EDISON

Ocean Wilsons Holdings

2021 interims

Operations and markets drive good H121

Investment companies

Ocean Wilsons (OCN) reported PBT of $66.2m in H121 versus a loss of $1.8m in H120. Buoyant financial markets have allowed OCN's global investment portfolio (OWIL) to swing from a loss in H120 to a strong performance. At the same time, OCN's EBITDA grew 13% y-o-y to $79.6m and its operating profit by 23% as Wilson Sons' (WSON) results improved as expected from recovering business levels and firmer prices. We have made some adjustments to our forecasts on the back of the results. We have kept EPS unchanged in FY21 but earnings have been cut by 9% in FY22 due to higher cost of debt assumptions. Our forecasts are equivalent to ROEs of about 8% for FY21 and FY22. OCN shares are currently trading at a significant 39% discount to their look-through value, which consists of the OWIL portfolio and OCN's 57% stake in listed WSON.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	406.1	95.6	169.3	70.0	8.6	4.8
12/20	352.8	74.6	109.5	70.0	13.3	4.8
12/21e	382.3	110.0	178.1	70.0	8.2	4.8
12/22e	417.1	117.4	181.2	70.0	8.1	4.8

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

WSON recovery continues

The good operating trends in Q121 continued into Q221 as the Brazilian economy recovers against the backdrop of improving trade flows. In general, the two largest and key WSON businesses, container terminals and towage (combined 85% of group EBITDA), continue to perform well as expected, reporting 17% and 13% y-o-y EBITDA growth for H121, respectively. In contrast, WSON's oil and gas service businesses continue to feel the slowdown in the sector's exploration activity.

OWIL up 9% year-to-date

The OWIL portfolio grew 9% in H121 on the back of buoyant financial markets. It contributed $30.9m in portfolio returns and investment income in H121. We now assume a $42m contribution for FY21 (implying a 3% return in H221) and that it halves in FY22 to $20.9m (assuming a 6% return on the portfolio, which is mostly equities and private assets with some market neutral funds). However, performance may be different and there are market downside risks from global price inflation.

Valuation: 39% NAV discount, 4.8% US$ dividend

OCN is still trading at a 39% discount to its look-through value, which comprises the market value of the stake in WSON and the last reported value for the investment portfolio held by OCN. Despite a good growth outlook, WSON is trading at large discounts to its peers on valuation multiples such as P/E (31% in FY21e, 30% in FY22e) and EV/EBITDA (22% and 24%, respectively). These discounts could narrow when it lists on the Novo Mercado on the Brazilian stock exchange (now expected in October).

23 August 2021

Price	**1,050p**
Market cap	**£371m**

$1.39/£, BRL5.2/US$

Net debt (US$m) 30 June 2021	432.7
Shares in issue	35.4m
Free float	36%
Code	OCN
Primary exchange	LSE
Secondary exchange	Bermuda

Share price performance

%	1m	3m	12m
Abs	3.5	11.2	56.4
Rel (local)	(0.3)	9.1	28.5
52-week high/low		1,135p	620p

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

WSON Novo Mercado Brazil listing	October 2021

Analysts

Pedro Fonseca +44 (0)20 3077 5700

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

H121: Recovery and markets lead to good results

The good operating trends already seen in WSON's Q121 numbers carried over into Q221, with a positive impact on OCN's H121 figures. OCN's EBITDA (which is essentially WSON's EBITDA with some relatively small holding company operating expenses) rose by 13% y-o-y to $79.6m in H121 and EBIT (also driven by WSON) rose 22.9% y-o-y.

The bull run in equity markets has helped OWIL deliver another six months of significant gains following a very good H220. OWIL contributed $29.5m in portfolio returns plus $1.3m in investment income. This compares with a $13.8m loss and $0.9m investment income in H120.

The recovery in BRL against the US dollar in H121 led to FX translation gains on the US dollar debt while in H120 there had been translation losses of $11.7m and this also distorts the comparison with a year ago.

These factors contributed to OCN's PBT of $66.2m in H121 looking very different from the loss of $1.8m of a year ago.

Exhibit 1: OCN semester progression

$m	H119	H219	H120	H220	H221	y-o-y %
Revenue	199.2	206.9	174.2	178.6	188.9	8.4%
Cash costs	(130.9)	(127.4)	(104.0)	(113.1)	(109.3)	5.0%
EBITDA	**68.4**	**79.5**	**70.2**	**65.5**	**79.6**	**13.4%**
Depreciation and amortisation	(27)	(27)	(26)	(25)	(25)	
Amortisation of right to use	(6.4)	(6.0)	(5.3)	(5.4)	(6.0)	
Impairment charge (goodwill & intangibles)	0.0	(13.0)	0.0	0.4	0.0	
Profit/loss on PPE	(0.1)	0.4	0.3	(0.6)	0.0	
Operating profit	**35.1**	**33.9**	**39.3**	**35.1**	**48.4**	**22.9%**
Share of results of JVs	(0.6)	1.2	(5.2)	1.1	(0.7)	
Investment portfolio returns	**22.8**	**11.9**	**(13.8)**	**47.1**	**29.5**	**n.m.**
Other investment income	**2.2**	**3.8**	**0.9**	**0.7**	**1.3**	**41.6%**
Finance costs	(12.8)	(14.9)	(11.4)	(11.8)	(14.6)	27.8%
Exchange gains/losses on monetary items	0.3	(0.4)	(11.7)	4.1	2.3	n.m.
Profit before tax	**47.1**	**35.4**	**(1.8)**	**76.4**	**66.2**	**n.m.**
Income tax	(13.1)	(8.4)	(16.6)	(10.0)	(14.4)	-13.0%
Profit before minorities	34.0	27.0	(18.4)	66.4	51.8	n.m.
Non-controlling interests	(5.9)	(8.3)	0.6	(9.9)	(12.3)	n.m.
Net attributable profit	**28.1**	**18.7**	**(17.8)**	**56.5**	**39.5**	**n.m.**

Source: Ocean Wilson Holdings

Container Terminals (39% of EBITDA in H121) benefited from higher container volumes in both of its ports. Total container volume handled rose by 11%, and full containers (which have a wider margin) rose by 9%. The divisional EBITDA rose by 17% also supported by the stronger BRL.

Towage (45% of EBITDA) results were also good, especially since the weaker US dollar negatively affects its margins. Harbour manoeuvres rose by 7% y-o-y in H121 and EBITDA rose by 13% as prices firmed up during the period.

The Offshore Support Vessels (WSUT) joint venture, which is the third largest EBITDA contributor (11%), continues to be affected by relatively low levels of activity in oil and gas exploration; the offshore platform services company is also affected. WSUT's EBITDA fell 25% y-o-y in H121 affected by lower volumes, softer prices and the weaker US dollar (its prices are in US dollars). Our previous FY21 EBITDA forecast was for a 7% decline, so it is not a great surprise to see this weakness. While oil and gas prices are currently high, there is a lag before investment decisions are taken and actual oil and gas exploration starts. Management expects that palpable uplift in WSUT results will only start to be felt in late 2022 and in 2023.

Exhibit 2: WSON revenue analysis (H121)

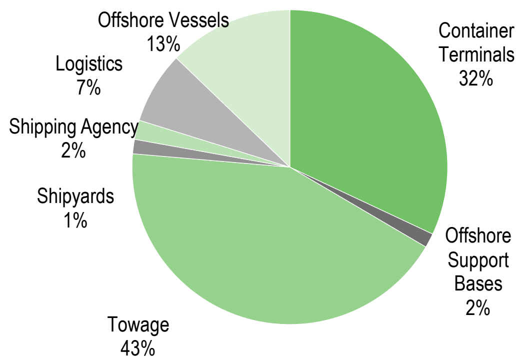
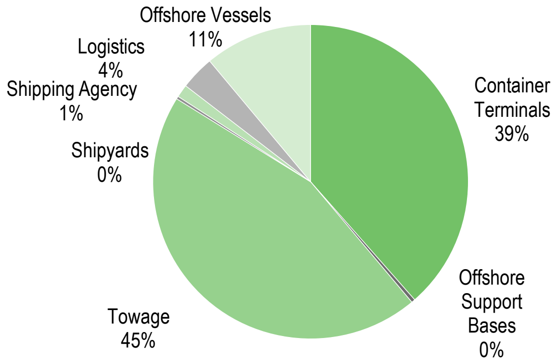
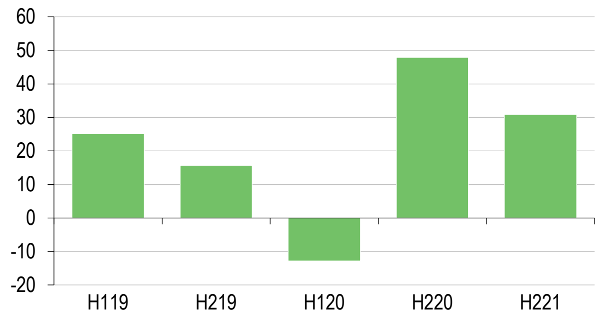


Exhibit 3: WSON EBITDA analysis (H121)



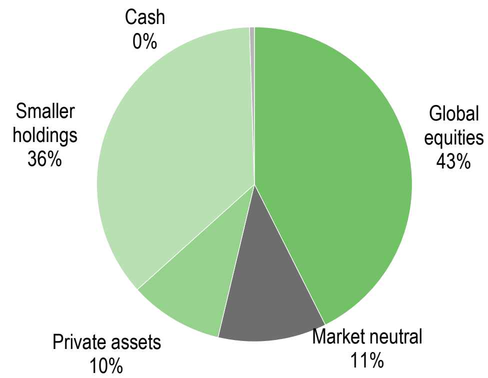
Source: Wilson Sons. Note: Offshore vessels is pro forma share of JV, EBITDA adjusts for corporate centre.

Exhibit 4: OWIL portfolio returns and income ($m)



Source: Ocean Wilsons Holdings

Exhibit 5: OWIL analysis of portfolio (H121)



Source: Ocean Wilsons Holdings

Share restructuring ahead of schedule

With its Q221 results, WSON announced that the proposed share listing restructuring is moving ahead of schedule. Previously this had been expected to be concluded in November. Management now feels that it is on track to complete the move by October. WSON is changing from being a Bermuda-based company with Brazilian depository receipts (BDRs) listed in Brazil to being a company directed listed on the Novo Mercado segment in the Brazilian exchange. This will be achieved by a downstream merger of the Bermuda parent company with the 100% owned Brazilian one. There will be no shareholder dilution. A Novo Mercado listing will mean (1) greater share liquidity, (2) a stronger corporate governance seal and (3) an opportunity to join the main Brazilian and Latin American stock market indices.

Valuation

OCN shares are currently trading at a significant discount (39%) to its look-through valuation, which consists of its 57.09% stake in WSON and the OWIL global investment portfolio. The discount has widened from 35% when we last wrote in June 2021. OCN's stake in WSON continues to account for almost all of its market value (currently 98%; it was 99% in June).

We continue to think a very cautious valuation is being applied to OCN. We believe that a 39% discount is unjustified even though we do accept that some investors have concerns due to Ocean Wilsons' relatively small market capitalisation and the fact that three shareholders, Hansa Investment Company, Victualia and Chris Townsend, in total own 50.21% of the company, reducing liquidity. Positively, this ownership position enables both OWIL and WSON to maintain their long-term approaches to investment and operating the businesses.

Exhibit 6: Ocean Wilsons' share price discount to look-through valuation

	p	£m	Value contribution
Last OWIL value per Ocean Wilsons share (30 June 2021)	668.9	236.5	40%
Wilson Sons market value per Ocean Wilsons 57.09% share	992.3	350.9	60%
Ocean Wilsons look-through value	**1,661.3**	**587.5**	**100%**
Ocean Wilsons share price and market cap	1,010.0	357.2	
Discount	-39%	-39%	

Source: Refinitiv, Ocean Wilsons, Edison Investment Research. Note: US$1.39/£.

Exhibit 7 compares WSON 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 WSON trades at a significant discount to its peers even after outperforming them over the last 12 months. Its P/E ratios remain significantly lower than peers at 33% (FY21e) and 32% (FY22e) discounts. Its EV/EBITDA discounts to peers are 24% and 27%, respectively. Our forecast return on equity (ROE) for 2021 is 12.1%. This is only 13% below the forecasts for the peers (13.9%), but WSON trades on an FY21e P/BV of 2.0x, while its peers' average is 50% higher at 3.0x.

WSON's valuation ratios are noticeably lower than Santos Brasil, its closest peer, whose key asset is the container terminal in the Santos port in the state of São Paulo. This discount likely to narrow when WSON lists on the Novo Mercado on the Brazilian stock exchange.

Exhibit 7: WSON selected comparators

Company	Market cap (US$m)	P/E FY21e (x)	P/E FY22e (x)	EV/EBITDA FY21 (x)	EV/EBITDA FY22e (x)	Price book FY21e (x)	ROE (%) FY21e(x)
Wilson Sons	**874**	**12.5**	**9.6**	**7.7**	**6.8**	**2.0**	**11.7**
Santos Brasil (BRA)	1,251	39.1	19.7	11.6	8.1	3.8	8.0
China Merchants Ports (HKG)	5,371	7.9	7.5	12.2	12.7	0.5	5.9
Cosco (CHN)	2,600	8.4	7.7	10.4	9.0	0.4	6.2
Shanghai Int'l Port (CHN)	18,629	10.3	10.9	8.4	8.8	1.2	12.6
Hamburger Hafen (GER)	1,673	19.1	15.5	6.2	5.7	2.4	12.4
Intl Container Term Svcs (PHI)	7,474	23.9	20.4	10.7	9.8	9.8	38.5
Average		**18.1**	**13.6**	**9.9**	**9.0**	**3.0**	**13.9**
Wilson Sons vs average (%)		-31.0	-29.5	-22.3	-24.4	-33.9	-16.1

Source: Refinitiv, Edison Investment Research. Note: Prices as at 18 August 2021.

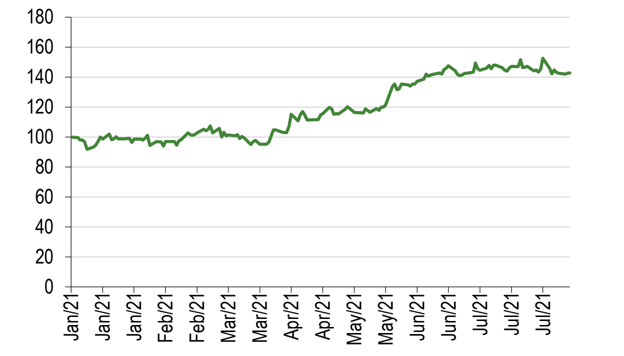
We include a table showing the recent share performance of the same group of comparators. This shows sharply differentiated performances between the companies, arguably reflecting their varied exposures. We note that WSON's shares have strongly outperformed the average of the companies shown in the exhibit below over the last 12 months, including WSON's most comparable Brazilian peer, Santos Brasil.

Exhibit 8: Wilson Sons' and comparators' performances (%)

Company	One month	Three months	One year	Ytd	From 12-month high
Wilson Sons	-5	21	77	63	-8
Santos Brasil (BRA)	-16	-10	43	-6	-24
China Merchants Ports (HKG)	-6	-13	22	-15	-16
Cosco (CHN)	-3	-9	37	-4	-18
Shanghai Int'l Port (CHN)	1	8	14	-10	-4
Hamburger Hafen (GER)	-7	-13	15	-23	-18
Intl Container Term Svcs (PHI)	13	33	69	45	-1
Average	**-2**	**-1**	**25**	**-2**	**-10**

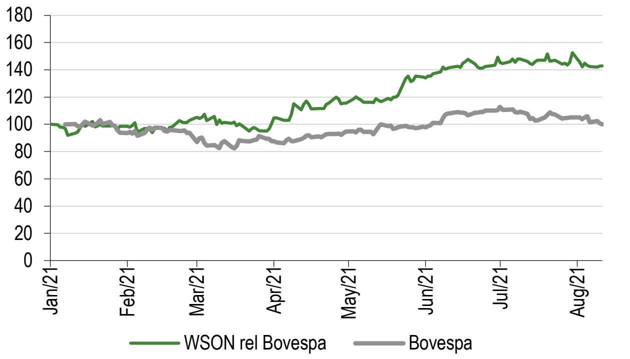
Source: Refinitiv, Edison Investment Research. Note: Prices as at 18 August 2021.

Exhibit 9: WSON vs Bovespa year-to-date (£ terms)



Source: Refinitiv

Exhibit 10: WSON vs Bovespa and Bovespa year-to-date (£ terms)



Source: Refinitiv

Financials

OCN forecast changes

We have made some adjustments to our forecasts on the back of the H121 results.

OCN's forecasts for FY21 have been positively affected by the assumption of a greater contribution from OWIL (this comes in below the EBITDA line) after such a good first half of FY21. This has been offset by some trimming of our WSON FY21 forecasts. All in all, we have increased our FY21 PBT estimates by 2.1%, while EPS is little changed at 178.1p. PBT and EPS for FY22 are 9.6% and 9.4% lower, mostly due to adjustments to our cost of debt assumptions.

Exhibit 11: OCN's FY21 and FY22 forecasts changes

	Revenue (£m)			Normalised PBT (£m)			Normalised EPS (p)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2021e	388.4	382.3	-1.6%	107.8	110.0	2.1%	178.2	178.1	-0.1%
2022e	409.4	417.1	1.9%	129.8	117.4	-9.6%	200.1	181.2	-9.4%

Source: Ocean Wilsons Holdings, Edison Investment Research

We calculate an ROE of 8.1% in FY21 and 7.7% in FY22 for OCN and estimate that PBT will increase by 48% from $74.6m in FY20 to $110m in FY21.

WSON forecast changes

On the WSON side, although the Q221 numbers did not have much in surprises we have trimmed out of caution our FY21 numbers, and mostly in in container terminals as July operating data shows some bottlenecks in global supply chains are appearing. The revenue has been reduced by 1.6% but increased by 1.9% in FY21 and FY22 forecasts (WSON's revenue being basically the same as OCN's). WSON FY21 EBITDA (IFRS basis) was reduced by 4%, while the FY22 raised by 1%.

We are now forecasting 8% revenue growth in FY21 and 9% in FY22 on IFRS basis. EBITDA is forecast to increase 18% and 14% in these two years. We forecast that WSON's earnings will almost double in FY21 and then they will increase by over 20% in FY22 as profitability starts to normalise.

Exhibit 12: WSON's segmental revenue analysis and estimates

US$m	2018	2019	2020	2021e	2022e
Divisional net revenues					
Container Terminals	183.0	167.8	132.2	144.3	157.6
O&G Offshore Base Support	20.9	19.4	8.0	6.8	8.5
Towage	165.6	159.5	173.6	184.6	203.5
Shipyards	24.0	4.5	2.2	4.6	3.0
Shipping Agency	10.0	9.2	8.1	9.0	9.5
Logistics	56.9	45.7	28.7	33.0	35.0
Total revenue (IFRS)	**460.5**	**406.1**	**352.8**	**386.9**	**422.1**
Offshore vessels*	58.6	61.2	60.9	53.9	55.9
Total revenue (pro-forma)	**519.1**	**467.3**	**413.7**	**436.3**	**473.0**
y-o-y (%)	-8.8	-9.7	-11.7	6.6	8.4
Divisional EBITDA					
Container Terminals	83.5	85.2	68.7	83.6	93.8
O&G Offshore Base Support	5.1	2.2*	-0.5	-0.2	0.9
Towage	79.4	75.8	85.8	93.7	103.8
Shipyards	2.7	-0.1	-2.7	0.4	0.2
Shipping Agency	1.2	1.5	2.3	2.8	2.9
Logistics	7.1	10.2	4.5	7.4	7.0
Corporate	-18.4	-20.6	-15.7	-19.3	-17.2
Total EBITDA (IFRS)	**160.7**	**154.2**	**142.4**	**167.5**	**191.2**
Offshore vessels*	27.1	30.0	31.2	22.7	24.6
Total EBITDA (pro-forma)	**187.7**	**184.3**	**173.6**	**190.2**	**215.8**
y-o-y (%)	-10.0	-1.8	-5.8	11.3	14.1
Divisional EBITDA margins (%)					
Container Terminals	45.6	50.8	52.0	57.9	59.5
O&G Offshore Base Support	24.4	11.3	-6.3	-3.2	10.0
Towage	47.9	47.5	49.4	50.7	51.0
Shipyards	11.3	-1.7	-122.7	8.3	5.0
Shipping Agency	12.2	16.4	28.4	31.2	30.0
Logistics	12.5	22.4	15.7	22.5	20.0
Offshore vessels*	46.2	47.9	51.2	42.1	44.0
Total EBITDA margin (pro-forma)	**36.2**	**39.3**	**42.0**	**43.6**	**45.6**

Source: Edison Investment Research, WSON data. Note: Offshore vessels is WSON's pro forma 50% share of the JV. *We add back the US$13m one-off asset write down in Offshore Base Support in 2019 for better comparison purposes.

OWIL income likely to come down in FY22

Our forecasts for OCN's are also affected by OWIL and this brings additional volatility and earnings risks to our numbers. We are assuming that combined investment portfolio returns and investment income increase from $35m in FY20 to $41.9m in FY21 (it was $30.9m in H121 and the market has remained buoyant). We are then estimating that this income falls by about 50% to $22.9m. We continue to assume a 6% return on prior year end assets for OWIL in FY22. This compares with the 11.4% assumption for FY21. However, market performance may lead to significant divergence from our assumptions.

Our assumptions of lower returns for OWIL in FY22 versus FY21 lead us to forecast a 7% increase in PBT for OCN in FY22 to $117.4m, less than in WSON. Furthermore, we note that financial markets may be choppy in FY22, especially with the threat of high inflation in several countries and this may lead to an equities sell-off in 2022.

We estimate OCN's pro-forma net debt to EBITDA ratio to be 3.2x in FY21 and this seems a reasonable level of debt, in our opinion. With the Salvador container expansion now completed and rising EBITDA, we expect this ratio to drop to 2.6x in FY22.

Exhibit 13: Financial summary

Year end 31 December	(US$m)	2019	2020	2021e	2022e
PROFIT & LOSS					
Revenue		406.1	352.8	382.3	417.1
Cash costs		(258.3)	(217.1)	(224.7)	(235.5)
EBITDA		147.9	135.7	157.6	181.6
Depreciation and amortisation		(53.7)	(50.2)	(50.6)	(47.8)
Amortisation of right to use (IFRS 16)		(12.4)	(10.7)	(11.7)	(11.7)
Profit/loss on PPE		0.3	(0.3)	0.0	0.0
Share of results of JVs		0.6	(4.1)	0.2	2.5
Investment portfolio returns & interest revenue		40.8	35.0	41.9	22.9
Finance costs		(27.7)	(23.2)	(29.7)	(30.3)
Exchange gains/losses on monetary items		(0.1)	(7.6)	2.3	2.3
Extraordinary goodwill impairment charge		(13.0)	0.0	0.0	0.0
Profit Before Tax		82.5	74.6	110.0	117.4
Profit Before Tax (norm)		95.6	74.6	110.0	117.4
Income tax		(21.5)	(26.6)	(23.6)	(31.7)
Non-controlling interests		(14.2)	(9.3)	(23.4)	(21.6)
Profit After Tax (norm)		59.9	38.7	63.0	64.1
Average Number of Shares Outstanding (m)		35.4	35.4	35.4	35.4
EPS - normalised (c)		169.3	109.5	178.1	181.2
Dividend per share (c)		70.0	70.0	70.0	70.0
EBITDA Margin (%)		36.4	38.5	41.2	43.5
ROE (%)		6.0%	5.1%	8.1%	7.7%
BALANCE SHEET					
Fixed Assets		1,007.5	887.3	926.1	934.1
Intangible Assets		225.4	179.7	216.3	204.6
Tangible Assets		755.6	681.4	680.9	698.0
Investments		26.5	26.2	29.0	31.5
Current Assets		460.6	492.8	505.9	533.7
Stocks		10.5	11.8	13.0	14.1
Debtors		82.3	70.3	90.3	94.0
Cash		69.0	63.3	55.0	64.0
Trading investments		298.8	347.5	347.6	361.5
Current Liabilities		115.7	124.3	119.0	127.9
Creditor		57.1	47.4	55.0	59.9
Short term borrowings & leasings		58.6	76.9	64.0	68.0
Long Term Liabilities		540.1	485.9	506.5	465.3
Creditors & leasings		470.6	423.7	450.0	407.9
Other long term liabilities		69.5	62.2	56.5	57.4
Net Assets		785.9	743.7	805.3	866.3
CASH FLOW					
Operating Cash Flow		158.6	144.0	145.5	177.9
Net Interest		(29.0)	(10.3)	(27.2)	(15.3)
Tax		(23.3)	(22.4)	(23.0)	(31.7)
Capex		(85.7)	(62.0)	(55.6)	(45.0)
Acquisitions/disposals		0.0	0.0	0.0	0.0
Net acq/disposals of financial assets		20.4	(18.6)	41.6	41.6
Equity financing		0.0	0.0	0.0	0.0
Dividends		(42.2)	(42.2)	(56.2)	(56.2)
Other (including divs from JV,fx effects)		(1.3)	34.2	(41.6)	(55.6)
Net Cash Flow		(2.4)	22.8	(16.4)	41.8
Net debt/(cash) including leases		460.1	437.3	453.7	411.9

Source: Ocean Wilsons Holdings, Edison Investment Research

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States

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
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia