

# Hutchison Whampoa (13.HK)



Phillip Securities (Hong Kong) Ltd  
Phillip Securities Research

Good business prospect; valuation still attractive

Bloomberg | Reuters | POEMS

13.HK | 13.HK | 13.HK

Industry: Conglomerates

Rating: Accumulate, CP: HKD107.5, TP: HKD119

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## Company Profile

Hutchison Whampoa is one of the largest listed conglomerate companies in HK. The Group has 6 core businesses – ports and related services, property and hotels, retail, infrastructure, energy and telecommunications.

## Investment rationales:

**Decent FY13 results:** Hutchison's core earnings came in at HK\$31 bn, up 17% yoy and c.5% better than consensus. EBITDA was up 9.5% yoy to HK\$95.647 bn, EBIT climbed 11.3% yoy to HK\$64.6 bn. EPS rose 17% yoy to HK\$7.28. DPS increased by 10.6% yoy to HK\$2.30 with dividend payout ratio of 31.6%.

**Ports & related services:** EBIT declined 4% yoy to HK\$7.36 bn, on higher depreciation charges, energy and labor costs, etc even the throughput added 2% and revenue per TEU (twenty-foot equivalent units) increased.

**Property and hotels:** EBIT surged 30% yoy to HK\$13.7 bn, on more-than-expected property sales booked and better margin.

**Retail:** EBIT climbed 14% yoy to HK\$11.77 bn on decent SSSG in Health & Beauty (+3% yoy) and 839 stores were added to reach 10,581 stores in total as of the end of 2013.

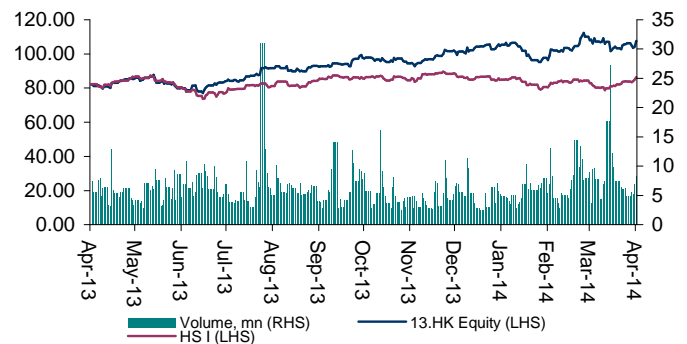
**Infrastructure:** EBIT added 5% yoy to HK\$17.53 bn on contribution from UK and New Zealand.

**Energy:** EBIT dropped 3% yoy to HK\$7.21 bn on weak profit growth from Husky and unfavorable exchange rates. Production increased by 3% to 312 mboe/day.

**Telecommunications – 3 Group Europe:** EBIT surged 54.4% yoy to HK\$4.86 bn on contribution from Orange Austria and strict operating expenses and capex disciplines. 3G Group customer base increased by 13% yoy to 26,636, of which 83% were active customers.

## HUTCHISON WHAMPO

<b>Rating</b>	<b>2.00</b>	<b>Accumulate</b>
- Previous Rating	N/A	Not Rated
<b>Target Price (HKD)</b>	<b>119</b>	
- Previous Target Price (HKD)	N/A	
Closing Price (HKD)	107.50	
Expected Capital Gains (%)	10.7%	
Expected Dividend Yield (%)	2.3%	
<b>Expected Total Return (%)</b>	<b>13.0%</b>	
Market Cap. (HKD mn)	458,312	
Enterprise Value (HKD mn)	693,327	
3M Average Daily T/O (mn)	7.2	
52 week range (HKD)	76.6 - 113.5	
Closing Price in 52 week range		



## Key Financial Summary

FYE MAR	FY12	FY13	FY14E	FY15E
Revenue (HKD mn)	243,089	256,234	277,672	298,124
Net Profit, adj. (HKD mn)	25,897	31,112	33,715	38,456
EPS, adj. (HKD)	6.07	7.28	7.89	9.00
P/E (X)	10.7	11.1	14.3	11.8
P/B (X)	0.8	0.9	0.9	0.9
DPS (HKD)	2.08	2.30	2.49	2.84
Div Yield (%)	3.2%	2.8%	2.2%	2.7%

Source: Bloomberg, PSR est.

## Valuation Method

NAV

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**Better outlook of Telecom business:** Hutchison achieved a new milestone with positive EBITDA after capex for the first time in 2013. We are expecting a higher ROIC in 3G in coming years.

**Value enhancement from retail IPO:** Hutchison is planning to list its retail unit at suitable time but unlikely in 2014 after the completion of the deal with Temasek. Hutchison actually announced selling ~25% equity interest of A.S. Watson to Temasek with cash consideration of ~HK\$44 bn, it implied valuation of A.S. Watson of HK\$177 bn or FY13 PE of 22.7x, which is lower than consensus estimate of ~HK\$200 bn. We believe it will negatively affect Hutchison's share price in short-term as analysts would revise down their Hutchison's NAV forecast and the IPO will come later than expected. But the spin-off is positive in mid-long term as we believe the deal will bring synergies and hence higher valuation of A.S. Watson in IPO and the retail IPO will finally lower Hutchison's gearing and release value.

**Major risks:**

Hutchison's telecom business shows weaker-than-expected performance indicators.

Lower-than-expected valuation of Hutchison's retail business.

**Valuation:**

Hutchison's NAV is estimated to be HK\$125 per share (or HK\$132 cum special dividend of HK\$7). Applying 10% discount (vs. historical average of 15%), the target price is HK\$112 after the ex-date (or HK\$119 cum special dividend). We give an "Accumulate" rating with upside potential of 10.7%.

#### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm$ 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

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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