Sector Update | Friday, 07 February 2020

TRANSPORTATION-Ports

***Maintain* NEUTRAL**

Hold your horses

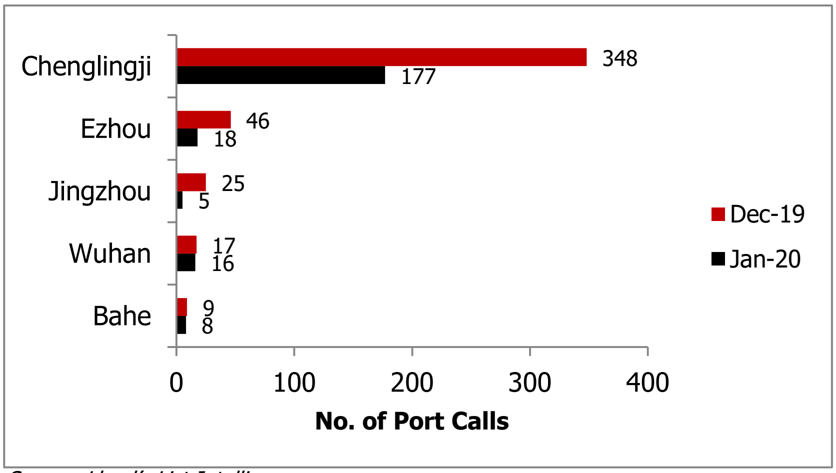
KEY INVESTMENT HIGHLIGHTS

- **The novel coronavirus (2019-nCoV) had caused extensions of the Lunar New Year holiday, leading to a longer shutdown period of factories**
- **Weekly container vessel calls at key Chinese ports have shown a reduction of over 20.0% since 20 January 2020**
- **Impact towards Malaysian ports to be minimal since importers/exporters can seek substitutes in Asia especially in ASEAN**
- **MMC Corp (BUY;TP:RM1.30) remains our top pick amongst port operators**
- **Maintain NEUTRAL on the transportation sector, but POSITIVE for ports**

Coronavirus outbreak in China. The World Health Organisation (WHO) declared the novel coronavirus (2019-nCoV) as a global health emergency on 30 January 2020. Many local governments in China had extended the Lunar New Year holiday until 9 February and February 13 in Wuhan to contain the spread of the virus. Notwithstanding this, workers in major cities such as Shanghai and Ningbo also have been told to stay home until 10 February. Should this additional week-long shut down be extended nationally, it could represent a 2% impact to China's GDP. The extended holiday and accompanying travel ban in Wuhan and other affected cities will prevent factories reopening causing production delays and missed delivery dates for many importers.

How have ports in China fared so 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. The number of ship calls at the seven ports in Yangtze River fell to 225 in January 2020 from 446 in December 2020. Chenglingji, a major feedering hub to the south of Wuhan, experienced the largest decline of more than 50%, with 177 fewer calls. If the coronavirus could not be contained, port operations will be disrupted as ports will need to implement new safety procedures. In the most extreme scenario, there is risk of quarantines at ports, which inhibit the efficiency of port operations. Container throughput is also unlikely to rebound immediately after the end of the holiday amidst a raft of additional void sailings announced by carriers, not just due to the seasonal lull but also the 2019-nCoV outbreak.

Figure 1: Yangtze River Port Calls (Dec 2019 vs Jan 2020)



Source: Lloyd's List Intelligence

COMPANY IN FOCUS

MMC Corporation Berhad

Maintain **BUY |** Unchanged Target price: RM1.30

Price @ 6th February 2020: RM0.90

- Its stable of ports commands more than 50% of the container market share in Malaysia
- PTP is shielded by any recalibration of shipping alliances
- Positive prospects for its listed associates; Malakoff Corporation Berhad and Gas Malaysia Berhad

Share price chart

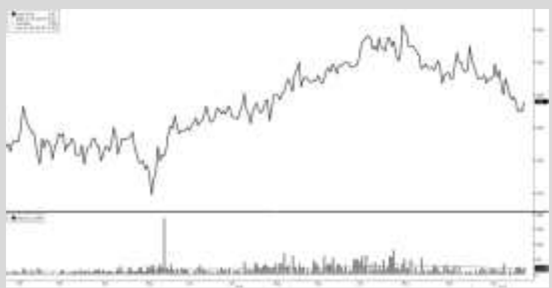
Westports Holdings Berhad

Maintain **BUY |** Unchanged Target price: RM4.82

Price @ 6h February 2020: RM3.96

- Lower transhipment tariffs amongst its peers such as Port of Tanjung Pelepas and Port of Singapore
- Solid contribution from intra-Asia trade lanes
- Westports 2 expansion plan to enable Westports to compete more effectively with Singapore for transshipment volumes

Share price chart



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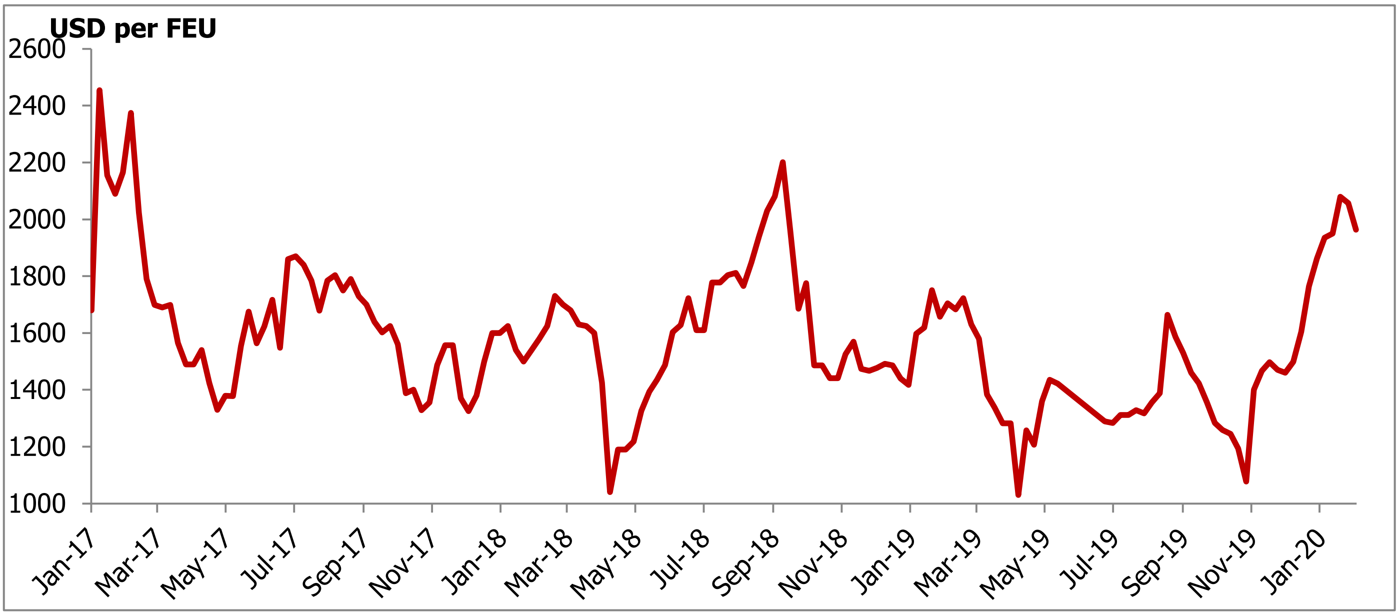
Impact on ocean freight rates. Referring to the Freightos Index from China to Europe, ocean freight rates fell by around 5.6% in the past two weeks (from 19 January 2020 to 2 Feb 2020). Nevertheless, this was in-line with the past trends seen in 2017 and 2018 whereby ocean freight rates would peak right before the Lunar New Year, subsequently declining to the lowest point for the year in mid-April. Once the factories commence operations, it is likely that rates will increase in response to backlogged demand. As the 2019-nCoV outbreak coincides with this year's Lunar New Year, the question is how low can ocean freights be and how fast will it recover. In relation to Asian ports, the situation would pose a risk to transshipment volumes transported between China and Europe.

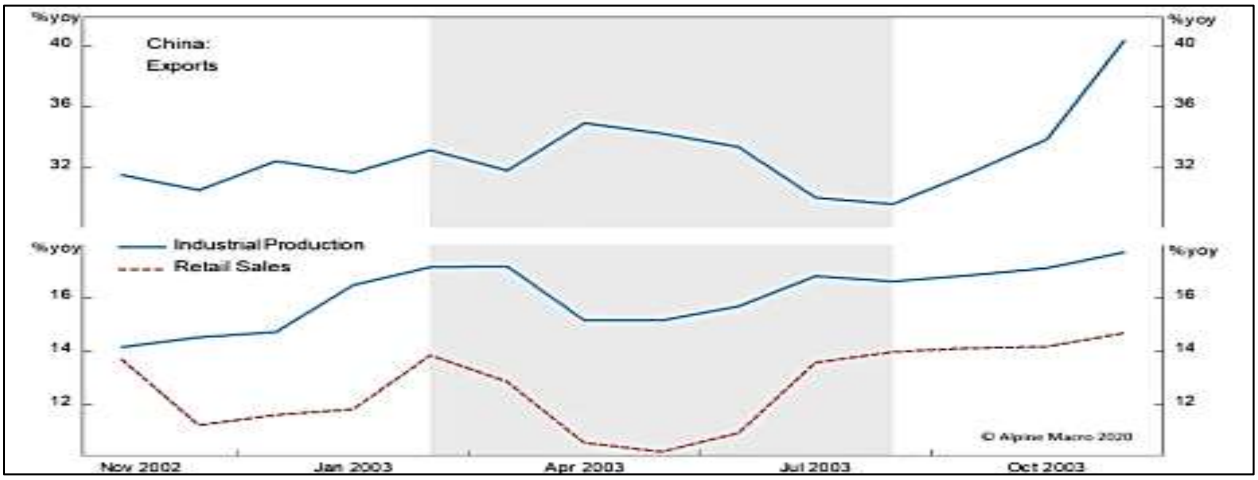
Figure 2: Freightos Index (China to Europe)



Source: Bloomberg

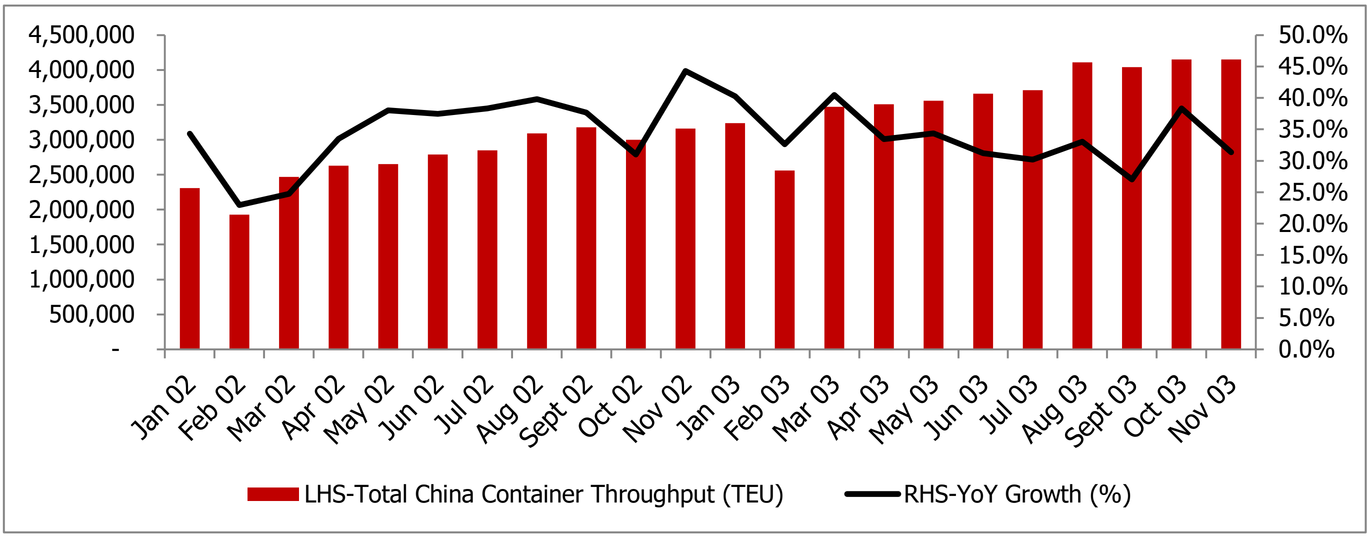
Container throughput trends in China during SARS outbreak. During the SARS period from November 2002 to July 2003, China's exports remained resilient especially during after the declaration of SARS as a global health emergency in March 2003. Total trade to Asia and ASEAN also stood well with a growth of more than 60.0% for the first half of 2003. Likewise, the total container throughput at ports in China showed no slowdown, recording year-on year growth higher than 50% from March 2003 to July 2003. Meanwhile industrial production and retail sales in China faced a temporary dip after March 2003 but staged a quick recovery in three to four months.

Figure 3: Economic Impact on China during SARS



Source: Alpine Macro
Note: All series shown as 3-month moving average
Shading denotes SARS outbreak

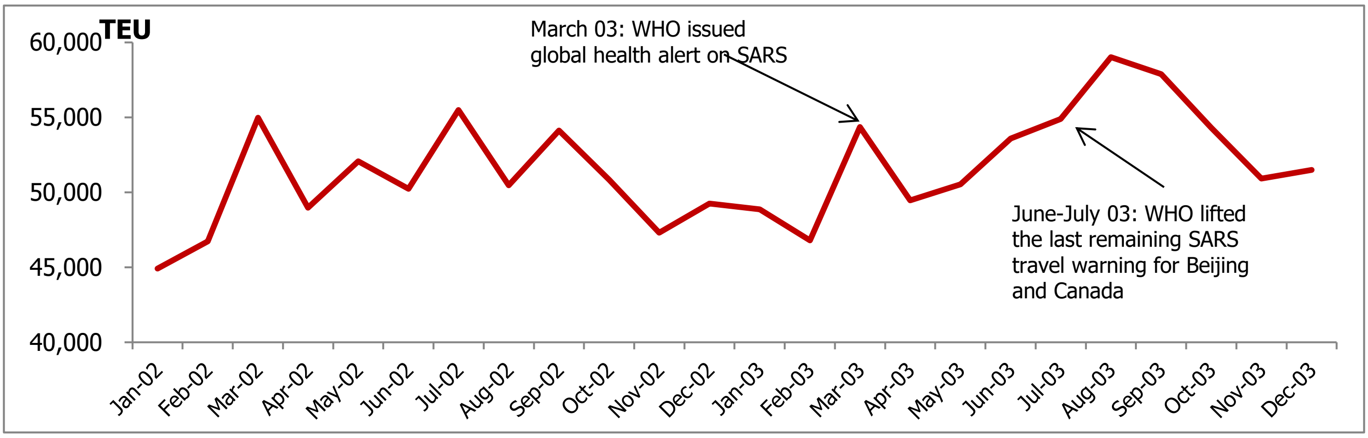
Figure 4: Container Throughput at Chinese Ports from 2002 to 2003



Source: Bloomberg

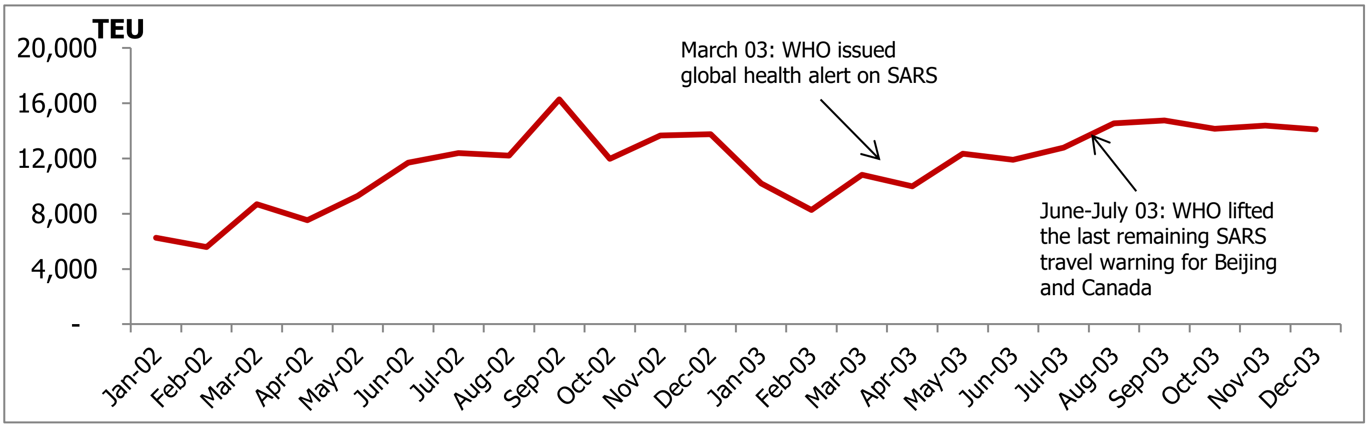
Performance of Malaysian ports during the SARS outbreak. With container throughput in Chinese ports remaining strong in the wake of the SARS outbreak, the performance of ports in Malaysia followed suit. From the period of March 2003 to July 2003, Penang Port and Port of Tanjung Pelepas (PTP) recorded a growth of +10.0%yoy and +19.0%yoy respectively in their export-import container throughput. Annual export-import container throughput for Penang Port and PTP also registered a growth of +8.9%yoy and 14.6%yoy respectively for 2003. Therefore, we can deduce that the SARS outbreak did not derail the performance of Malaysian ports.

Figure 5: Container Throughput at Penang Port from 2002 to 2003



Source: Department of Statistics Malaysia

Figure 6: Container Throughput at PTP from 2002 to 2003



Source: Department of Statistics Malaysia

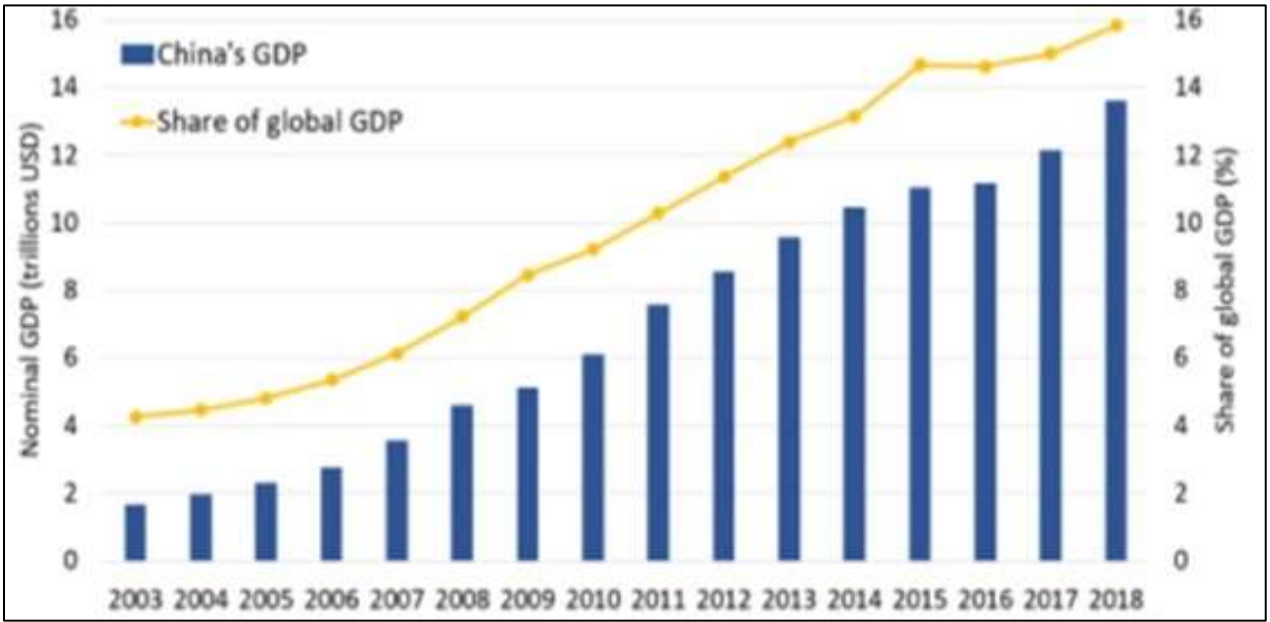
Table 1: Export-Import Container Throughput of Penang Port and PTP

Year	Penang Port Export-Import Container Throughput (TEU)	% YoY change	PTP Export-Import Container Throughput (TEU)	%YoY change
2001	605,294	n/a	81,474	n/a
2002	632,042	4.4	129,319	58.7
2003	688,171	8.9	148,220	14.6
2004	772,024	12.2	167,802	13.2

Source: Department of Statistics Malaysia

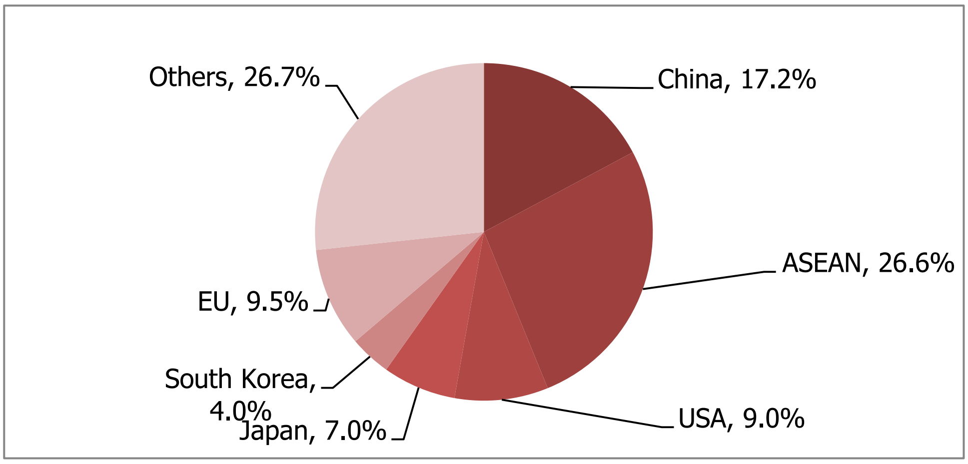
Nevertheless, times have changed. However, we must note there was an absence of the trade tariffs imposed by the U.S in 2003. Moreover, China's exposure to the global economy has evolved tremendously over the past 17 years, growing from the world's sixth largest economy to the second biggest today behind the U.S. Its share of global trade has more than doubled, to 12.8% in 2019 from 5.3% in 2003, according to Oxford Economics. As for Malaysia, 17.2% of Malaysia's total trade was contributed by China in 2019. In addition, China surpassed Singapore as Malaysia's largest export destination after being the second largest export market since 2012 with total exports of RM139.6b in 2019.

Figure 7: China's economic growth from 2003 to 2017



Source: World Bank, OECD

Figure 8: Breakdown of Malaysia's Total Trade



Source: Department of Statistics Malaysia

Malaysian ports to navigate any headwinds from coronavirus. While the coronavirus outbreak could lead to a 0.7% decline (or about 6.0m containers) in global port throughput for 2019, we still believe that Malaysian ports could navigate through the headwinds. Malaysian ports such as Port Klang's **Westports Holdings Berhad (BUY; TP:RM4.82**) has a 63.4% contribution from intra-Asian trade lanes which we opine will be supported by ASEAN trade. As such, importers in Malaysia could temporarily source their supplies from other production bases around ASEAN such as Vietnam. Aside from that, according to our automotive analyst, components sourced from China are not extremely complex in nature. Hence, substitution should not be too much of an issue and could continue supporting container throughput at Malaysian ports in the wake of the full-blown coronavirus outbreak. Meanwhile at this juncture, we do not foresee any significant impact of the outbreak to Malaysian economy as we believe the threat is only temporary and will be contained. Hence, our economics team maintain our full year GDP, export and import forecast for FY20 at 4.5%yoy, 1.5%yoy and 0.8%yoy respectively which will also propel the container throughput growth at Malaysian ports.

Table 2: Westports Container Throughput Breakdown According to Trade Lane

Trade Lane	9MFY19	9MFY18	%YoY change	% Split
Intra-Asia	5.10	4.30	19.0	63.4
Asia-Europe	1.34	0.97	38.0	16.7
Asia-Australasia	0.66	0.72	-8.0	8.2
Asia-America	0.43	0.60	-29.0	5.3
Asia-Africa	0.34	0.24	42.0	4.3
Others	0.17	0.12	49.0	2.1
Total	8.04	6.95	16.0	100

Source: Westports

Maintain NEUTRAL on transportation but optimistic for ports. We remain optimistic on Malaysian ports given their strategic location along major trade lanes and the economic prospects of the ASEAN region. Furthermore, we opine that seaborne trade which transports capital goods, textiles and footwear will remain resilient compared to air trade, in line with DHL's Global Trade Barometer. **MMC Corporation Bhd (BUY; TP:RM1.30)** is our top pick for port operators due to: i) its stable of ports commands more than 50% of the container market share in Malaysia and ii) strength of its listed associates; **Gas Malaysia Berhad (BUY;TP:RM3.11)** and **Malakoff Corporation Berhad (NON-RATED).** However, for the logistics industry, the anticipated higher demand of e-commerce activities will attract more new entrants. As such, logistics companies are prompted to not only expand operations to capture the high demand, but also revise their rates offered to customers reducing margins.

Table 3: DHL Global Trade Barometer

Month	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
World Trade	48	49	47	46	45	45
Air Trade	48	48	45	43	42	43
Ocean Trade	48	49	48	48	46	47

Source: DHL

PEER COMPARISON TABLE

Stock	FYE	Recommendation	Price @ 6-Feb-20	Target Price (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Divd Yield (%)	
					FY19E	FY20F	FY19E	FY20F	FY19E	FY20F	FY19E	FY20F
MMC Corp	Dec	BUY	0.90	1.30	7.5	8.1	12.0	11.0	4.0	4.0	4.5	4.5
Westports	Dec	BUY	3.96	4.82	19.0	20.5	20.8	19.3	14.2	15.4	3.6	3.9

Source: Company, MIDFR

DISCLOSURES AND DISCLAIMER

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.