

Neptune Orient Lines Ltd

Negative Earnings Surprise

Bloomberg | Reuters | POEMS
NOL.SP | NEPS.SI | NOL.SG
Industry: Container Shipping

Phillip Securities Research Pte Ltd

23 February 2012

Report type: Update

Company Overview

Through its container shipping arm, APL, NOL is the 7th largest container shipping company in the world and derives more than half of its revenue from America. The Group also provides supply chain solutions through APL Logistics.

- Negative earnings surprise with huge losses of US\$478mn
- Target cost savings of US\$500mn in FY12E
- Potential rate improvements to be eroded by high bunker costs
- Maintain Reduce with revised TP of S\$1.24

What is the news?

NOL reported a very weak set of results due to high fuel costs and lower freight rates in the year. Net loss of US\$320mn in the 4th quarter accounted for majority of losses in the year of US\$478mn. While the Group's logistics business recorded a 6% improvement in core EBIT, its contributions are insufficient to offset huge losses from the Liner business. During the results briefing, management highlighted a cost savings goal of US\$500mn for FY12E to enhance the competitiveness of the Group's Liner business.

Fig.1. Results Summary

Income Statement				
(Extract)	FY10	FY11	y-y (%)	Comments
(US\$'mn)				
Revenue	9,422	9,211	-2.2%	Liner: -5%, Logistics: +12%
EBITDA	846	(105)	n.m.	
EBIT	560	(400)	n.m.	
Net Income	461	(478)	n.m.	Below expectations

Source: Company, PSR

How do we view this?

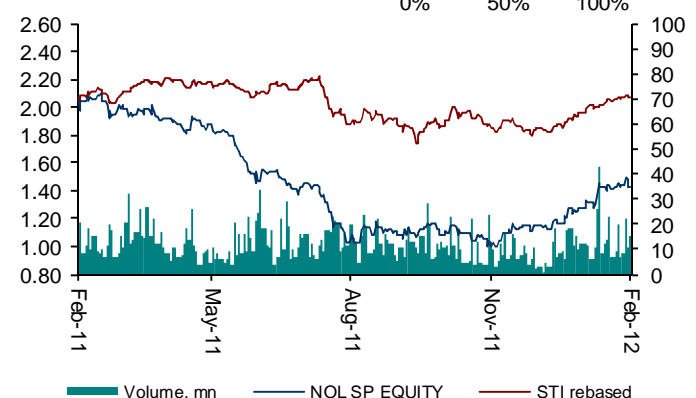
NOL's losses for the year were significantly larger than our expectations of US\$369mn, which is already one of the lowest estimates in the street. While the results were disappointing, we opine that investors should also focus on initiatives by the management to improve the company's competitiveness over the next few years.

Investment Actions?

We expect NOL's share price to be under selling pressure in the near term with the negative earnings surprise for the quarter. Fundamentally, we expect losses to narrow in FY12E with the improved cost structure of the Group's new deliveries. We maintain our Reduce rating on NOL with a target price of S\$1.24, based on 1.0X FY12E BVPS.

NOL Ltd

Rating	4	Reduce
- Previous Rating	4	Reduce
Target Price (SGD)	1.24	
- Previous Target Price (SGD)	1.37	
Closing Price (SGD)	1.43	
Expected Capital Gains (%)	-13.0%	
Expected Dividend Yield (%)	0.0%	
Expected Total Return (%)	-13.0%	
Raw Beta (Past 2yrs weekly data)	1.56	
Market Cap. (USD mn / SGD mn)	2926 / 3681	
Enterprise Value (USD mn / SGD mn)	4645 / 5909	
3M Average Daily T/O (mn)	10.4	
52 week range (SGD)	0.98 - 2.13	
Closing Price in 52 week range		



Major Shareholders

1. Temasek Holdings Pte Ltd	(%)
	67.3

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (USD mn)	9,422	9,211	10,032	10,834
Net Profit, adj. (USD mn)	456	(478)	(62)	448
EPS, adj. (USD)	0.18	(0.19)	(0.02)	0.17
P/E (X),adj.	6.4	(6.1)	(47.0)	6.6
BVPS (USD)	1.25	1.01	0.98	1.14
P/B (X)	0.9	1.1	1.2	1.0
DPS (SGD)	0.05	0.00	0.00	0.06
Div. Yield (%)	3.2%	0.0%	0.0%	4.2%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/B (1.0X FY12E); USD:SGD=1.26

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Liner Business

The Liner business reported a significant decline in profits for the year. Core EBIT loss of US\$297mn in the 4th quarter was significantly larger than the previous quarters, due to a combination of lower freight rates and higher bunker prices. While NOL no longer disclose its monthly operating statistics, industry reports and indices indicated that industry freight rates improved for the first two months of 2012. However, we expect positives from the improvements in freight rates to be eroded by further increase in bunker prices averaging at US\$730/MT year till date (+7.7%q-q).

Fig.2. Rising Bunker, Sliding Freight rates

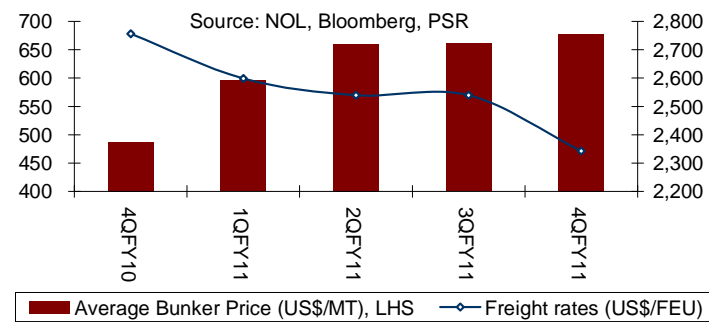
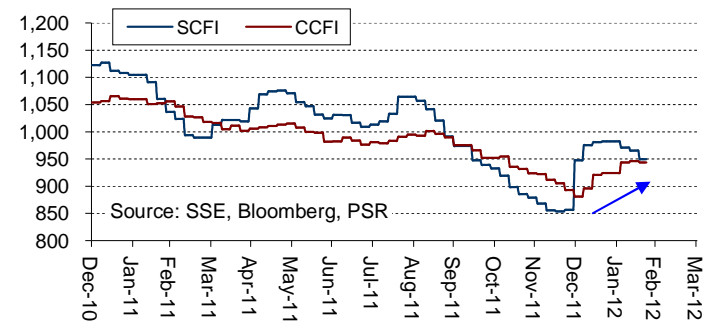


Fig.3. Freight rates improved YTD



More capacity rationalization in the industry

News sources reported that Maersk Line have initiated vessel capacity reduction on Asia-Europe route by 9% in order to boost freight rates. This capacity rationalization is positive for the struggling container shipping industry that is plagued by oversupply and weakening demand from Europe. However, NOL advised that they currently do not have plans to lay up vessels and expects their G6 alliance on the Asia-Europe routes to be very competitive.

Liner performance by routes

Asia-ME route volumes increased in prominence with sequential improvements to account for 45.5% of the Liner volume mix in 4QFY11. Volume on the Americas route disappointed, largely due to a 5% decline in weekly volume on the transpacific route. European routes stayed healthy with weekly volume increase of 2.4%y-y. Freight rates performance was the worst on European routes (-21%) due to the significant oversupply on that route.

Fig.4. Asia-ME rates (US\$/FEU) & Weekly Volume ('000FEU)

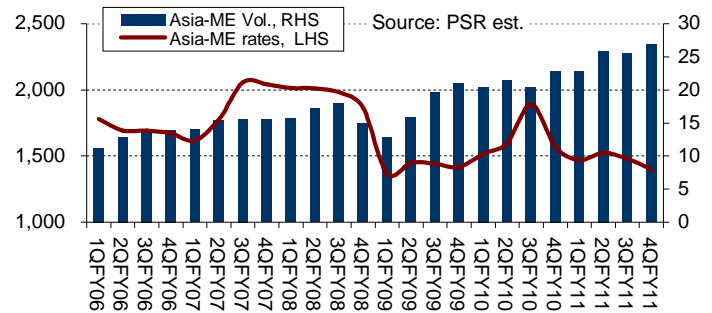


Fig.5. Americas rates (US\$/FEU) & Weekly Volume ('000FEU)

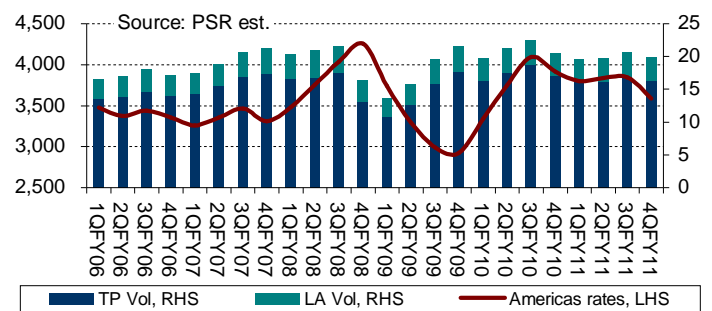
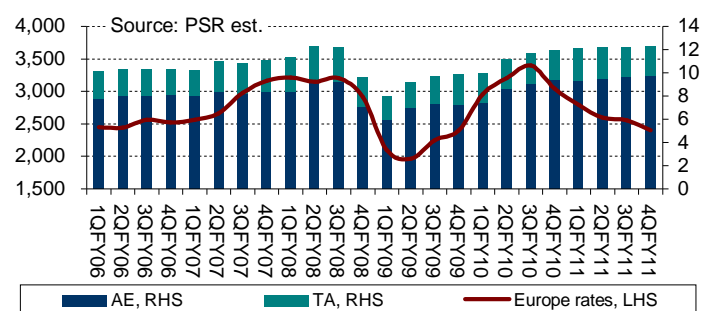


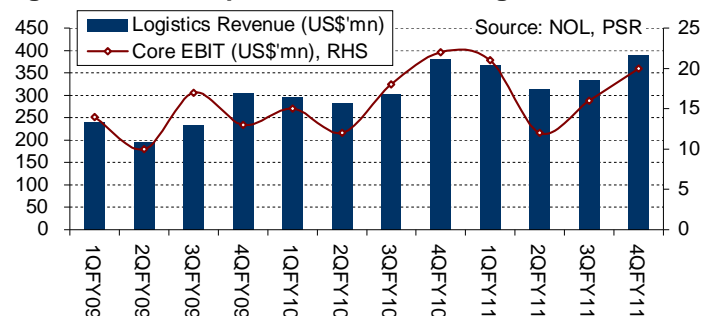
Fig.6. Europe rates (US\$/FEU) & Weekly Volume ('000FEU)



Logistics Business

NOL's Logistics arm turned in a steady set of results with improvements in revenue and profits. Management highlighted that the company intends to ride on the strong momentum and aims to improve the prominence of Logistics business in the Group over the next few years.

Fig.7. Consistent performance from Logistics



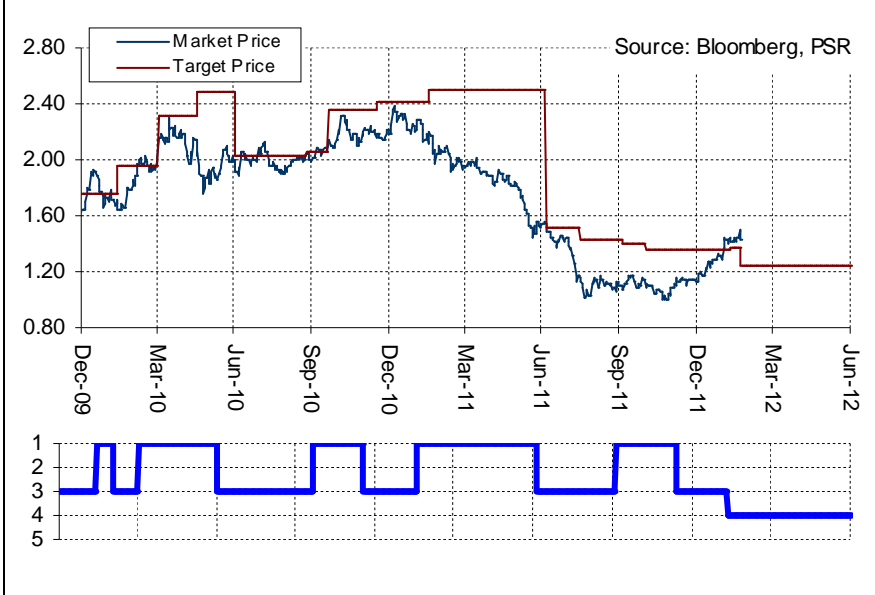
FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	(3.1)	6.4	(6.1)	(47.0)	6.6
P/B (X)	1.0	0.9	1.1	1.2	1.0
EV/EBITDA (X), adj.	(12.2)	5.5	(44.3)	14.7	4.6
Dividend Yield (%)	0.0%	3.2%	0.0%	0.0%	4.2%
Per share data (USD)					
EPS, reported	(0.36)	0.18	(0.18)	(0.02)	0.17
EPS, adj.	(0.36)	0.18	(0.19)	(0.02)	0.17
DPS (SGD)	0.00	0.05	0.00	0.00	0.06
BVPS	1.09	1.25	1.01	0.98	1.14
Growth & Margins (%)					
Growth					
Revenue	-29.8%	44.6%	-2.2%	8.9%	8.0%
EBITDA	-185.3%	-322.2%	-112.4%	-401.7%	218.6%
EBIT	-464.5%	-184.0%	-171.4%	-103.5%	4354.5%
Net Income, adj.	-581.6%	-161.1%	-204.9%	-87.0%	-817.9%
Margins					
EBITDA margin	-5.8%	9.0%	-1.1%	3.2%	9.3%
EBIT margin	-10.2%	5.9%	-4.3%	0.1%	5.7%
Net Profit Margin	-11.3%	4.9%	-5.1%	-0.6%	4.2%
Key Ratios					
ROE (%)	-28.2%	15.3%	-16.4%	-2.4%	16.4%
ROA (%)	-13.7%	7.8%	-7.1%	-0.8%	5.4%
Net Debt/(Cash)	607	382	2,126	2,975	2,986
Net Gearing (X)	21.4%	11.7%	80.2%	114.8%	99.9%
Income Statement (USD mn)					
Revenue	6,516	9,422	9,211	10,032	10,834
EBITDA	(381)	846	(105)	316	1,008
Depreciation & Amortisation	(286)	(285)	(295)	(302)	(385)
EBIT	(667)	560	(400)	14	622
Net Finance (Expense)/Income	(52)	(56)	(49)	(102)	(124)
Other items	15	20	11	10	10
Associates & JVs	3	5	9	11	11
Profit Before Tax	(700)	530	(429)	(67)	519
Taxation	(39)	(66)	(45)	9	(68)
Profit After Tax	(739)	464	(474)	(58)	452
Non-controlling Interest	2	3	4	4	4
Net Income, reported	(741)	461	(478)	(62)	448
Net Income, adj.	(746)	456	(478)	(62)	448

Source: PSR

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Balance Sheet (USD mn)					
PPE	3,509	3,691	4,790	5,492	5,805
Intangibles	158	154	156	167	163
Associates & JVs	67	77	127	137	147
Investments	9	14	16	16	16
Others	92	112	108	108	108
Total non-current assets	3,836	4,049	5,196	5,919	6,237
Inventories	197	244	327	313	326
Accounts Receivables	815	1,082	1,046	1,154	1,247
Investments	0	0	0	0	0
Cash	333	977	228	296	862
Others	159	100	165	165	165
Total current assets	1,504	2,402	1,766	1,928	2,600
Total Assets	5,341	6,451	6,962	7,847	8,838
Short term loans	21	21	422	422	422
Accounts Payables	1,010	1,174	1,274	1,304	1,319
Others	327	421	429	429	429
Total current liabilities	1,358	1,616	2,126	2,156	2,170
Long term loans	919	1,338	1,932	2,849	3,426
Others	223	231	252	252	252
Total non-current liabilities	1,142	1,569	2,184	3,101	3,679
Non-controlling interest	44	43	51	52	54
Shareholder Equity	2,797	3,222	2,601	2,539	2,935
Cashflow Statements (USD mn)					
CFO					
PBT	(700)	530	(429)	(67)	519
Adjustments	431	354	351	373	478
Cash from ops before WC changes	(269)	884	(78)	306	998
WC changes	(221)	(130)	(36)	(64)	(91)
Cash generated from ops	(491)	754	(113)	242	907
Taxes paid, net	(17)	(32)	(26)	9	(68)
Interest paid	(50)	(30)	(32)	(84)	(107)
Cashflow from ops	(558)	692	(171)	166	733
CFI					
CAPEX, net	(66)	(447)	(1,458)	(1,015)	(694)
Dividends from associates & JVs	1	0	1	1	1
Dividends/Interest from Investments	7	1	7	2	3
Purchase/sale of investments	0	(1)	(1)	0	0
Investments in subs & associates	(8)	(6)	(40)	0	0
Others	0	3	3	0	0
Cashflow from investments	(66)	(449)	(1,488)	(1,012)	(690)
CFF					
Share issuance	965	1	1	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	(396)	402	999	917	578
Dividends to minority interests	(2)	(3)	(2)	(3)	(3)
Dividends to shareholders & capital reduction	(39)	0	(95)	0	(52)
Others	(1)	0	7	0	0
Cashflow from financing	527	401	910	914	523
Net change in cash	(96)	644	(750)	68	566
Effects of exchange rates	0	0	0	0	0
CCE, end	333	977	228	296	862

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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