

**PPAP is the most undervalued port in Asia. Earnings up 51%.
MSP's target price: KHR 20,600**

April 18th, 2019

Current Price	KHR9,300
IPO Price	KHR5,120
MSP's Investor Return (TSR)	108%
Target Price (TP)	KHR20,600
TP Upside:	122%
IPO Price	KHR5,120

1 USD = 4,018 KHR

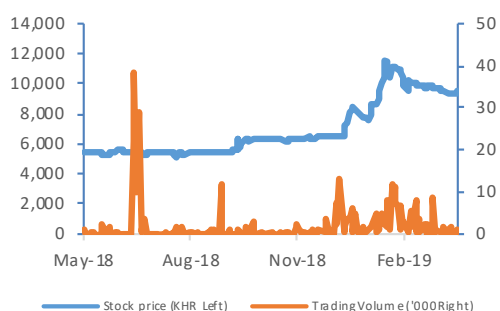
Investor Updates

- Net profit in 2018 up 51% year on year
- Phase 2 of container terminal LM17 upgrade was completed, allowing PPAP to increase its annual capacity at LM17 to 300,000 TEUs.
- 2018 dividend per share to Class A shareholders is KHR333 (6.5% dividend yield on IPO price).

Our View

- PPAP is undervalued by the market, as indicated by its low P/E and P/B multiple compared to its peer ports in Southeast Asia.
- Target price of **KHR20,600** is based on the median P/E multiple of peer ports and our forecasted FY2019 earning per share (EPS).
- PPAP is well-positioned to increase its cash dividend significantly after monetizing its riverfront land.

Stock performance & trading volume



Stock information

Market cap (KHR BN)	192.36
Market cap (US\$ MM)	47.88
Outstanding shares (MM)	20.68
Share price (KHR)	9,300
Share price (USD)	2.31
Major Shareholder	
Ministry of Econ & Fin	80.0%
P/B (x)	0.34
P/E (x)	5.91
EV/EBITDA (x)	5.51
Debt/EBITDA (x)	2.28
EBITDA/Interest (x)	10.10
Debt/Equity	19.1%
Payout ratio	11.9%

Key Investment Highlights in 2018

- Revenue in 2018 up **10%**, as container throughput in 2018 surges **16%**.
- Net profit in 2018 up **51%** thanks to increase in top line revenue, rental and finance income, and deferred tax income.
- PPAP has leased its riverfront land for 50 years;. As part of the leasing agreement, PPAP will also receive a new administration building worth US\$11m and two new terminals worth US\$30m.
- New rental income and additional interest income expected to add an estimated **US\$1.5m** annually to the income of the port.

PPAP Overview

Investment thesis on track:

High quality operating business

- PPAP continues to achieve solid business performance in 2018 with double-digit growth in revenue, EBITDA and net income.
- Business is well managed, and well governed, as indicated by the improved operating margin and EBITDA margin.
- P/E ratio is very low at 6.0x compared with its peer operators in South East Asia (~15.0x). P/E ratio at 2015 IPO was 12.2x.

Well-positioned to increase cash dividend

- Our forecasted earning in 2019 suggests PPAP's 2019 dividend per share (DPS) could increase ~60% to KHR538 (at ~39% peer average payout ratio).

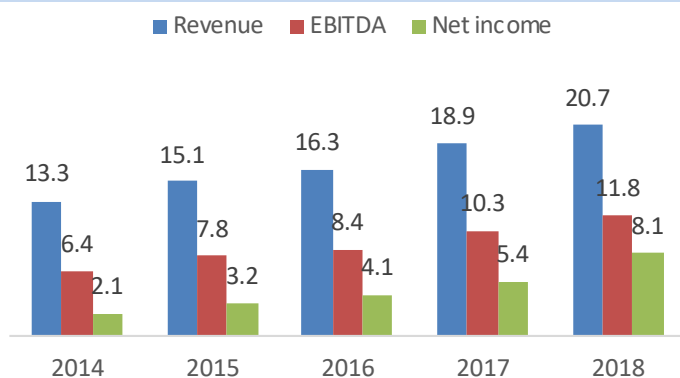
- PPAP already has an excessively conservative balance sheet. An increase in dividend payout will not diminish PPAP's ability to invest in future CAPEX, as a major portion of CAPEX will be covered by the Chinese real estate developer to construct two new terminals worth US\$30m.
- Payout ratio is well below peers, and what is required to support future growth
- PPAP has the lowest payout ratio (16%) among its peers (median payout ratio is 39%), giving more room for PPAP to grow its cash dividend.

EBITDA and EBIT in 2018 increased 14% and 19% to US\$11.8m and US\$8.9m, respectively. Net profit jumped 51% to US\$8.1m.

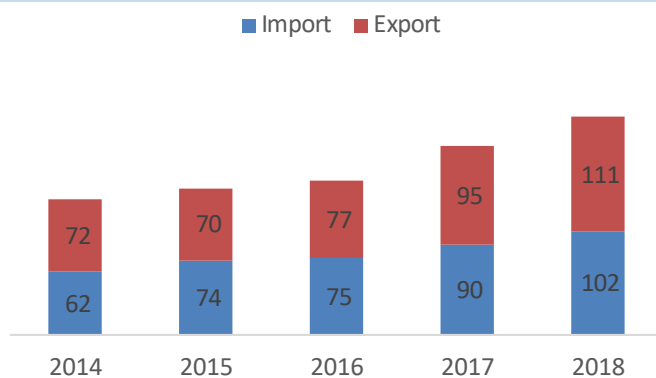
PPAP is a high quality business

- PPAP has proven a strong track record of solid performance over the past 5 years driven by strong fundamentals.
- **Revenue in 2018 grew 10% to US\$20.7m, as container throughput handled by PPAP increased 16% to 213,571 TEUs** attributed to Cambodia's robust economic growth. Three main sources of revenue for PPAP – stevedoring, lift on lift off and port due/charges – continue to increase 13%, 11% and 7.8%, respectively.
- **In addition to core business revenue, other non-operating income (rental income and finance income) more than doubled to US\$1.5m**, which contributed to 7% of the total revenue.
- **EBITDA and EBIT in 2018 increased 14% and 19% to US\$11.8m and US\$8.9m, respectively. Net profit jumped 51% to US\$8.1m.** The increase is contributed by the growth in revenue, rental income, interest income, deferred tax income, and modest increase in cost of services and SG&A expense.

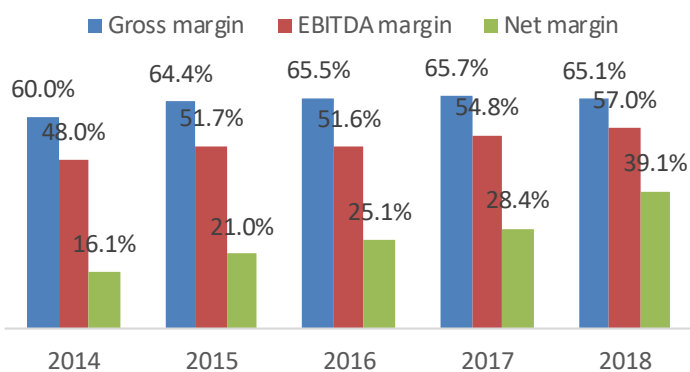
Growth of revenue, EBITDA & net income (US\$MM)



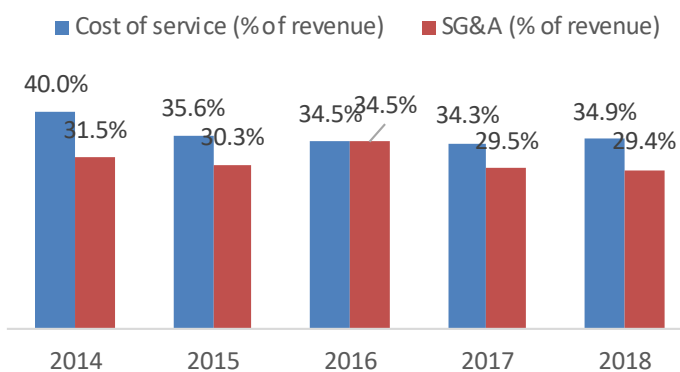
Increase of container throughput (thousand TEUs)



Improvement in annual margin



Cost control to improve efficiency



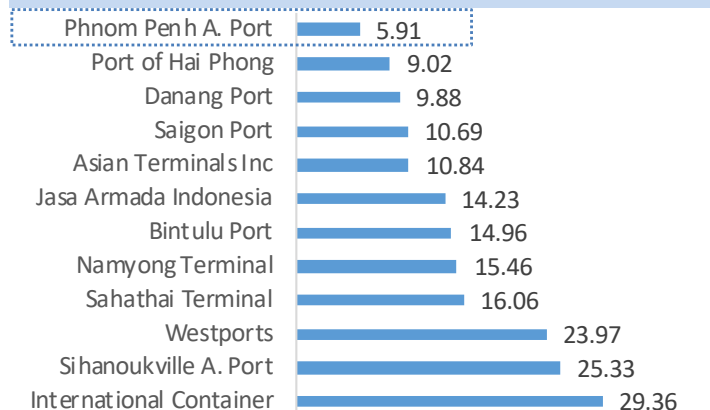
On P/E basis, PPAP is trading at least 48% discount to its peer, according to our conservative estimate of peer comparison analysis.

PPAP is significantly undervalued compared to local and regional peers

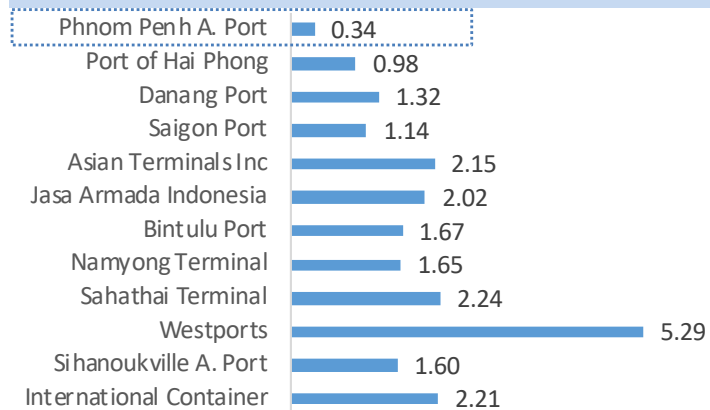
- PPAP has the lowest P/E (6.0x) and P/B (0.34x) compared to the other 11 peer ports in Cambodia (Sihanoukville Autonomous Port) and the region, including Vietnam, Malaysia, Thailand, the Philippines and Indonesia.
- The median P/E and P/B of the 11 peer ports is 15.0x and 1.7x, respectively.
- On P/E basis, PPAP is trading at least 48% discount to its peer, according to our conservative estimate of peer comparison analysis.
 - Our conservative target price is KHR17,800 based on the peer median P/E of 14.96x and PPAP’s FY2018 adjusted earning per share (EPS) of KH1,194. Our adjusted EPS is derived from deducting the deferred tax income and taking into account the 20% corporate tax rate.
 - Our likely case target price is KHR20,600 based on our forecasted FY2019 EPS of KHR1,378, which takes into account the additional rental and interest income in 2019.
- PPAP also performed well compared with its peers in Cambodia and the region. PPAP’s operating margin of 43% is among the top 3 performers.

Regional Peer Port (as of April 18th, 2019)

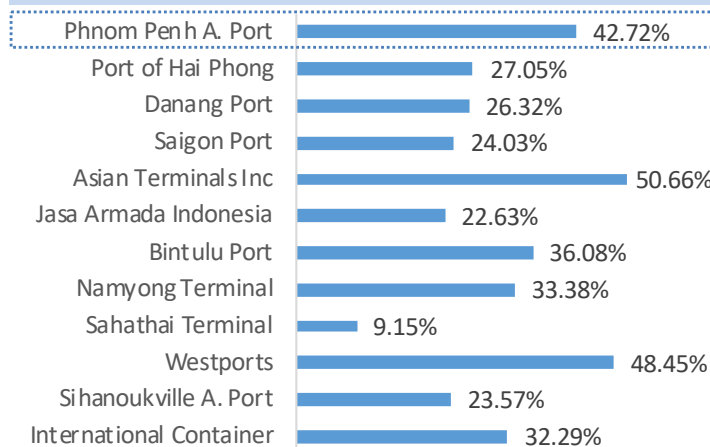
P/E of Regional Peer Ports



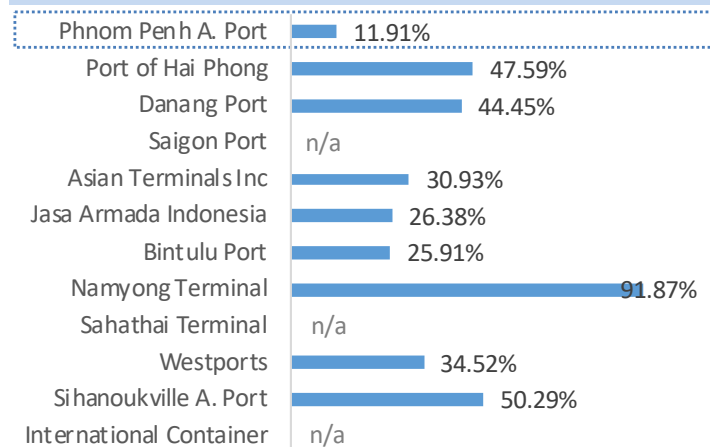
P/B of Regional Peer Ports



Operational Margin of Regional Peer Ports



Payout ratio



Our forecasted earning in 2019 suggests that PPAP's 2019 dividend per share to both Class A and Class B shareholders could increase to KHR538 if PPAP's dividend distribution is at the median peer payout ratio (~39%).

The Phase II of LM17 upgrade was completed on December 14, 2018 allowing PPAP to increase its annual capacity at LM17 to 300,000 TEUs.

Well-positioned to increase cash dividend from monetizing the riverfront land

With monetizing the riverfront land, PPAP is expected to receive both additional non-operating income (~US\$1.5m annually) and the construction of two new terminals worth US\$30m, which could significantly reduce its investment needs for future CAPEX. The construction of two new terminals will significantly increase the cargo handling capacity and storage capacity, contributing to future core revenue and growth.

Our forecasted earning in 2019 suggests that PPAP's 2019 dividend per share to both Class A and Class B shareholders could increase to KHR538 if PPAP's dividend distribution is at the median peer payout ratio (~39%). We believe the increase in dividend payout will not come at the expense of the ability of PPAP to invest in future CAPEX, as PPAP already has an excessively conservative balance sheet, a major portion of earning will be reinvested in the company and a major percentage of CAPEX will be covered by the Chinese real estate developer to construct two new terminals worth US\$30m. In addition, the Phase 2 of container terminal LM17 was also completed in 2018.

According to its filing on CSX, PPAP leased its land from Chroy Changvar Bridge to the Night Market for 50 years. PPAP still maintain its operation at the leasing location as a multi-purpose terminal and national and international tourist terminal.

INCOME STATEMENT	2018	2019F	2020F	2021F
	US\$ MM	US\$ MM	US\$ MM	US\$ MM
Revenue	20.72	22.80	25.07	27.58
Cost of services	(7.23)	(7.89)	(8.68)	(9.54)
Gross profit	13.49	14.91	16.40	18.04
Other income	1.46	2.09	2.14	2.21
SG&A	(6.09)	(7.09)	(7.80)	(8.58)
Operating profit	8.85	9.90	10.75	11.67
Finance costs	(1.17)	(1.03)	(0.95)	(0.87)
Profit before tax	7.68	8.87	9.79	10.80
Income tax expense	0.42	(1.77)	(1.96)	(2.16)
Net profit for the year	8.10	7.10	7.83	8.64
Payout ratio	12%	39%	39%	39%
Total Dividend (US\$mm)	0.96	2.77	3.06	3.37
Dividend per share (US\$)	0.08	0.13	0.15	0.16
Dividend per share (KHR)	333	538	594	655

Note: 2018 figures are actual. 2018 dividend per share (DPS) figure is the DPS to Class A Shareholders. 2019-2021 figures are forecasted. 2019-2021 DPS refers to DPS to both Class A and Class B Shareholders.

Investing for future growth

PPAP has continued its CAPEX plan for Phase II of Container Terminal LM17 and expansion of other handling facilities in order to increase its cargo handling capacity and storage capacities. The Phase II of LM17 upgrade was completed on December 14, 2018, allowing PPAP to increase its annual capacity at LM17 to 300,000 TEUs.

According to its filing on CSX, PPAP has announced it has leased the land from Green Trade with the total size of 70,424 sqm for 40 years. Afterward, PPAP has subleased the land leased from Green Trade to Hui Bang International Investment Group (40,000 sqm) and to Mekong Oryza Trading (17,000 sqm) for 40 years.

Appendix 1: Financial Statements

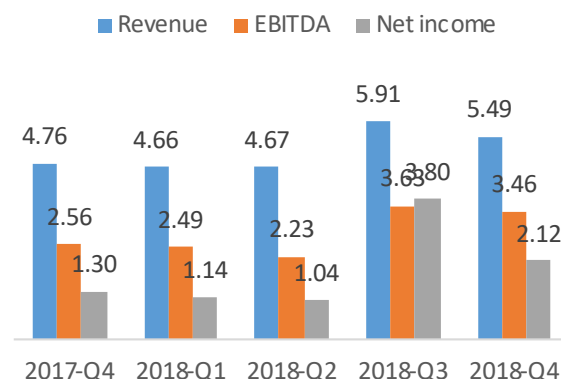
INCOME STATEMENT	2014	2015	2016	2017	2018	STATEMENT OF CASH FLOWS	2014	2015	2016	2017	2018
	US\$ MM	US\$ MM	US\$ MM	US\$ MM	US\$ MM		US\$ MM	US\$ MM	US\$ MM	US\$ MM	US\$ MM
Revenue	13.29	15.14	16.30	18.86	20.72	Operating activities					
Cost of services	(5.31)	(5.39)	(5.62)	(6.46)	(7.23)	Net profit for the year	2.15	3.18	4.09	5.36	8.10
Gross profit	7.98	9.75	10.68	12.40	13.49	<i>Adjustment for:</i>					
Other income	0.30	0.36	0.97	0.60	1.46	Income tax expense	0.66	1.19	0.67	0.82	(0.42)
SG&A	(4.19)	(4.58)	(5.62)	(5.56)	(6.09)	Depreciation of PP&E and investment property	2.28	2.31	2.38	2.89	2.96
Operating profit	4.09	5.53	6.03	7.44	8.85	Impairment loss on receivables	-	-	-	-	(0.34)
Finance costs	(1.29)	(1.16)	(1.27)	(1.25)	(1.17)	Loss on disposal of PP&E	0.03	0.01	-	-	0.05
Profit before tax	2.81	4.37	4.76	6.18	7.68	PP&E written off	-	0.02	0.01	-	0.01
Income tax expense	(0.66)	(1.19)	(0.67)	(0.82)	0.42	Rental income	-	-	-	-	(0.15)
Net profit for the year	2.15	3.18	4.09	5.36	8.10	Foreign exchange difference	-	-	0.01	0.00	0.00
Other comprehensive income						Provision for retirement benefits	0.09	(0.14)	0.10	0.09	0.10
Re-measurements of defined employee benefit liability	(0.05)	0.00	0.05	(0.03)	0.04	Finance costs	1.29	1.16	1.27	1.25	1.17
Total comprehensive incomes	2.10	3.19	4.14	5.33	8.14		6.49	7.71	8.52	10.43	11.49
						<i>Changes in:</i>					
						Trade and other receivables	0.89	(1.54)	(0.02)	(0.07)	(0.28)
						Trade and other payables	(0.34)	0.27	0.12	0.18	0.28
						Contract liabilities	-	-	-	-	15.00
							7.04	6.44	8.62	10.53	26.49
						Interest paid	(1.29)	(1.16)	(1.16)	(1.16)	(1.14)
						Income tax paid	(0.35)	(0.47)	(0.71)	(0.50)	(2.06)
						Withholding tax credit	-	-	(0.01)	(0.02)	-
						Employee benefits paid	(0.04)	(0.04)	(0.04)	(0.03)	(0.04)
						Net cash generated from operating activities	5.36	4.77	6.70	8.82	23.25
						Investing activities					
						Purchase of PP&E	(0.86)	(1.63)	(7.61)	(3.03)	(8.07)
						Purchase of investment property	(0.03)	(0.01)	(0.55)	(0.00)	-
						Proceeds from disposal of	0.00	0.00	-	-	0.03
						Net cash used in investing activities	(0.89)	(1.64)	(8.16)	(3.03)	(8.03)
						Financing activities					
						Proceeds from share issuance	0.89	-	-	-	-
						Proceeds from IPO, net	-	4.29	-	-	-
						Dividend paid	(0.50)	(0.49)	(0.53)	(0.83)	(0.87)
						Repayment of borrowings	-	-	-	-	(2.07)
						Placement of fixed deposits	-	-	-	-	(11.84)
						Net cash used in financing activities	0.40	3.80	(0.53)	(0.83)	(14.78)
						Net incr/(decr) in cash & equiv	4.87	6.93	(2.00)	4.97	0.44
						Cash and cash equiv at 1 Jan	(3.05)	1.82	8.75	6.75	8.56
						Cash and cash equiv at 31 Dec	1.82	8.75	6.75	11.72	9.00

BALANCE SHEET	2014	2015	2016	2017	2018
	US\$ MM	US\$ MM	US\$ MM	US\$ MM	US\$ MM
ASSETS					
Non-current assets					
PP&E	140.77	140.01	145.16	145.36	73.81
Investment properties	7.84	7.91	8.54	8.47	85.03
Deferred tax assets	-	-	-	-	1.13
	148.61	147.92	153.69	153.83	159.96
Current assets					
Trade and other receivables	1.38	2.91	2.93	3.01	3.17
Cash and bank balances	1.82	8.75	6.75	11.72	24.00
	3.20	11.66	9.69	14.73	27.17
TOTAL ASSETS	151.81	159.58	163.38	168.56	187.13
EQUITY & LIABILITIES					
Equity					
Share capital	26.78	110.32	114.45	114.45	114.45
Share premium/other capital	-	4.29	0.16	0.16	0.16
Reserves & development fund	7.04	8.68	11.31	13.96	18.68
Retained earnings	85.66	3.16	3.18	5.28	7.68
TOTAL EQUITY	119.47	126.46	129.09	133.84	140.96
LIABILITIES					
Non-current liabilities					
Guaranteed dividends payable	-	-	0.79	0.63	0.45
Borrowings	28.98	28.98	28.98	26.91	24.84
Provision for retirement benefit:	0.72	0.53	0.53	0.62	0.64
Deferred tax liabilities, net	0.69	1.08	1.18	1.41	-
Contract liabilities	-	-	-	-	14.63
	30.39	30.59	31.49	29.57	40.55
Current liabilities					
Overdraft	-	-	-	-	-
Trade and other payables	1.63	1.90	2.30	2.51	2.69
Provision for income tax	0.32	0.64	0.49	0.56	0.63
Current portion of borrowings	-	-	-	2.07	2.07
Contract liabilities	-	-	-	-	0.23
	1.95	2.54	2.79	5.15	5.61
TOTAL LIABILITIES	32.34	33.13	34.28	34.72	46.17
TOTAL EQUITY & LIABILITIES	151.81	159.58	163.38	168.56	187.13

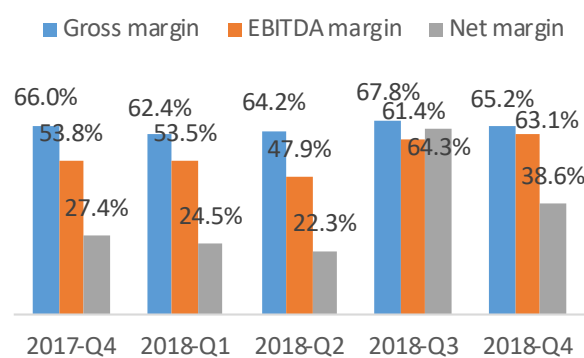
Appendix 2: Selected Financial Ratios

Profitability	2014	2015	2016	2017	2018
ROAE	1.8%	2.6%	3.2%	4.1%	5.9%
ROAA	1.4%	2.0%	2.5%	3.2%	4.6%
Revenue growth	16.6%	13.9%	7.7%	15.7%	9.9%
EBITDA growth	34.3%	22.9%	7.3%	22.9%	14.4%
EBIT growth	42.9%	35.0%	9.1%	23.4%	19.0%
Net income growth	177.8%	48.4%	28.4%	31.2%	51.1%
Gross margin	60.0%	64.4%	65.5%	65.7%	65.1%
EBITDA margin	48.0%	51.7%	51.6%	54.8%	57.0%
EBIT margin	30.8%	36.5%	37.0%	39.4%	42.7%
Net margin	16.1%	21.0%	25.1%	28.4%	39.1%
Financial Strength					
Debt/EBITDA	4.5	3.7	3.4	2.8	2.3
Net debt/EBITDA	4.3	2.6	2.6	1.7	0.2
EBITDA/Interest	4.9	6.8	6.6	8.2	10.1
EBIT/Interest	3.2	4.8	4.7	5.9	7.6
Debt/Equity	24.3%	22.9%	22.4%	21.7%	19.1%
Net debt/Equity	22.7%	16.0%	17.2%	12.9%	2.1%
Current ratio	1.6	4.6	3.5	2.9	4.8
Efficiency					
Cost of service (% of revenue)	40.0%	35.6%	34.5%	34.3%	34.9%
SG&A (% of revenue)	31.5%	30.3%	34.5%	29.5%	29.4%
Other income (% of revenue)	2.3%	2.4%	5.9%	3.2%	7.0%

Quarterly Revenue, EBITDA & Net Income



Quarterly margin



Appendix 3: Region peer port comparison

Country	Peer Port	P/E ttm	P/B mrq	Payout ratio	Operating margin ttm	Net margin ttm
Cambodia	Phnom Penh A. Port	5.91	0.34	11.91%	42.72%	39.09%
Vietnam	Port of Hai Phong	9.02	0.98	47.59%	27.05%	26.62%
Vietnam	Danang Port	9.88	1.32	44.45%	26.32%	21.32%
Vietnam	Saigon Port	10.69	1.14	n/a	24.03%	17.38%
Philippines	Asian Terminals Inc	10.84	2.15	30.93%	50.66%	30.43%
Indonesia	Jasa Armada Indonesia	14.23	2.02	26.38%	22.63%	18.00%
Malaysia	Bintulu Port	14.96	1.67	25.91%	36.08%	20.13%
Thailand	Namyong Terminal	15.46	1.65	91.87%	33.38%	28.36%
Thailand	Sahathai Terminal	16.06	2.24	n/a	9.15%	8.77%
Malaysia	Westports	23.97	5.29	34.52%	48.45%	33.04%
Cambodia	Sihanoukville A. Port	25.33	1.60	50.29%	23.57%	15.34%
Philippines	International Container	29.36	2.21	n/a	32.29%	18.03%

ttm = trailing twelve months; mrq = most recent quarter

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Contact

John McGinley
Managing Partner
Mekong Strategic Partners
+855 12 840 821
jm@mekongstrategic.com