

## Seaports & Logistics

### 4QCY22 Results Review: Led by Exports

## NEUTRAL



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We maintain our NEUTRAL call on the sector as its 4QCY22 results were mixed. Most players under our coverage benefitted from the strong gateway volume on the back of an export boom though the courier segment saw intensified competition. WPRTS (MP; TP: RM3.65) was also lifted by an investment tax allowance (that offset the one-off prosperity tax), while POS (UP; TP: RM0.46) remained in the red due to heightened competition in parcel delivery. The World Trade Organisation (WTO) projects global merchandise trade volume to only inch up by 1% in 2023 amid the global economic uncertainty. However, we see a bright spot in the logistics sector locally as it is primarily driven by: (i) domestic demand, and (ii) the booming e-commerce. Our sector top picks are BIPORT (OP; TP: RM6.00) and SWIFT (OP; TP: RM1.00).

**Capitalising on more investment tax allowance.** The 4QCY22 results season was a mixed bag for stocks in our seaports & logistics stocks universe. WPRTS came in above, both BIPORT and SWIFT were within, while POS missed, expectation. All three companies (WPRTS, BIPORT and SWIFT) benefited from strong gateway volume on the back of an export boom. WPRTS was lifted by investment tax allowance (that offset the one-off prosperity tax). Similarly, BIPORT benefitted from investment tax allowance in the fourth quarter. On the other hand, POS registered another quarterly loss on a lower courier volume as competitors cut prices and e-commerce players accelerated the insourcing of their delivery service.

**Slowing global trade.** The WTO projects global merchandise trade volumes to only inch up by 1% in 2023 amid the global economic uncertainty. Also, consumer confidence and spending globally are likely to take a beating on sustained elevated inflation, rising interest rates and a slowing global economy. These issues do not augur well for seaport operators like WPRTS. However, we believe BIPORT will be able to weather these macro challenges better thanks to: (i) its stable operation in the handling of LNG cargoes, (ii) a potential tariff hike at Bintulu Port as well as (iii) the long-term growth potential of Samalaju Industrial Port's hinterland in Samalaju, Sarawak driven by the growing investment in heavy industries.

**Logistics to ride on e-commerce boom.** However, we see a bright spot in the logistics sector locally given that it is primarily driven by: (i) domestic demand, and (ii) the booming e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a CAGR of 11% from 2022 to 2027, while its size could reach RM1.65t by 2025 from RM1t currently.

The booming e-commerce will spur demand for distribution hubs and warehouses to enable: (i) just-in-time (JIT) delivery, (ii) reshoring/nearshoring to bring manufacturers closer to end-customers, (iii) efficient automation system including interconnectivity with the customer system, and (iv) warehouse decentralisation to reduce transportation costs and de-risk the supply chain. There is also strong demand for cold-storage warehouses on the back of the proliferation of online grocery start-ups.

Our sector top picks are:

- **BIPORT** for: (i) the steady income stream from handling LNG cargoes for Malaysia LNG Sdn Bhd (that typically makes up close to 50% of its total profits), (ii) a potential step-up in earnings if Bintulu Port is granted a significant hike in its port tariffs, and (iii) the tremendous growth potential of Samalaju Industrial Port backed by rising investment in heavy industries in Samalaju Industrial Park.
- **SWIFT** for: (i) its leading position in the Malaysian haulage business commanding close to 10% market share, (ii) its value-adding integrated offerings resulting in a superb pre-tax profit margin of 10% compared to industry average of 4%, and (iii) the tremendous growth potential of its warehousing business, riding on the booming domestic e-commerce market.

10 March 2023

### Quarterly Results Performance

	4QCY22						3QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
BIPORT		1				1	1					1
POS			1			1			1			1
SWIFT		1		1				1			1	
WPRTS	1				1			1			1	
<b>Total</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>2</b>
<b>Total (%)</b>	<b>25</b>	<b>50</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>50</b>	<b>25</b>	<b>50</b>	<b>25</b>	<b>0</b>	<b>50</b>	<b>50</b>

Source: Kenanga Research, Bloomberg

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
BINTULU PORT HOLDINGS BHD	OP	5.25	6.00	14.29%	13,145.5	Y	12/2023	31.3	32.0	21.8%	2.2%	16.8	16.4	1.3	8.1%	17.4	3.3%
POS MALAYSIA BHD	UP	0.570	0.460	-19.30%	446.2	Y	12/2023	(6.9)	(2.1)	-153.3%	-129.9%	N.A.	N.A.	0.6	-6.8%	0.0	0.0%
SWIFT HAULAGE BHD	OP	0.480	1.00	108.33%	423.3	Y	12/2023	7.1	7.7	11.6%	8.0%	6.7	6.2	0.6	9.4%	2.2	4.6%
WESTPORTS HOLDINGS BHD	MP	3.60	3.65	1.39%	12,276.0	Y	12/2023	20.6	21.7	9.3%	5.5%	17.5	16.6	3.6	20.9%	15.5	4.3%
<b>SECTOR AGGREGATE</b>					<b>26,291.0</b>					<b>-27.6%</b>	<b>-28.5%</b>	<b>13.7</b>	<b>13.1</b>	<b>1.5</b>	<b>7.9%</b>		<b>3.1%</b>

Source: 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.**

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Published by:

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