

Westports Holdings Berhad

Prospects Clouded by Slowing Global Trade

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1HFY22 Core Net Profit (CNP) of RM314.1m (-19% YoY) came in at 47%/48% of our/consensus full-year estimates. We deem the results below our expectation on expected higher fuel cost and a lower transshipment volume in 2H. We cut our FY22E and FY23E CNP by 6% and 3%, respectively, and lowered our DCF-derived TP to RM3.55 from RM3.80. Maintain MP.

1HFY22 results below our expectation. 1HFY22 Core Net Profit (CNP) of RM314.1m (-19% YoY) came in at 47% and 48% of our full-year forecast and consensus, respectively. We deem the results below our expectation on expected higher fuel cost and a lower transshipment volume in 2H. The group declared a DPS of 6.91 sen in 2QFY22 (2QFY21: 8.50 sen), as expected. Note that, the group typically announces dividend half-yearly.

YoY, 1HFY22 CNP fell 14% due to higher unsubsidized diesel fuel cost (+84%) and higher effective tax rate of 33% (1HFY21: 24.1%) arising from the imposition of prosperity tax while revenue grew marginally. Higher revenue per TEU by 13% (higher ports efficiency on bigger vessels docking) and high value-added services (high yard utilisation, but not congested), were offset by a lower transshipment volume (-12%) as supply chain disruptions arising from China's zero-Covid policy and the Ukraine-Russia war hurt global trade. Its major Intra-Asia route suffered a 5% drop in container volume. Gateway volumes helped to cushion some of the impact but were still insufficient to lift the overall volume (-8%).

QoQ, 2QFY22 CNP rose 7% mainly due to a lower effective tax rate of 26.2% (1QFY22: 39.0%) with the reversal of overprovision of tax liabilities. Transshipment volume recovered (+9%), benefitting from the Shanghai port re-opening in June 2022, but was still below the normal trade volume level.

Westports 2 to underpin long-term growth. Its new container terminal under planning is still pending negotiation with Unit Kerjasama Awan Swasta (UKAS) and the Ministry of Finance. The RM10b Westports 2 (CT10-17) will almost double its capacity to 27m TEUs from 14m TEUs currently over 20 years.

We cut FY22E and FY23E CNP by 6% and 3% to reflect high fuel cost and slower recovery in transshipment trade volume.

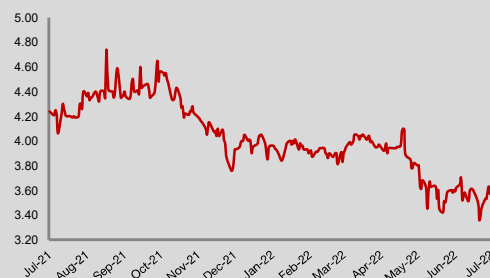
Maintain MARKET PERFORM with a lower DCF-derived TP of RM3.55 (from RM3.80) based on a discount rate equivalent to a WACC of 6.4% and a terminal growth rate of 2%. There is no adjustment to TP based on ESG (3-star rating as appraised by us).

Risks to our call include: (i) significant slowdown in the global economy, dampening the global containerised trade traffic, and (ii) rising operating costs, particularly fuel.

MARKET PERFORM ↔

Price: RM3.49
Target Price: RM3.55 ↓

Share Price Performance



KLCI 1,491.20
 YTD KLCI chg -4.9%
 YTD stock price chg -13.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WPRTS MK EQUITY
Market Cap (RM m)	11,900.9
Shares Outstanding	3,410.0
52-week range (H)	4.74
52-week range (L)	3.34
3-mth avg daily vol	6,069,876
Free Float	13%
Beta	0.6

Major Shareholders

Pembinaan Redzai Sdn Bhd	42.4%
South Port Invest Holdings	23.6%
Employees Provident Fund	8.0%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Revenue	2,022.0	2,025.6	2,131.6
EBIT	1,101.7	1,010.0	1,024.6
PBT	1,039.5	941.1	958.2
Net Profit (NP)	808.2	630.6	728.3
Core Net Profit	735.2	630.6	728.3
Consensus NP	-	648.5	753.8
Earnings revision (%)	-	-6.0	-3.0
Core EPS (sen)	21.6	18.5	21.4
CNP growth (%)	13.5	-14.2	15.5
DPS (sen)	17.8	13.9	16.0
BV/Share (RM)	0.9	1.0	1.0
Core PER (x)	16.2	18.9	16.3
Price/BV (x)	3.8	3.6	3.4
Net gearing (x)	0.1	0.2	0.2
Dividend Yield (%)	5.1	4.0	4.6

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Result Highlight								
FY Dec (RM m)	2QFY22	1QFY22	QoQ	2QFY21	YoY	1HFY22	1HFY21	YoY
Revenue	511.0	516.4	-1%	505.1	1%	1,027.3	1,013.24	1%
Gross Profit (GP)	284.9	313.8	-9%	304.0	-6%	598.7	617.6	-3%
EBITDA	300.3	328.8	-9%	313.6	-4%	629.1	667.7	-6%
EBIT	233.0	263.7	-12%	251.1	-7%	496.7	539.5	-8%
Finance Income	2.8	2.7	4%	2.5	12%	5.5	6.8	-19%
Finance Costs	(15.8)	(17.6)	-10%	(18.0)	-12%	(33.4)	(37.0)	-10%
PBT	219.9	248.7	-12%	235.6	-7%	468.7	509.2	-8%
Taxation	(57.7)	(96.9)	-40%	(57.7)	0%	(154.5)	(122.9)	26%
Net Profit	162.3	151.9	7%	178.0	-9%	314.1	386.3	-19%
Exceptional Items	0.0	0.0		0.0		0.0	20.0	
Core Net Profit (CNP)	162.3	151.9	7%	178.0	-9%	314.1	366.3	-14%
NDPS (sen)	6.91	0.00		8.50		6.91	8.50	
GP Margin	55.7%	60.8%		60.2%		58.3%	61.0%	
EBIT Margin	45.6%	51.1%		49.7%		48.3%	53.2%	
PBT Margin	43.0%	48.2%		46.7%		45.6%	50.3%	
CNP Margin	31.8%	29.4%		35.2%		30.6%	36.2%	
Effective Tax Rate	26.2%	39.0%		24.5%		33.0%	24.1%	
Container								
Throughput (m TEU)	2QFY22	1QFY22	QoQ	2QFY21	YoY	6MFY22	6MFY21	YoY
Transshipment	1.55	1.42	9%	1.70	-9%	2.97	3.39	-12%
Gateway	0.94	0.97	-3%	0.95	-1%	1.91	1.92	-1%
Total	2.49	2.39	4%	2.65	-6%	4.88	5.31	-8%

Source: Company, Bursa Malaysia, Kenanga Research

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Peer Comparison

Name	Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
POS MALAYSIA BHD	0.595	465.8	Y	12/2022	-15.0%	-12.4%	-134.0%	-146.2%	N.A.	N.A.	N.A.	0.6	0.6	-8.3%	0.0%	0.550	MP
SWIFT HAULAGE BHD	0.485	430.3	Y	12/2022	11.7%	12.1%	29.7%	12.4%	9.8	7.5	6.7	0.5	0.5	7.2%	4.1%	1.01	OP
WESTPORTS HOLDINGS BHD	3.49	11,900.9	Y	12/2022	0.2%	5.2%	-14.2%	15.5%	16.2	18.9	16.3	3.8	3.6	19.7%	4.0%	3.55	MP

Source: Bloomberg, Kenanga Research

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
	SPECIFIC	Marine Life Protection	★	★	☆	
Clean Energy		★	☆			
Occupational Health and Safety		★	★	★	★	
Cyber Security		★	★	★	★	
Safety Record		★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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.**

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