Ports & Logistics

Earnings Uncertainty Due to Covid-19, Muted Catalyst

NEUTRAL

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We keep our NEUTRAL call on the sector, premised on muted earnings from ports players, due to risks emanating from the Covid-19 pandemic. Since a majority of the ships that call at Westports are from the Intra-Asia routes, the impact from the shutdowns and quarantines will likely hit throughput, though the extent is uncertain depending on the duration of the pandemic. Separately, for POSM, the postal tariff hike on postage rates for registered and commercial mails had failed to turn earnings around into profitability in 1QFY20. Overall, sector earnings could be further dragged down and impacted by the pandemic. With muted catalyst going forward, there could be potential de-rating on the back of a bleaker economic outlook, both globally and for Malaysia.

WPRTS - weakened throughput volumes expected. Since the majority of the ships that call at Westports are from the intra-Asia routes, the impact from the shutdowns and quarantines will likely hit throughput, though the extent is uncertain depending on the pandemic duration. Going forward, we are cautious on 2020 business outlook due to the coronavirus outbreak that has resulted in disruption on China logistic, regional shipping and port industries and further exacerbated by weakened regional consumption, thereby lowering container volume. While we believe that WPRTS is well on-track with its expansion plans to cater for future trade volume growth, we reiterate our view that the expansion project is a longer-term prospect with full completion by 2040. All-in, we keep our MP call with a TP of RM3.65. **Reiterate MP.**

MMCORP - Ports and MRT 2 are the main earnings contributors. Going forward, MMCCORP's earnings are seen to be largely buoyed by its ports operation and the construction and tunnelling works for MRT Line 2. However, we remain cautious of a market de-rating on the back of a bleaker economic outlook, both globally and for Malaysia. Currently, its ports portfolio consists of PTP, Johor Port, Northport, Penang Port and Tanjung Bruas Port. That said, we do not discount management continuing their pursuit to acquire additional ports to boost their profile as the largest port operator in the country. Meanwhile, the construction progress for MRT Line 2 is about 70%, with expected completion in FY22. We gathered that while its construction order-book is currently at c.RM6.3b (87% from MRT Line 2), management is actively bidding for new projects in order to meet its targeted order-book replenishment of c.RM500m p.a.

Outlook challenging despite POSM looking to turnaround to profitability in subsequent quarters. 1QFY20 postal segment's mail business saw an increase in revenue of 1.0% due to the new postal tariff that took effect on the 1st February 2020. Monthly mail revenue increased by RM11m in February 2020 but saw flat growth in March 2020 as the rapid spread of COVID-19 resulted in sharp decline in commercial mail volume. COVID-19 also impacted postal segment's retail and international businesses, with fewer retail transactions recorded in post offices and significantly lower cross-border transhipment tonnage handled in March 2020 as customers remained cautious in trading outside their homes. Cancellations of commercial and cargo flights and suspension of business activities by international partners were big factors behind the decline in international business. Consequently, all the divisions across the board suffered losses namely Postal, Logistics and Aviation. The key risk of this one-time adjustment includes the inability of POSM to accommodate its social and commercial responsibilities, especially if the hike in commercial postal rates potentially causes mail volumes to deteriorate even further from current levels. Meanwhile, given POS' inability to close down post offices, coupled with its unionised workforce and losses in its postal services segment, turning the postal division around will remain highly challenging. The courier business continues to operate in a competitive environment pressured by price and cost challenges. The group is continuing with its efforts to manage cost whilst increasing operating efficiency.

Maintain NEUTRAL on the sector given the lack of catalysts in the near-term. MMCCORP's earnings are expected to be mainly driven by its ports operations coupled with construction works for MRT 2 which could come under pressure due to Covid-19. Meanwhile, we expect WPRTS' earnings to be also under pressure due to the virus outbreak since intra-Asia trade accounts for an estimated 60% of throughput of which the route is negatively impacted. We view WPRTS as a longer-term prospect with land reclamation of Westport 2 likely to commence from FY21, anticipating full completion only by 2040. That said, we rule out any earnings accretive development over the next two years. On the other hand, we expect POS Malaysia to continue facing tough operating environment due to the pandemic, intense competition in the courier segment and continuing losses at postal division.

Peer Comparison

Name	Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth 1-Yr. Fwd.	Revenue Growth 2-Yr. Fwd.	Core Earnings Growth 1-Yr. Fwd.	Core Earnings Growth 2-Yr. Fwd.	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div.Yld. (%) 1-Yr. Fwd.	Target Price (RM)	Rating
MMC CORP BHD	0.755	2,222	Y	12/2020	-5.1%	2.2%	8.8%	2.5%	11.4	10.5	10.2	0.2	0.2	2.3%	5.3%	0.775	MP
POS MALAYSIA BERHAD	0.930	728.0	Y	12/2020	34.4%	16.7%	-20%	7.0%	N.A.	11.1	10.4	0.5	0.5	4.5%	4.3%	0.900	MP
WESTPORTS HOLDINGS BHD	3.80	12,958	Y	12/2020	2.5%	4.1%	-3.0%	4.4%	20.1	20.7	19.9	5.1	4.8	23.7%	3.7%	3.65	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
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PP7004/02/2013(031762)