

Jenga IP Investment Memo

International Container Terminal - A Philippines listed emerging market port operator

We recently initiated a position in International Container Terminals (ICTSI), a Philippines-listed emerging market port operator. ICTSI is the world's 8th largest port operator with 32 ports in 19 countries, led by ports in the Philippines, Australia, Mexico and Brazil.

We believe ICTSI is a high-moat company with high barriers to entry and a disciplined yet opportunistic capital allocation approach, which has withstood the test of time and has demonstrated pricing power over the decades.

We purchased its shares at 17x P/E and believe its shares could double over the next four and a half years, with an exit valuation multiple of 19.5x P/E, grow earnings by 9% per year, and return half of its net income as dividends.

You can read our detailed deep dive memo [here](#).

- **Business description:** ICTSI is a port concessionaire in several tier 1 and 2 ports across emerging markets (Mexico, Philippines, Brazil, Indonesia), frontier markets (Madagascar, DR Congo, Papua New Guinea) and one in a developed market, Australia, with a total of 13 million annual TEUs.
- **Segments:** ICTSI operations are split across the world – 42% in Asia, 39% in the Americas and 19% in EMEA. The Philippines is its largest country by revenue, led by its flagship Manila port.
- **Valuations:** We paid 17x its 2025 estimated earnings. Over the long term, we think ICTSI should command a marginally higher multiple of 19x 2029 P/E, reflecting its business economics, moat, and growth potential both organically and via concession acquisitions.
- **Profitability:** Since going public in 1992, ICTSI has never experienced an EBIT loss-making year. Its EBIT margin has consistently expanded from 25.6% in 2000 to 53.9% in 2024, driven by increased pricing power, economies of scale, and disciplined cost control in machinery, labour and administrative expenses.
- **Growth:** We anticipate potential earnings growth of at least 9% CAGR in US dollar terms, driven by a combination of pricing power (+3% per year), increased capacity across its major ports (+4%), and improved operational efficiency and utilisation (+2% per year). New concessions are a key part of its core strategy, and any new wins provide additional earnings growth over our investment period.
- **Track record:** Since 2000, ICTSI has grown its operating profits by 15.4% CAGR, consistently maintained its best-in-class margins, averaged a return on equity of 21.5% during the period

and has paid dividends in all but two years. We expect its EBIT margins to increase from its current 53.9% to 56.1% in 2029.

- **Balance sheet:** Its net debt to EBITDA ratio of 1.8x and EBIT/Interest expenses of 4.2x provide enough liquidity and balance sheet strength to support its existing operations and flexibility to purchase future port concessions.
- **Management:** ICTSI is led by a highly experienced management team chaired by its founder and CEO, Enrique Razon Jr., one of Southeast Asia's most successful businesspersons. Its management team is lean and focused on delivering on its business strategy.
- **Shareholder return:** ICTSI currently pays a dividend yield of 3.3%, and we expect its dividends to be between 50-60% of net income for the coming years.
- **Upside:** Over the next four and a half years, we see an upside of 89.5% or a 15.3% IRR (9% earnings growth, 3.3% dividend yield, and 3% multiple expansion).

Risks

- **Political and regulatory:** The most significant risk is the revocation of its concessions, which has occurred in previous markets such as Sudan and Brunei. Political upheaval or economic challenges could lead to concession revocations, which impact ICTSI's profitability and balance sheet.
- **Competition:** Increased consolidation and competition across the seven largest port operators, led by MSC, will make it more challenging for ICTSI to acquire more concessions at a profitable rate.
- **Economic shocks:** While ICTSI has coped well with economic shocks such as the financial crisis and the pandemic, ports correlate with the economy, and reduced global trade activity (tariffs and GDP growth) will impact ICTSI's growth potential.
- **Currency:** ICTSI operates in several countries experiencing challenging economic and currency conditions. While a large portion of ICTSI's revenue is denominated in US dollar terms, further depreciation in these market's currency will pose an FX challenge for the company.
- **Minimal value chain control:** While ICTSI sets the price in several markets, its value chain is heavily reliant on its relationship with shipping lines, and further consolidation could lead to lower pricing power..

You can view our detailed valuation model [here](#).

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