**Ocean Wilson (OCN.L) – Aryann Gupta**

*(all numbers in GBP)*

| | |
|---|---|
| **Share Price (9/22)** | 10 |
| **Market Cap** | 354M |
| **Enterprise Value** | 524.9M |
| **52-Week Low** | 8.16 |
| **52-Week High** | 10.48 |

Ocean Wilson is a London-listed holding company that trades at a 58% discount to its NAV. On the 12th of June this year, Ocean Wilson issued a press release responding to speculation in the Brazilian media that the company is looking to sell its stake in Wilson Sons. The company confirmed that it is pursuing a strategic review of the stake. This serves as a clear path for value realization of the current 55%+ Holdco Discount. There is also minimal downside risk given the excessive discount and should the valuation gap close there is significant upside potential.

**Business Overview:**

Ocean Wilson owns two very distinct operating subsidiaries:

- A Brazil-listed maritime sector player Wilson Sons (PORT3.SA) in which Ocean Wilson holds a 56.58% stake (this part is currently under strategic review). Wilson Sons is primarily engaged in towage services and container terminal operations
- OWIL, a diversified portfolio of fund investments. This subsidiary is like a fund of funds

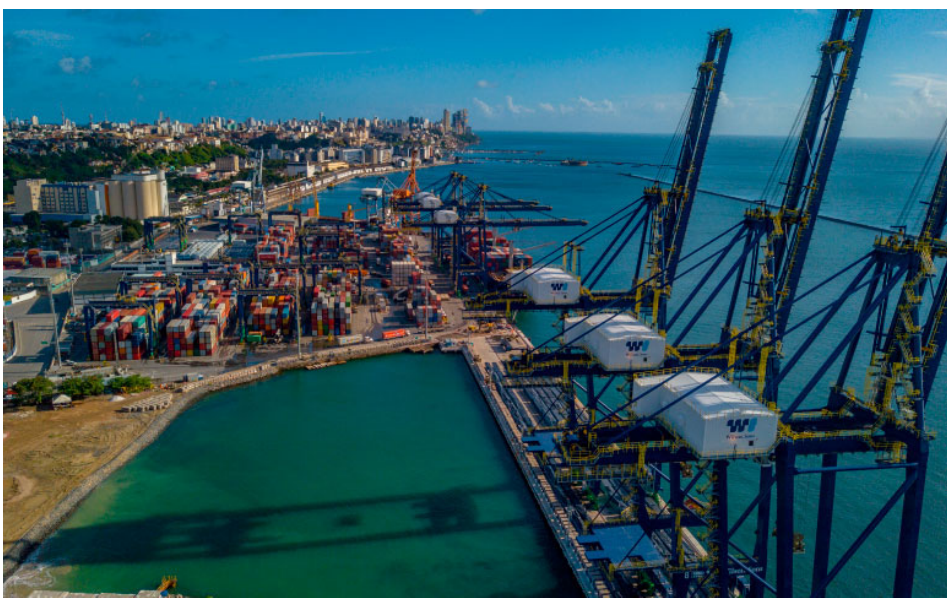


*Figure 1: Wilson Sons Port*

**Company History:**

Wilson Sons had listed on the Sao Paulo Stock Exchange in 2007, raising $119m from the IPO and Ocean Wilsons in this process has sold down their stake from 100% to the current 56.58%. Ocean Wilson as the selling shareholder also received $183m which is what was used as the starting capital in OWIL (the fund of funds arm).

In 2021 Ocean Wilson also changed the Wilson Sons listing from being a Bermuda-based company with Brazilian ADR to being directly listed on the Brazilian Exchange. This has led to improved ADV and increased corporate governance for the Wilson Sons listing. This also means that it has been added to local indices.

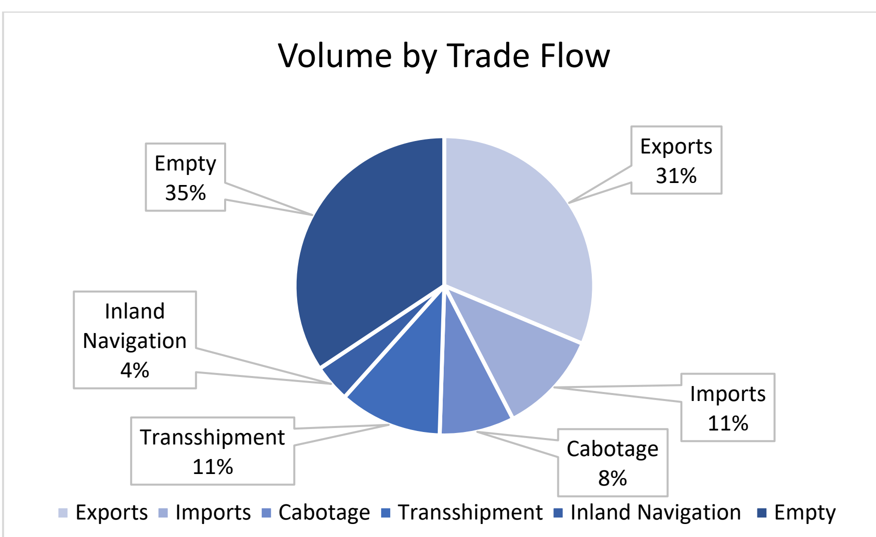
**Wilson Sons Business Overview:**

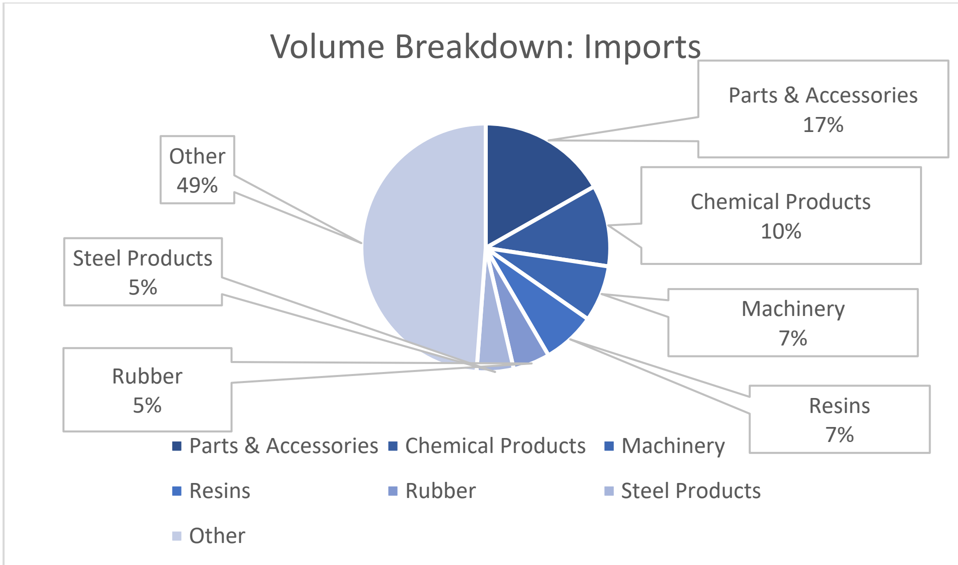
**3 Key Segments:**

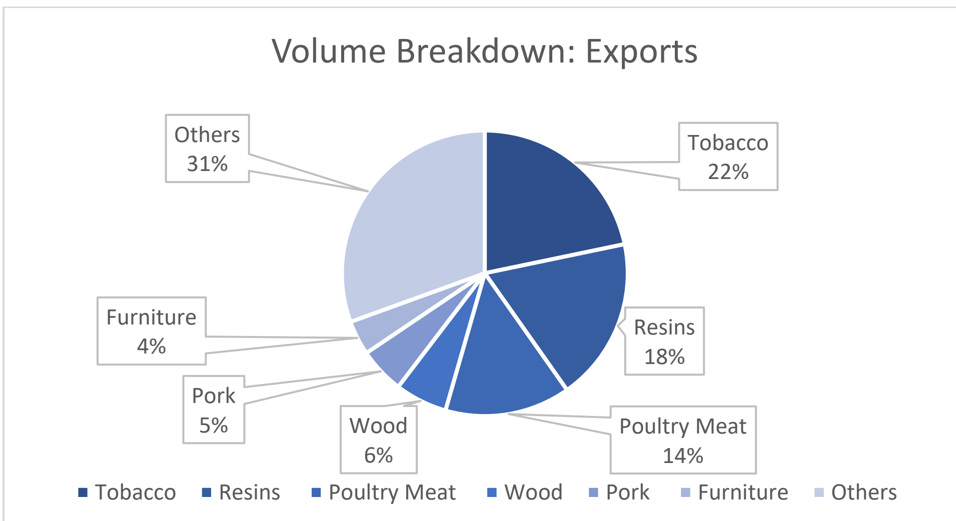
- Container Terminals: Rio Grande Terminal & Salvador Terminal
- Towage
- Offshore Support Vessels

Rio Grande Container Terminal:

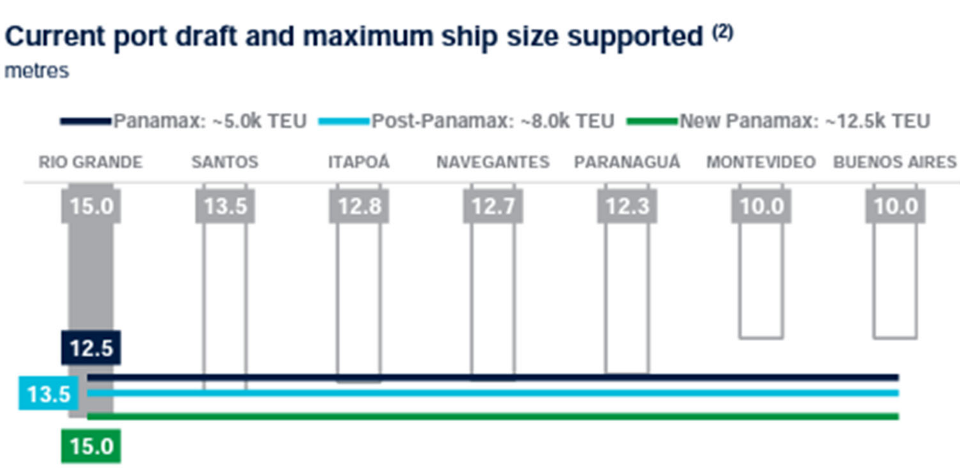

- 1.4m TEU/year
- 900m Quay Length
- 9 ship-to-shore quay cranes
- 15m Quay draft
- 438,000 $m^2$ paved areas






The volume breakdown numbers above are from FY2022. Imports were approx. 60k TEU and Exports were approx. 171k TEU.



The above graph shows the port draft required for the New Panamax ships to be able to safely dock at a port. Rio Grande is the southernmost port on the ECSA capable of handling the larger and more cost-effective New Panamax ship, which major liners have already indicated as their primary strategy to serve ECSA. This makes the Rio Grande port a strategic port that is very well positioned to capture a lot of additional transshipment volume due to the draft restrictions of other ports as shown in the graphic above.

Salvador Container Terminal:

- 0.5m TEU/year
- 800m + 240m Quay Length
- 9 ship-to-shore quay cranes
- 15m Quay draft
- 148,360 $m^2$ paved areas

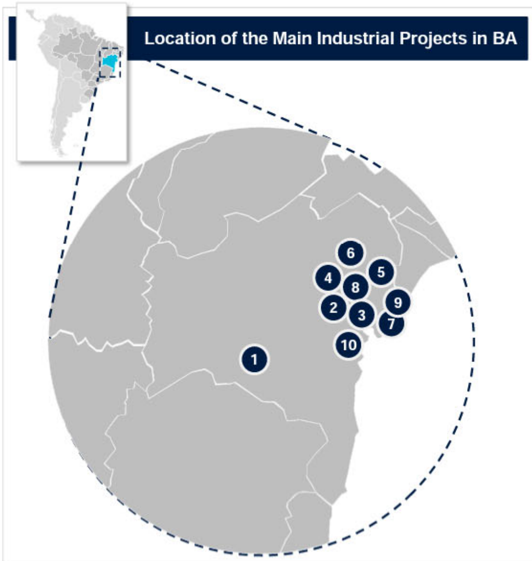

One of the main differentiating factors for ports is the location. Salvador is the only dedicated terminal in the state of Bahia which is the largest economy in the northeast of Brazil. Being far away from any competing ports is an advantage and a moat in and of itself. Based on TEU volume handled in 2021, Rio Grande and Salvador were the 6th and 10th busiest ports in Brazil.

The secular trend to increased containerization of the Brazilian economy remains an important driver of growth for Wilson Sons with container volume growing at 4.1% since 2012. Container density in Brazil is still relatively low at 49 TEUs per 1,000 people versus 198 for OECD, 101 for the world and 79 for Latin America.

There are plans to expand the port to 924k TEUs. There are a number of projects in Bahia that will add significant volumes in the coming years in addition to more agricultural exports.

**The state government has been actively attracting new investments to the region**

Wilson, Sons




| # | Industry | Location | Sector | Announced Investment |
|---|---|---|---|---|
| 1 | BAMIN | Caetité | Mining | US$3.9B |
| 2 | MUBADALA CAPITAL | Mataripe | Oil Refinery | US$2.3B |
| 3 | BYD | Camaçari | Vehicles | US$580M |
| 4 | PIRELLI | Feira de Santana | Tyres | US$295M |
| 5 | Cidade Imperial | Alagoinhas | Beverages | US$230M |
| 6 | Heineken | Alagoinhas | Beverages | US$116M |
| 7 | BRIDGESTONE | Camaçari | Tyres | US$52M |
| 8 | Coca-Cola | Simões Filho | Beverages | US$47M |
| 9 | GOLDWIND | Camaçari | Wind Turbines | US$31M |
| 10 | MONDIAL | Jacuípe | Household Appliances | US$26M |

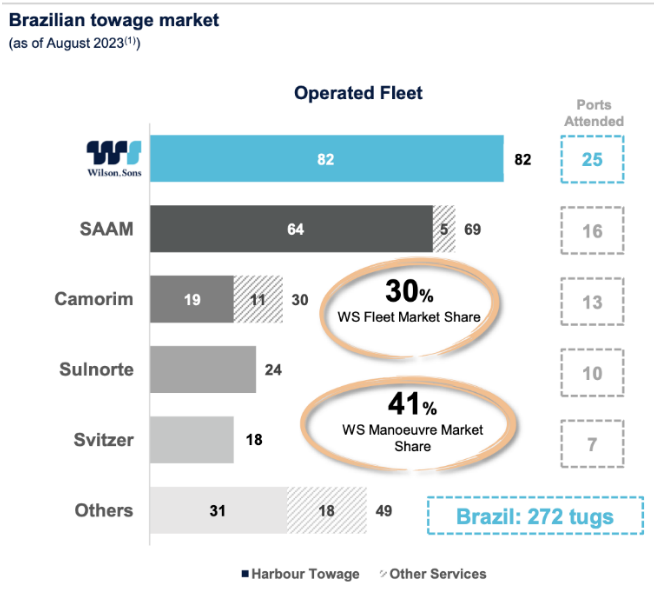
Sources: Bahia State Government, Guia Exame, Terra, A Tarde, Caetité Acontece, Catallisi, IPEAdata, Bahia Econômica

The container terminal segments combined generate over a third of revenue and 39% of EBITDA.

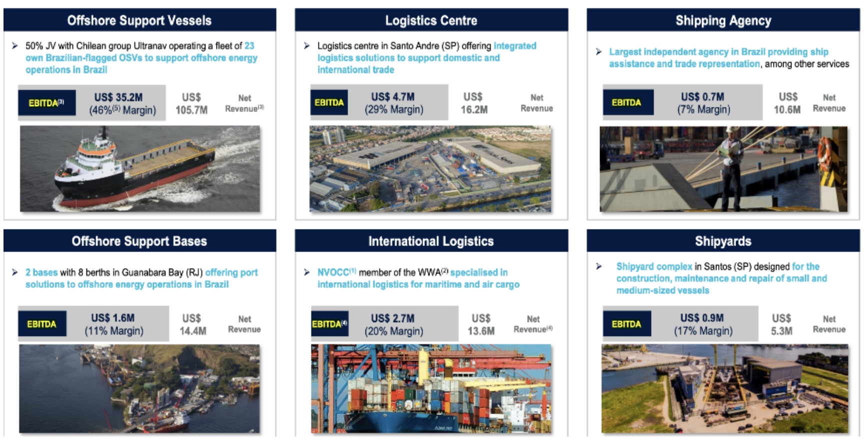
<u>Towage:</u>

They also are a port towage operator in Brazil with a 30% fleet market share. Wilson Sons has the largest and most modern fleet (82 tugboats and 35 fire-fighting vessels) in the country and covers 25 ports and terminals in Brazil. The towage segment generates around half of the company's revenue and EBITDA.

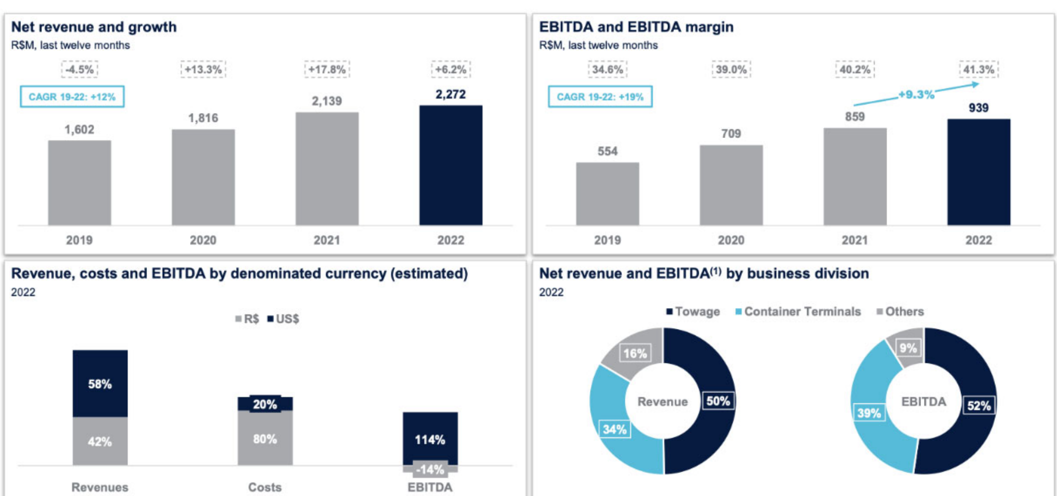
All domestic Brazilian operators enjoy regulatory protection and long-term, low-cost state financing. Tugboats are generally built locally as extremely high import duties make it uneconomical to import (except if you start building a tugboat in Brazil you can bring one in without duty whilst it is being constructed as long as it leaves after the construction is finished). They must also operate under the Brazilian flag, thus Brazilian flagged vessels trade at a premium to newbuild construction costs. Wilson Sons also owns the shipyard that builds most of Brazil's tugboats, so they have a good idea of what future supply looks like.




The remaining Wilson Sons operations include several more business units (see slide below):




Overall, Wilson Sons has been growing revenue at a 12% CAGR and EBITDA at a 19% CAGR since 2019. (see below)



**Ocean Wilsons (Investments) Limited Overview:**

The investments portfolio held by the OWIL subsidiary was valued at $300m USD as of June 2023. This is just a fund of funds that has delivered poor to mediocre returns so far. Fund of funds just tend to be inefficient structures given that there are two layers of fees which creates a drag on returns.

**Cumulative Portfolio Returns**

| | YTD | 2022 | 3 Years p.a. | 5 Years p.a. |
|---|---|---|---|---|
| Gross return | 4.5% | -13.8% | 7.2% | 4.9% |
| Net return* | 3.9% | -14.7% | 5.9% | 3.7% |
| Performance Benchmark** | 4.2% | 9.5% | 8.8% | 6.9% |
| MSCI ACWI + FM NR US$ | 13.9% | -18.4% | 11.0% | 8.1% |
| Bloomberg Global Treasury TR US$ (Unhedged) | 0.6% | -17.5% | -6.3% | -2.1% |
| MSCI Emerging Markets NR US$ | 4.9% | -20.1% | 2.3% | 0.9% |

*Net of management fees and performance fees. No performance fees were earned in 2023 and 2022.
** The OWIL Performance Benchmark is an absolute benchmark of US CPI Urban Consumers NSA +3% p.a.

Further attention needs to be paid to the 'level 3' investments which are not quoted in an active market. Level 3 investments include investments in limited partnerships and other private equity funds, which are obviously subject to redemption restrictions and lock-in periods. This accounts for $120m USD of the $300m portfolio.

**Key Questions:**

- At what price will Wilson Sons be sold?
- How will Ocean Wilson's management use the sale proceeds?
- To what extent will Ocean Wilson's discount narrow following the sale?

**At what price will Wilson Sons be sold?**

The rumored offer from MSC Group is at around BRL 11.7/share. Wilson Sons currently trades at around BRL 14/share with the market effectively anticipating a higher bid. Ocean Wilson owns 249m shares of Wilson Sons which at current prices would net them USD 692m. Also additionally since Ocean Wilson is incorporated in Bermuda there should be no capital gains tax which dilutes this payment***.

Comps:

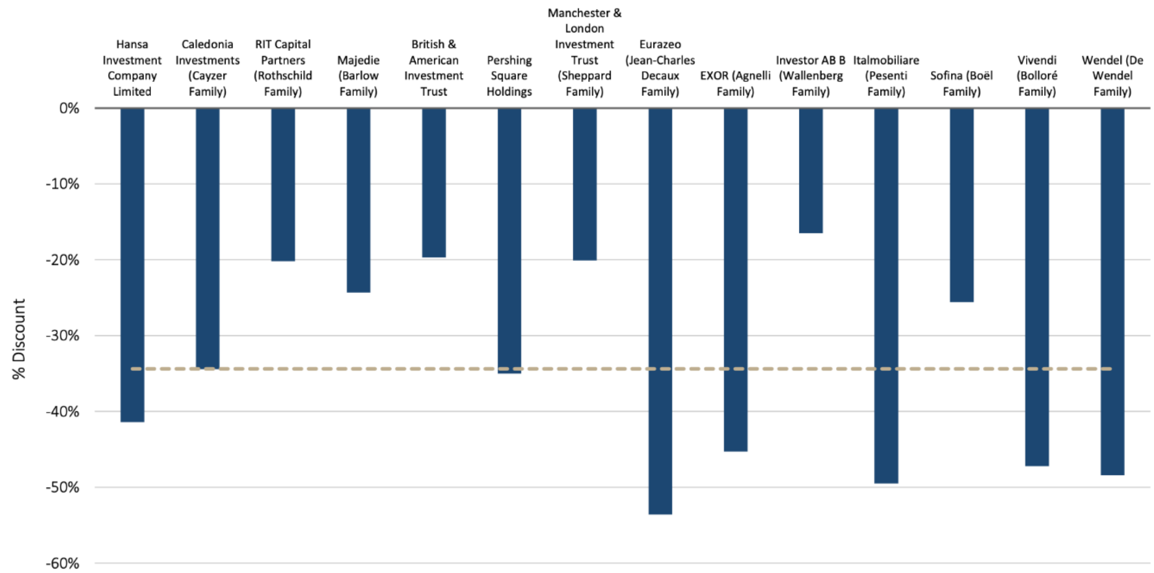
- Wilson Sons trades at 8.75x TTM EBITDA
- Closest peer Sociedad Matriz sold its terminal business to Hapag-Lloyd for USD 995m, at the point of sale the business was generating $110m EBITDA so the sale was done at a 9x EBITDA multiple
- Santos Brazil Participacoes (largest terminal operator in Brazil) trades at 11.8X LTM EBITDA

EBITDA margins specifically for towage at Wilson Sons are 40%+ whereas at Sociedad Matriz they are in turn mid 30%s. This in turn could also lead to the argument that Wilson Sons business should command a premium.

**How will Ocean Wilson's management use the sale proceeds?**

Based on management's past track record it is most likely that the proceeds from the sale of the Wilson Sons stake will be diverted into OWIL subsidiary and reinvested in various funds. This would allow management to collect even higher fees from the management of fund of funds. If this were to happen I think the discount would still narrow given the more simplified holding structure.

**To what extent will Ocean Wilson's discount narrow following the sale?**




Above is a graph that shows the current average family-controlled Holdco discount. This stands at around 35%. Therefore, I think it is reasonable to expect the valuation gap to narrow from the current 58% to 35%.

**Quick and Dirty Valuation:**

It would be fair to assume that Wilson Sons gets sold at current trading levels and then all sale proceeds are reinvested back into the OWIL business segment. Therefore, Ocean Wilson's valuation gap will then narrow to 35% to align it with other family-controlled Holdcos. In this scenario, we would expect shares to trade up to 14.365. This results in an upside of approximately 43.65% by Q1/Q2 of 2024.