Westports Holdings Berhad

(5246 | WPRTS MK) Transportation & Logistics | Industrials

A record breaking year for container throughput

***Maintain* BUY**

***Revised* Target Price: RM4.38**

(Previously RM4.82)

KEY INVESTMENT HIGHLIGHTS

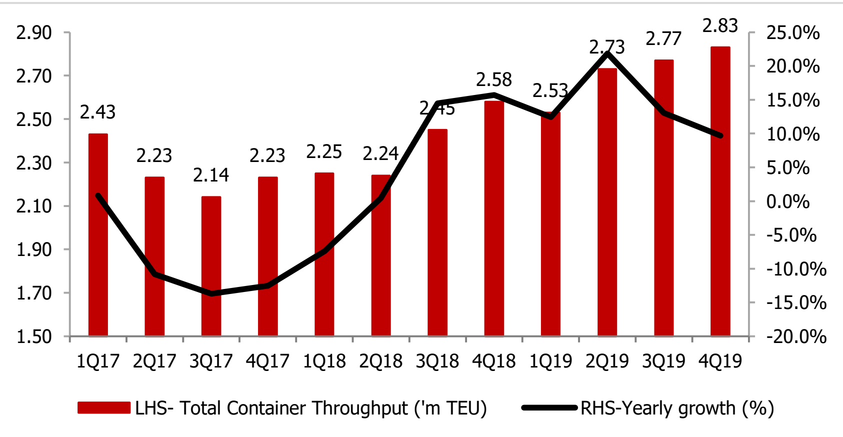
- **FY19 normalised earnings well within expectations**
- **Transhipment container throughput contributed to the bulk of overall container throughput growth in FY19**
- **Declared second interim dividend of 6.26sen in 2HFY19**
- **Acquiring another parcel of land in Port Klang for 'Westports 2'**
- **Revising earnings forecast downwards to reflect conservativeness and the impact of the coronavirus**
- **Maintain BUY with a revised TP of RM4.38 per share**

4QFY19 was the best performing quarter. Westport's 4QFY19 was the best performing quarter for the year, recording a normalised PAT of RM179.9m (+12.9%qoq, +19.1%yoy). This brings the cumulative normalised FY19 PAT to RM645.6m (excluding one-off items), in line with both ours and consensus expectations at 99.7% and 100.9% respectively. The growth in FY19 earnings was partly attributable to the reduction in net finance costs by -7.5%yoy and the 10-month effect of the container tariff hike effective from 1 March 2019.

Overall FY19 container throughput within our expectations. Westports' FY19 container throughput increased by +14.0%yoy to 10.86m TEUs, making up 99.2% of our full year estimates. Bulk of the growth was driven by transhipment throughput which soared by +16.2%yoy to 7.23m TEUs in FY19 in view of stronger container throughput contributions by the intra-Asia and Asia-Europe trade lanes at +17.0%yoy and +33.0%yoy respectively.

Gateway throughput jumps to another record high. Meanwhile, gateway container throughput grew at a tune of +10.0%yoy in FY19 compared to the +17.4%yoy growth in FY18 despite the -2.5%yoy decline in Malaysia total trade last year. Nevertheless, it was notable that the gateway volume notched a new record high of 0.98m TEUs in 4QFY19. This was partially driven by the +1.0%yoy increase in imports of intermediate and consumption goods during the quarter under review. This was evident by the shift of paper producing and polymer resin companies to Port Klang.

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



Source: Westports

RETURN STATISTICS	
Price @ 7th Feb 2020 (RM)	3.91
Expected share price return (%)	+12.02
Expected dividend yield (%)	+4.10
Expected total return (%)	**+16.12**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-5.1	-2.8
3 months	-7.1	-4.7
12 months	2.1	10.8

KEY STATISTICS	
FBM KLCI	1,554.49
Syariah compliant	Yes
Issue shares (m)	3,410.00
Estimated free float (%)	12.89
Market Capitalisation (RM'm)	13,333.10
52-wk price range	RM3.45 - RM4.54
Beta vs FBM KLCI (x)	0.87
Monthly velocity (%)	11.70
Monthly volatility (%)	5.94
3-mth average daily volume (m)	1.86
3-mth average daily value (RM'm)	7.79
Top Shareholders (%)	
Pembinaan Redzai Sdn Bhd	42.42
South Port Investment Holdings	23.55
Employees Provident Fund Board	10.52

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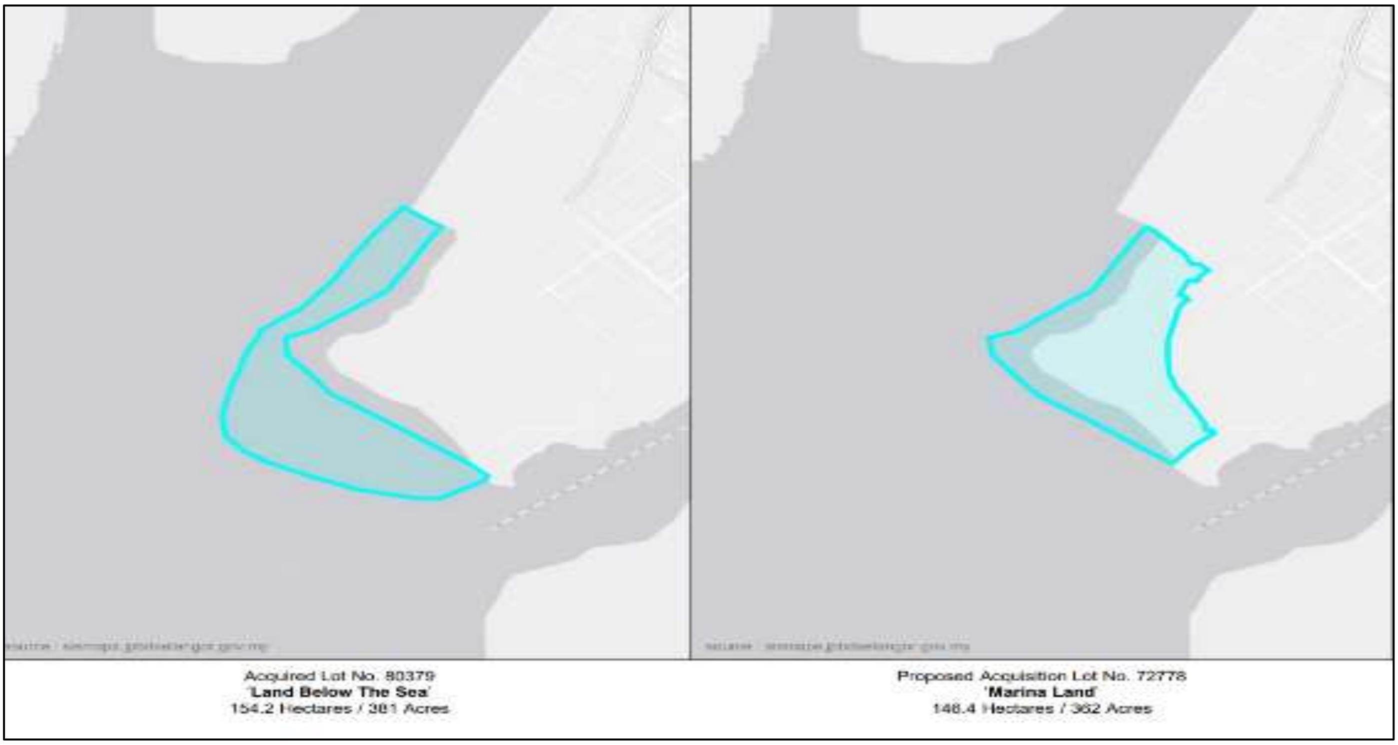
Dividends. Westports announced a second interim dividend of 6.26sen per share (ex-date 20 February 2020). This brings the full year FY19 dividend to 13.0 sen per share, in line with its 75% dividend payout policy.

Acquiring Marina Land for RM394.0m. With the environmental impact assessment (EIA) still ongoing for 'Westports 2', Westports has entered into a sales and purchase agreement to acquire 146.6 hectares of land (known as Marina Land) from Pembinaan Redzai Sdn Bhd (PRSB) for a total cash consideration of RM394.0m (RM25 per sqft). The Marina Land will complement the 154.2 acres of land previously acquired by Westports in 2018 for RM116.2m, necessary for the 'Westports 2' expansion. In terms of funding, RM200m of borrowings will be used to partly finance the Marina Land acquisition. As such, Westports' net gearing ratio is expected to increase from 0.29x to 0.46x following this transaction.

Heightened capex for FY20. The management expects the Marina Land acquisition to be completed by 4QFY20 subject to fulfilling the condition amongst others of: i) obtaining approval from the Ministry of Economic Affairs and; (ii) the signing of a concession agreement with the Government of Malaysia for the container terminal expansion. 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 4QCY20. Therefore, wharf construction is expected take place in CY21 followed by delivery of cranes towards end of CY22, enabling the operations to begin later in CY23. 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'. As conclusion of the concession terms are still pending, we have yet to impute 'Westports 2' into our estimates. In the near term, Westports' capacity will be increased to 15m TEUs (from 14m TEUs) by end of CY20 via deploying more quay cranes and Rubber Tyred Gantries with an estimated capex of RM300-400m. Taking into consideration of the Marina land acquisition, maintenance capex and possible reclamation works, we are now estimating a total capex of circa RM900.0m-RM1.0b for FY20.

Figure 2: Land acquisition for 'Westports 2'



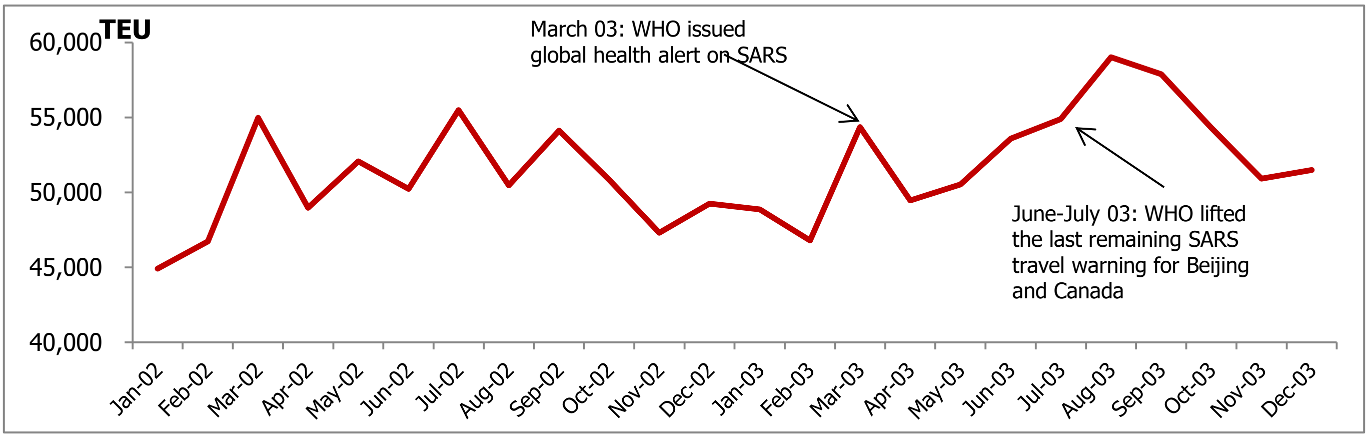
Source: Westports

While closure of factories in China may impact production and subsequently global container throughput..... Export-import container throughput at major Malaysian ports (Penang and Tanjung Pelepas) were not impacted by the Severe Acute Respiratory Syndrome (SARS) in 2003. Nevertheless, we must note that the 2003 SARS outbreak was in the absence of: (i) a city lockdown and; (ii) the trade tariffs imposed by the U.S on goods from China. Moreover, China's exposure to the global economy has evolved tremendously over the past 17 years as its share of global trade has more than doubled, to 12.8% in 2019 from 5.3% in 2003, according to Oxford Economics. Due to this, we expect China to expand at a slower rate in the 1Q20 but not solely due to the 2019-nCoV epidemic. The outbreak coincides with Chinese New Year festival where factories and businesses shut down for at least two weeks. However, a further extension of the factory shutdown could disrupt production up to two months. Thus far, weekly container vessel calls at key Chinese ports have shown a reduction of over 20.0% since 20 January 2020 according to Alphaliner. Meanwhile, operations have been suspended at Wuhan's Yangtze river port which experienced a dramatic reduction in port calls, as disclosed by Lloyd's List Intelligence.

……..there are still buckets of hope. Notwithstanding the abovementioned points, the People's Bank of China (PBOC) said that the impact of the coronavirus outbreak on China will be temporary. The latest measure announced by the PBOC was to inject USD174b of liquidity into the financial system and cut short-term rates. The Chinese government has also called for banks to offer loans with rates under 1.6% to enterprises that provide goods and services to contain the outbreak. In terms of production, the Shanghai government will assist companies such as Tesla to resume its production in China on February 10. In addition, there are other factories that are still operating, i.e. South Korea's LG Display Co.'s facility in Guangzhou for advanced OLED (monthly capacity of 60,000 sheets) and in fact will begin mass production in 1QCY20. Even in Wuhan, NAND flash memory supplier, Yangtze Memory Technologies Co. had its employees reporting to work as usual with strict monitoring. Another memory chip maker, Changxin Memory Technologies Inc. has not been affected by the sharp slowdown in domestic transportation of goods as it holds a national special licence that allows it to continue making deliveries in Wuhan.

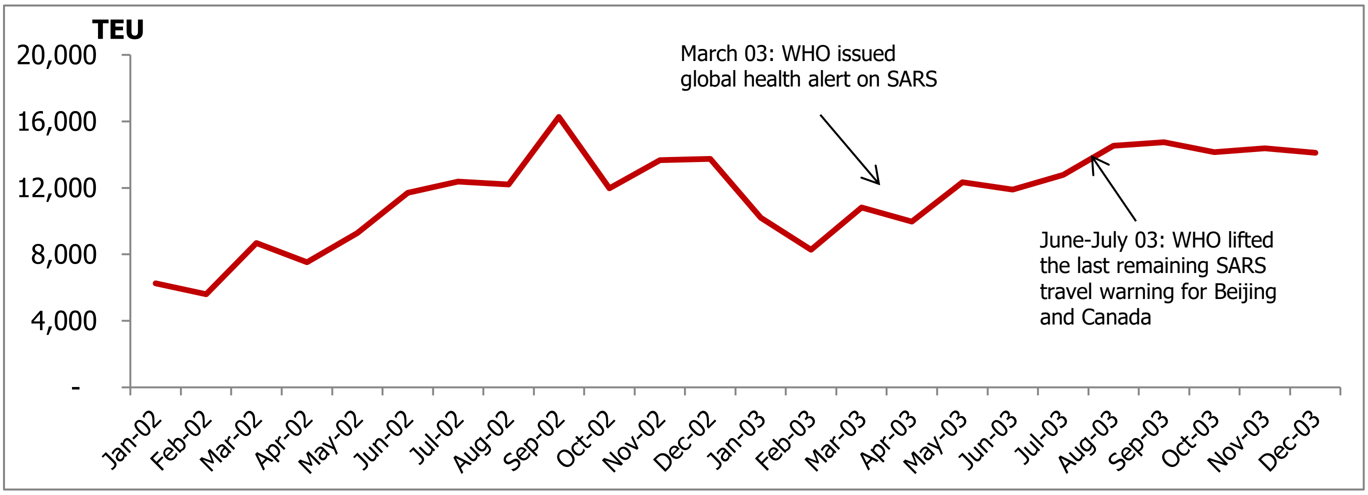
Our stand on Westports' annual container throughput. Therefore, we only foresee a minimal impact towards container throughput at Malaysian ports particularly Westports at this current juncture despite the huge contribution from the intra-Asia segment at >50%. As such, we have slightly revised our FY20 annual container throughput growth for Westports to +2.5%yoy (previously +3.3%yoy), which will be supported by our exports and GDP growth forecast of +1.5%yoy and +4.5%yoy respectively. Our revised annual container throughput forecast is in line with the management's guidance of a low single digit percentage for FY20.

Figure 3: Export-Import Container Throughput at Penang Port from 2002 to 2003



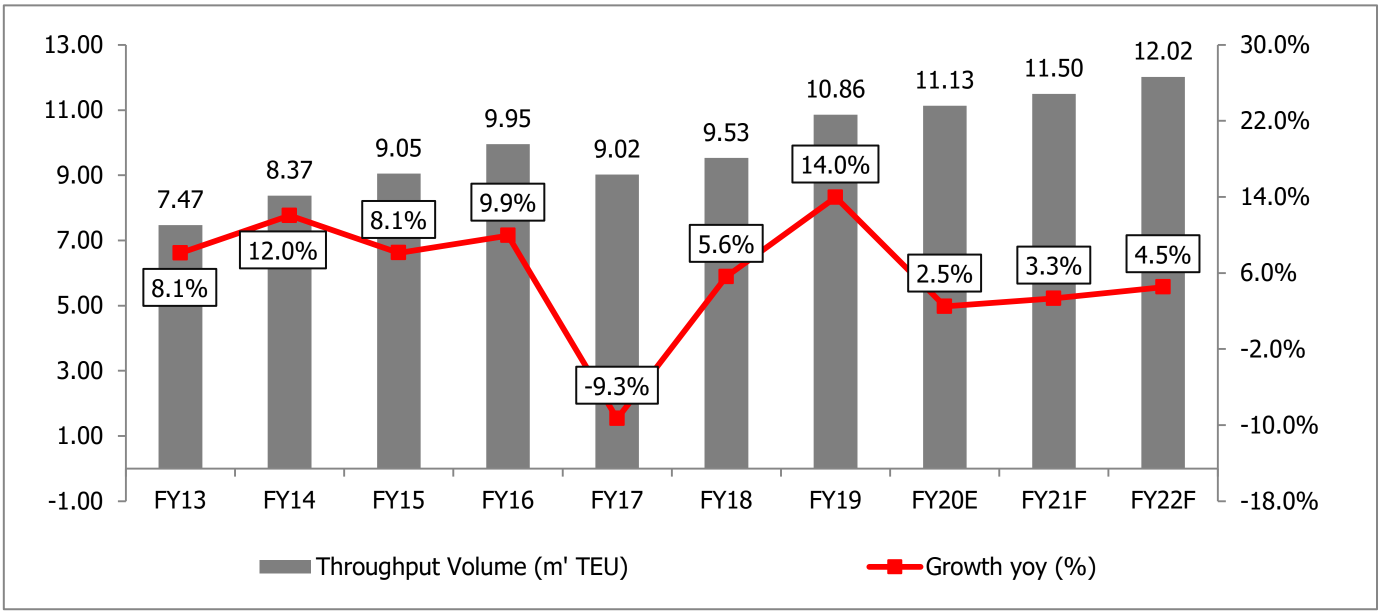
Source: Department of Statistics Malaysia

Figure 4: Export-Import Container Throughput at Penang Port from 2002 to 2003



Source: Department of Statistics Malaysia

Figure 5: Westports annual container throughput (m' TEU) and growth (% yoy)



Source: Westports, MIDFR

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 by -2.5%yoy and -1.0%yoy respectively. We also introduce our FY22 earnings forecasts.

Target price. We are revising our target price to **RM4.38 per share** (previously RM4.82) as we roll forward our valuation base year and adjust our earnings forecast downwards. 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 trade lanes may face temporary downward pressure from the coronavirus. Nevertheless, we opine that the risks towards Asia-Europe trade lane is limited as only approximately 10.0% of intermediate goods imports coming from China. Recall that the contribution of Asia-Europe trade lane grew by +33.0%yoy in FY19. Moreover, China plans to halve tariffs USD75.0b worth of Chinese goods effective 14 February 2020, indicating their commit to de-escalate trade tensions despite risks of the coronavirus delaying imports from the U.S. 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.

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**	**2,003.7**	**2,148.5**	**2,283.7**
Core Revenue (RM' m)*	1,614.7	1,782.9	2,003.7	2,148.5	2,233.7
EBITDA (RM' m)	952.3	1,111.7	1,265.4	1,358.6	1,430.6
Pretax Profit (RM' m)	701.2	773.8	898.7	968.7	1,048.5
Net Profit (RM' m)	533.5	590.9	683.0	736.2	796.9
Core Net Profit	**534.5**	**645.6**	**683.0**	**736.2**	**796.9**
EPS (sen)	15.6	18.9	20.0	21.6	23.4
EPS growth (%)	(18.1)	21.0	5.8	7.8	8.2
PER (x)	25.0	20.7	19.5	18.1	16.7
Net Dividend (sen)	11.7	14.2	15.0	16.2	17.5
Net Dividend Yield (%)	3.0	3.6	3.8	4.1	4.5

Source: Company, MIDFR

WESTPORTS: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	YoY (%)	QoQ (%)	12M19	12M18	YoY (%)
Core Revenue*	452.8	8.3	-1.7	1,782.9	1,614.7	10.4
Revenue	452.8	8.3	-1.7	1,782.9	1,614.7	10.4
COGS	(169.2)	4.3	-3.7	(671.2)	(660.2)	1.7
Gross profit	283.6	10.9	-0.4	1,111.7	954.5	16.5
Other income	3.0	90.7	-21.3	12.9	9.5	35.8
Admin expenses	(60.6)	>100	>100	(81.1)	(16.3)	>100
Other operating expense	(50.7)	18.7	-1.3	(194.7)	(165.4)	17.8
Operating profit	175.3	-17.5	-23.7	848.8	782.3	8.5
Net finance expense	(17.3)	-7.6	-5.9	(75.0)	(81.1)	-7.5
Profit before tax	158.0	-18.5	-25.2	773.8	701.2	10.4
Taxation	(32.6)	-32.6	-37.4	(182.9)	(167.7)	9.0
Profit after tax	125.4	-13.8	-21.2	590.9	533.5	10.8
Extraordinary items	54.4	>100	<-100	54.7	0.8	>100
Core PAT	179.9	19.1	12.9	645.6	534.3	20.8

OPERATING SUMMARY

Container throughput	4Q19	%YoY	%QoQ	12M19	12M18	%YoY
Transhipment ('m)	1.84	6.4	-0.5	7.23	6.22	16.2
Gateway ('m)	0.99	16.5	7.6	3.63	3.30	10.0
Total	2.83	9.7	2.2	10.86	9.52	14.1
Segmental revenue	**4Q19**	**%YoY**	**%QoQ**	**12M19**	**12M18**	**%YoY**
Container	389.0	10.8	-2.5	1536.0	1350.0	13.8
Conventional	32.0	-11.1	6.7	122.0	142.0	-14.1
Marine	21.0	5.0	0.0	83.0	77.0	7.8
Rental	10.0	-9.1	0.0	40.0	44.0	-9.1

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.