Ports & Logistics

Gradual Recovery but a Thorny Path

NEUTRAL

↔

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

We keep our NEUTRAL call on the sector, premised on gradual earnings recovery from ports players starting from 2021 on the back of Covid-19 vaccinations roll-outs, normalization of domestic and global economic activities, as well as pent-up demand effect in general. Nonetheless, the recovery path could be uneven, depending heavily on how well the Covid-19 vaccinations progress. On the other hand, POSM is expected to take a longer route to profitability with a challenging environment capping its postal services segment's profitability. It will also continue to operate in a competitive environment pressured by price and cost challenges, further hampered by loss of revenue from ground handling and in-flight catering with international borders still closed, but reprieved by the high parcel volume from stronger e-commerce and online market place demand.

WPRTS – recovery in throughput volumes starting 2021. Since the majority of ships that call at Westports facilities are from the intra-Asia routes, the impact from possible future shutdowns and quarantines will likely hit throughput, though the extent is uncertain depending on the duration. Going forward, we are cautiously optimistic that starting 2021, recovery will likely be spurred by Covid-19 vaccinations, normalization of domestic and global economic activities, and pent-up demand effect in general. Nonetheless, the road to recovery may be uneven depending on how well the Covid-19 vaccinations progress. 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. In terms of dividends, payout ratio guidance has been revised back to 75% in FY21 from 60% in FY20 with the approved new container terminal expansion project pending only land conversion preparation and concession agreement negotiation with the Government of Malaysia. With total capex for Westports 2 (CT10-17) amounting to ~RM10b, the new CTs are expected to nearly double in capacity to 27m TEUs from 14m TEUs spread over 20 years. We view this to be a very long-term play for the group with anticipated full completion by 2040, thus ruling out any earnings accretive development over the next few years. The global supply chain is adjusting to a combination of factors, such as higher consumer demand for containerised goods in Western economies, the effect of which are tempered by lockdowns (which should ease ahead) and a global supply chain adhering to COVID-19 precautionary measures. **All-in, we keep our MP call for WPRTS with a TP of RM4.20.**

MMCCORP - Ports (especially PTP) and associates, Malakoff are the main earnings contributors. Its Port and Logistics division has been showing improvement in performance, underpinned by economic recovery momentum since the resumption of the global and domestic trade activities. 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. We gathered that while its construction order-book is currently at c.RM4.9b (90% from MRT Line 2, expected to be completed by 2022), management is actively bidding for new projects in order to meet its targeted order-book replenishment of c.RM500m per annum. Going forward, MMCCORP's earnings are anticipated to be largely buoyed by its ports, especially PTP as well as operation and utilities, namely Malakoff. **Maintain MP with a TP of RM1.05.**

POSM taking a longer route to profitability in a challenging environment. POSM suffered a short-term loss from the temporary shutdown of its main parcel processing centre, in October and November 2020 due to COVID-19 outbreak, which processes up to 70% of the courier's total parcel volume. This affected its ability to meet the segment's courier Service Level Agreements (SLAs), resulting in lower customer confidence, and thus lower volume of parcels during the period. Furthermore, its aviation division continued to suffer losses due to loss of revenue from ground handling and in-flight catering pursuant to flight cancellations in the wake of COVID-19 pandemic as international borders were mostly closed. Meanwhile, POS' inability to close down post offices, coupled with its unionised workforce could well mean that profitability at its postal services segment is capped and it will continue to operate in a competitive environment pressured by price and cost challenges. The group is continuing with its efforts to manage cost with forecasted RM24m costs saving yearly. The reinstatement of MCO 2.0 should result in an increase in online shopping and will likely have a positive impact on its courier business. Parcel volume is expected to be high in 1QCY21 driven by the online campaign and CNY online sales, offsetting the reduction in footfall into post offices that has crimped its retail business revenue. **All in, we revised our earnings expectation for FY21E to net loss of RM60.5m, compared to net profit of RM78.9m previously, and FY22E CNP lower by 19%. Maintain MP with a lower TP of RM0.875 based on 10x FY22E EPS. The saving grace is a 4.5% dividend yield.**

Maintain NEUTRAL on the sector given the lack of catalysts in the near-term. MMCCORP's earnings are expected to be driven by its Ports (especially PTP) and associate Malakoff, underpinned by economic recovery momentum since the resumption of the global and domestic trade activities. Meanwhile, we expect WPRTS to recover gradually starting 2021 on the back of Covid-19 vaccinations, normalization of domestic and global economic activities, and pent-up demand effect. Nonetheless, the path of the economy recovery remains uneven as mentioned above. On the other hand, POSM is expected to take a longer route to profitability in a challenging environment as profitability at its postal services segment is capped. It will continue to operate in a competitive environment pressured by price and cost challenges and further hampered by loss of revenue from ground handling and in-flight catering but reprieved by the high parcel volume from stronger e-commerce and online market place demand.

Peer Comparison

Name	Last Price at 26/03/2021 (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	1.02	3,106.0	Y	12/2021	-1.0%	5.8%	10.8%	4.7%	9.3	8.4	8.0	0.3	0.3	3.8%	3.9%	1.05	MP
PERAK TRANSIT BERHAD	0.790	501.4	Y	12/2021	-8.9%	19.9%	-1.3%	21.3%	12.6	12.7	10.5	1.5	1.1	9.9%	3.9%	1.15	OP
POS MALAYSIA BHD	0.890	696.7	Y	12/2021	-3.1%	3.5%	-147.6%	13.2%	N.A.	N.A.	10.2	0.5	0.5	-4.7%	4.5%	0.875	MP
WESTPORTS HOLDINGS BHD	4.18	14,253.8	Y	12/2021	-1.6%	4.4%	4.9%	4.9%	21.8	20.8	19.8	5.0	4.8	23.6%	3.6%	4.20	MP
Simple Average					**-3.6%**	**8.4%**	**-33.3%**	**11.0%**	**14.5**	**14.0**	**12.1**	**1.9**	**1.7**	**8.1%**	**4.0%**		

Source: Bloomberg, Kenanga Research

Top Picks	Comments
PTRANS (OP; TP: RM1.15)	We continue to like Perak Transit as with vaccines rolling out and an anticipated lifting of lockdown restrictions, we anticipate a recovery in footfall in PTRANS' own and managed terminals, which bodes well for their A&P and retail leasing revenues. The two maiden managed terminals will make up c.4% of FY22E CNP. With more TMS contracts (@ PAT margin of c.60%) in the pipeline (2 to 3 more in FY21), and an anticipated rise in footfall at Terminal Kampar Putra, we continue to favor Perak Transit as a economic reopening and recovery play.

This section is intentionally left blank.

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)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my