Westports Holdings Berhad

Cloudy Global Trade Prospects

MARKET PERFORM ↔

Price: RM3.76

Target Price: RM3.65 ↑

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WPRTS's FY22 results beat our forecast. Its top line grew as a contraction in container volume was more than cushioned by a higher average yield (due to the strength in gateway cargoes). It guided for a recovery in 2HFY23 with an overall FY23F container volume growth of 0% to 5% and a single-digit growth in FY24F. We raise our FY23F core net profit by 4% and lift our TP by 7% to RM3.65 (WACC: 6.4%, TG: 2%) from RM3.40 but maintain our MARKET PERFORM call.

Its FY22 core net profit of RM642.7m (excluding RM14m asset write-offs and write-back of a RM42.9m JV impairment loss) beat our forecast by 10% but met consensus estimates. The variance against our forecast came largely from our under-estimation of the investment tax allowance. The group declared a second interim dividend of 7.46sen, bringing the full-year FY22 dividend to 14.37sen which is above with our assumption of 12.9sen).

YoY, its FY22 revenue grew marginally (+2%). A contraction in container volume (-6%) was more than offset by a higher average revenue per TEU (+6%).

The lower container volume was due to a sharp drop in the transhipment volume (-10%), weighed down by supply-chain disruptions arising from China's zero-Covid policy and the Russia-Ukraine war that hurt the global trade. This was partially mitigated by a strong gateway container volume (+9%) on the back of brisk exports by local manufacturers spurred by the ringgit's weakness.

Meanwhile, the higher revenue per TEU was driven by the strong gateway volume as mentioned, which typically commands a better rate as compared to transhipment.

The conventional cargo volume rose to 12.1m metric tonnes (+8%) driven by: (I) inbound and outbound cargoes of recycled paper and those from IKEA's regional distribution centre in Malaysia, and (ii) construction equipment trade.

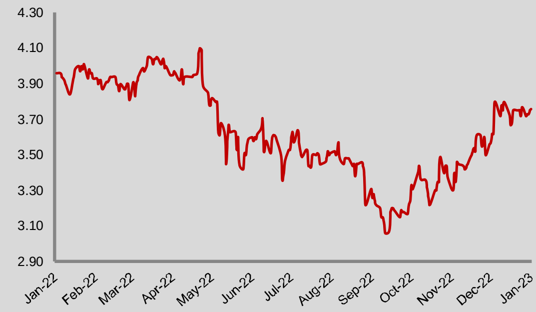
Its core net profit fell by 13% due to higher unsubsidised diesel fuel cost (+69%) and a higher effective tax rate of 25.9% (FY21: 22.3%) arising from the imposition of prosperity tax.

QoQ, its 4QFY22 revenue was flat as a marginal recovery in transhipment volume (+1%) was offset by a weakened gateway volume (-2%) on easing commodity prices and intensifying lockdowns in China before the easing towards end-December. However, its 4QFY22 core net profit rose 18% mainly due to a lower effective tax rate of 6.5% (3QFY22: 32.9%) arising from the recognition of investment tax allowances.

The key takeaways from the results briefing are as follows:

1. For FY23, WPRTS maintained its guidance for its overall container volume growth to come in at 0% to +5%. In the event of a global recession, it holds the view that it will be brief and shallow, with a recovery expected in 2H 2023. With China's reopening and it being a major trading partner for Malaysia, we raise our FY23F container volume growth assumption to +1% (from -1%, previously) on stronger gateway volume, partially offset by a still subdued transhipment volume on the back of the slowing global trade.

Share Price Performance



KLCI	1,500.33
YTD KLCI chg	0.3%
YTD stock price chg	-1.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WPRTS MK Equity
Market Cap (RM m)	12,821.6
Shares Outstanding	3,410.0
52-week range (H)	4.12
52-week range (L)	3.04
3-mth avg daily vol	805,610
Free Float	12%
Beta	0.7

Major Shareholders

Pembinaan Redzai Sdn Bhd	42.4%
South Port Invest Holdings	23.6%
Employees Provident Fund	8.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	2,069.0	2,051.9	2,144.4
EBIT	950.1	982.7	1,033.1
PBT	943.9	924.7	975.5
Net Profit (NP)	**699.6**	**702.7**	**741.4**
Core Net Profit	**642.7**	**702.7**	**741.4**
Consensus NP	-	691.1	735.8
Earnings revision	-	+4%	new
Core EPS (sen)	18.8	20.6	21.7
CNP growth (%)	-12.6	9.3	5.5
DPS (sen)	14.4	15.5	16.3
BV/Share (RM)	1.0	1.0	1.1
Core PER (x)	20.0	18.2	17.3
Price/BV (x)	3.9	3.7	3.5
Net gearing (x)	0.1	0.2	0.2
Dividend Yield (%)	3.8	4.1	4.3

2. For FY24F, WPRTS guided for its container volume to grow at single-digit backed by economic recovery globally (we assume a 3% growth).
3. WPRTS is gradually wooing back customers lost to a neighbouring port at the height of port congestion, as the utilisation at its container yard is normalising to the optimal level of about 80%.
4. The Westports 2 expansion project is still pending finalisation with Unit Kerjasama Awam Swasta (UKAS) and the Ministry of Finance. WPRTS is hopeful that the signing could happen by mid-2023 and mentioned that the government had "principally agreed" to the key terms of the concession agreement. Recall, the RM10b Westports 2 (CT10-17) will almost double its capacity to 27m TEUs from 14m TEUs currently over 20 years.
5. WPRTS shared that capex from the construction of Westports 2 are allowable for a sizeable investment tax allowance. WPRTS is vying for reclamation and dredging to be part of the claimable investment tax allowance which could be a significant boost to the future investment tax allowance recognition. Effective tax rate typically at 24% excluding the future Westports 2 investment tax allowance.

Forecasts. We raise our FY23F net profit forecast by 4% mainly due to the higher FY23F container volume growth assumption as mentioned above.

We continue to like WPRTS for: (i) its resilient earnings underpinned by long-term contracts with key clients such as Ocean Alliance, (ii) its long-term growth driven by the Westports 2 expansion project, and (iii) its price competitiveness, i.e. lower transhipment tariffs vs. peers such as Port of Tanjung Pelepas and Port of Singapore. However, these are weighed down the unfavourable outlook of the seaport segment amidst the slowing global trade on the back of seemingly prolonged inflation and hence a high interest rate environment globally.

We lift our DCF-derived TP by 7% to RM3.65 (from RM3.40) based on the discount rate equivalent to its WACC of 6.4% and a terminal growth rate of 2%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **MARKET PERFORM.**

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

Result Highlight

FY Dec (RM m)	**4QFY22**	**3QFY22**	**QoQ**	**4QFY21**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	**521.1**	**520.5**	**0%**	**503.9**	**3%**	**2,069.0**	**2,022.0**	**2%**
Gross Profit (GP)	295.3	296.0	0%	302.6	-2%	1,190.0	1,230.7	-3%
EBITDA	**286.1**	**299.4**	**-4%**	**347.2**	**-18%**	**1,214.6**	**1,360.5**	**-11%**
EBIT	**220.7**	**233.0**	**-5%**	**280.7**	**-21%**	**950.4**	**1,101.3**	**-14%**
Finance Income	3.6	3.2	13%	3.2	14%	12.3	12.7	-3%
Finance Costs	(16.2)	(15.7)	3%	(18.7)	-13%	(65.3)	(74.4)	-12%
Share of JV	43.7	3.7		(0.4)		46.7	(0.4)	
PBT	251.3	224.0	12%	265.2	-5%	943.9	1,039.5	-9%
Taxation	(16.2)	(73.6)	-78%	(42.3)	-62%	(244.4)	(231.3)	6%
Net Profit	**235.0**	**150.4**	**56%**	**222.9**	**5%**	**699.6**	**808.2**	**-13%**
Exceptional Items	56.8	0.0		32.0		56.8	73.0	
Core Net Profit (CNP)	**178.2**	**150.4**	**18%**	**190.9**	**-7%**	**642.7**	**735.2**	**-13%**
NDPS (sen)	**7.46**	**0.00**		**9.28**		**14.37**	**17.78**	
GP Margin	56.7%	56.9%		60.0%		57.5%	60.9%	
EBIT Margin	42.3%	44.8%		55.7%		45.9%	54.5%	
PBT Margin	48.2%	43.0%		52.6%		45.6%	51.4%	
CNP Margin	34.2%	28.9%		37.9%		31.1%	36.4%	
Effective Tax Rate	6.5%	32.9%		15.9%		25.9%	22.3%	
Container Throughput (m TEU)	**4QFY22**	**3QFY22**	**QoQ**	**4QFY21**	**YoY**	**FY22**	**FY21**	**YoY**
Transhipment	1.56	1.55	1%	1.57	-1%	6.08	6.75	-10%
Gateway	1.02	1.04	-2%	0.89	15%	3.97	3.65	9%
Total	**2.58**	**2.59**	**0%**	**2.46**	**5%**	**10.05**	**10.40**	**-3%**

Source: Company, Bursa Malaysia, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld (%) 1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	OP	4.90	6.00	22.45%	2,254.0	Y	12/2022	25.7	31.3	19.9%	21.8%	19.1	15.6	1.3	6.9%	14.8	3.0%
POS MALAYSIA BHD	UP	0.585	0.490	-16.24%	457.9	Y	12/2022	(10.0)	(6.2)	-140.3%	-161.7%	N.A.	N.A.	0.6	-9.9%	0.0	0.0%
SWIFT HAULAGE BHD	OP	0.480	1.01	110.42%	427.1	Y	12/2022	6.4	7.2	29.7%	12.4%	7.5	6.6	0.6	8.7%	2.0	4.2%
WESTPORTS HOLDINGS BHD	MP	3.76	3.65	-2.93%	12,821.6	Y	12/2022	20.6	21.7	9.3%	5.5%	18.2	17.3	3.7	20.9%	15.5	4.1%
SECTOR AGGREGATE					**15,960.6**					**35.4%**	**12.7%**	**20.0**	**17.7**	**1.6**	**6.6%**		**2.8%**

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Port Service Quality & Safety	★	★	★	★	
	Cybersecurity & Data Privacy	★	★	★		
	Customer Experience	★	★	★		
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★	★	
	Effluent & Water Management	★	★	★		
	OVERALL	★	★	★		

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

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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