value and opportunity
Slow Investing, Special Situations & Occasionally Wild Punts

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Eurokai KGaA: Playing the "Time arbitrage game" with the possibly cheapest Port Stock in the World

EUROKAI

Some reason for not reading this post:

- You have already posted YTD Performance numbers on FinTwit
- You don't like capital intensive stocks
- You don't like cyclical stocks
- You prefer stocks that have positive share price and/or fundamental momentum
- You require short term catalysts/Share buy backs/activists etc.
- You like businesses with simple models and simple structures
- You think Germany/Italy/Europe is going down the drain anyway

In such a case, do yourself and myself a favor and move on.

Now as you are still reading, you are most likely as masochistic as myself to dig deeper, so let's dive into this deep value situation.

Content overview;

A) **Elevator Pitch**
B) **Background**
C) **The Business of Container Terminals**
D) **Transport Business, other Businesses**
E) **Management / Shareholders**
F) **More structural Complexity**
G) **Valuation**
H) **Capital Allocation at Eurokai**
I) **Share Price Development**
J) **Potential upsides/soft catalysts**
K) **Major risks**
L) **Pro's & Con's**
M) **Summary Return, expectation & Game plan**

A) Elevator Pitch:

Hamburg based Eurokai is a 6th generation family owned & managed Container Port owner and operator. The company is ultra conservatively financed (significant net cash and "extra assets") and ridiculously cheap compared to peers and recent M&A transactions, although TIKR and Bloomberg incorrectly show much more expensive multiples.

Based on my calculation. Eurokai trades at ¼ or ⅓ of the valuation compared even to the cheapest Peer group stock and M&A multiples.

Although there is no explicit catalyst and 2023 was a difficult year, both for container trade and also for infrastructure in general, Eurokai represents a very attractive, contrarian opportunity to partner with a family on great assets at a really low price.

In the mid-term there are some developments (Generational change, new port projects) that could help to get the valuation of Eurokai closer to its peers which in my opinion outweigh the general risks and a few more specific ones. Therefore I think Eurokai is an interesting deep value play for the patient investor who does not need to beat any short term market benchmarks but who has the luxury of engaging in "time arbitrage".

B) Background

After being forced to sell my Logistec position, I was looking to invest into other "hard asset" infrastructure companies that might be equally misunderstood.

In general infrastructure assets had a hard time at the stock market recently, mainly because of currently high interest rates and the often not so smooth earnings.

With **Eurokai**, I think that I found an ideal replacement although the stock clearly has some specialties which I will dive into later.

Eurokai is a German based Port operator owned and operated by the Eckelmann family, now in the 6th generation. Their two main assets are a 66,6% direct share in an Italian Container terminal operator named Contship and a 50% share in Eurogate, a pan European operator of Container terminals with a focus on Northern Germany (Hamburg, Bremerhaven, Wilhelmshaven).

The company financials are not easy to read because they only consolidate the smaller part of their Group with Contship. The larger part of the company, Eurogate, which also contains the original Hamburg port development, is only consolidated "at equity" and therefore distorts EV and EBITDA/EBIT based multiples.

It does not help that even between the segments themselves there are ownership linkages (eg. Eurogate owns ⅓ of Contship on top of the ⅔ direct stake). There are also minority interests at different levels and Eurokai partially owns itself via a sparsely disclosed subsidiary.

Nevertheless, I think it is worth digging deep through all the complexity as the assets are good quality and the stock is incredibly cheap.

C) The Business of Container Terminals

Ports or in this case container terminals (which are often sections of a larger port) are typical regional "natural monopolies". The container business as we know it was invented in the 1960s. There is a good book called "The Box" describing the development that revolutionized Global transport forever.

In short, standardized containers enabled the World and Global trade as we know it by standardizing transport of any goods that can be put inside these boxes and making it really cheap.

One useful metric to know is that a container transport costs around 1,25 EUR per kilometer per rail and 1,50 EUR per Kilometer with a truck. By ship, there is a fixed price for the whole trip from, for instance China to Europe. The cost for a standard container from Shanghai to Rotterdam can vary a lot by demand. The peak prices were 20.000 USD during Covid, currently the price is more like 5000 USD, after reaching a low of around 1000 USD in late 2023.

In any case, adding a few hundred kilometers more road transport adds significant cost to a container, so the default is always to go as far as possible by ship before changing to road or rail transport.

It's important to know that a terminal operator does not earn more money when containers are more expensive. Only when there is for instance more demand to store containers on site, they can charge higher prices. A typical handling fee for a container is according to my understanding ~100-150 EUR for an "intermodal" terminal. A typical handling fee for a container is according to my understanding ~100-150 EUR for an "intermodal" terminal.

There might be different container terminals within a larger port, but usually ports as such form natural monopolies. Usually they are located in a location that is as much inland as possible to reduce rail and road distances. In addition, a traditional port will have additional infrastructure like roads, railways, storage etc. that is not so easy to replicate. So just creating new container terminals 10 or 20 kilometers from an existing one is already very difficult as the distance to the existing infrastructure would create significant additional cost.

There is clearly some competition between ports that are not far away from each other, but the physical distance advantage is always there for any existing port.

The flipside especially for the Container business is the fact that it is cyclical. In a recession, less containers are transported. As the ports usually earn on the numbers of containers, their revenues typically go down in recessions. As a lot of their expenses are fixed, there is operating leverage in the business which goes in both ways.

To a certain extent, the terminal business is a very special Industrial real estate business with a large service component..

Many port operators over time have integrated themselves with subsequent transport modes, mostly trains but also trucking. Eurokai in addition also has some smaller additional business lines like container repairs. Overall, pure terminal revenues are around ⅔ to ¾ of their sales.

One important distinction between Container Terminals is between an “intermodal” terminal vs. a simple “transshipment” Terminal. In a transshipment Terminal, containers are just moved ship to ship and maybe stored in between, whereas in intermodal terminals, containers are usually moved from Sea to land transportation (intermodal) or vice versa. The complexity and the value creation of an intermodal terminal is significantly higher than pure transhipment terminals.

One of the big challenges in the container business is the increasing concentration and power of the big container shipping lines, which are Maersk, MSC, CMA, Happag Lloyd and a few Asian lines. The Big 5 according to Wikipedia have around 65% global market share. The more concentrated Container shipping gets, the more power the shippers have. All big shipping companies are trying hard to vertically integrate into terminals, because this business is less cyclical. With the huge Covid profits, the shipers have bought massively into ports, with MSC buying a big stake in Hafen Hamburg (the main Eurogate competitor) as the last example.

A couple of Eurokai’s terminals are operated together with the big shippers, such as MSC and Maersk. Their new project in Egypt is developed with Hapag Lloyd as the biggest partner.

One funny fact about the container business is that according to the Book “Kurt Eckelmann geht an Land”, Kurt Eckelmann was an influential person in negotiating the international standards of the containers in the early 1960s. The decisive negotiation seems to have happened in the legendary “Crazy Horse” in Paris and involved 16 rounds of Scotch whisky. Those were the days…

D) Transport business, other businesses

On top of the Terminal business, both segments, Contship and Eurogate operate additional “intermodal” transport operations, comprising rail and truck transport plus other services. ¼ of the activity is basically non-terminal business as it can be seen in this tale form the 2022 annual report:

Disaggregation der Erlöse aus Verträgen mit Kunden:

2022	EUROKAI	CONTSHIP Italia	EUROGATE	Konsolidierung und Anwendung IFRS 11	Gesamt
	TEUR	TEUR	TEUR	TEUR	TEUR
Containerumschlag	0	178.448	237.978	-237.978	178.448
Transporterlöse	0	64.369	45.942	-45.942	64.369
Cargoerlöse	0	4.137	18.573	-18.573	4.137
Reparaturerlöse	0	651	24.449	-24.449	651
Holding-Dienstleistungen	0	0	11.873	-11.873	0
Sonstige Erlöse	0	0	6.283	-6.283	0
Umsätze nach IFRS 15	**0**	**247.605**	**345.098**	**-345.098**	**247.605**

E) Management / Shareholders

Eurokai has two types of shares: 6,76mn Common Shares and 6,71 mn Preference shares. However, in reality, this doesn't matter much as Eurokai is a "KGaA" where shareholders are limited partners with only limited influence on the decision making process. In contrast to for instance ABO Wind, Eurokai has been a KgAA since the very beginning.

All 3 Managing Directors of Eurokai carry the same Surname: Eckelmann. Thomas Eckelmann, is 73 years old. His son, Tom Eckelmann is 41 years old and became officially CEO of Eurokai in 2023. The third MD is Cecilia Eckelmann Battistello, age 74, who, to my knowledge is the wife of Thomas and mother of Tom and still has been CEO of Contship until 200. Cecilia recently celebrated her 50th working anniversary which indicates that she has been very active in the Group.

Tom's sister Katja, surname Both is in the Supervisory board and seems to be working in the Communciations area of Eurokai.

Interestingly, the brother of Thomas, Robert, runs the Eckelmann Gruppe, a transport, logistics and services group that runs "adjacent" businesses.

Thomas Eckelmann (and his children) own 76% of the common shares, 22% of the common shares are held by another rich family from Hamburg. This family seems to have swapped their own port assets for a share in Eurokai in 1987. As we will see later, there is a "Bolore style" infinity loop as Eurokai also owns a share of the HoldCo of this family.

The preference shares seem to be mostly free float, initially, in the 1970s, employees were offered shares but I do not know if this is still the case.

What I find interesting here is the fact, that Tom as the next generation, was only promoted in 2023 into the Board of Eurokai and then to CEO on July 1st. He works in the Group since

2012, but seems to have also worked as analyst at Morgan Stanley Infrastructure. Tom has also taken over the Managing Director Role at JV Eurogate from his father.

It will be interesting to see how and when the older Eckelmann generation will completely move out of MD roles. But I think this generational change is a very interesting aspect in the mid- to long term.

One very charming detail and supporting the character of a family business is that in the AGM they already celebrated the arrival of the 7th Generation of Eckelmanns:

F) More structural complexity

i) Minorities everywhere

From the beginning, Eurokai always used JVs or partnerships to enter in new businesses or grow the business. As a result, no terminal is 100% owned. Every terminal has minority stakes at some level and terminals are sometimes held via different segments. Later, in the valuation exercise I have a table with "look through percentages" of the terminals.

This is something that is not uncommon in the terminal business. Logstec for instance also owned only a minority share in the Montreal container terminal. I guess this has to do with the rather large sums that need to be invested and the potential risks.

ii) Golden Pref share

In order to make things more interesting, Eurokai not only has Ordinary and Pref shares, but also something like a golden share, specifically one special Preference share which gives the owner 15% of the distributable profits (pre partnership expenses) of the Holding Company. I have not found out why this is in place and who owns it, but at least it is correctly deducted for the IFRS EPS number:

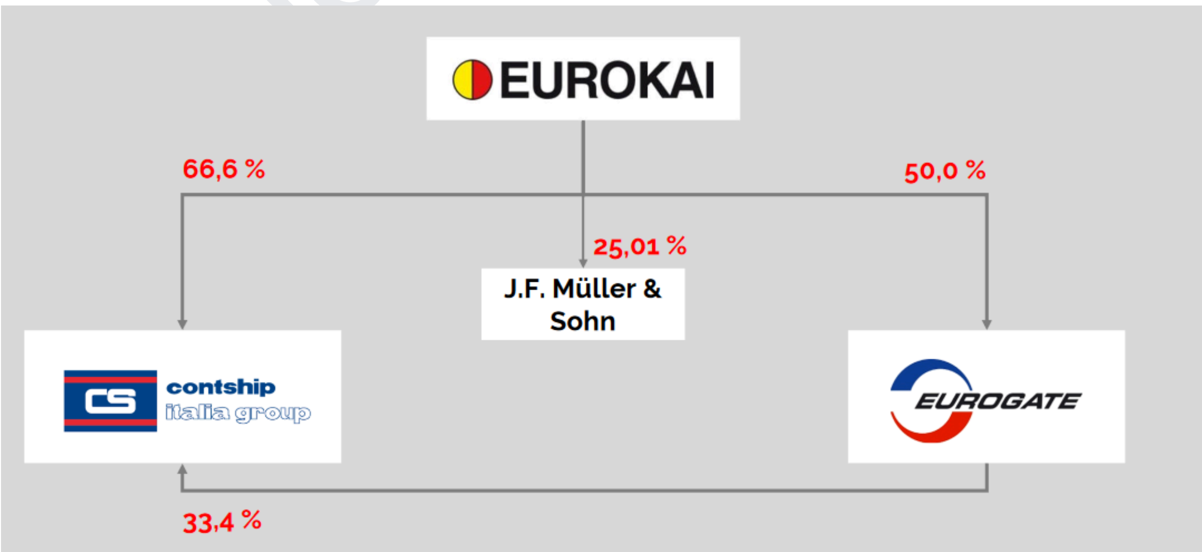
Die Berechnung erfolgt dabei wie folgt:

	2022 Unverwässertes Ergebnis je Aktie	2021 Unverwässertes Ergebnis je Aktie
Anteil der Muttergesellschaft am Konzernergebnis	90.480.465,63	73.802.182,48
Abzüglich 15%-Vorzugsdividende gem. § 5 Absatz 1 b der Satzung	-3.078.617,22	-1.834.831,91
Den Inhabern der Stamm- und Vorzugsaktien zuzurechnendes Konzernergebnis	87.401.848,41	71.967.350,57
Davon entfallen auf Stammaktien (=Zähler)	43.866.363,74	36.119.899,46
Anzahl Stammaktien (=Nenner)	6.759.480	6.759.480
Unverwässertes Ergebnis je Stammaktie	**6,49**	**5,34**
Davon entfallen auf Vorzugsaktien (=Zähler)	43.535.484,67	35.847.451,11
Anzahl Vorzugsaktien (=Nenner)	6.708.494	6.708.494
Unverwässertes Ergebnis je Vorzugsaktie in EUR	**6,49**	**5,34**

For valuation purposes based on EV, **I will multiply the Market value of the shares (Common + Prefs) x 1,15**

iii) Infinity Loop:

As mentioned above, 20% of the common shares (or 10% of the total share capital) are owned by another Hamburg based family with the very common surname Müller. For historic reasons, the Eurokai HoldCco owns 25% of the Müller family Holding company which they show on this slide from the AGM:



To keep things simple, **I just assume a corresponding 2,5% position of own shares** that I deduct from Enterprise value.

G) Valuation

One remark: For non-German speaking investors, it's not easy to dig into the details at Eurokai. They do issue English reports, but for instance the detailed notes are only available in the German version. Also the AGM material which often contains interesting stuff is only in German. For more details about their non-listed subsidiary Eurogate one has to use the German "Bundesanzeiger" where annual reports often come out with a delay of more than 12 months. But now let's deep dive into the valuation exercise.

With roughly 13,4 mn Shares outstanding (Common and pref shares), **Eurokai is valued at roughly 360 mn EUR market cap** (pre adjustments for Golden Share and Infinite Loop).

TIKR gives us an Enterprise Value of 470 mn EUR, indicating net financial debt of around 110 mn EUR which would be relatively low for a port operator.

I have collected a Peer Group of smaller Port operators and compiled a few valuation KPIs. On that basis Eurokai looks is average based on ROE and dividend yield, but below average for all typical valuation metrics:

Peer Group smaller ports										
	MArket cap (ori	**NetDebt/EBITDA**	**EV/Sales**	EV/EBITDA	P/E	P/B	ROE	EBIT margin	Div. Yield	Payout ratio
HHFA	1.259	3,3	1,6	7,1	44,6	1,5	12,6%	13,4%	4,5%	174,0%
Logistec	834	8,3	5,4	39	32,7	2,4	16,0%	6,5%	0,7%	23,7%
Piraeus Port	612	-0,6	2,5	7,1	15	1,7	18,0%	55,0%	4,2%	29,7%
Thessaloniki Port	221	-1,3	2,8	5,3	12,7	1,3	10,6%	29,3%	6,6%	89,0%
Westshore Terminals	1.774	0,7	5,6	10,9	17,4	2,4	13,0%	39,0%	4,2%	85,4%
Hutchinson Port	1.297	3,5	4,2	7,1	17,5	0,4	3,7%	31,4%	12,5%	265,4%
Wilson Sons	7.365	2,6	3,8	9,1	20,9	3,2	17,3%	25,3%	2,8%	53,4%
Tauranga	3.632	2,4	9,8	20,3	31	1,7	5,4%	40,4%	2,9%	87,1%
Avg	**2.124**	**2,4**	**4,5**	**13,2**	**23,98**	**1,8**	**12,1%**	**30,0%**	**4,8%**	**101,0%**
Eurokai (TIKR)	360	0,25	2,1	7,2	9	0,8	11,4%	24,0%	5,2%	38,8%

Overall, Eurokai looks cheap but yet not super cheap.One could argue that as a small player, valuation is within the Peer Group range. There is however one catch:

The Valuation multiples from TIKR for Eurokai are very misleading (same for Bloomberg).

Let's tackle the specifics one by one

Step 1: Enterprise Value

This is how TIKR shows the EV:

Capital Structure

Market Cap (MM)	**€358.32**
Enterprise Value (MM)	**€475.37**
Shares Outstanding	**13.47 MM**
LTM Net Debt (MM)	**€16.45**
LTM Net Debt/EBITDA	**0.25x**

Now if I just use the numbers that are provided by TIKR in the Balance sheet tab, I actually get to the following EV (including Capital Leases):

Market cap		**Price**	**Market cap**
VZ shares	6,71	26	174,5
St shares	6,76	26	175,8
Total			350,2
EV (2022)			
Cash			-205,0
Capital Lease			197,0
Financial debt			17,0
Total EV			**359,2**

This is already more than 100 mn EUR lower than in the TIKR number. Now comes an even more interesting detail:

The majority of the capital lease that Eurokai has assumed **is actually subleased to its 50% JV Eurogate.** To be honest, I do not know how this structure came into place, but there is a very good argument that one should net out the capital lease liability by the amount of the asset side which would look as follows:

Market cap		**Price**	**Market cap**
VZ shares	6,71	26	174,5
St shares	6,76	26	175,8
Total			350,2
EV (2022)			
Cash			-205,0
Capital Lease			197,0
Long term receivable (sublease)			-132,0
Financial debt			17,0
Total EV			**227,2**

So this brings down EV (including capital leases) to 227 mn EUR, less than half of TIKR's number.

However, as mentioned above, we also need to reflect the Golden share and the infinite loop. So this is how the correctly adjusted EV looks like:

EV (2022)		
Cash		-205,0
Capital Lease		197,0
Long term receivable (sublease)		-132,0
Financial debt		17,0
Golden Share		52,5
Infinte Loop own shares		-8,8
Total EV		**271,0**

This compares to ~470 mn EUR shown by TIKR and Bloomberg.

Step 2: Look-Through Sales/ EBITDA

Another issue, especially if you look at EV/EBITDA and EV/Sales is the topic that for Eurokai, more than half of the sales and profit comes in via financial returns in the "I" line, as Eurogate, the biggest asset is only a 50% JV.

To cure this, one can just "add back" 50% of Eurogate's sales and EBITDA to get a comparable number or use the "Pro forma" consolidated numbers that are available in the notes of the German annual report. However one should also take into account that Eurokai only owns ⅔ of Contship directly and ⅓ of contiship via the 50/50 JV.

The result of this is that adjusted sales are roughly 508 mn EUR, which equals 2x the consolidated number in the "official" accounts for 2022. EBITDA also doubles with the inclusion of 50% of Eurogate's EBITDA.

Step 3: Debt adjusted P/E

As P/E doesn't take into accound debt, I have adjusted Eurokai's PE for the "real" EV.

So when we compare the adjusted Eurokai numbers with the Peer Group it looks like follows:

Peer Group smaller ports							
	MArket cap (ori	EV/Sales	EV/EBITDA	P/E	P/B	ROE	EBIT margin
HHFA	1.259	1,6	7,1	44,6	1,5	12,6%	13,4%
Logistec	834	5,4	39	32,7	2,4	16,0%	6,5%
Piraeus Port	612	2,5	7,1	15	1,7	18,0%	55,0%
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Hutchinson Port	1.297	4,2	7,1	17,5	0,4	3,7%	31,4%
Tauranga	3.632	9,8	20,3	31	1,7	5,4%	40,4%
Avg	**1.568**	**4,8**	**15,3**	**26,37**	**1,7**	**11,5%**	**31,0%**
Eurokai (TIKR)	360	2,1	7,2	9	0,8	11,4%	24,0%
Eurokai Adj 2022	360	**0,4**	**1,4**	**5,1**	**0,8**	18,06%	24,0%
Eurokai adj vs Avg		10,8	10,8	5,2	2,1		
Eurokai vs. lowest		3,5	5,0	2,9	0,5		

With these adjustments one can see that especially for EV related KPIs, Eurokai trades at a mere fraction of its Peer Group. The lower green box shoes the multiple that Eurikai's valuation would need to go up to either reach the average or the lowest valued peer.

One caveat: This is based on 2022 numbers. 2023 numbers might look a little bit different. But the main take-away is that depending on the KPI, Eurokai only trades at 20-30 % of the valuation of the CHEAPEST competitors.

Alternative valuation approach: Look through M&A multiples

Another way of looking at Eurokai would be to use M&A transaction multiples. Container terminals are usually compared via EV/EBITDA multiples which on average are in a range of 10-13xEV/EBITDA and higher than public peers.

Yet another way is to compare the valuation with the amount of containers that are handled annually. In Eurokai's case, one needs to really do this on a "look through" basis. This is how container volume looks like gross and look through excluding all minorities (h/t to Shobo from the WI forum):

Look through Stake	Terminal	Held via	Country	Containers 2022 TEU 100%	Look Through
50%	EUROGATE Container Terminal Bremerhaven GmbH	Eurogate	Germany	766	383
25%	North Sea Terminal Bremerhaven GmbH & Co.	Eurogate	Germany	2573	643
25%	MSC Gate Bremerhaven GmbH & Co. KG	Eurogate	Germany	1237	309
50%	Hamburg	Eurogate	Germany	2033	1017
35%	Wilhelmshaven	Eurogate	Germany	683	239
49,98%	La Spezia	Contship	Italy	1147	573
7,50%	Salerno	Contship	Italy	314	24
14,99%	Ravenna	Contship	Italy	200	30
26,66%	Tanger		Morocco	2516	671
10%	Ust-Luga		Russia	18	2
30%	Limassol		Cyprus	371	111
39,34%	Damietta		Egypt	0	0
Total				11858	4002

So look through, Eurokai has processed 4 mn TEU (Twenty foot standard containers) in 2022. Transaction multiples that I have looked at (depending on type of terminal) are anywhere between 0,2 mn EUR per 1000 container/p.a. to 0,8 mn EUR. So even if we look at the lower bound, this would mean a value of 800 mn EUR or ~60 EUR per share (plus cash) or significantly more at higher multiples. Plus all the other non-container activities. One could argue that Eurokai never gets sold, on the other hand we have seen some partial divestments from Eurokai which then create surprisingly high cash inflows.

So overall, the M&A multiple approach might not be directly applicable but it shows the extreme level of undervaluation of Eurokai's assets.

H) Capital allocation & Corporate culture at Eurokai

For a capital intensive business that generates a lot of operating Cash flow, capital allocation is quite important. Since the inception of Eurokai in the 1960ies, Eurokai initially was a real growth company, reinvesting everything they earned (and more) into bigger terminals and more services around containers. Then, in the 1980ies they went international, first to Italy, later also to Morocco, Portugal, Russia, Cyprus etc. According to the mentioned book, this expansion was very opportunistic and in some cases took a very long time (Portugal) or didn't materialize (Saudi Arabia).

In the last few years however, they seem to have been a little bit more in consolidation mode. The closed one unprofitable Terminal in Italy and sold another unprofitable transshipment terminal in Italy. They also sold a minority stake in Portugal (LISCONT).

As a result, both Eurokai/Contship and Eurogate had net cash in 2022 which is quite unusual for these kinds of businesses, but is maybe a good thing when things go bumpy or opportunities present themselves.

Eurokai has never made any share repurchases which is clearly negative. On the positive side, the dividend per share has been increased from 0,18 EUR a share in 2006 to currently 1,30 EUR and they have paid a special dividend here and there.

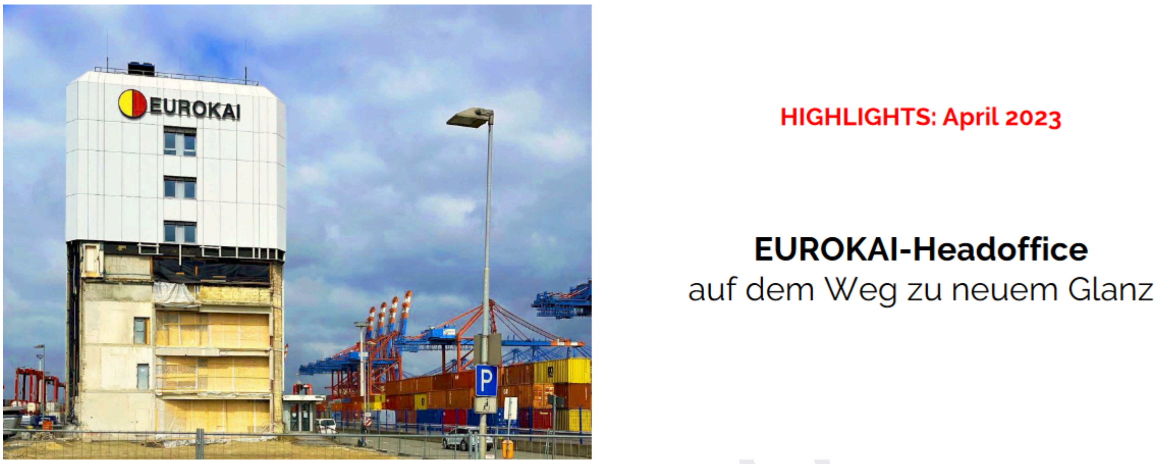
From what I have heard, share buybacks were just not part of the Vocabulary of Thomas Eckelmann. But it will be interesting to see and hear if anything changes with Tom Eckelmann as CEO.

For the next few years they have planned some significant Capex programs. I will look at this in more detail later but they could be both a risk and an opportunity.

My impression is that overall, capital allocation is very conservative and opportunistic. They sometimes do take risk but in general run the company very conservatively and maybe even "criminally underleveraged". On the other hand, this also limits the downside in the unavoidable economic cycles.

Corporate culture is not so easy to assess from the outside, but from the Book “Herr Eckelmann geht an Land” one can read out that from the beginning, Eurokai was always managed on a very decentralized basis. Kurt Eckelmann, the 4th generation CEO despised large Corporate headquarters and always preferred to set up a new company as its own profit center in order to keep interests aligned.

Although they are currently rennovating the HQs, it doesn’t look excessive to me:



Initially, they also gave shares to Employees, but I don’t think that this is happening any more.

I) Share price development

The share price over the last 25 years looks “interesting”. Not much until 2004, then a meteoric rise into the GFC and then sideways in a range between 20-40 EUR per share for the last 15 years or so.

For some reason, until the GFC, listed port assets had earned enormous valuation multiples. Here for instance [is a German Analyst price target from 2008] that called for a price of 140 EUR. Another factor might have been the November 2007 IPO of Hafen Hamburg, the big, Government owned local competitor.

Over the last 15 years, The shares have been trading in a range between 20-40 EUR per share, with the current share price clearly being at the lower end.

J) Potential Upside / "Soft catalysts"

1) **The business cycle might turn at some point in the next 12 months**

2023/2024 might be (close) to the bottom of the cycle. Shipping volume has already recovered a little bit in the 3rd quarter of 2023. I have no crystal ball for the future, but the very negative sentiment to especially Germany in my opinion is rather a reason for optimism in the mid-term.

2) **New projects or under way - La Spezia and Damietta (Egypt)**

Eurokai has two relevant projects under way. One is the expansion of the La Spezia Terminal. La Spezia is the "Crown Jewel" of the Contship Group. It is the number 2 intermodal container Terminal in Italy.

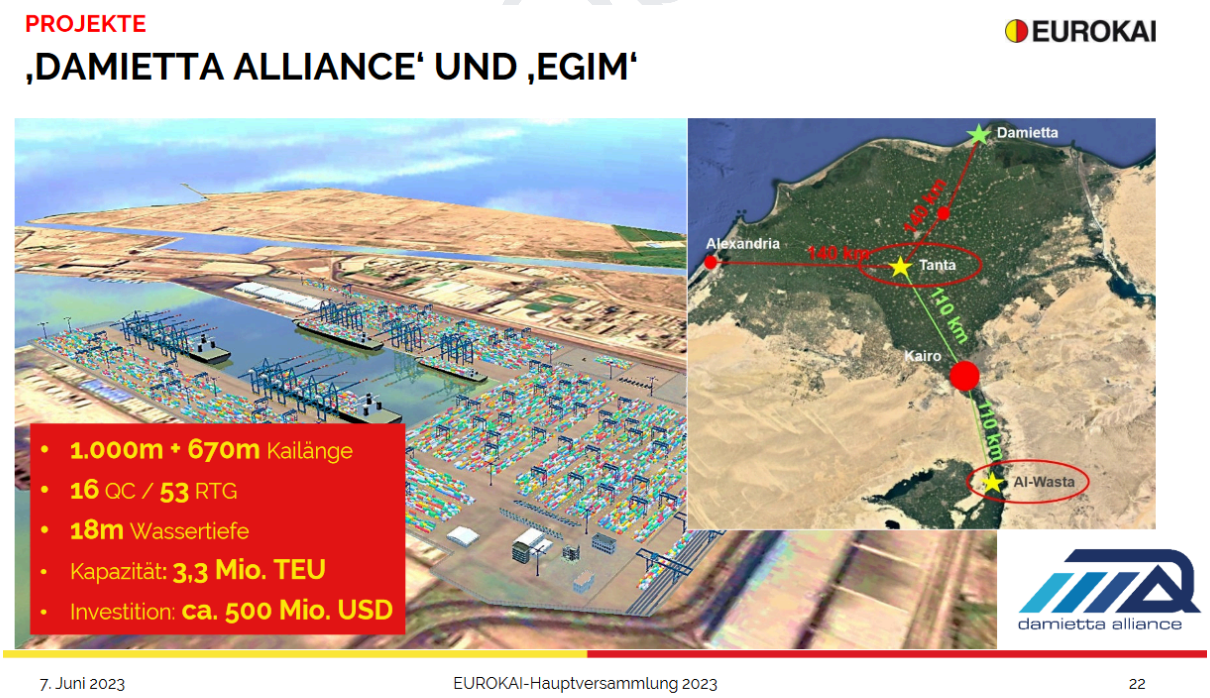
In the AGM in 2022&2023, they lined out the plans which look like this:

AUSBAU LA SPEZIA: ANGELO RAVANO TERMINAL

230 mn of investment will increase the capacity of the Terminal by 50%. As the Terminal is fully consolidated and the stock market doesn't give credit to the liquidity of Eurokai, one could assume that a corresponding increase in Sales and EBITDA/EBIT from 2025 could have a positive impact.

The expansion of the terminal is accompanied with an extension of the concession to 2067 which is of course a very good long term basis to recover the investment.

The second large project is the Terminal Damietta in Egypt. Here is the slide from the AGM in 2023:

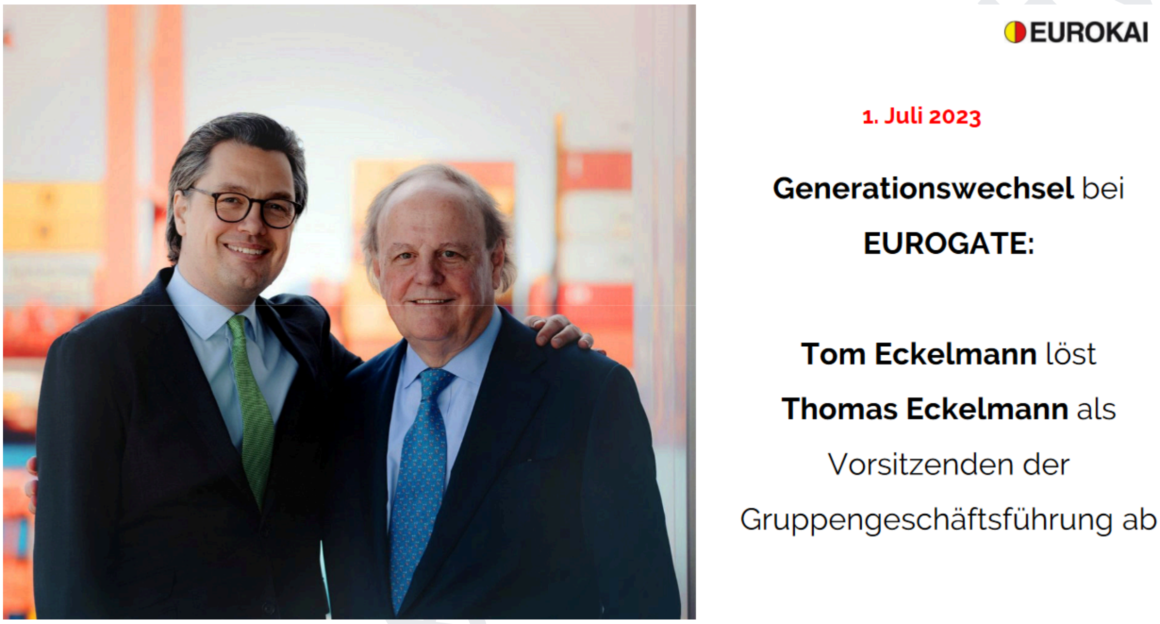


In Damietta's case, Eurokai "only" owns 29,5% of the consortium via Contship. Of course, Egypt is much more risky, especially considering what is just happening in the Red Sea. On the other hand, if it works out, the returns on such a project can be significant. They will flow into Eurokai's P&L via the financial result.

I did some quick research and it seems that the equity portion of the terminal seems to be quite low, as international banks support the project with 455 mn USD. So the cash drain on Eurokai should be limited, but the upside could be substantial in the mid term.

3) Generational change: From the 5th to the 6th generation

In 2023, Tom Eckelmann, the son of Thomas Eckelmann took over as CEO of Eurokai:



As mentioned in the beginning, it will be interesting to see if and when his parents finally step out and if Tom Eckelmann will just continue or give Eurokai a new direction. Personally, I do think that his Bio is quite interesting, especially his time at Morgan Stanley's infrastructure investment arm should have exposed him to "modern Anglosaxon shareholder culture.

What I find interesting is that in my opinion, nothing positive with regard to management is priced into the stock. Even a very modest share repurchase program could change things significantly. Although I have no idea if this is realistic or not.

The flipside of being maybe to Anglosaxon could be that he might want to take out minorities at a low price, but I still think there is more upside than downside.

4. Reshuffling of Container routes after the MSC/Hafen Hamburg Deals

When MSC made a deal with the larger competitor Hamburger Hafen (HHFA) in 2023, Thomas Eckelmann was quoted that even if MSC would leave the Eurogate terminals, it could be a net positive for them. Happag Lloyd, the biggest customer of HHFA already announced that they will shift volume and Maersk might do the same. It will be interesting to see how this develops, but net, Eurogate's Northern Germany terminals could be winners even within the next few months.

5. The big Solution: "German Harbors United"

Before MSC was buying into Hafen Hamburg, there had been talks how Eurogate and Hamburg could work closer together. Interestingly, in late December, a senior member of MSC mentioned that their final target could still be a solution where all the big 3 ports would cooperate. I don't think that this will happen quickly, but if it comes, it could be an interesting "catalytic event" some way or the other.

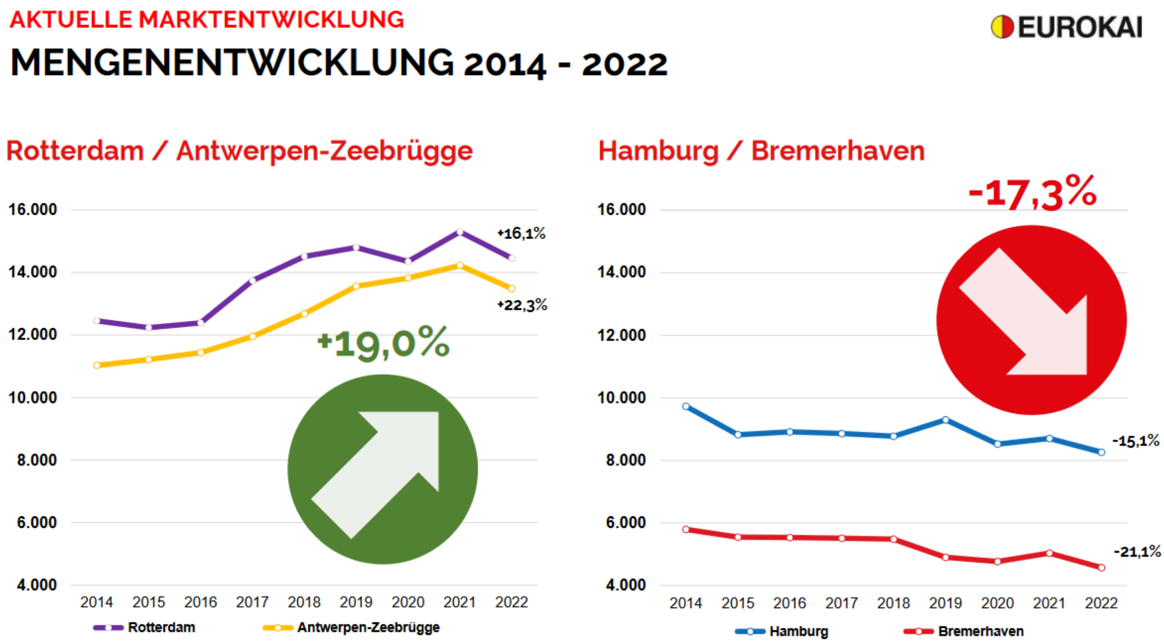
K) Main Risks:

1. **Nothing happens**

I guess this is the main risk: Eurokai keeps doing what they have been doing, and shareholders will only collect the dividend. I guess the likelihood of this scenario is actually 50%. Still in such a scenario, there might be a chance for a higher valuation at some point in time.

2. **German ports have been declining for some years and could decline even more**

This is a chart from the AGM which shows how German ports are seem to be losing out vs. the Dutch ports:



Just a reminder: The land distance from Rotterdam to Frankfurt is the same as Hamburg. I have no idea if and how fast this trend will continue but it is clearly a risk.

3. **World trade gets really ugly (China/Taiwan)**

This is clearly a big risk for any company but clearly Container Shipping and Trade might be at least initially be hit most. However, in such a scenario, Eurokai due to it's very conservative financial profile, will clearly be one of the "last Container terminals standing". There might even be the opportunity to do something on the M&A side.

4. **Capex program is not successful**

As mentioned above, Eurokai has some large Capex programs planned. If they coincide with some really bad Global developments (for instance the current issues in the Red Sea), some of those investments might not earn their cost of capital. Over the past decades, clearly not every foreign investment from Eurokai went well, but it seems that they are able to manage their exposures conservatively and they don't seem to hesitate to walk away if something doesn't work out.

5. **Short term pressure when 2023 numbers are released**

2023 will clearly come lower than 2022. Among declining container volumes, Eurogate has fully written off the Russian participation. Maybe some investors get spooked by this. Eurokai also usually doesn't give any detailed outlook either. So that might lead to some short term pressure when they release 2023 numbers.

L) Pro's & Con's

As always, before coming to a conclusion, here is a collection of Pro's and Con's

+ Extremely cheap but well run infrastructure asset
+ 6th generation family owned/managed, long term orientation
+ financially extremely conservative
+ Decentralized organization
+ 5% dividend yield for waiting
+ several potential "soft catalysts" in the next few years
+ only covered by 1 analyst, TIKR/Bloomberg numbers misleading, very hard to understand

+/- Change to 6th generation happened in 2023
+/. Larger Capex projects planned

- No hard catalysts, potential for a "value trap" kind of situation
- high complexity for a small cap
- some fundamental risks (China/Taiwan, Hamburg vs Rotterdam)
-

M) Summary, Return expectation & “time arbitrage”

I have to admit that my decision process for Eurokai took a lot longer than usual. I have been looking at Eurokai many times in the past 15-20 years and never got comfortable until yet.

Part of my motivation might not be 100% rational, for instance I just like ports which was the initial motivation to go really deep. There is clearly a non-zero probability that the stock will not be “discovered” over the next 3-5 years and I will “only” be able to collect dividends. Investor consent at the moment seems to be that a cheap stock without a catalyst is like dead wood and will always stay cheap. David Einhorn for instance has mentioned often that the capital market is broken for value investors and that the only alternative is to look at catalysts like share buy backs or take overs..

On the other hand, I do think that the valuation is so absurdly low, that even if we assume a significant discount to the cheapest competitors, the stock could easily double or triple and it would still be modestly valued.

In my opinion, maybe also driven by the incorrect data in tools like TIKR or Bloomberg, few people understand the undervaluation and even fewer think that it is a suitable investment. Eurokai is illiquid, has a low Beta (0,6) and for anyone managing against a benchmark is almost guaranteed to underperform for some extended time.

However, as my only real “edge” is a longer time horizon as the typical market participant and an above average capacity to suffer underperformance, I find the stock very interesting. I think this is something that I would call “time arbitrage”: As a private investor who is not in a hurry, I do have to luxury to invest in something where there is no clear exit or catalyst. The arbitrage here is that I think over time there is an increasing possibility that something happens that might lead to a re-valuation.

My worst case scenario over 4-5 years in this case is the current dividend yield of 5%. I think over 3-5 years there is a good chance that at some point the market discovers (again) this gem and then the share price could easily go up by +100% or +200% and the stock would be undervalued.

If I assume a 50/50 chance of this event happening, my expected return would be north of 10% p.a. over 5 years with in my opinion very little real downside. Often, stocks that are as cheap as Eurokai are often in some kind of existential trouble, which in my opinion is not the case here. That’s good enough for me.

As I want to retain some flexibility, I allocated 3% of the portfolio into Eurokai pref shares at around 26 € per share and will monitor closely how the market will take up 2023 numbers going forward. I also plan to attend the AGM in Hamburg this year to get a better feeling for the company.

Further Links & Sources

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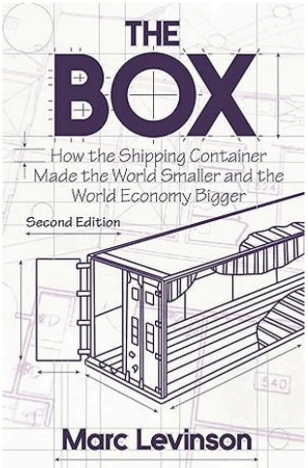

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