

Ocean Wilsons Holdings

H124 results update

Confirmation of interest in Wilson Sons holding

Ocean Wilsons Holdings' (OCN's) H124 results showed good growth, reflecting a strong performance from Wilson Sons and a positive performance from the investment portfolio (OWIL). While the strategic review remains ongoing, in August the company announced that it is in discussions with I Squared that may or may not lead to an offer for its holding in Wilson Sons (BOVESPA: PORT3). Despite the review and the potential for value realisation, OCN still trades at a c 40% discount to our valuation of 2,275p/share.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS** (c)	DPS (c)	P/E (x)	Yield (%)
12/22	440.1	38.5	(52.8)	70.0	N/A	3.7
12/23	486.6	131.0	189.6	85.0	10.1	4.5
12/24e	526.5	143.6	232.4	100.0	8.2	5.2
12/25e	589.4	173.1	288.9	125.0	6.6	6.6

Note: *PBT is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **EPS is on a company-reported basis

Potential bidder for PORT3 announced

On 23 August, Ocean Wilsons confirmed that it was in discussions with I Squared Capital Advisers (US) LLC that may or may not lead to the disposal of the company's 57% stake in Wilson Sons. This follows confirmation in June 2023 that OCN was in the early stages of a strategic review involving the company's investment in PORT3 and that all potential strategic options would be considered. A disposal of PORT3 would, however, raise the potential for Brazilian CGT charges.

Revenue and operating profit increase 14% and 12%

Ocean Wilsons' interim results were strong as both the investment portfolio and Wilson Sons performed positively. Group revenue increased 14.2% to US\$262.4m driven by strong trading in Wilson Sons, and operating profit rose by 22.4% to US\$68.4m, benefiting from the strong revenue performance mentioned in Wilson Sons. The investment portfolio also produced another positive performance, which is reflected in the PBT line. Profit after tax fell nearly 20% y-o-y to US\$38.4m as the tax charge rose dramatically due to deferred tax timing differences and net assets slipped 3.2% to €789.8m due to a negative currency impact and dividends more than offsetting profit. The FX movement contributed to a reduction in net debt.

Valuation: Still trading at c 40% discount to fair value

To value OCN we have taken the last published equity value (30 June 2024), excluding minorities of US\$587.2m or £448.2m. We have then subtracted the equity value at the same date of OCN's 57% stake in PORT3 of £198.6m, leaving an equity value of OCN (ex PORT3) of £249.6m. We have then added back the current market value (as at 11 October 2024) of OCN's 57% stake in PORT3 and arrived at a market value of OCN of £804.5m (or 2,275p/share), against the current market capitalisation of £514.5m (1,455p/share). This implies that OCN trades at a 36.0% discount to its market price value. Our forecasts reflect the H124 results and are upgraded to reflect better trading at PORT3, offset by an FX headwind.

Investment companies

11 October 2024
Price 1,455p
Market cap £515m

US\$1.31/£, BRL5.58/US\$

Net debt (excluding leases of US\$202.5m) at 30 June 2024 US\$234.2m

Shares in issue 35.4m

Free float 36%

Code OCN

Primary exchange LSE

Secondary exchange Bermuda

Share price performance



% 1m 3m 12m

Abs 7.8 12.0 44.3

Rel (local) 7.4 11.6 32.2

52-week high/low 1,475p 918p

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

Q3 results November 2024

Preliminary FY24 results March 2025

Analyst

Andy Murphy +44 (0)20 3077 5700

industrials@edisongroup.com
[Edison profile page](#)

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Both sides of the group performed well

Overall, the group performed well in H124 with positive performances from both the investment portfolio and Wilson Sons. The former generated a gross return of 3.9%, in line with its benchmark and well ahead of the 60:40 MSCI ACWI Equal Weighted benchmark. Wilson Sons benefited from solid underlying trading and also new trades in containers at its two terminals. The outlook for both elements of the group look encouraging as the interest rate environment appears set to become more accommodating over the foreseeable future.

Interim results update

Ocean Wilsons' interim results were strong as both the investment portfolio and Wilson Sons performed positively. Group revenue increased 14.2% to US\$262.4m driven by strong trading in Wilson Sons, and operating profit rose by 22.4% to US\$68.4m. A positive return from the investment portfolio contributed to a good PBT performance.

However, despite the strong performance, profit after tax fell nearly 20% to US\$38.4m as the tax charge taken rose dramatically due to deferred tax timing differences and net assets slipped 3.2% year to date to €789.8m due to a negative currency impact and dividends offsetting profit for the period. However, the FX movement had a positive impact on net debt, which fell 8.8% to US\$436.7m. Finally, in the period the company paid dividends of 85c per share.

Investment portfolio performed in line with the benchmark

The investment portfolio delivered a 3.9% gross return and a 3.3% net return for the six-month period, in line with the absolute benchmark return, which is the US CPI Urban Consumers NSA +3%, and significantly ahead of the MSCI ACWI Equal Weighted 60:40 comparable benchmark. Headline equity market performance was strong in the period, up 11.3% driven mainly by the 'Magnificent seven' technology stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla). The positive performance of these stocks had a disproportionate impact on the index given their outsize weighting. By muting their impact by looking at the MSCI ACWI Equal Weighted Index, the return was only 0.9%, highlighting how imbalanced market returns were in the period.

Exhibit 1: Investment portfolio returns

	H124	H123	Three years pa	Five years pa
Gross return	3.9%	4.5%	1.5%	6.0%
Net return*	3.3%	3.9%	0.3%	4.8%
Performance benchmark**	3.9%	3.7%	8.0%	7.2%
60:40 MSCI ACWI and Bloomberg Global Treasury	4.5%	8.4%	0.2%	5.0%
60:40 MSCI ACWI Equal Weighted and Bloomberg Global Treasury	-1.5%	3.1%	-4.8%	1.0%
MSCI ACWI Equal Weighted	0.9%	4.7%	-3.3%	3.7%
MSCI ACWI + FM NR US\$	11.3%	13.9%	5.4%	10.7%
Bloomberg Global Treasury TR US\$ (Unhedged)	-4.9%	0.6%	-7.2%	-3.4%
MSCI Emerging Markets NR US\$	7.5%	4.9%	-5.1%	3.1%

Source: Ocean Wilsons. Note: *Net of management and performance fees. No performance fees were earned in 2024 and 2023 as the high-water mark was not exceeded. **The OWIL performance benchmark is an absolute benchmark of US CPI Urban Consumers NSA +3% pa.

The fund is deliberately designed to generate sustainable, less volatile returns over the long term by investing in a range of public and private funds. Although the fund has underperformed the performance benchmark over the last three years (1.5% pa versus 8.0% pa), its five-year performance has been much closer to the performance benchmark (6.0% pa versus 7.2% pa).

In the period, the best returns were driven by the public equity and directional hedge funds with exposure to the US market and especially the technology sector. Among the best performing funds

were the Blackrock Strategic Equity Hedge Fund and Polar Capital Global Technology, which both benefited from this exposure. In the period they increased by 17.0% and 25.7% respectively. The Japanese holdings' performance was more mixed, with esoteric fund Simplex Value Up gaining 10.5%, while the larger-cap holdings were mixed with Arcus Japan, Alma Eikoh Japan Large Cap and Indus Japan returning 2.6%, 1.9% and -2.7% respectively. Again, a 'handful' of mega-cap stocks drove the overall market and these stocks were largely avoided by these funds.

The performance of private funds tends to lag public markets, and activity was subdued as higher interest rates led to lower transactions and fund-raising. Two holdings performed well: financials specialist Reverence Capital Partners Opportunities Fund V and healthcare specialist OrbiMed Private Investment IX. No new commitments were made in the period.

Within the defensive section of the portfolio, the fixed income positions performed well, with Selwood AM – Liquid Credit Strategy, a specialist in trading investment-grade credit default swaps (CDXs), being the standout holding as demand for insurance against corporate default increased. This fund increased in value by 4.5%. Nephila Iron Catastrophe Fund, a specialist in investing in catastrophe bonds, gained 6% in the period in a very strong pricing environment. On the flipside, the Lazard Convertible Bond Fund, which lacked exposure to the 'Magnificent 7' stocks, dropped 2.7% and the holdings in Keynes Dynamic Beta Strategy and Brevan Howard Absolute Return Government Bond Fund were both sold for slightly differing reasons.

Wilson Sons continues to grow strongly

The 14.2% y-o-y increase in revenue was totally driven by strong trading in Wilson Sons, which in particular benefited from increased container volumes and towage activity. Towage volumes increased 6.7% due to a greater number of ships carrying grain, iron ore and breakbulk cargo, and this in turn implied a more advantageous mix, which pushed total towage revenue up 10.3% y-o-y to US\$113.5m. This positive effect was offset to a degree by decreased special operations revenue, largely due to lower salvage assistance revenue.

Exhibit 2: Operating volumes and y-o-y change

	FY21	FY22	Change y-o-y (%)	H123	H223	FY23	Change y-o-y (%)	H124	Change y-o-y (%)
Towage									
Harbour manoeuvres (No.)	54,389	54,865	0.9%	27,079	30,028	57,107	4.1%	28,900	6.7%
Offshore support bases									
Vessel turnarounds (No.)	601	785	30.6%	554	526	1,080	37.6%	570	2.9%
Operating days (No.)	5,400	6,489	20.2%	3,657	3,714	7,371	13.6%	3,875	6.0%
Container terminal (agg. volumes, 000s)									
Exports – full containers	306	255	-16.9%	139	167	306	20.2%	159	13.8%
Imports – full containers	150	129	-14.0%	62	69	131	1.5%	76	21.2%
Cabotage – full containers	121	123	1.3%	63	65	128	4.6%	67	6.0%
Inland navigation – full containers	22	21	-3.6%	13	13	26	22.9%	12	-9.7%
Transshipment – full containers	160	142	-11.2%	60	109	169	18.6%	144	141.3%
Empty containers	282	246	-12.9%	152	152	304	23.6%	154	1.2%
Total volume (No.)	1,042	916	-12.1%	491	574	1,064	16.2%	612	24.7%

Source: Ocean Wilsons

Container volumes increased 24.7% in total to a record volume, and total container terminal revenue increased 29.0% to US\$99.6m, again benefiting from a better mix as the terminals saw robust growth in transshipment and gateway volumes, higher ancillary services and fixed cost dilution. In May, Rio Grande launched a new deep-sea route and feeder solution for cargo volumes from Argentina, Uruguay and southern Brazil, enhancing its east coast hub status, and in July, Salvador saw the first regular call of a new Panamax vessel on a direct link to Asian markets, enhancing the terminal's attractiveness as a transshipment hub for volumes from north and north-eastern Brazil. Both of these services should contribute to growth in H224 and beyond.

Offshore support revenue rose 21.2% to US\$10.8m, driven by better fleet utilisation and higher rates, while the number of operating days rose 6%, driven by new hires and contract renewals.

Operating profit estimates raised c 6%

Following the strong H124 results, we have raised our FY24 and FY25 underlying operating profit estimates by c 6% in FY24 and FY25, which is the net effect of better-than-expected trading in Wilson Sons, offset by an FX headwind as the US dollar, Ocean Wilson's reporting currency, has strengthened markedly versus the Brazilian real, Wilson Sons' reporting currency.

In particular, there are positive contributions from a new direct container line calling at the Salvador terminal and transshipment volume growth in the Rio Grande terminal. In addition, there has been strong growth in harbour manoeuvres within the towage revenues as overall activity has grown. In our model, we have also increased net debt in FY25e by c \$20m, reflecting planned increased investment in quay and crane equipment, which has been carried over into FY26 estimates, which have been introduced in this note for the first time. We estimate 4.7% revenue growth and 5.3% growth in underlying operating profit, which implies modest margin improvement.

Exhibit 3: Revised estimates							
US\$m	2023	2024e			2025e		
		Old	New	% chg	Old	New	% chg
Revenue	486.6	521.7	526.5	0.9%	584.0	589.4	0.9%
Y-o-y % change	7.9%	7.2%	8.2%	-	11.9%	11.9%	-
EBITDA – Edison basis	197.8	214.3	223.3	4.2%	238.7	248.6	4.1%
Y-o-y % change	6.9%	8.3%	12.9%	-	11.4%	11.3%	-
Underlying operating profit	125.7	142.7	151.2	6.0%	167.1	176.5	5.6%
Y-o-y % change	4.7%	13.5%	20.2%	-	17.1%	16.8%	-
PBT (reported)	130.7	135.2	143.3	6.0%	164.8	172.8	4.9%
Y-o-y % change	186.1%	3.5%	9.6%	-	21.9%	20.6%	-
EPS – continuing, diluted, company basis (c)	189.6	213.6	232.4	8.8%	270.3	288.9	6.9%
Y-o-y % change	N/A	12.7%	22.6%	-	26.5%	24.3%	-
DPS (c)	85.0	100.0	100.0	0.0%	125.0	125.0	0.0%
Y-o-y % change	21.4%	17.6%	17.6%	-	25.0%	25.0%	-
Net (debt)/cash (pre IFRS 16)	(254.8)	(213.6)	(209.6)	-1.9%	(157.1)	(174.9)	11.3%
Y-o-y % change	4.4%	-16.2%	-17.7%	-	-26.5%	-16.6%	-

Source: Edison Investment Research

OCN trades at a c 40% discount to valuation bounce

The share price of OCN has performed strongly over the last year, rising more than 80% since June 2023. Despite this material move upwards, we believe the shares still trade at a c 40% discount to our revised valuation of 2,275p/share, down from 2,564p/share previously. The good collective underlying performances of PORT3 and OWIL have been offset by the weakness of the Brazilian real versus sterling and the US dollar in the former. A resolution to the strategic review currently being undertaken may crystallise the inherent discount in the share price versus its valuation. The timing is uncertain, but the company commented recently, post the confirmation that it was in discussions with I Squared Capital Advisers, that a resolution was expected by the end of this calendar year. We also understand that a disposal of OCN's PORT3 holding would crystallise a Brazilian Capital Gains Tax liability charged at 22–25%. This is a complicated issue and is mentioned here as an additional consideration.

Sum-of-the-parts valuation implies significant upside

OCN is an investment company that has held a 57% strategic stake in the Brazilian-listed port services company Wilson Sons (PORT3) for many years. It also holds a portfolio of mainly listed, but some unlisted, investments.

In Exhibit 4 we attempt to value OCN. Firstly, we took the last published equity value (30 June 2024), excluding minorities, of OCN of US\$587.2m or £448.2m. Secondly, we subtracted the equity value at the same date of OCN's 57% stake in PORT3 of £198.6m, leaving an equity value of OCN (ex PORT3) of £249.6m. Finally, we added back the current market value (as at 11 October 2024) of OCN's 57% stake in PORT3 and arrived at a market value of OCN of £804.5 (or 2,275/share) against a current market capitalisation of £514.5m (1,455p/share). This implies that OCN trades at a 36.0% discount to its market price value despite the bounce in the share price, from a low of 820p on 9 June 2023 to the current level. This calculation does not include any potential change in the value of the investment portfolio since the last published valuation date of 30 June 2024, nor any additional profit accrued from its holding in PORT3 since that date.

The PORT3 share price has also performed well following the announcement last year that OCN was considering its strategic options relating to the PORT3 position within the group. PORT3 is trading on a 2024 EV/EBITDA multiple of c 9.3x, which is a modest discount to the average multiple of a group of international peers (FY24 average of 10.8x) and so we consider this to be relatively conservative given the M&A upside of this particular asset at the moment and the significant growth that PORT3 has demonstrated in 2023 and so far in 2024. For reference, we estimate that each 1.0x of EV/EBITDA ratio added raises the total value of OCN by £85.4m or 242p/share.

Exhibit 4: Market value of Ocean Wilsons			
Entity		Currency m	p/share
Ocean Wilsons (OCN)			
	Total equity/NAV, ex minorities, (US\$m – 30 June)	587.2	
	Total equity/NAV, ex minorities, (£m – 30 June)	448.2	
Wilson Sons (PORT3)			
	Total equity/NAV (BRLm – 30 June)	2,543.6	
	Total equity (100%, £m – 30 June)	348.4	
	Minus 57% of equity, £m – 30 June	(198.6)	
	Equity value of OCN, ex PORT3 equity value (£m)	249.6	
	Add, 57% of Wilson Sons market cap (£m)	554.9	
	Total value of Ocean Wilsons (OCN) at market price (£m)	804.5	2,275
	Current market value of Ocean Wilsons (£m)	514.5	1,455
	OCN discount to market value	-36.0%	-36.0

Source: Edison Investment Research

Another way to highlight OCN's value (based on the same figures) is to look at the current value of OCN's 57% stake in PORT3 (£554.9m) and compare it to the current value of OCN (£514.5m). In effect, at the current market valuations, investors could purchase a controlling stake in PORT3 for an 8% discount and would receive the rest of OCN's assets for free.

The increase in estimates for OCN, driven by better trading in Wilson Sons (PORT3) mentioned earlier in the note, has no direct impact on our valuation of OCN as within our valuation we value PORT3 at market value, rather than a multiple of estimated profit.

Exhibit 5: Financial summary

	US\$m	2019	2020	2021	2022	2023	2024e	2025e	2026e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue		406.1	352.8	396.4	440.1	486.6	526.5	589.4	617.3
EBITDA		132.0	131.5	158.8	178.6	197.8	223.3	248.6	257.9
Normalised operating profit		69.3	70.2	97.4	114.2	126.0	151.5	176.8	186.1
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-based payments		(0.4)	(0.1)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit		68.9	70.0	97.0	113.8	125.7	151.2	176.5	185.8
Net Interest		(21.7)	(21.6)	(26.1)	(27.9)	(27.6)	(23.6)	(19.2)	(15.8)
Joint ventures & associates (post tax)		0.6	(4.1)	(5.0)	3.2	6.4	6.4	6.4	6.4
Profit Before Tax (norm)		82.9	74.7	110.8	38.5	131.0	143.6	173.1	185.6
Profit Before Tax (reported)		82.5	74.6	110.4	38.1	130.7	143.3	172.8	185.3
Reported tax		(21.5)	(26.6)	(27.9)	(26.7)	(27.6)	(25.8)	(31.1)	(33.4)
Profit After Tax (norm)		61.4	48.1	82.8	11.8	103.4	117.8	142.0	152.3
Profit After Tax (reported)		61.0	48.0	82.5	11.5	103.1	117.5	141.7	152.0
Minority interests		(14.2)	(9.3)	(18.8)	(30.2)	(36.0)	(35.3)	(39.5)	(39.5)
Net income (normalised)		47.2	38.8	64.1	(18.3)	67.4	82.5	102.5	112.7
Net income (reported)		46.9	38.7	63.7	(18.7)	67.0	82.2	102.2	112.4
Basic average number of shares outstanding (m)		35	35	35	35	35	35	35	35
EPS – basic normalised (c)		133.53	109.83	181.19	(51.88)	190.46	233.26	289.78	318.76
EPS – diluted normalised (c)		133.53	109.83	181.19	(51.88)	190.46	233.26	289.78	318.76
EPS – basic reported (company basis) (c)		132.49	109.47	180.15	(52.82)	189.60	232.42	288.93	317.92
Dividend (c)		70.00	70.00	70.00	70.00	85.00	100.00	125.00	135.00
Revenue growth (%)		14.4	(13.1)	12.4	11.0	10.6	8.2	11.9	4.7
EBITDA Margin (%)		32.5	37.3	40.1	40.6	40.6	42.4	42.2	41.8
Normalised Operating Margin (%)		17.1	19.9	24.6	25.9	25.9	28.8	30.0	30.2
BALANCE SHEET									
Fixed Assets		981.0	861.1	861.8	933.9	998.5	1,017.9	1,067.4	1,116.8
Intangible Assets		36.4	30.4	28.3	27.8	27.5	49.2	71.0	92.7
Tangible Assets		627.0	579.1	563.1	589.6	614.1	605.3	626.6	647.8
Investments & other		317.6	251.6	270.5	316.5	356.9	363.4	369.8	376.3
Current Assets		460.6	492.8	518.5	467.3	523.4	570.2	616.7	649.9
Debtors		56.7	47.8	59.4	64.4	79.0	79.0	88.4	92.6
Cash & cash equivalents		378.3	422.5	433.8	368.4	396.7	443.5	480.5	509.6
Other		25.5	22.5	25.4	34.5	47.7	47.7	47.7	47.7
Current Liabilities		(115.7)	(124.3)	(131.3)	(153.2)	(182.2)	(186.0)	(200.6)	(199.6)
Creditors		(56.6)	(41.1)	(58.5)	(58.3)	(71.8)	(77.4)	(86.6)	(83.3)
Tax and social security		(0.5)	(6.3)	(8.1)	(10.3)	(10.8)	(9.0)	(14.3)	(16.6)
Short term borrowings		(36.6)	(58.7)	(45.3)	(59.9)	(70.9)	(70.9)	(70.9)	(70.9)
Other		(21.9)	(18.2)	(19.4)	(24.7)	(28.8)	(28.8)	(28.8)	(28.8)
Long Term Liabilities		(540.1)	(485.9)	(465.4)	(493.9)	(523.8)	(523.8)	(523.8)	(523.8)
Long term borrowings		(298.3)	(284.0)	(256.3)	(262.0)	(253.3)	(253.3)	(253.3)	(253.3)
Other long term liabilities		(241.7)	(201.9)	(209.1)	(231.9)	(270.5)	(270.5)	(270.5)	(270.5)
Net Assets		785.9	743.7	783.7	754.1	815.8	878.2	959.6	1,043.4
Minority interests		(216.1)	(187.9)	(190.0)	(199.5)	(214.3)	(214.3)	(214.3)	(214.3)
Shareholders' equity		569.8	555.8	593.7	554.6	601.5	663.9	745.3	829.0
CASH FLOW									
Op Cash Flow before WC and tax		123.8	109.3	143.9	75.9	174.8	189.2	213.5	223.7
Returns on investment and other		(34.7)	(33.4)	(49.5)	47.9	(29.1)	(12.4)	(12.4)	(12.4)
Working capital		10.4	21.6	1.0	(22.7)	(1.7)	4.1	(2.5)	(9.8)
Exceptional & other		(0.4)	11.9	9.1	(4.7)	(7.9)	(6.1)	(6.1)	(6.1)
Tax		(23.3)	(29.1)	(27.3)	(22.1)	(27.9)	(27.6)	(25.8)	(31.1)
Other		59.6	48.1	54.0	54.5	55.2	49.4	50.3	49.2
Net operating cash flow		135.3	128.4	131.3	128.9	163.4	196.6	217.0	213.5
Capex		(86.4)	(58.2)	(48.4)	(63.9)	(64.3)	(61.6)	(91.6)	(91.6)
Acquisitions/disposals		23.0	(13.5)	(13.5)	14.5	(6.8)	0.0	0.0	0.0
Net interest		(29.0)	(22.7)	(25.2)	(30.1)	(32.4)	(23.6)	(19.2)	(15.8)
Equity financing		21.1	22.7	(40.1)	3.0	(18.5)	(11.1)	(11.1)	(11.1)
Dividends		(42.2)	(42.2)	(42.6)	(49.9)	(50.0)	(55.1)	(60.4)	(68.2)
Net Cash Flow		21.9	14.5	(38.5)	2.4	(8.6)	45.2	34.7	26.8
Opening net debt/(cash)		263.5	266.0	279.4	273.0	244.0	254.8	209.6	174.9
FX		(3.2)	(20.2)	3.8	3.5	2.4	0.0	0.0	0.0
Other non-cash movements		(21.2)	(7.7)	41.1	23.1	(4.6)	0.0	0.0	0.0
Closing net debt/(cash)		266.0	279.4	273.0	244.0	254.8	209.6	174.9	148.1

Source: Company data, Edison Investment Research

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