Westports Holdings Berhad

(5246 | WPRTS MK) Transportation & Logistics | Industrials

Zoom out to appreciate the long term potential

***Maintain* BUY**

***Revised* Target Price: RM4.03**

(Previously RM4.38)

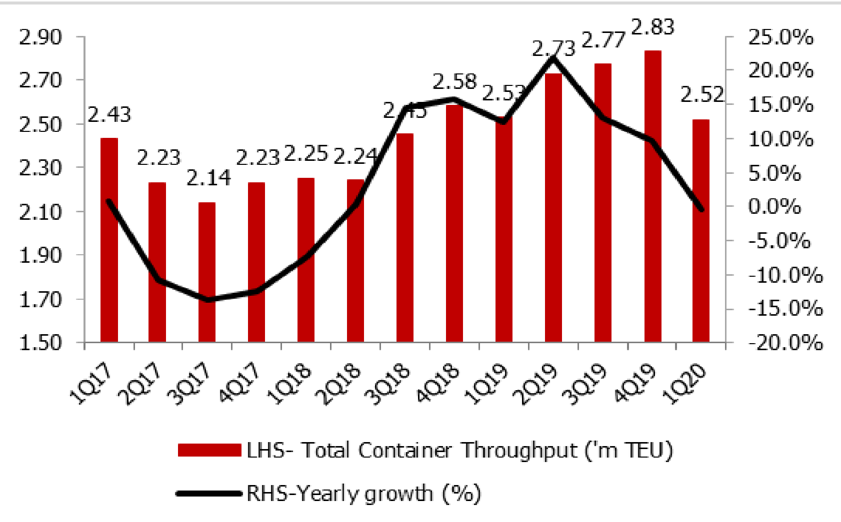
KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings within expectations**
- **Revenue was still higher despite the flat container throughput growth amidst the effect of the tariff hike in Mar'19**
- **2QFY20 will be tougher as more blank sailings announced but 2HFY20 is bound to stage a gradual recovery**
- **Revising earnings forecast downwards to reflect lower container throughput growth**
- **Maintain BUY with a revised TP of RM4.03 per share**

1QFY20 in-line with expectations. Westports recorded a normalised PAT of RM169.3m (-5.9%qoq, +20.9%yoy). This was in line with both ours and consensus expectations at 24.8% and 27.8% respectively. The growth in FY19 earnings was partly attributable to the reduction in net finance costs by -10.0%yoy and the effect of the container tariff hike effective from March 2019.

1QFY20 container throughput within our expectations. The total container throughput in 1QFY20 was unchanged at 2.5m TEUs, making up 23.0% of our full year estimates. In comparison to the same period last year, container throughput increased by +12.4%yoy. Overall, container revenue was up +12.0%yoy due to the container tariff hike last March. Transhipment volumes recorded a decline of -8.0%yoy to 1.6m TEUs. Nevertheless, this was cushioned by the +14.0%yoy increase in gateway volume to 0.9m TEUs during the quarter under review. The positive performance for gateway volumes was partially attributable to Malaysia's export growth averaging at +1.9%yoy in 1QFY20 despite the Covid-19 outbreak which forced factories to shutdown in China. Aside from that, the increase in polymer resin and paper businesses have supported gateway volumes.

Figure 1: Westports quarterly total container throughput (m' TEU)



Source: Westports

RETURN STATISTICS	
Price @ 6th May 2020 (RM)	3.65
Expected share price return (%)	+10.41
Expected dividend yield (%)	+4.00
Expected total return (%)	**+14.41**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	3.1	2.6
3 months	8.0	5.4
12 months	-1.4	17.5

KEY STATISTICS	
FBM KLCI	1,376.93
Syariah compliant	Yes
Issue shares (m)	3410.00
Estimated free float (%)	13.85
Market Capitalisation (RM'm)	12,446.50
52-wk price range	RM2.97 - RM4.54
Beta vs FBM KLCI (x)	0.63
Monthly velocity (%)	0.23
Monthly volatility (%)	5.94
3-mth average daily volume (m)	2.70
3-mth average daily value (RM'm)	9.62
Top Shareholders (%)	
Pembinaan Redzai Sdn Bhd	42.42
South Port Investment Holdings	23.55
Employees Provident Fund Board	6.24

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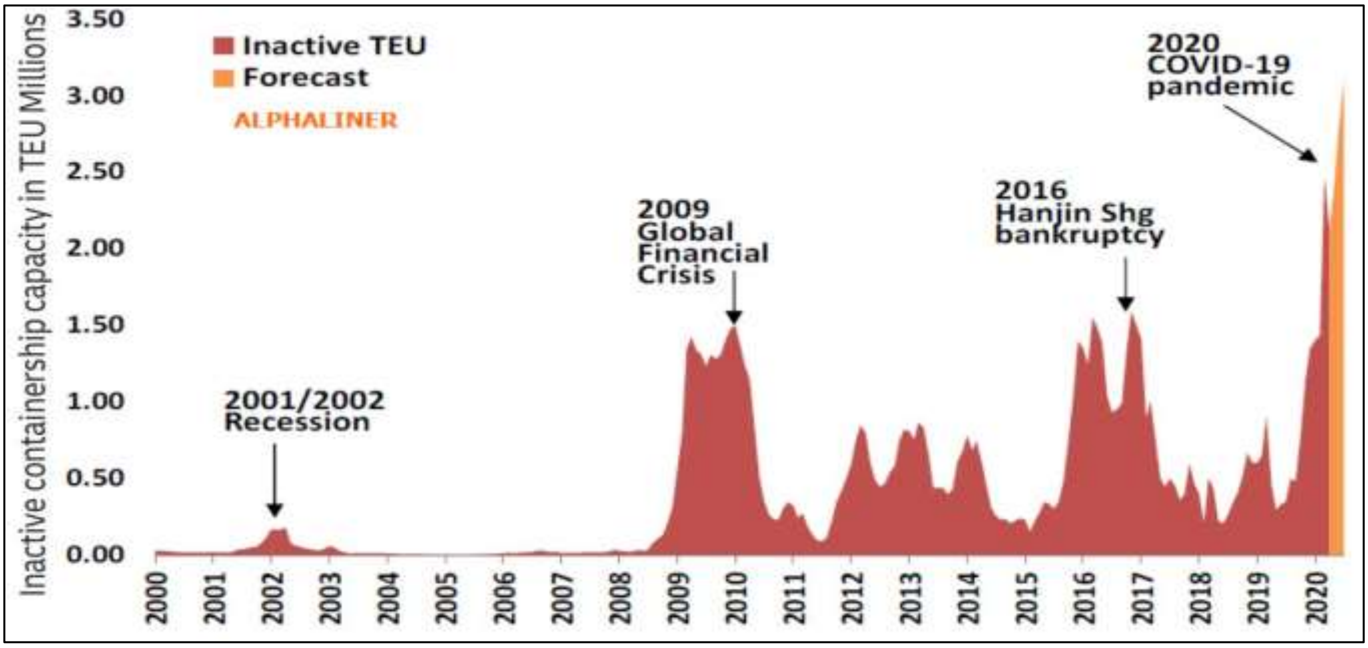
Outlook. 2QFY20 will be a tougher quarter as April 2020 container volumes dropped by approximately -17.0%yoy. Westports' management also guided that container volumes will bottom out in May 2020 and gradually recover in the second half of the year. Overall Westports' is expecting its annual container throughput growth to register a double digit decline in FY20E before recording positive growth in FY21F onwards. While factories in China have resumed operations, other parts of the world particularly the U.S saw retails sale plunging the most in history by 8.7% in March and the Eurozone had its consumer confidence hit the lowest since the 2008 financial crisis due to the Covid-19 pandemic. In short, the weak demand in other parts of the world will slow down manufacturing activity in China. As a result, more than 250 scheduled sailings will be withdrawn in 2QFY20 as carriers react to fading demand amidst the general shutdowns across many countries. Taking this into account, we are adjusting our container throughput forecast in FY20E/FY21F/FY22F to -12.5%/7.4%/8.1% from 2.5%/3.3%/4.5% previously.

Figure 2: Inactive containership capacity



Source: DHL, Alphaliner, Dynaliners

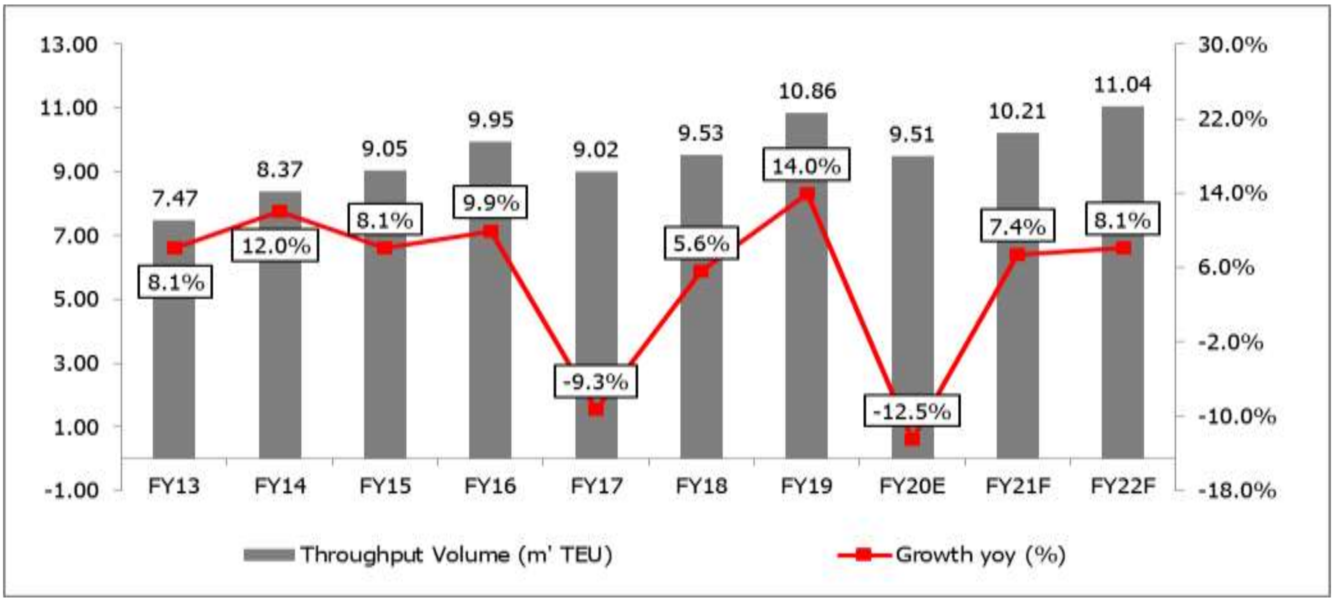
Update 'Westports 2' development plan. The estimated capex (excluding Marina Land) allocated for FY20F remains unchanged in the range of RM300-400m which includes the (i) deployment of more quay crane and Rubber Tyred Gantries; and (ii) the construction of the liquid bulk jetty. With regard to 'Westports 2' development, shareholders of Westports have approved the proposed acquisition of the Marina Land of 146.4 hectares for RM394m on 5 May 2020. The next steps include: (i) the conversion of category of land use, (ii) obtaining approval from the Ministry of Economic Affairs and; (iii) the signing of a concession agreement with the Government of Malaysia for the container terminal expansion by late December 2020. Assuming this timeline is met, Westports would have to pay RM354.6m (the remaining 90% of the total purchase consideration) within three months after date of satisfying conditions precedent. Land reclamation works could possibly start in 1QCY21, giving a longer buffer period before commencement of wharf construction begins later in 2023 followed by delivery of cranes towards end of CY24, enabling the operations to begin later in CY25. Management also highlighted that funding sources would be a combination of a form of equity raising such as dividend reinvestment plans or rights issue for phase 1 (covering container terminals 10 to 13) followed by debt financing in the later phases of 'Westports 2' which will take place at a later-than-scheduled period either in FY21 or FY22 (instead of FY20) due to the expected drop in volume in FY20. As conclusion of the concession terms are still pending, we have yet to impute 'Westports 2' into our estimates.

Earnings estimates. Following the adjustment to our container throughput forecast and a higher expected capex for FY20, we are lowering our earnings estimates for FY20E/FY21F/FY22F by -14.5%/-9.0%/-3.1% respectively.

Target price. We are revising our target price to **RM4.03 per share** (previously RM4.38) following the downward adjustment in our earnings forecast. Our target price based on our DCF valuation (terminal growth: 3.0%, WACC: 7.5%).

Maintain BUY. We continue to favour Westports due to: (i) lower transhipment tariffs amongst its peers such as Port of Tanjung Pelepas and Port of Singapore even after taking into account of the second phase of tariff hike in March 2019; and (ii) the extension of the Ocean Alliance to 10 years (initially 5 years) until 2027 will mitigate the effects from the reshuffling of alliances profoundly seen in FY17. Contribution from intra-Asia and Asia-Europe trade lanes may face temporary downward pressure from the coronavirus FY20. Nevertheless, we expect Westports' container throughput to recover in FY21, in line with IMF's projection of Malaysia's GDP growth of 9% for the same year, the fastest amongst ASEAN-5. On a longer term horizon, 'Westport 2' expansion plan is still expected to increase capacity by roughly 50% to approximately 28m TEUs per annum by 2040. This would allow Westports' to compete more effectively for transhipment volumes against Ports of Singapore which has plans to raise capacity from around 40m TEUs to 65m TEUs by 2040. Risks to our call include; (i) prolonged coronavirus outbreak and (ii) any abrupt downside revision to port tariffs.

Figure 3: Westports annual container throughput (m' TEU) and growth (% yoy)



Source: Westports, MIDFR

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue (RM' m)	**1,614.7**	**1,782.9**	**1,790.4**	**1,989.9**	**2,178.1**
Core Revenue (RM' m)*	1,614.7	1,782.9	1,790.4	1,989.9	2,128.1
EBITDA (RM' m)	952.3	1,111.7	1,102.5	1,253.8	1,383.2
Pretax Profit (RM' m)	701.2	773.8	768.2	881.2	1,016.3
Net Profit (RM' m)	533.5	590.9	583.8	669.7	772.4
Core Net Profit	**534.5**	**645.6**	**583.8**	**669.7**	**772.4**
EPS (sen)	15.6	18.9	17.1	19.6	22.7
EPS growth (%)	(18.1)	21.0	(9.6)	14.7	15.3
PER (x)	23.3	19.3	21.3	18.6	16.1
Net Dividend (sen)	11.7	14.2	12.8	14.7	17.0
Net Dividend Yield (%)	3.2	3.9	3.5	4.0	4.7

Source: Company, MIDFR

WESTPORTS: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Cumulative				
	1Q20	4Q19	1Q19	QoQ (%)	YoY (%)
Core Revenue*	457.0	452.8	415.2	0.9	10.1
Revenue	473.5	452.8	415.2	4.6	14.0
COGS	(184.2)	(169.2)	(159.2)	8.8	15.7
Gross profit	289.3	283.6	256.0	2.0	13.0
Other income	2.6	3.0	2.6	-11.6	-0.9
Admin expenses	(25.1)	(60.6)	(6.2)	-58.6	>100
Other operating expense	(49.7)	(50.7)	(46.9)	-2.0	6.0
Operating profit	217.1	175.3	205.6	23.9	5.6
Net finance expense	(15.2)	(17.3)	(19.9)	-11.7	-23.3
Profit before tax	201.9	158.0	185.7	27.8	8.7
Taxation	(49.1)	(32.6)	(45.8)	50.7	7.2
Profit after tax	152.8	125.4	139.9	21.8	9.2
Extraordinary items	16.5	54.4	0.1	-69.6	>100
Core PAT	169.3	179.9	140.0	-5.9	20.9

OPERATING SUMMARY

Container throughput	1Q20	4Q19	1Q19	QoQ%	YoY%
Transhipment ('m)	1.6	1.8	1.7	(14.1)	(7.6)
Gateway ('m)	0.9	1.0	0.8	(5.1)	14.6
Total	2.5	2.8	2.5	(11.0)	(0.4)
Segmental revenue	**1Q20**	**4Q19**	**1Q19**	**QoQ%**	**YoY%**
Container	396.0	389.0	354.0	1.8	11.9
Conventional	31.0	32.0	31.0	(3.1)	0.0
Marine	20.0	21.0	20.0	(4.8)	0.0
Rental	10.0	10.0	10.0	0.0	0.0

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.