

Neptune Orient Lines Limited

Slow earnings recovery

HOLD

prev. Sell

S\$0.865 (US\$0.49) @29/07/02

Mkt. Cap US\$620.6m

Transport & Logistics (Shipping)

NOL SP / NEPS.SI

Masya Spek, CFA +65 6239-8661 – masya.spek@gkgoh.com.sg

MITA (P) 133/09/2001

Earnings Forecasts (US\$ m)

FY End Dec	01	02F	03F	04F
Turnover	4,737	4,717	5,070	5,499
Pretax earnings	(34.8)	(195.4)	(76.6)	78.7
Net profit	(56.6)	(223.8)	(68.5)	125.6
F dil EPS (cts)	(4.8)	(19.0)	(5.8)	10.7
EPS growth (%)	n.m.	n.m.	n.m.	n.m.
Prev. Forecast (cts)		(6.5)	5.0	
Consensus Forecast (cts)		-8.5	5.2	
DPS (cts)	-	-	-	-
P/E (x)	(10.2)	(2.6)	(8.4)	4.6
CFPS (cts)	14.2	3.2	17.0	33.5
Net cash/debt (US\$ m)	(2,320)	(2,725)	(2,779)	(2,442)
Net gearing (%)	2.5	3.9	4.4	3.2

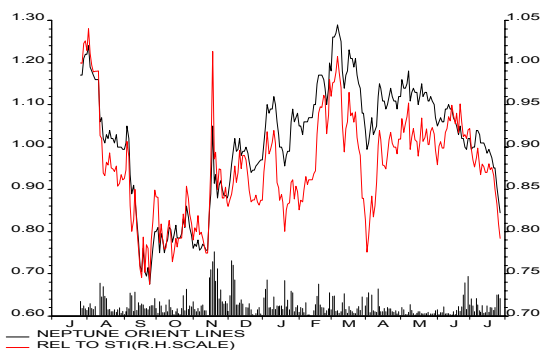
Source: Company annual reports, GKG estimates

Segmental Breakdown (US\$ m)

Turnover	00	01	02F	03F	04F
Liner	3,796	3,584	3,568	3,813	4,156
Logistics	420.0	723.0	745.0	806.4	872.9
Chartering	333.0	359.0	336.0	380.4	401.2
Others	65.0	71.0	68.0	69.5	68.8
Total	4,614	4,737	4,717	5,070	5,499
EBIT					
Liner	284.0	19.0	(177.8)	(59.7)	74.8
Logistics (*)	37.0	(3.0)	20.5	26.2	32.7
Chartering	45.0	85.0	63.9	81.7	86.1
Others	(18.0)	(9.0)	(13.5)	(11.3)	(12.4)
Total	348.0	92.0	(106.9)	36.9	181.2
FEU Moved (*000)					
Americas	654.0	636.8	674.1	691.0	742.6
Europe	283.0	350.4	344.6	358.4	372.8
Asia/ME	429.0	422.7	443.8	466.0	489.3
Total	1,366	1,410	1,463	1,515	1,605

* Before goodwill amortisation and one-off charges, US\$13m for FY01

Source: Company releases, GKG estimates

Price Chart


Source: Datastream

Recommendation

Upgrade to HOLD. We have upgraded our recommendation for NOL to Hold from Sell because the share has fallen sharply, while the industry has reached what we believe is its bottom. We forecast disappointing 1H02 results, but expect things will not get worse (essentially reflecting current developments); instead, there is a potential for them to get better.

Earnings Downgrade

Higher rates in 2Q02 unlikely. We have reassessed our forecasts on the back of sharper-than-anticipated volume growth in 1Q. However, with 1Q rates remaining weak, and the outlook for the rest of the year poor, we are reversing the firming of rates assumed for 2H02. We now expect a 4% decline in average revenues/FEU for FY02, compared with 1.7% previously. We forecast a slow recovery in FY03, but do not expect the company to be profitable. We project NOL will book a loss per share of 19.0cts in FY02 and loss per share of 5.8cts in FY03. For 1H02, we forecast loss of 11.2cts per share (net loss of US\$131m).

Outlook

Slow earnings recovery, but better from here on. While we are confident of a slow earnings recovery, as captured in our earnings forecast, we believe there is a chance that things could get better, rather than worse. For instance, an increase in oil exports (either by OPEC or NOPEC) will result both in lower bunker prices and higher demand for tanker space. We might see an end to restructuring costs at APL Logistics, and a return of this division to healthy profit margins in excess of 5%. On the liner side, there are merger opportunities that could lead to substantial cost savings on the back of route integrations.

Valuation

Long-term value below 90 cts. We see long-term value below 90cts, reflecting 15x EV/EBIT on FY04 earnings. At current valuations, this translates into a Hold. In the short term, there is room for further downside as consensus estimates show only mild losses for FY02 and profits for FY03. Recent statements by NOL CEO Mr. Flemming Jacobs still paint a bleak picture about profitability on Transpacific trade, where NOL deploys about 58% of its liner capacity. Consensus estimates are likely to be lowered after the interims. We would recommend buying NOL below 80 cents. **HOLD.** ■