Westports Holdings Berhad

(5246 | WPRTS MK) Transportation & Logistics | Industrials

Challenging year ahead

***Downgrade to* NEUTRAL**

(Previously BUY*)*

***Revised Target* Price: RM3.90**

(Previously RM4.00)

KEY INVESTMENT HIGHLIGHTS

- **Core PAT of RM670.8m in FY22 were largely within expectation**
- **Container volume in FY22 fell by -3.4%, while conventional volume was up by +7.6%**
- **FY23E/FY24F earnings estimates were revised slightly by +0.4%/-0.2%**
- **Downgrade to NEUTRAL with a revised TP of RM3.90**

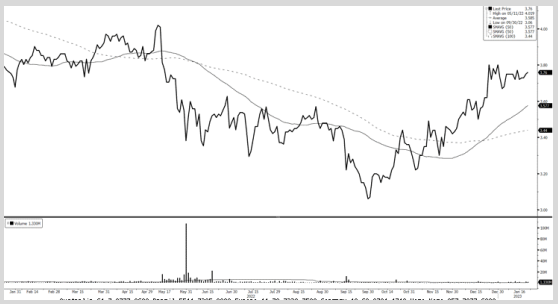
Within expectations. Westports Holdings Berhad (Westports) concluded FY22 by posting core PAT of RM206.5m in 4QFY22, bringing the full-year profit to RM670.8m or 104% and 97% of ours and consensus estimates. In line with its 75% dividend payout policy, the Group has announced a 2nd interim dividend of 7.46 sen or totalling 14.37 sen for FY22.

Quarterly. Container throughput was up by +4.9%yoy (transshipment: -0.6%, gateway: +14.6%yoy) with more competitive local exports and foreign direct investments (FDIs) in the state, while conventional throughput grew by +10.5%yoy as the new Liquid Bulk Terminal 5 (LBT 5) commenced operations in 2QFY22. Operational costs jumped by +13.0%yoy mainly due to the high fuel cost which has peaked in 2QFY22, and this was partly offset by lower tax as Westports was recently granted a 10-year investment tax allowance (ITA). Overall, core PATAMI saw a decline of -12.0%yoy in 4QFY22. On a quarter-on-quarter basis, core PAT surged by +37.3% largely thanks to the ITA which has significantly brought down the 4QFY22 effective tax rate.

Yearly. Westports reported a lower core PAT of RM670.8m (-13.7%yoy) in FY22 despite seeing a +3.9% increase in its operational revenue. This was largely due to elevated price of unsubsidised diesel and the impact of Cukai Makmur, although this was largely moderated by the ITA. Container throughput fell by -3.4%yoy for the year (transshipment: -9.9%, gateway: +8.8%) mainly due to weakening global consumer demand as well as increased blank sailings which has impacted the transshipment business. Similarly, conventional throughput rose by +8.0%yoy in FY22 due to the new LBT 5.

RETURN STATISTICS	
Price @ 20th January 2023	3.76
Expected share price return (%)	+3.7
Expected dividend yield (%)	+4.1
Expected total return (%)	**+7.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.1	-2.7
3 months	-1.1	9.5
12 months	-5.1	-3.4

KEY STATISTICS	
FBM KLCI	1,500.33
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	3,410.0
Estimated free float (%)	11.98
Market Capitalisation (RM'm)	12,821.60
52-wk price range	RM3.04 - RM4.12
Beta vs FBM KLCI (x)	0.7
3-mth average daily volume (m)	0.81
3-mth average daily value (RM'm)	2.85
Top Shareholders (%)	
Pembinaan Redzai Sdn Bhd	42.42
South Port Investment Holdings	23.55
Employees Provident Fund Board	8.83

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Earnings revision. We have made a few adjustments to our earnings forecasts which include: (i) lowering the effective tax rates between 20%-22% to take into account the 10-year ITA recently granted by Ministry of Finance (MoF), (ii) factoring in the imbalance cost pass-through (ICPT) implementation in 1HFY23 which is expected to impact the electricity costs by about 30%-40%, (iii) lowering our container throughput growth assumptions in FY23E/FY24F to +2.1%/+4.1% from +5.0%/7.0% as growing recessionary risks might lead to softening consumer demand particularly in the U.S. and Europe and (iv) revising upwards our conventional throughput growth assumptions in FY23E/FY24F to +2.0%/+2.0% from +1.0%/+1.0% with the addition of the new Liquid Bulk Terminal 4A (LBT 4A) in 4QFY23. As such, our earnings estimates for FY23E/FY24F were revised marginally by +0.4%/-0.2%.

Downgrade to NEUTRAL. As a result of the earnings revision, we derived a slightly lower TP of **RM3.90** (g: 2%, WACC: 8%) from RM4.00 and downgrade our call from BUY to **NEUTRAL** given all the positives have been priced in. Westports is currently trading at 18.2x FY23F P/E, slightly lower than its 5-year mean, but we believe this is justified given its muted near-term outlook against a backdrop of high inflationary pressures and change in operational patterns of container liner shipping.

INVESTMENT STATISTICS

Income Statement	2021A	2022A	2023E	2024F	2025F
Revenue	2,022.0	2,069.0	2,051.6	2,133.2	2,183.0
Gross profit	1,230.7	1,190.0	1,215.3	1,291.6	1,326.1
EBIT	1,101.3	996.2	938.3	1,003.6	1,031.4
PBT	1,039.5	943.9	903.5	985.5	1,012.5
PAT	808.2	699.6	704.8	768.7	789.7
Core PAT	777.2	670.8	704.8	768.7	789.7
EPS (RM)	0.23	0.20	0.21	0.23	0.23
PER (x)	16.5x	19.1x	18.2x	16.7x	16.2x
DPS (RM)	0.18	0.14	0.16	0.17	0.17
Dividend yield (%)	4.7%	3.8%	4.1%	4.5%	4.6%

Sources: Company & MIDFR

KEY DRIVERS

Assumption	2021A	2022A	2023E	2024F	2025F
Container (m TEU)	10.40	10.05	10.20	10.62	10.85
YoY Growth (%)	-1.0%	-3.4%	2.1%	4.1%	2.2%
Transshipment (m TEU)	6.75	6.08	6.41	6.73	6.86
YoY Growth (%)	0.0%	-9.9%	1.0%	5.0%	2.0%
Gateway (m TEU)	3.65	3.97	3.80	3.89	3.99
YoY Growth (%)	-2.7%	8.8%	4.0%	2.5%	2.5%
Conventional (m MT)	11.26	12.12	11.60	11.83	12.07
YoY Growth (%)	3.6%	7.6%	2.0%	2.0%	2.0%

Sources: Company & MIDFR

WESTPORTS: 4QFY22 RESULTS SUMMARY

In RM'm unless stated otherwise	Quarterly					Cumulatively		
Income Statement	**4Q22**	**3Q22**	**4Q21**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Operational revenue	511.5	516.6	494.0	-1.0%	3.5%	2,055.4	1,977.8	3.9%
EBITDA	286.0	299.0	347.0	-4.3%	-17.6%	1,215.0	1,360.0	-10.7%
Depreciation & amortisation	65.4	66.6	66.1	-1.8%	-1.0%	264.5	258.8	2.2%
EBIT	220.6	232.4	280.9	-5.1%	-21.5%	950.5	1,101.2	-13.7%
Finance income	3.6	3.2	3.2	13.0%	13.6%	12.3	12.7	-3.3%
Finance costs	-16.2	-15.7	-18.7	-3.3%	13.3%	-64.6	-74.4	13.2%
Share of results of JV	43.2	3.7	-0.4	>100.0%	>100.0%	46.2	-0.4	>100.0%
PBT	251.3	224.0	265.2	12.2%	-5.2%	943.9	1,039.5	-9.2%
Tax expense	-16.2	-73.6	-42.3	77.9%	61.6%	-244.4	-231.3	-5.6%
PATAMI	235.0	150.4	222.9	56.3%	5.5%	699.6	808.2	-13.4%
Core PATAMI*	206.5	150.4	234.7	37.3%	-12.0%	670.8	777.2	-13.7%
EPS (sen)	6.9	4.4	6.5	56.3%	5.5%	20.5	23.7	-13.4%
Core EPS (sen)	6.1	4.4	6.9	37.3%	-12.0%	19.7	22.8	-13.7%
EBIT margin	43.1%	45.0%	56.9%			46.2%	55.7%	
PBT margin	49.1%	43.4%	53.7%			45.9%	52.6%	
Effective tax rate	-6.5%	-32.9%	-15.9%			-25.9%	-22.3%	
Core PATAMI margin	48.7%	29.1%	45.3%			34.7%	40.8%	

Note: Excluding the reinsurance reimbursements which amounted to RM74.0m in FY21, Westports' share of the RM42.9m reversal of impairment loss in its 50% owned Port Klang Cruise Terminal (PKCT) in FY22 and other one-off items.

Sources: Company & MIDFR

OPERATIONAL STATISTICS

	4Q22	3Q22	4Q21	QoQ	YoY	FY22	FY21	YoY
Container (m TEU)								
Transshipment	1.56	1.55	1.57	0.6%	-0.6%	6.08	6.75	-9.9%
Gateway	1.02	1.04	0.89	-1.9%	14.6%	3.97	3.65	8.8%
	2.58	2.59	2.46	-0.4%	4.9%	10.05	10.40	-3.4%
Intra-Asia	1.61	1.64	1.52	-1.8%	5.9%	6.32	6.29	0.5%
Asia-Europe	0.46	0.43	0.38	7.0%	21.1%	1.73	1.69	2.4%
Asia-Australasia	0.23	0.23	0.26	0.0%	-11.5%	0.96	1.08	-11.1%
Asia-America	0.16	0.17	0.20	-5.9%	-20.0%	0.68	0.82	-17.1%
Asia-Africa	0.06	0.05	0.08	20.0%	-25.0%	0.20	0.36	-44.4%
Others	0.06	0.06	0.03	0.0%	100.0%	0.16	0.17	-5.9%
	2.58	2.58	2.47	0.0%	4.5%	10.05	10.41	-3.5%
Conventional (m MT)	3.25	3.41	2.94	-4.7%	10.5%	12.12	11.26	7.6%

Sources: Company & MIDFR

REVENUE AND COST BREAKDOWN

	4Q22	3Q22	4Q21	QoQ	YoY	FY22	FY21	YoY
Revenue								
Container	440.0	441.0	434.0	-0.2%	1.4%	1,774.0	1,735.0	2.2%
Conventional	37.0	32.0	35.0	15.6%	5.7%	155.0	134.0	15.7%
Marine	21.0	16.0	15.0	31.3%	40.0%	76.0	65.0	16.9%
Rental	13.0	10.0	10.0	30.0%	30.0%	50.0	43.0	16.3%
Operational revenue	511.0	499.0	494.0	2.4%	3.4%	2,055.0	1,977.0	3.9%
Construction	10.0	7.0	10.0	n.a.	0.0%	14.0	44.0	-68.2%
Total revenue	**521.0**	**506.0**	**504.0**	**3.0%**	**3.4%**	**2,069.0**	**2,021.0**	**2.4%**
Cost								
Manpower	-67.0	-66.0	-60.0	-1.5%	-11.7%	-267.0	-251.0	-6.4%
Depreciation	-52.0	-52.0	-51.0	0.0%	-2.0%	-206.0	-197.0	-4.6%
Fuel	-48.0	-54.0	-34.0	11.1%	-41.2%	-201.0	-119.0	-68.9%
M&R	-21.0	-20.0	-19.0	-5.0%	-10.5%	-81.0	-78.0	-3.8%
Electricity	-12.0	-12.0	-11.0	0.0%	-9.1%	-49.0	-45.0	-8.9%
Others	-16.0	-16.0	-16.0	0.0%	0.0%	-61.0	-58.0	-5.2%
Operational cost	-216.0	-220.0	-191.0	1.8%	-13.1%	-865.0	-748.0	-15.6%
Construction	-10.0	-4.0	-10.0	-150.0%	0.0%	-13.0	-44.0	70.5%
Total cost	**-226.0**	**-224.0**	**-201.0**	**-0.9%**	**-12.4%**	**-878.0**	**-792.0**	**-10.9%**

Sources: 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology