

Wilhelm Wilhelmsen Holding analysis (Part 2)

July 10, 2016

In this final part I will be discussing the topics below:

- 1) Post spin-off from WWASA
- 2) Wilhelmsen Maritime Services divestment
- 3) The Wilhelmsen's capital allocation record
- 4) A closer look at shareholder's equity in the balance sheet (*nerd warning!*)
- 5) A closer look at current earnings

WWIB share price currently: 147,5 NOK

WWIB market cap: 6,8 billion NOK (800 MUSD)

USD/NOK: 8,52

Excel calculations from part 1: <https://hammerinvesting.files.wordpress.com/2016/05/wwib-presentation-excel1.xlsx>

Post spin-off from WWASA

- Treasure ASA trades at a large discount, approx. 40%
- Possible reasons:
 - *Big chunk of shares*
 - *Bond liability*
 - *Vessel debt not 100% ruled out*
- Fair value: 15% discount to underlying Glovis shares?
- Arbitrage opportunity for South Korean players
- Wilhelmsen Holding may buy up discounted Treasure shares at some point

WMS divestment

- 1/5 of WMS sold to industry player, Survitec
- 110 MUSD in cash + 20% share in Survitec, accounting gain of 60 MUSD
- Sale suggests overall WMS value of approx. 6,5 billion NOK
- Sale highlights that book value in WMS is probably understated

Cont note 12 - Segment reporting: Balance sheet per operating segments

USD mill	WWASA group		WMS group		Holding & Investments		Eliminations		Total	
	31.03 2016	31.12 2015	31.03 2016	31.12 2015	31.03 2016	31.12 2015	31.03 2016	31.12 2015	31.03 2016	31.12 2015
Year to date										
Assets										
Deferred tax asset	75	67	30	22	2	3			107	92
Intangible assets	6	6	210	199					216	205
Tangible assets	1 803	1 827	191	182	2	2			1 997	2 011
Investments in joint ventures and associates	1 091	1 025	16	15	85	76			1 192	1 116
Other non current assets	1	1	10	9	150	131			161	141
Current financial investments	251	242			87	85			339	327
Other current assets	65	24	468	455	9	6	(1)	(3)	540	482
Cash and cash equivalents	87	108	170	181	17	22			273	311
Total assets	3 380	3 299	1 094	1 063	352	326	(1)	(3)	4 825	4 686
Equity and liabilities										
Equity majority	1 282	1 204	311	273	292	278			1 885	1 754
Equity minority interests	480	451	1						481	452
Deferred tax		1	17	20					17	20
Interest-bearing debt	1 299	1 319	289	307	48	34			1 637	1 660
Other non current liabilities	222	225	127	126	7	7			356	358
Other current liabilities	95	100	349	336	5	7	(1)	(3)	448	441
Total equity and liabilities	3 380	3 299	1 094	1 063	352	326	(1)	(3)	4 825	4 686

Wilhelmsen's capital allocation record

- Low dividend ratio = capital allocation becomes especially important
- Can history be a guide to the future?

Track record:

- **Hyundai Glovis.** Investment of 100 MUSD in 2004. Return 977 MUSD 11 years later = 9,8x, 23% annualized return. (Dividends excluded!)
- **Callenberg Technology Group.** Investment of 55 MUSD in 2007. Return: Unknown - still available for sale but revenue growth from 130 MUSD in 2007 to 220 MUSD today.
- **Qube Holding.** Investment of 134 MUSD in 2011 and 2016. Return today 176 MUSD (dividends and sales included). 32% in 5 years. 5% annualized return. (Australian dollar depreciated 30% vs dollar in that time frame.)
- **NorSea Group.** Investment of 87 MUSD in 2012 and in 2014. Value 2015 year end plus dividends received 84. (Exposed to the oil sector).
- **Vehicles Services Americas, CAT-WWL** acquired in 2016 (owned 50% in both before transaction). Sold **Vehicles Services Europe**. Gain of 80 MUSD. Not sure what to make of this, not much information released but positive that they increase investments in companies they already own and know.

Conclusion: 1 home run, 3 more or less a wash, no mines.

Positive that all investments are within their circle of competence (although NorSea is less related). If they start to stray into unrelated fields that would be a warning sign.

Verdict: Comfortable with their choices and I believe that will continue going forward.

Shareholder's equity adjustment

Equity show shareholders' equity of a share ((Total Assets-Total Liabilities)/Number of shares)



USD mill	Note	31.03.2016	31.03.2015	31.12.2015
Non current assets				
Deferred tax asset	6	107	56	92
Goodwill and other intangible assets	3	216	256	205
Vessels, property and other tangible assets	3	1 997	1 981	2 011
Investments in joint ventures and associates		1 192	1 252	1 116
Other non current assets	8	161	171	141
Total non current assets		3 673	3 716	3 566
Current assets				
Inventory		112	102	107
Current financial investments		339	323	327
Other current assets		428	378	375
Cash and cash equivalents		273	400	311
Total current assets		1 152	1 203	1 120
Total assets		4 825	4 919	4 686
Equity				
Paid-in capital	9	122	122	122
Retained earnings	7/9	1 763	1 759	1 632
Attributable to equity holders of the parent		1 885	1 881	1 754
Minority interests		481	483	452
Total equity		2 366	2 364	2 206

- Adjustments to stated equity: Exclude goodwill & depreciate vessel value more aggressively. Gain from survitec deal and Glovis shares carrying value too low.
- Result (in my opinion): $1885 - 216 - 94 + 60 + 140 + 165 = 1940$ MUSD. (Current market cap: 800 MUSD)
- 1940 MUSD divided by $46,5$ million outstanding shares = $41,7$ USD/share = 355 NOK per share. (Current market price = $147,5$ NOK)

Current earnings

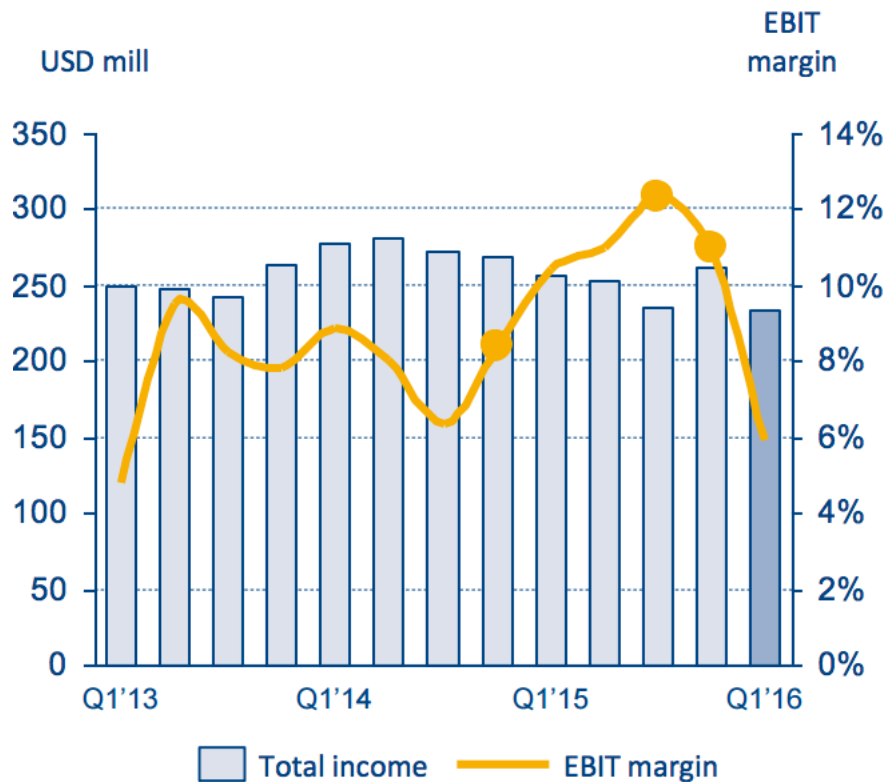
Income statement - segment reporting ¹

Joint ventures based on proportionate method

USD mill	WWASA group			WMS group			Holding and Investments ³			Eliminations			Total		
	Q1 2016	Q1 2015	Full year 2015	Q1 2016	Q1 2015	Full year 2015	Q1 2016	Q1 2015	Full year 2015	Q1 2016	Q1 2015	Full year 2015	Q1 2016	Q1 2015	Full year 2015
Quarter															
Operating revenue	515	573	2 243	233	253	998	6	5	21	(6)	(6)	(25)	748	825	3 237
Other income															
Share of profits from associates	13	9	36	1	2	5	5	1	7				19	12	49
Gain on sale of assets	80	26	29		2	7							80	29	35
Total income	608	609	2 308	235	257	1 010	11	6	28	(6)	(6)	(25)	848	866	3 321
Operating expenses															
Voyage expenses	(160)	(215)	(818)										(160)	(215)	(818)
Vessel expenses	(20)	(23)	(85)										(20)	(23)	(85)
Charter expenses	(67)	(79)	(316)										(67)	(79)	(316)
Inventory cost				(109)	(118)	(458)			(1)				(109)	(118)	(460)
Employee benefits	(43)	(41)	(168)	(68)	(68)	(263)	(4)	(4)	(16)			1	(114)	(113)	(446)
Other expenses	(157)	(115)	(658)	(38)	(40)	(150)	(4)	(3)	(14)	5	6	24	(194)	(152)	(799)
Depreciation and impairments	(35)	(38)	(160)	(6)	(5)	(73)			(1)				(41)	(43)	(233)
Total operating expenses	(482)	(511)	(2 205)	(221)	(230)	(944)	(8)	(8)	(32)	6	6	25	(705)	(743)	(3 157)
Operating profit ²	126	98	103	14	27	65	2	(2)	(4)	0	(0)	(0)	143	123	165
Financial income/(expenses)	(15)	(46)	(128)	(5)	7	3	(2)	4	9				(23)	(35)	(117)
Profit/(loss) before tax	111	52	(25)	9	34	69	0	2	5	0	(0)	(0)	120	88	48
Tax income/(expense)	(6)	5	23	(2)	(9)	(16)	(2)		2				(10)	(4)	8
Profit/(loss)	105	57	(3)	7	25	52	(2)	2	7	0	(0)	(0)	110	84	56
Minority interests	29	16			1	2							29	16	2
Profit/(loss) to the owners of parent	76	41	(3)	6	25	50	(2)	2	7	0	(0)	(0)	80	68	54

- Q1 results look good on the surface but are scewed by one time gains
- Underlying EBIT-margins under pressure compared to previous quarters

WMS group –Total income and EBIT margin*



So the three main things to look for in the coming couple of quarters:

- Was the EBIT-margin decline in WMS a one time event? Troublesome if it continues to be around 6%
- Operating revenue from WWASA Q2 2016 vs Q2 2015 will this continue to decline as it did in Q1 2016 vs Q1 2015?
- H&H development and the car transportation development

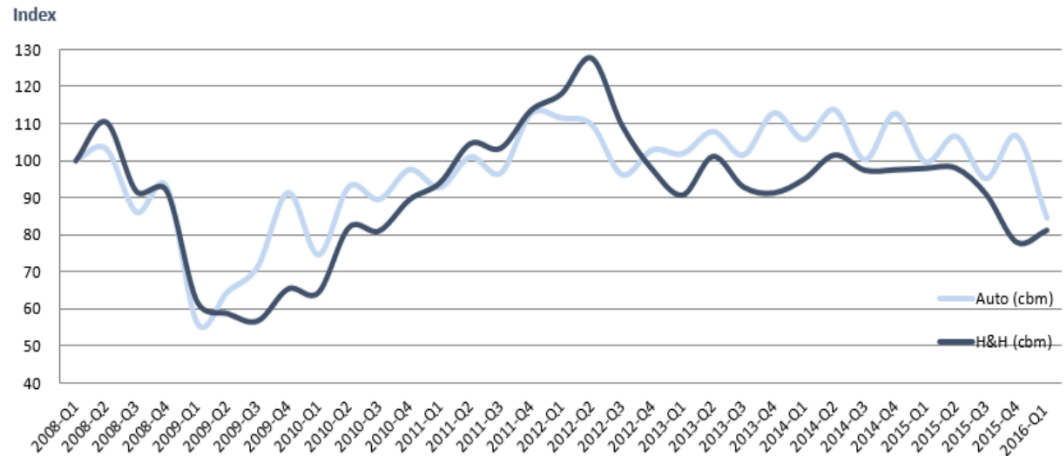
> Group ocean cargo segment development

Auto

- Seasonality
- Reduced volumes in most main trades
- New EUKOR OCC

High and heavy

- Slight pick up in volumes
- Increased exports from Asia
- Overall volumes remain at a low level



> Caterpillar – Resource Industries* sales quarterly

Remaining soft



*CAT Resource Industries: Customers using machinery primarily in mining, quarry, waste and material handling applications.

■	WWI23	Wilh. Wilhelmsen ASA	NOK	95,13	-	- 16 mar	0,00	- 09 apr 2019	2,79	800
■	WWI22	Wilh. Wilhelmsen ASA	NOK	99,50	-	- des 2015	0,00	- 13 jun 2018	3,37	700
■	WWI21 PRO	Wilh. Wilhelmsen ASA	NOK	104,00	-	- 08 mar	0,00	- 02 nov 2016	9,00	575
■	WWI19 PRO	Wilh. Wilhelmsen ASA	NOK	86,00	-	- 19 feb	0,00	- 25 jan 2022	2,01	300
■	WWI09	Wilh. Wilhelmsen ASA	NOK	90,75	-	- 05 jan	0,00	- 30 mar 2020	2,06	300