EDISON

Ocean Wilsons Holdings

FY21 was in line but headwinds remain

FY21 numbers and outlook

Investment companies

Ocean Wilsons (OCN) is an investment holding company with a controlling interest in Wilson Sons (WSON), a long-established Brazilian maritime services company, and a globally diversified investment portfolio (OWIL). OCN reported FY21 PBT of US$110.4m (+48% y-o-y), in line with our forecasts. OWIL had a good year, but WSON's results were a mixed bag. The container terminal business is still suffering from worldwide supply bottlenecks, whereas the towage business did better than expected. Looking ahead, we expect WSON to continue to be negatively affected by the global logistics disruption but assume an improvement in the second half of FY22. OCN is currently trading at a hefty 47% discount to the look-though value of its OWIL portfolio and its stake in listed WSON.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/20	352.8	74.6	109.5	70.0	11.7	5.5
12/21	396.4	110.4	180.1	70.0	7.1	5.5
12/22e	426.4	99.7	146.2	70.0	8.8	5.5
12/23e	458.2	123.3	190.3	70.0	6.7	5.5

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

Disruption continues into 2022

The global supply chain disruptions hit the container terminals business (one of WSON's two key segments) the hardest and led to cancelled shipping routes and a shortage of empty containers. This has been exacerbated by the ongoing war in Ukraine and lockdowns in China. WSON's handled container volume fell 14% during Q122 and we have adjusted our forecasts to a 4% volume decline for the full year. Other segments have fared better, but we have cut OCN's FY22e PBT forecast by 16% to US$99.7m. However, our new FY23 forecasts see PBT rebound to US$123.3m under the assumption of a more normalised trading environment.

A competitive and resilient business

WSON's good spread of assets in Brazil has allowed it to weather reasonably well the exceptional conditions in FY20, FY21 and now FY22. WSON's assets include large, competitive container terminals in two Brazilian ports and the country's largest maritime tugboat business. Its resilience has allowed OCN to maintain and fully fund its dividend and WSON's EBITDA to debt ratio remains robust at 2.9x in FY21. Looking ahead, spare capacity in various WSON businesses means that there is significant positive operating leverage as business picks up.

Valuation: 47% NAV discount, 5.5% US$ yield

We monitor OCN's discount to its look-through value; it currently stands at 47%, which is above average (the discount tends to be mid-30s to low-40s). The look-through value comprises the market value of OCN's 57% stake in WSON and the last reported value for the investment portfolio held by OCN. There is no significant financial debt at the holding company level.

11 May 2022

Price	**980p**
Market cap	**£347m**
	$1.31/£, BRL4.8/$
Net debt (US$m) at 31 December 2021	440.9
Shares in issue	35.4m
Free float	36%
Code	OCN
Primary exchange	LSE
Secondary exchange	Bermuda

Share price performance

%	1m	3m	12m
Abs	4.1	9.1	2.0
Rel (local)	10.7	17.1	3.5
52-week high/low		1,135p	875p

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

Q122 trading update	May 2022

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Edison profile page

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Investment summary

OCN's FY21 earnings in line

OCN's reported earnings were up 65% y-o-y and at £63.7m were similar to our estimate of £62.9m. The operating profit and PBT were also sharply up and in line with our forecasts. Strong financial markets helped OWIL's portfolio, while WSON's container terminals benefited from the stronger Brazilian real, which compensated for lower business volumes (FY21 full container volume fell by 3.7% in 2021; we were assuming a 5% increase). WSON's tugboats business (EBITDA +13% y-o-y) and the offshore vessels both did better than expected (EBITDA +4% y-o-y).

Another good year for OWIL

Hansa Capital Partners (sub-adviser to the OWIL managers) has remained relatively positive on the equity markets throughout the pandemic in the context of its usual conservative, long-term approach. The OWIL portfolio followed a good FY20 investment return (12.2%) with a 16.1% increase in FY21. The manager was underweight Europe going into the Ukrainian crisis while overweight in the United States and emerging markets.

FY22 looks to be challenging for WSON

Worldwide supply chain bottlenecks are continuing this year and the Ukraine war is further aggravating international trade while increasing inflation. Higher prices are leading to a squeeze on consumers and central bank collected consensus is forecasting only 0.4% GDP growth for Brazil this year. We expect WSON's container business to feel most of this pain and we have cut our PBT estimate by 16% for OCN. Presidential elections are scheduled in Brazil for Q422 and could result in left-wing candidate Lula da Silva ('Lula') coming back to power. He carries greater risk of non-orthodox economic policies than incumbent Jair Bolsonaro (who has relied on a safe pair of hands as his minister of economy). At the same time, Lula has shown in his previous elected terms that he is capable of being pragmatic in his policies.

The secular growth story remains intact

The longer-term growth story in Brazil remains in place and the outlook for the container terminals is boosted by relatively low containerisation in Brazil of just under 52 TEUs (20-foot equivalent unit, the typical size of one container) per 1,000 people in 2019 compared with an average of 79 for Latin America and 198 in the OECD. The Brazilian government is encouraging greater use of sea and river transport in Brazil, which has traditionally been biased towards roads despite the long coast and river network. Looking ahead, we think container volume growth of 5–6% a year in the context of 3% GDP growth is a reasonable long-term assumption. In addition, the Brazilian government is launching a large infrastructure programme that should also help OCN.

Valuation: 47% NAV discount, 5.5% US$ dividend

We monitor OCN's discount to its look-through value, which at 47% is above average (it tends to be mid-30s to low-40s). The value comprises the market value of OCN's 57% stake in WSON and the last reported value for the investment portfolio held by OCN. There is no significant debt at the holding level, while most of the investment portfolio is marked to market. The value of OCN's stake in WSON alone is 12% **above** OCN's market capitalisation. This seems a very cautious valuation to us and even more so when there is a relatively attractive dollar dividend.

Company description: Brazilian maritime services and international portfolio

Ocean Wilsons is a Bermuda-based investment company listed in Bermuda and London that has two main assets: a controlling 57% stake in WSON, a quoted Brazilian maritime services company; and an international investment portfolio held in its OWIL subsidiary.

WSON used to trade in São Paulo as a Brazilian Depository Receipt (BDR) of a Bermudian company, Wilsons Sons Limited. A corporate restructuring in 2021 involved a downstream merger of Wilsons Sons Limited with Brazilian company Wilsons Sons Holdings (100% held by Wilsons Sons Limited). The new company is listed on Brazilian Novo Mercado (code: PORT3), while previous BDRs were removed. This was done to increase WSON's share liquidity as a Novo Mercado listing makes it more attractive for investors, especially Brazilian. The operating company and assets are unchanged.

The market value of the WSON stake accounts for 59% of the look-through value of Ocean Wilsons and the investment portfolio accounts for the remaining 41%. Ocean Wilsons' market cap is 47% below this look-through value, as we detail later in the valuation section on page 11.

José Francisco Gouvêa Vieira is retiring after being OCN's chairman since 1997. Caroline Foulger is expected to be appointed as the chair of the board in the next AGM on 26 May. She has been a non-executive director at Ocean Wilson since 2020. She sits on several boards including Hiscox (due to retire in July 2022). She is also the independent chair at Oakley Capital and a retired partner at PricewaterhouseCoopers.

WSON: Containers and tugboats are the biggest earners

WSON is one of the largest providers of maritime services in Brazil, with activities including harbour and ocean towage, two container terminals, offshore oil and gas support services and shipyard, ship agency and logistics services. Trends in Brazilian trade volumes and the oil industry are important drivers of revenue and profits.

An important part of WSON's ESG policies is maintaining workplace safety given the hazards in some of the operations. The company has also implemented some environmental policies, such as electric cranes in container yards.

The container terminals and towage businesses account for the lion's share of EBITDA, at around 90% in FY21 and FY20. The off-shore support vessels (usually 11–19% of EBITDA) are the other significant contributor.

10% market share of Brazilian container terminals

WSON operates two large container terminals in Brazil. One is in Rio Grande and Rio Grande was Brazil's sixth busiest container port in 2021 (according to ANTAQ, the Brazilian maritime transport government agency). It is near the southern city of Porto Alegre, Brazil's fourth largest metropolitan area with 4.5 million people. The other one, recently expanded, is in the port of the city of Salvador, one of the three largest cities in north-east Brazil with a metropolitan population of four million. The Salvador container terminal was Brazil's 12th busiest in 2021. The container terminals are the only dedicated container terminals in the states in which they operate and Salvador has had its concession contract extended (at the price of further investment and expansion of facilities) to 2050. Wilson's two container terminals had almost 10% market share of volume handled in Brazilian ports in 2021.

The largest maritime towage business in Brazil

WSON operates the largest tug fleet in Brazil with 80 modern, mostly azimuth propulsion boats (Q320) operating in all the major Brazilian ports and executing close to 45% of all manoeuvres in Brazilian ports in 2021. Apart from moving ships, tugs perform special operations such as firefighting, salvage and ocean towage. These command premium rates and margins and have on average contributed 14% of the division's revenues since 2008. Consolidation of shipping lines and the trend to larger ships have tended to slow the growth in the number of harbour manoeuvres, but increased the average deadweight towed at a compound annual growth rate of 4% between 2008 and 2018, supporting revenue growth. Owning its shipyards provides Ocean Wilsons an advantage in acquiring new tugs and in fleet maintenance. All domestic Brazilian operators enjoy regulatory protection and long-term, low-cost finance from the Fundo da Marinha Mercante. These benefits seem unlikely to change.

Oil industry exposed businesses

The offshore support vessels (OSVs) and oil support bases are the two businesses more directly affected by the oil business.

Wilson Sons UltraTug Offshore (WSUT) is a 50:50 JV with Ultramar, a Chilean offshore services company, that has a fleet of 23 OSVs. The OSVs operate mostly around the Rio de Janeiro area and typically transport machine parts, consumables and other supplies to offshore oil and gas production and exploration operations.

WSON's fully owned subsidiary Brasco operates two offshore support bases (Niterói and Rio) in the Rio de Janeiro metropolis with a total of eight berths and a pipe yard (Guaxindiba) that services oil platforms. It buys, stores and delivers parts, consumables and food, and processes waste.

Brazil pre-salt oil and gas reserves in the Rio de Janeiro and adjacent Santos basins are very large and highly productive, with superior quality and low lifting costs. The industry has been affected by political problems as well as price volatility in recent years, however. Both Brasco and WSUT are operating well below capacity, which affects their numbers. The company expects that the sector recovery will likely be gradual, taking into account that lag times for making new investments in oil production and exploration are long and not easy to forecast.

About 55% of revenue is in dollars

WSON reports in US dollars and earns c 55% of revenues in that currency, while c 85% of its costs are in Brazilian reais. To offset its naturally long dollar business, about 72% of its debt is in dollars or real-dollar linked. This helps moderate the impact of foreign exchange moves on earnings. The currency mix, the diversification activities and its good competitive position have contributed to EBITDA resilience during periods of economic downturn such as in 2014–16 and now during 2020–21 and accompanying Brazilian real currency weakness.

We described WSON's operations and segments in more detail in our outlook note from 21 June 2021, Smoother sailing ahead.

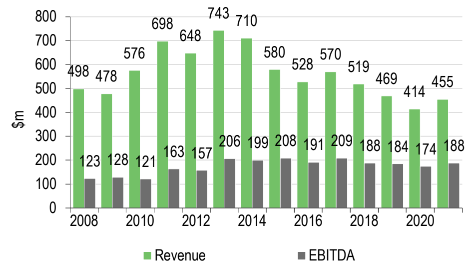
OWIL: Diversified long-term capital growth

OWIL's investment objective is to achieve long-term capital growth and preserve capital by investing in a diversified global portfolio across three categories: core regional funds, long-term thematic funds (investing in technology and biotech for instance) and diversifying funds to provide protection against cyclical changes. The investment manager is Hanseatic Asset Management and Hansa Capital Partners is the sub-advisor. Exhibit 2 shows a breakdown of the portfolio at the end of FY21, illustrating that the largest exposure is to listed equity investments. Private assets account for 36% reflecting the manager's view on the potential returns and the long-term horizon employed in considering investments. The portfolio also has a significant emerging markets weighting including equities and private investments (not shown in the pie chart). The managers remained relatively positive on the surging equity markets in FY21. The weight of the less liquid private assets at 36% increased during the year due to strong performance.

In the past, OCN's board carried out a strategic analysis of these legacy OWIL private equity holdings and continues to rationalise them while seeking to maximise their potential returns.

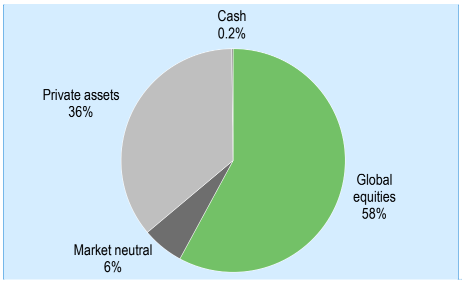
The OCN board is working with Hanseatic Asset Management and Hansa Capital Partners with the aim of becoming a signatory of the United Nations' Principles for Responsible Investment in 2022.

Exhibit 1: WSON's longer-term performance record



Source: Wilson Sons. Note: EBITDA pro forma including offshore vessels JV.

Exhibit 2: OWIL analysis of portfolio (FY21)*



Source: Ocean Wilsons

Exhibit 3: WSON revenue analysis (FY21)

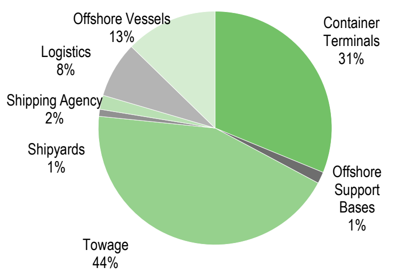
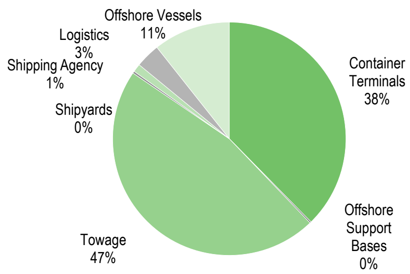


Exhibit 4: WSON EBITDA analysis (FY21)



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

FY21 results

OCN's reported earnings were up 65% y-o-y (all of our comparisons will be on a year-on-year basis unless stated) and at £63.7m were similar to our estimate of £62.9m. The shape of the income was different, with a bit more investment return from the OWIL portfolio and a bit less operating EBITDA. The EBITDA itself was boosted by a weaker dollar and operating volume (Exhibit 6) in its container business was lower than expected (full container volume fell by 7.4% and 3.7% in Q3 and Q4 in 2021; we were assuming a 5% increase).

We think the WSON numbers (which drive OCN's EBITDA) were a mixed bag. The container segment was affected by the worldwide supply bottlenecks (which included container availability) that occurred following the easing of lockdown conditions. On the other hand, the towage business did well, with harbour manoeuvres increasing 2.9% and in line with our expectations, while prices

Commented [PF1]: Source file info: Z:\Edison\Clients\OceanWilsons\Model\Current working\OceanWilsons 2022.xlsm\OWIL Chart 13 and income were above forecasts. The other segments were broadly in line with our forecasts, with the positive impact of higher oil prices on the oil services focused segments still yet to be felt (as expected and guided by management) due to long lag times in starting oil exploration and production operations.

Although financial markets were volatile in FY21, they nevertheless had a good year, and this is reflected in OWIL's strong performance. OWIL's returns were boosted by the manager (Hanseatic Asset Management) remaining positive on the market. The portfolio returned 16.1% in FY21 compared to its internal benchmark index gain of 10% and the MSCI ACWI (MSCI's flagship global equity index) 18% return.

Exhibit 5: OCN earnings summary

US$m	2019	2020	2021	Y-o-y %	2021e
Revenue	406.1	352.8	396.4	12%	381.4
Cash costs	(258.3)	(213.9)	(234.4)	10%	(224.0)
EBITDA	**147.9**	**138.8**	**162.0**	**17%**	**157.4**
Depreciation and amortisation	(54)	(48)	(47)	-2%	(51)
Amortisation of right to use	(12.4)	(10.7)	(12.1)	13%	(11.7)
Impairment charge (goodwill & intangibles)	(13.0)	(2.8)	(2.7)	-4%	0.0
Profit/loss on PPE	0.3	0.1	(0.5)	n.m.	0.0
Exchange gains/losses on monetary items	(0.1)	(7.6)	(3.1)	-59%	2.3
Operating profit	**68.9**	**70.0**	**97.0**	**39%**	**97.5**
Share of results of JVs	0.6	(4.1)	(5.0)	21%	0.2
Investment portfolio returns	34.7	30.3	44.5	47%	39.6
Other investment income	6.1	1.6	4.1	150%	2.3
Finance costs	(27.7)	(23.2)	(30.2)	30%	(29.7)
Profit before tax	**82.5**	**74.6**	**110.4**	**48%**	**109.9**
Income tax	(21.5)	(26.6)	(27.9)	5%	(23.6)
Profit before minorities	**61.0**	**48.0**	**82.5**	**72%**	**86.3**
Non-controlling interests	(14.2)	(9.3)	(18.8)	102%	(23.4)
Net attributable profit	**46.9**	**38.7**	**63.7**	**65%**	**62.9**

Source: Ocean Wilsons, Edison Investment Research

Exhibit 6: Operational metrics for FY21 and FY20

	FY20	FY21	Change %
Container terminals			
Rio Grande Terminal (TEU 000s)			
Gateway (Full)	345.9	333.1	-3.7
Inland Navigation (Full)	26.1	22.2	-14.8
Trans shipment & Shifting (Full + Empty)	64.5	85.8	33.1
Empty (total, except trans shipment)	238.8	224.7	-5.9
Total Rio Grande	**675.2**	**665.9**	**-1.4**
Salvador Terminal (TEU 000s)			
Gateway (Full)	235.9	244.5	3.6
Trans shipment & Shifting (Full + Empty)	45.4	74.4	63.9
Empty (total, except trans shipment)	61.1	57.5	-5.9
Total Salvador	**342.4**	**376.4**	**9.9**
Group total full	717.7	760.0	5.9
Group total empty	299.9	282.2	-5.9
Group total full	**1017.6**	**1042.3**	**2.4**
Towage			
# of harbour manoeuvres	52,873	54,389	2.9
Average dead weights ('000 tons)	84.7	88.1	4.0
Offshore vessels			
# Own OSVs – end of period	23	23	0.0
# Own OSV days in operation/ contract days	5,356	5,400	0.8
Offshore Support Bases			
# dockings	583	601	3.1

Source: Wilson Sons

Outlook

Disruptions continue in 2022

The problem with worldwide supply chain bottlenecks, empty container availability and reduced container shipping routes are expected to continue in 2022. The war in Ukraine and the COVID-19 lockdowns in China have exacerbated the problem, further reducing international trade.

In the first three months of this year, container volumes in WSON's terminals have dropped 14% year-on-year. We are assuming that there is a recovery in the second half of the year but nevertheless have taken our estimates down for this division. We had been expecting a 5.4% increase in container units in 2022 and are now forecasting a 4% decline.

Towage is affected to a lesser degree: harbour manoeuvres were down 2% year-on-year in the first three months (we were expecting +3% for the full year). We are now forecasting a 4% decline in manoeuvres for the full year.

On the other hand, the oil-related (but smaller) businesses have been doing relatively well. Offshore Support Bases have done 23% more vessel turnarounds year-on-year in Q122, while OSVs have had 12% more days of operation in the same period.

OWIL's portfolio exposure to Russian-linked investments was less than 1.4% at the time of the FY21 results statement in late March and were subsequently written down to zero by the end of Q1.

Presidential elections in 2022

The Brazilian elections are scheduled for October 2022. It looks like it will be a face-off between the incumbent Jair Bolsonaro and former president and left-wing candidate Lula da Silva. Although Bolsonaro has attracted a considerable amount of controversy during in his tenure, he benefits from having Paulo Guedes as his minister of the economy. Guedes has done a creditable job implementing market-friendly orthodox economic and fiscal policies despite being hindered by the political backdrop in Brazil including a very fragmented Brazilian congress.

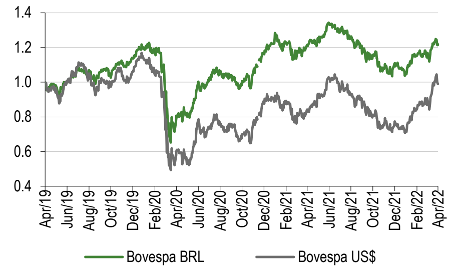
Lula would likely adopt more expansionist economic policies with less fiscal prudence than under Bolsonaro and this has been his message so far. It would likely bring greater government intervention and fewer privatisations. It is far from clear how much and where Lula would deviate from economic orthodox policies. At the same time, he has proven in the past that he is also capable of being pragmatic rather than just following populist and demagogic economic policies. Current polls have Lula ahead and the betting odds significantly favour him, but things could change significantly before the elections on 2 October 2022.

Exhibit 9 shows economic consensus forecasts for Brazil. The market is currently expecting a stagnated economy in FY22, followed by tepid growth in FY23, but with the positives of declining inflation and a stable currency.

Exhibit 7: Brazilian real/US dollar exchange rate

Source: Refinitiv

Exhibit 8: Bovespa Index (three-years, rebased)



Source: Refinitiv

Exhibit 9: Brazil economic forecasts (%) as of April 2022

	2017	2018	2019	2020	2021	2022e	2023e
GDP growth	1.1	1.1	0.9	-4.1	4.6	0.3	1.5
Unemployment	12.8	12.3	11.9	13.4	11.1	12.5	11.9
Inflation	2.9	3.7	3.7	3.3	10.1	5.5	3.5
Exports growth	11.4	7.0	-2.5	-1.4	6.0	5.8	3.4
Imports growth	5.1	6.7	1.0	-9.6	13.5	1.1	1.6
$/BRL year-end (x)	3.3	3.9	4.1	5.4	5.6	5.6	5.5

Source: Brazil Central Bank collected consensus, OECD, Refinitiv

Containerisation has a bright long-term outlook

The secular trend to increased containerisation in the Brazilian economy remains an important driver of growth for WSON. Container density in Brazil is still relatively low at 52 TEUs per 1,000 people in 2019. This is much lower than almost 198 for the OECD and 79 for Latin America.

The Salvador container terminal extension completed in 2021 is important because the added capacity gives Salvador more room to compete successfully for more transhipment business. Salvador is ideally located as a first stop on the routes from Europe to South America. Cargoes can then be shifted to smaller boats going to other ports along the Latin American coast, which do not always have the best conditions for larger container ships and the industry trend is for ship sizes to continue to increase. This includes ports as far and as large as Buenos Aires, for example, which struggles perennially with dredging issues.

In Brazil, container volume grew at a compound rate of 5.3% in the 15 years to 2019, compared with 2.5% GDP growth. We believe it is reasonable to expect average container volume growth of 5–6%, about twice medium-term real GDP growth estimates, especially since the government is keen to promote greater sea and river transport within Brazil and the greater use of cabotage to move goods.

Oil sector recovery will be gradual

Oil prices have mostly remained above US$100 per barrel since the war in Ukraine started but will likely come down to lower levels in due course, although not back to the US$20 levels we saw in 2020. It is important to note that offshore pre-salt oil and gas reserves in Brazil are very large, good-quality, highly productive and have relatively low exploration and lifting costs. Petrobras, the largest and key Brazilian oil company, estimates break-even costs for developing pre-salt reserves at US$35–40 per barrel. Actual lifting costs are much lower and estimated at about US$8/bbl.

The government has been keen to increase investment in these reserves and has introduced legislation in recent years to increase the exploration of these deposits, which used to be dominated by Petrobras. The government has also successfully held permit auctions for pre-salt oil fields, which have been won by several international players.

However, consumer and investor sentiment has been moving towards lower emissions and smaller carbon footprint energy sources. There is also a trend for oil companies raising shareholder returns via dividends and buybacks rather than investing in exploration. This may have an adverse impact on investment decisions for oil and gas exploration and development and may affect the outlook for the oil and gas services companies served by WSON. This and the lag time for projects to get underway means that although the sector is likely to recover, it will be a slow process. The offshore support vessels and the offshore support bases companies contributed 12% to WSON's pro-forma EBITDA in 2021, but were in the 18–5% range between 2014 and 2019.

Exhibit 10: The oil price over last five years (Brent crude, $ per barrel)

Source: Refinitiv

Financials

Ocean Wilsons' income and costs are essentially driven by WSON. However, the fair value adjustments in the investment portfolio business can have a significant impact below the operating profit line even though they are often non-cash.

Exhibit 11 shows WSON's divisional forecasts, showing both reported and pro-forma forecasts (this includes the offshore vessel division, which is a 50/50 JV and is accounted as an associate company). We are introducing estimates for FY23 and cutting our numbers for FY22. We are now forecasting that revenue will increase by 7% to US$485m (previously US$473m) in FY22 and then by 7% in FY23. This assumes that US$/BRL exchange rate stays stable at the current 4.78, leading to average US$/BRL exchange rates of 5.18 and 4.78 for FY22 and FY23, respectively. Income is boosted in FY22 by stronger a stronger Brazilian real (the average US$/BRL rate was 5.38 in FY21). The Brazilian real has been appreciating against the US dollar and it does feel undervalued after collapsing during the peak of the COVID-19 pandemic. Rising commodity prices and higher US inflation have boosted the Brazilian real. At the same time, as we mentioned earlier in this report, election-related political uncertainty may have a negative impact on the currency.

We are forecasting WSON pro-forma EBITDA to decline by 2% to US$185.2m (previous forecast $215.8m) in FY22 before rising by 12% in FY23. The decline in FY22 reflects the tough trading conditions in the first half of the year (centred in the container business) as well as the strengthening Brazilian real. A stronger Brazilian real eats into the operating margin since some of the business units (notably towage) have revenue in dollars but costs largely in Brazilian reais. As mentioned earlier in the note, this is then offset by FX translation gains on the US-linked debt below the EBITDA line.

At the OCN level, the reported trend is similar, of course, to the revenue and EBITDA numbers of WSON. We are estimating a BRL7.5m gain from FX translation in FY22 (nothing in FY23 since we are keeping the FX stable). We estimate finance costs of US$31.1m and US$31.6m for FY22 and FY23, respectively.

We are assuming 5% and 8% fair value investment returns on the OWIL investment portfolio for FY22 and FY23. This is equivalent to US$19.8m and US$32.1m, respectively. The outcome may be substantially different as financial markets can be volatile. We assume another US$3m in investment gains net of management costs from the portfolio in both years in line with historical performances.

This adds up to PBT forecasts at the OCN level of US$99.7m and US$123.3m for FY22 and FY23. The FY22 forecast is 16% below the previous forecast and down 10% y-o-y.

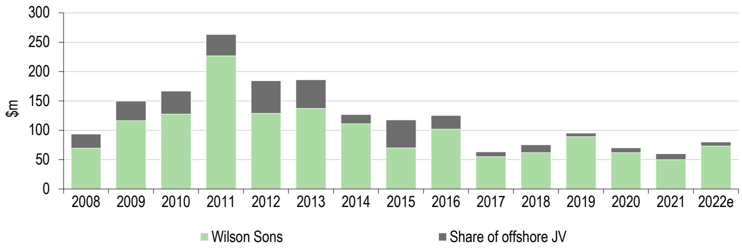
Exhibit 11: WSON's segmental revenue analysis and estimates

US$m	2019	2020	2021	2022e	2023e
Divisional net revenues					
Container Terminals	167.8	132.2	141.8	151.7	168.7
Offshore Support Bases**	19.4	8.0	7.3	7.9	9.1
Towage	159.5	173.6	199.1	206.8	225.9
Shipyards	4.5	2.2	4.4	9.5	8.0
Shipping Agency	9.2	8.1	8.9	9.2	10.5
Logistics	45.7	28.7	35.2	41.3	36.0
Total revenue (IFRS)	**406.1**	**352.8**	**396.7**	**426.4**	**458.2**
Offshore vessels*	61.2	60.9	57.8	58.3	61.2
Total revenue (pro-forma)	**467.3**	**413.7**	**454.5**	**484.6**	**519.3**
y-o-y (%)	-9.7	-11.7	9.9	6.6	7.2
Divisional EBITDA					
Container Terminals	85.2	68.7	79.8	84.3	100.4
Offshore Support Bases**	2.2*	-0.5	-0.4	0.3	0.9
Towage	75.8	85.8	99.0	90.9	99.4
Shipyards	-0.1	-2.7	0.6	0.6	0.4
Shipping Agency	1.5	2.3	2.4	2.1	3.2
Logistics	10.2	4.5	7.2	6.6	7.2
Corporate	-20.6	-15.7	-23.6	-21.0	-27.0
Total EBITDA (IFRS)	**154.2**	**142.4**	**165.0**	**163.8**	**184.4**
Offshore vessels*	30.0	31.2	22.6	21.3	23.2
Total EBITDA	**184.3**	**173.6**	**187.6**	**185.2**	**207.7**
y-o-y (%)	-1.8	-5.8	8.0	-1.3	12.2
Divisional EBITDA margins (%)					
Container Terminals	50.8	52.0	56.3	55.6	59.5
Offshore Support Bases**	11.3	-6.3	-5.5	4.0	10.0
Towage	47.5	49.4	49.7	44.0	44.0
Shipyards	-1.7	-122.7	13.6	6.0	5.0
Shipping Agency	16.4	28.4	27.0	23.0	30.0
Logistics	22.4	15.7	20.5	16.0	20.0
Offshore vessels*	47.9	51.2	39.1	36.6	38.0
Total EBITDA margin (pro-forma)	**39.3**	**42.0**	**41.3**	**38.2**	**40.0**

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 Support Bases in 2019 for better comparison purposes.

We are assuming US$63m in capital expenditure and we expect Ocean Wilsons to have financial net debt of US$443.3m at the end of FY22e (US$440.9m in FY21) including US$160m in financial leases. Most of the debt is at low, some of it at government subsidised, interest rates. Adding the offshore JV debt on a 50% pro forma basis, the total forecast pro-forma net debt is US$539.9m (US$540.4m) in FY21. The FY22 debt to 12-months trailing pro-forma (including JV EBITDA) group EBITDA multiple is expected to be a healthy 2.9x and has been relatively stable.

Exhibit 12: Capital expenditure history and expectations at WSON



Source: Wilson Sons. Note: Total figures shown include 50% share of JV.

Valuation

OCN is now trading at a hefty 47% discount to its look-through valuation, which is transparent (the 57% stake in listed WSON), and the OWIL portfolio, with a significant element of the portfolio market valued (private assets are only 35% of the portfolio as at the end of 2021). The discount was 35% about six months ago and about 43% a year before that, so it has widened.

The market value of OCN's stake in WSON alone is 112% of OCN's own market valuation. Or, viewed another way, if OCN sold the OWIL portfolio at the current stated value, the investor would be getting the WSON controlling position at a fifth of its market value.

We believe that a 47% discount is unjustified even though we do accept that some investors have concerns due to Ocean Wilsons' relatively small market cap 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.

Another positive point for OCN is an attractive yield of 5.5% on a dividend that has been stable in dollars since being raised in FY17. Under our forecasts, we see the dividend as maintainable and even with scope to be raised in FY23.

Exhibit 13: Ocean Wilsons' share price discount to look-through valuation

	p	£m	% of value
Last OWIL value per Ocean Wilsons share (31 December 2021)	759.41	268.5	41%
Wilson Sons market value per Ocean Wilsons 57% share	1,099.36	388.8	59%
Ocean Wilsons look-through value	**1,858.77**	**657.3**	**100%**
Ocean Wilsons share price and market cap	980.00	346.6	
Discount	**47%**	**47%**	

Source: Refinitiv, Ocean Wilsons, Edison Investment Research. Note: US$1.31/£.

Exhibit 14 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. WSON is trading at a premium to its Chinese and Hong Kong peers, but at a discount to the other companies.

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.

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Exhibit 14: WSON selected comparators

Company	Market cap (US$m)	P/E FY21 (x)	P/E FY22e (x)	EV/EBITDA FY21 (x)	EV/EBITDA FY22e (x)	Price book FY21 (x)	ROE FY21 (%)
Wilson Sons	**889**	**19.7**	**13.9**	**7.4**	**7.5**	**1.6**	**10.2**
Santos Brasil (BRA)	1,336	31.8	19.3	10.5	8.1	2.7	13.7
China Merchants Ports (HKG)	6,809	6.8	6.4	11.7	13.7	0.5	8.1
Cosco (CHN)	2,605	7.2	6.5	12.1	10.2	0.4	6.8
Shanghai Int'l Port (CHN)	22,250	9.5	9.0	9.5	8.0	1.3	13.7
Hamburger Hafen (GER)	1,226	13.3	13.5	4.7	4.6	1.8	13.0
Intl Container Term Svcs (PHI)	8,820	24.6	20.5	11.7	10.4	6.0	24.6
Average		**15.5**	**12.6**	**10.0**	**9.2**	**2.1**	**13.3**
Wilson Sons vs average (%)		26.9	10.7	-26.0	-18.3	-25.7	-23.4

Source: Refinitiv, Edison Investment Research. Note: Prices as of 11 April 2022.

Finally, for reference, 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 been an average performer when compared to the companies shown in Exhibit 15 over the last 12 months, including WSON's most comparable Brazilian peer, Santos Brasil.

Exhibit 15: Wilson Sons' and comparators' performances (%)

Company	One month	Three months	One year	Year to date	From 12-month high
Wilson Sons	4	7	13	4	-21
Santos Brasil (BRA)	12	39	6	12	-23
China Merchants Ports (HKG)	2	-5	12	-3	-13
Cosco (CHN)	3	-7	-3	-11	-17
Shanghai Int'l Port (CHN)	8	2	29	30	-5
Hamburger Hafen (GER)	-3	-23	-19	-24	-32
Intl Container Term Svcs (PHI)	-1	15	80	14	-6
Average	**4**	**3**	**18**	**3**	**-16**

Source: Refinitiv, Edison Investment Research. Note: Prices as of 11 April 2022.

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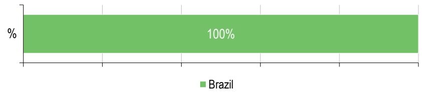
Exhibit 16: Financial summary table

Year end 31 December (US$m)	2019	2020	2021	2022e	2023e
PROFIT & LOSS					
Revenue	406.1	352.8	396.4	426.4	458.2
Cash costs	(258.3)	(213.9)	(234.4)	(265.5)	(279.0)
EBITDA	147.9	138.8	162.0	160.8	179.2
Depreciation and amortisation	(53.7)	(50.6)	(49.3)	(46.6)	(50.3)
Amortisation of right to use (IFRS 16)	(12.4)	(10.7)	(12.1)	(12.6)	(11.6)
Profit/loss on PPE & intangibles	0.3	0.1	(0.5)	0.0	0.0
Share of results of JVs	0.6	(4.1)	(5.0)	(1.0)	2.5
investment portfolio returns & interest revenue	40.8	31.9	48.6	22.8	35.1
Finance costs	(27.7)	(23.2)	(30.2)	(31.1)	(31.6)
Exchange gains/losses on monetary items	(0.1)	(7.6)	(3.1)	7.4	0.0
Extraordinary goodwill impairment charge	(13.0)	0.0	0.0	0.0	0.0
Profit Before Tax	82.5	74.6	110.4	99.7	123.3
Profit Before Tax (norm)	**95.6**	**74.6**	**110.4**	**99.7**	**123.3**
Income tax	(21.5)	(26.6)	(27.9)	(26.9)	(33.3)
Non-controlling interests	(14.2)	(9.3)	(18.8)	(21.1)	(22.7)
Profit After Tax (norm)	59.9	38.7	63.7	51.7	67.3
Average Number of Shares Outstanding (m)	35.4	35.4	35.4	35.4	35.4
EPS - normalised (c)	**169.3**	**109.5**	**180.1**	**146.2**	**190.3**
Dividend per share (c)	70.0	70.0	70.0	70.0	70.0
EBITDA Margin (%)	36.4	39.4	40.9	37.7	39.1
ROE (%)	7.3%	6.9%	11.1%	8.4%	10.3%
BALANCE SHEET					
Current Assets	460.6	492.8	518.5	529.5	562.4
Cash	69.0	63.3	28.6	25.0	35.0
Trading investments	298.8	347.5	392.9	400.8	420.9
Debtors	82.3	70.3	84.7	90.2	92.0
Stocks	10.5	11.8	12.3	13.5	14.5
Fixed Assets	981.0	861.1	861.8	905.3	899.5
Investments & other fixed assets	128.5	102.3	112.6	109.2	116.3
Tangible assets	627.0	579.1	563.1	607.6	607.9
Right to use assets	189.0	149.3	157.9	160.9	149.3
Intangible assets	36.4	30.4	28.3	27.6	26.0
Total Assets	**1,441.6**	**1,353.9**	**1,380.3**	**1,434.8**	**1,461.8**
Current Liabilities	115.7	124.3	131.3	132.3	135.1
Payables and other liabilities	57.1	47.4	66.6	72.3	78.1
Short term borrowings	36.6	58.7	45.3	40.0	37.0
Short term financial leases	21.9	18.2	19.4	20.0	20.0
Long Term Liabilities	540.1	485.9	465.4	474.6	449.4
Longer term borrowings	298.3	284.0	256.3	268.3	249.3
Longer term financial leases	172.2	139.7	148.4	140.0	130.0
Other long term liabilities	69.5	62.2	60.7	66.3	70.1
Net Assets	**785.9**	**743.7**	**783.7**	**827.9**	**877.4**
CASH FLOW					
Operating Cash Flow	162.0	153.2	160.3	152.5	179.8
Net Interest	(29.0)	(22.7)	(25.2)	(17.7)	(18.4)
Tax	(23.3)	(29.1)	(27.9)	(26.9)	(33.3)
Capex	(85.7)	(62.0)	(47.4)	(62.8)	(46.9)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Net acq/disposals of financial assets	20.4	(18.6)	0.3	0.0	0.0
Equity financing	0.0	0.0	0.0	0.0	1.0
Dividends	(42.2)	(42.2)	(42.6)	(42.5)	(42.5)
Other (including divs from JV,fx effects)	(4.7)	44.2	(21.1)	(5.0)	(0.0)
Net Cash Flow	(2.4)	22.8	(3.6)	(2.4)	39.8
Net debt/(cash) including leases	**460.1**	**437.3**	**440.9**	**443.3**	**403.5**

Source: Ocean Wilsons Holdings, Edison Investment Research

Contact details	Revenue by geography
Richmond House 5th Floor, 12 Par-la-Ville Road PO Box HM 2250 Hamilton HM DX Bermuda www.oceanwilsons.bm	

Management team	
Outgoing Chairman: José Francisco Gouvêa Vieira	**Chair Designate of the Board: Caroline Foulger**
Mr Gouvêa Vieira has been the managing director of Gouvêa Vieira Advogados since 1971 and is retiring in 2022. He has been a director of Ocean Wilsons since 1991 and chairman of the board since 1997. He is also chairman of Wilson Sons and a member of the boards of several companies, including PSA Peugeot Citroen do Brasil and Concremat Engenharia.	Ms. Foulger is expected to be appointed Chair in the next AGM on 26 May. She is currently a non-executive director at Ocean Wilson (since 2020). She sits on several boards including Hiscox (due to retire in July 2022), She is an independent chair at Oakley Capital Investments and a retired partner at PricewaterhouseCoopers.
Deputy Chairman: William Salomon	**Chief Operating and Financial Officer: Leslie Rans**
Mr Salomon was chairman of Rea Brothers, then deputy chairman of the investment division of Close Brothers from 1999. He is a director of Wilson Sons, chairman of Hanseatic Asset Management (the OWIL investment manager), senior partner in Hansa Capital Partners and a director of Hansa Investment Company Limited.	Ms Rans was previously CEO of Digicel Bermuda, chief financial officer of One Communications (Bermuda), chief financial officer at The Bermuda Telephone, chief business officer of First Ecommerce Data Services and vice president-business development at HSBC Bank Bermuda.

Principal shareholders	(%)
Hansa Investment Company	26.5
Victualia Limited Partnership (Mr W Salomon has an interest in these shares)	13.2
Mr C Townsend	11.4
Dynamo Internacional Gestao de Recursos	6.7
Ingot Capital Management	4.6

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