 5.1% ahead helped by strong imports, including spare parts and steel products, while growth at Salvador was 2.6%, held back by weaker exports influenced by the strength of the BRL. Positively the mix between full and empty containers has been favourable for revenues with full increasing by 5.2% and empty down by 2.2%.

Exhibit 4: Operational metrics (to end September)

	9M16	9M17	Change (%)
Container Terminals (TEU000s)			
Tecon Rio Grande			
Full	337.1	362.8	7.6
Empty	209.0	211.0	1.0
Total	546.1	573.7	5.1
Tecon Salvador			
Full	171.9	172.5	0.3
Empty	60.7	52.6	-13.3
Total	232.6	225.1	-3.2
Grand total (full)	509.0	535.3	5.2
Grand total (empty)	269.6	263.6	-2.2
Grand total	778.6	798.9	2.6
Towage			
Number of harbour manoeuvres	43,254	44,969	4.0
Avg. Deadweights ('000 tons)	64.0	70.9	10.8
Offshore service vessels (JV)			
Number of own OSVs – end of period	21	23	9.5
Number of own OSV days in operation/contract days	4,664	4,797	2.8

Source: Wilson Sons

For Towage the 4% increase in manoeuvres has been augmented by a near 11% increase in average deadweights, which is positive for revenues. As noted earlier, the Offshore Service Vessels activity benefited from the addition of two new large vessels with six-year contracts, although four vessels remain off hire, with a further nine having contracts expiring between now and the end of 2018. As detailed below contracts on up to eight vessels may be temporarily suspended.

WSUT negotiation of contracts with Petrobras

Wilson Sons announced (26 September) that its 50%-owned offshore joint venture, Wilson Sons Ultratug Offshore (WSUT) is in negotiation with Petrobras that may lead to a temporary suspension of up to eight platform supply vessel (PSV) contracts and a reduction in average daily rates. Two of the contracts have already been suspended. This reflects the depressed current environment in the oil sector. The adjustments may include up to 858 days of suspension for all the vessels combined and an estimated reduction of approximately 6% in the fleet average gross daily rate. Although a negative in the near term, the bad news is softened by the fact that the contracts are set to be adjusted rather than cancelled.

OWIL investment portfolio

In the first half, the portfolio and cash under management within Ocean Wilsons (Investments) Ltd (OWIL) increased by $20.1m or 8.4% to $259.0m and the portfolio generated a positive performance of 10.3%, compared with its benchmark[1] +2.9% and the MSCI World All Countries (including Frontier Markets) Index +11.5%. The portfolio performance represented a noticeable acceleration from the return of +0.3% for 2016 and benefited from strong performances attributed to its European and emerging market exposures and a bounce back in some of the funds that had experienced a weak period last year. Further details of performance are shown in Exhibit 5.

[1] The portfolio's absolute benchmark is the US CPI Urban Consumers NSA plus 3% from 1 January 2015 and previously US$ 12-month Libor plus 2%.

Exhibit 5: OWIL portfolio performance to end June 2017 (%)	H117	Three years	Five years	10 years
OWIL portfolio	10.3	4.1	6.3	2.8
Benchmark (composite – see footnote[1])	2.9	4.3	3.8	4.0
MSCI All Country World + FM	11.5	4.8	10.5	3.7
MSCI Emerging Markets	18.4	1.1	4.0	1.9

Source: Ocean Wilsons Holdings. Note: Three, five and 10 years on a per annum basis.

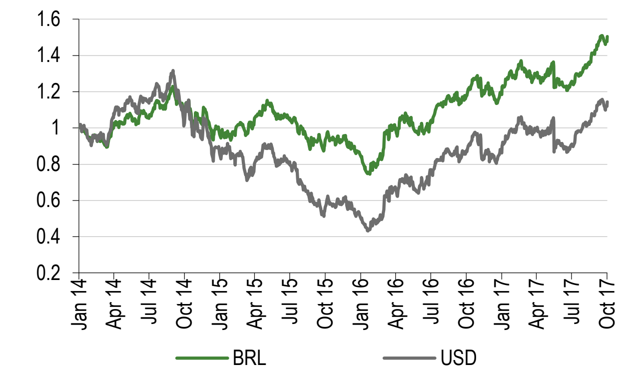
Current trading environment and outlook

The Brazilian political and economic background remains uncertain. First quarter GDP was ahead of expectations, but domestic demand remains weak and the expected gradual economic recovery could be compromised if consumer and business confidence is impacted adversely by political developments. However, President Temer avoided the referral of a corruption case to the Supreme Court during August and may be able to pursue his reform agenda, notably pension legislation designed to contain future budget deficits.

Exhibit 6: Brazilian real/US dollar exchange rate

Source: Bank of England

Exhibit 7: Bovespa index (1 January 2014 = 1)



Source: Bloomberg

In its October World Economic Outlook the IMF increased its 2017 and 2018 Brazilian GDP forecasts to 0.7% and 1.5% respectively (from 0.3% and 1.3% in July). Assuming political and policy uncertainties are gradually resolved the IMF looks for medium-term growth of 2%. After GDP contraction of 3.8% and 3.6% for 2015 and 2016, respectively, such a recovery would be encouraging. As shown in Exhibits 6 and 7, both the currency and the Brazilian stock market (as represented by the Bovespa Index in both BRL and US$ terms) have shown significant strength despite fluctuating political developments, suggesting markets are taking a relatively positive view of the outlook for recovery.

From Wilson Sons' perspective, a return to GDP growth and the longer-term expectation of stronger trade volumes and a secular trend to containerisation are encouraging features that help support its decision to invest in new crane equipment for its **container terminals** and should mean that the planned expansion that formed part of its agreement to renew the Salvador concession (by 25 years to March 2050) will be gainfully employed. Construction of the first phase of the expansion is expected to start towards the end of the current year or the beginning of 2018 and to be completed in the second half of 2019 at a cost of c US$100m. The quay extension will allow the docking of larger vessels and reduce vessel waiting times. Subsequent phases do not need to be completed until 2030 and 2034, providing good scope to time expansion to meet demand.

The **towage** business also stands to benefit from a return to stronger growth in Brazilian trade volumes. As noted in our Q1 update report there are competitive pressures to monitor, but Wilson Sons indicates that it is market leader with a share of 49% and operates a fleet of 75 vessels. This covers 30 ports, compared with 13 for the next largest competitor (Saam Smit). This, together with the central monitoring facility in Sao Paolo, allows the company to offer a high level of service that helps maintain its market position.

As noted above the background for the **oil-related activities** at Wilson Sons remains challenging, although for most of the last 12 months Brent crude has maintained a price level of around $50 (currently c $55). Petrobras in Brazil is likely to remain focused on production rather than exploration for a while, but its programme of debt-reducing asset disposals, moves to allow non-domestic companies to operate with lower levels of local content, and competitive break-even levels for Brazilian pre-salt reserves should be favourable for activity levels in the oil sector in due course. WSUT is currently negotiating the adjustment of contracts relating to eight PSVs with Petrobras which will reduce days in operation and rates. Utilisation of the fleet of 23 PSVs is also reduced by the four vessels currently off hire and by end June 2018 a further nine vessels contracts come to an end leaving 10 vessels on contract. WSUT is therefore concentrating on cost containment and winning new contracts for the platform support vessels currently off-hire or set to complete contracts by the end of 2018.

The **shipyard** has an order book including five vessels and seven dry-docking operations, but Wilson Sons does not expect a return to the activity levels of earlier years in the near term.

The nearer-term market background for the **OWIL portfolio** remains uncertain, although global markets have continued to navigate a fluctuating macroeconomic and geopolitical background with a display of considerable resilience. Equity market volatility has spiked for short periods but remains low on a historical comparison. While this raises concerns, it can be argued that market participants are looking through other worrying news and focusing on economic trends that remain broadly positive, with the IMF suggesting in its July update that global recovery is firming with estimated GDP growth of 3.5% for this year and 3.6% next. The investment manager of the OWIL portfolio, Hanseatic Asset Management, notes that it sees the stock market cycle as being "rather long in the tooth" although also still finding opportunities for attractive investment with a bias towards assets that may generate positive returns when equity and bond markets are declining.

Financials

We have adjusted our forecasts to reflect the H117 figures from Ocean Wilsons and Q217 figures from Wilson Sons; the changes in key figures are shown in Exhibit 8.

Exhibit 8: Changes to estimates

	Revenue (US$m)			PBT (US$m)			EPS (c)			DPS (c)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
2017e	474.2	489.1	3.1%	107.9	117.7	9.1%	112.8	135.4	20.0%	64.0	64.0	0.0%
2018e	498.8	507.8	1.8%	114.5	115.9	1.2%	121.9	125.5	3.0%	67.0	67.0	0.0%

Source: Edison Investment Research

As can be seen, we have marginally increased our revenue estimates and our operating profit estimate for the current year is little changed, reflecting a corresponding increase in costs. At the pre-tax level there is a more marked increase in profits for 2017 because of the first half jump in investment revenues and investment gains described on page 2.

We continue to allow for the impact of the Brazilian federal government's removal of a payroll tax from 2018. This is expected to cost about $12m in 2018 and there will also be a c $1.0m negative effect for the offshore JV. However, the company indicates that it is seeking to overturn the government decision so there is a chance that costs could be lower than estimated. We assume the contribution from WSUT drops sharply (from c $8m to c $2m) reflecting lower utilisation and daily rates as outlined above. Exhibit 9 sets out the recent annual revenue analysis for Wilson Sons together with our estimates for 2017 and 2018.

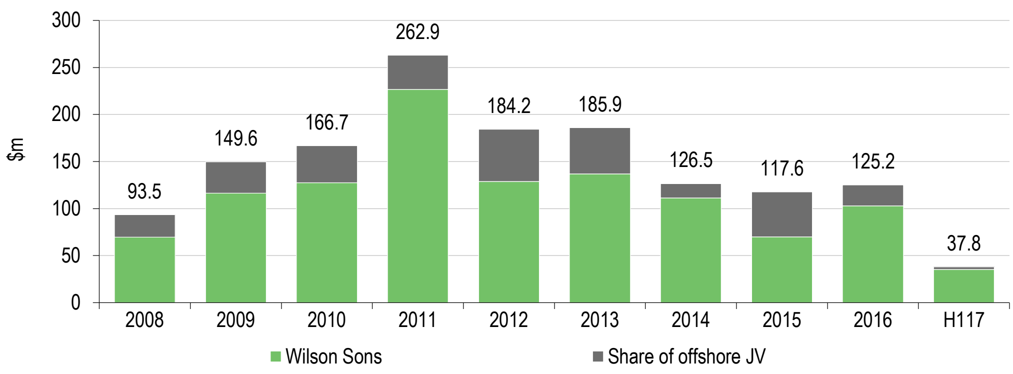
Exhibit 9: Wilson Sons segmental revenue pro forma analysis and estimates

US$m	2014	2015	2016	2017e	2018e
Container Terminals	189.6	152.5	148.4	171.2	179.9
Oil and Gas Terminal ("Brasco")	39.0	23.5	19.4	15.9	15.9
Towage	211.0	213.7	205.8	214.1	222.7
Shipyards	103.4	53.9	26.4	24.8	24.8
Shipping Agency	17.1	15.4	13.9	11.1	11.5
Logistics	73.4	49.9	43.3	52.0	53.0
Offshore*	76.9	71.0	70.9	72.9	62.2
Total	**710.4**	**579.9**	**528.1**	**562.0**	**569.9**

Source: Wilson Sons, Edison Investment Research. Note: *Offshore is OCN's pro forma 50% share of the JV.

At the end of June, Ocean Wilsons had net debt of $303.3m (compared with $300.5m at year-end). Including 50% of the debt at the Wilson Sons JV ($247.9m) and combining short-term investments at Wilsons Sons ($17.4m) with cash (shown in exhibit 15) would leave net debt still little changed from the year end at $533.8m versus $530.0m.

Exhibit 10: Capital expenditure history at Wilson Sons



Source: Wilson Sons

Exhibit 10 shows the history of Wilson Sons' capital spending (including 50% of the offshore vessels JV on a pro forma basis), which peaked between 2010 and 2013 as the company invested in its port terminals, shipyards, towage fleet and offshore support vessels. Spending then averaged $123m between 2014 and 2016 following completion of the major expenditure programmes, although the 2016 spend of $125.2m was higher than 2015 ($117.6m), driven by tugboat acquisitions and purchase of port equipment. The company's capital spending guidance for 2017 is $65-75m with limited spending on the Salvador expansion likely to be incurred this year. The FY18 and FY19 figures are likely to be higher as roughly $50m per annum is spent at the Salvador terminal; we assume an overall capital spending figure of approximately $100m in each year. Thereafter, we would expect spending to return to somewhat lower levels.

Further details of our forecasts for Ocean Wilsons are shown in Exhibit 15.

Valuation

We show an updated calculation of the look-through valuation for Ocean Wilsons in Exhibit 11; this includes the market value of the 58.25% stake in Wilson Sons together with the value of the OWIL portfolio as reported for the half year end. At the time of writing the market value remains very cautious with the share price standing at a discount of 34% to the look-through value. The share price is also modestly lower than the market value of the Wilson Sons shareholding alone. While it can be argued that the market will apply some discount in recognition of the limited liquidity in the shares and the Salomon family majority voting control through direct and Hansa Trust holdings, this level of discount seems wide in the context of peer valuations for Wilson Sons (see below).

Exhibit 11: Ocean Wilsons' share price discount to look-through valuation

	p	£m
Last OWIL value per Ocean Wilsons share (end June 2017)	554.9	196.2
Wilson Sons market value per Ocean Wilsons share	1,154.3	408.2
Ocean Wilsons look-through value	**1,709.2**	**604.4**
Ocean Wilsons share price/market cap	1,125.0	397.8
Discount	**-34%**	**-34%**

Source: Thomson Datastream, Ocean Wilsons, Edison Investment Research. Note: US$1.32/£, priced at 10 October 2017.

Exhibit 12 shows Wilson Sons consensus-based valuation multiples in comparison with a selection of Brazilian and international port and shipping companies. The range of earnings and EV/EBITDA multiples is wide and the businesses are differentiated in terms of activity and geographical exposure, but Wilson Sons trades at the lower end of the range and is broadly in line in terms of price to book value.

Exhibit 12: Wilson Sons' selected comparators

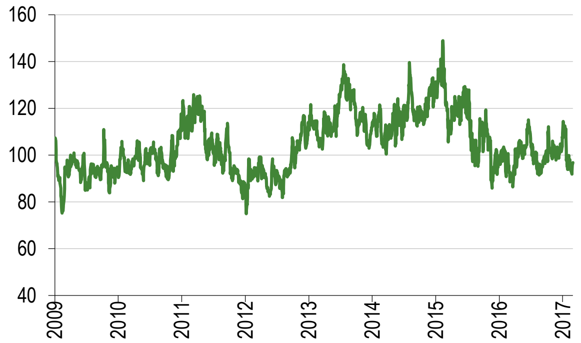
Company	Market cap (US$m)	P/E FY1 (x)	P/E FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	Price to book (x)
Wilson Sons	**924**	**13.4**	**11.9**	**7.5**	**6.8**	**1.8**
Santos Brasil	736	N/A	58.3	26.8	15.5	1.7
JSL (BRA)	603	38.0	14.4	5.7	4.9	2.8
China Merchants (HKG)	9,654	14.1	14.3	21.7	20.1	0.9
Dalian Port (HKG)	4,383	N/A	N/A	N/A	N/A	0.8
Hamburger Hafen (GER)	2,333	24.8	23.6	7.9	7.7	3.6
Port Of Tauranga (NZL)	2,120	35.2	32.6	22.3	21.0	3.2
Sinotrans (HKG)	2,332	9.1	8.4	7.6	7.1	0.9
Weighted average		**13.9**	**14.7**	**13.8**	**12.5**	**1.5**
Average	**2,607**	**22.4**	**23.4**	**14.2**	**11.9**	**2.0**

Source: Bloomberg. Note: Prices as at 10 October 2017.

We also note the recently announced purchase of 90% of Brazilian container terminal TCP by China Merchants Port Holdings for a consideration of c $925m. TCP manages the Paranaguá container terminal in Paraná state and has a logistics company. Paranaguá is one of the largest terminals in Brazil, with 2016 throughput of 741,000 TEU versus 720,000 and 310,000 for Wilson Sons' Rio Grande and Salvador terminals, respectively (source: Wilson Sons presentation 5 September). Paranaguá handling capacity is put at 1.5m TEU and compares with a total of 2m for Rio Grande and Salvador combined (all prior to any expansion plans). Based on TCP's trailing twelve months results to Q217 the transaction price indicates an EV/EBITDA of 13.6x and applying this to the Wilson Sons terminals' FY16 EBITDA of $60.2m would give a value of $820m. If we allocate debt of c $80m to the activity this would leave an equity value of c $740m, equivalent to approaching 80% of the Wilson Sons market value. While subject to reservations this tends to support the argument that Wilson Sons is conservatively valued in the market as, potentially, a strategic buyer might accord a value that would leave the remainder of the group, including the substantial towage business, on a very low multiple.

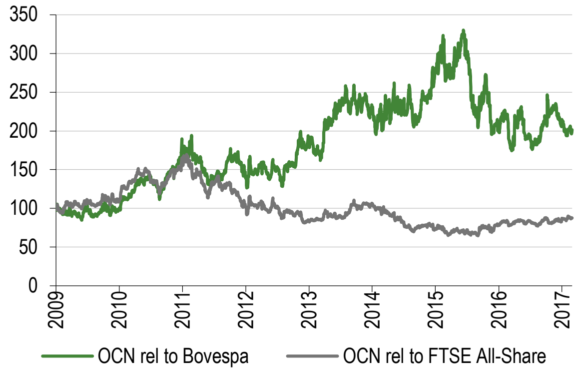
Finally, for reference, we include two share price performance charts (both in sterling terms). The first shows the performance of Ocean Wilsons relative to Wilson Sons; this shows Ocean Wilsons trading towards the bottom of its historical range. The second shows the performance of Ocean Wilsons relative to both the FTSE All-Share and Bovespa indices. Here Ocean Wilsons has outperformed the FTSE All-Share since mid-2015, while trading within a range against the Brazilian index, albeit lagging the most recent uptick in that index.

Exhibit 13: Ocean Wilson relative to Wilson Sons



Source: Thomson Datastream, Edison Investment Research

Exhibit 14: OCN relative to FTSE All-Share & Bovespa



Source: Thomson Datastream, Edison Investment Research

Exhibit 15: Financial summary

Year-end 31 December	$m	2015	2016	2017e	2018e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		508.9	457.2	489.1	507.8
Cash costs		(344.6)	(308.5)	(338.4)	(344.9)
EBITDA		164.3	148.7	150.7	162.8
Depreciation and amortisation		(53.2)	(52.6)	(57.2)	(57.5)
Operating Profit (before amort. and except).		111.1	96.1	93.7	104.7
Profit/loss on PPE		(1.3)	0.7	(2.0)	0.0
Share of results of JVs		4.8	8.1	1.9	2.5
Investment revenue		16.9	15.1	14.8	15.7
Other gains and losses		(1.4)	(4.1)	20.7	5.7
Finance costs		(45.4)	(0.6)	(13.1)	(13.4)
Exchange gains/losses on monetary items		(15.8)	2.3	1.9	1.9
Profit Before Tax (norm)		69.0	117.5	117.7	115.9
Income tax		(39.7)	(36.8)	(40.7)	(39.8)
Non-controlling interests		(13.8)	(35.6)	(29.1)	(31.8)
Profit After Tax (norm)		15.5	45.1	47.9	44.4
Average Number of Shares Outstanding (m)		35.4	35.4	35.4	35.4
EPS - normalised (c)		43.7	127.4	135.4	125.5
Dividend per share (c)		63.0	63.0	64.0	67.0
EBITDA Margin (%)		32.3	32.5	30.8	32.1
Operating Margin (%)		21.8	21.0	19.1	20.8
BALANCE SHEET					
Fixed Assets		713.6	827.7	838.7	887.9
Intangible Assets		53.7	61.1	59.4	59.1
Tangible Assets		660.0	766.7	779.3	828.8
Investments		0.0	0.0	0.0	0.0
Current Assets		486.7	450.2	480.6	495.8
Stocks		28.3	15.4	16.5	17.1
Debtors		84.0	81.3	86.9	90.3
Cash		97.6	77.3	89.9	89.7
Trading investments		276.9	276.2	287.2	298.7
Current Liabilities		(126.6)	(123.3)	(127.1)	(129.9)
Creditors		(84.0)	(72.3)	(76.1)	(78.9)
Short term borrowings		(42.7)	(51.0)	(51.0)	(51.0)
Long Term Liabilities		(393.2)	(397.7)	(393.7)	(394.6)
Long term borrowings		(323.8)	(326.8)	(321.8)	(319.8)
Other long term liabilities		(69.4)	(70.8)	(71.9)	(74.8)
Net Assets		680.5	757.0	798.5	859.3
CASH FLOW					
Operating Cash Flow		182.3	141.0	150.7	164.3
Net Interest		1.8	(0.5)	(1.1)	(0.6)
Tax		(22.7)	(34.4)	(35.9)	(34.8)
Capex		(64.8)	(93.0)	(68.0)	(98.0)
Acquisitions/disposals		0.0	(1.9)	0.0	0.0
Equity financing		0.0	0.0	0.0	0.0
Other (including divs from JV)		(33.1)	(5.3)	10.0	10.0
Dividends		(36.4)	(37.5)	(38.1)	(39.1)
Net Cash Flow		27.2	(31.6)	17.6	1.8
Opening net debt/(cash)		296.1	268.9	300.5	282.9
Other		0.0	0.0	0.0	0.0
Closing net debt/(cash)		268.9	300.5	282.9	281.1

Source: Ocean Wilsons Holdings accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority. Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia