Westports Holdings Berhad

At the Mercy of Global Trade

MARKET PERFORM ↔

Price:	RM3.52	
Target Price:	RM3.65	↔

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WPRTS's 1QFY23 results met expectations. Its topline eased marginally as stronger container volume was offset by lower average revenue per TEU (on lower storage income as port congestion came to an end). It reiterated its guidance for container volume growth rates of 0% to 5% in FY23 and single-digit in FY24. We maintain our forecasts, TP of RM3.65 (WACC: 6.4%, TG: 2%) and MARKET PERFORM call.

1QFY23 core net profit of RM182.9m (excluding one-off items of RM0.7m) met both our and consensus estimate at 26% of full-year forecasts. No dividend was declared as WPRTS typically announced dividend half-yearly.

YoY, 1QFY23 revenue eased marginally (-1%). Stronger container volume (+7%) was offset by the lower average revenue per TEU (-4%) on lower storage income as port congestion eased.

Its transhipment volume shot up 7% driven by the normalisation of shipping rates on the return of larger container ships on the heels of full re-opening of borders (vs. the deployment of smaller container ships by shipping lines during the pandemic). Recall, WPRTS caters to larger container ships while rival Northport largely handles smaller ones. Meanwhile, its gateway container volume (+6%) remained strong on the back of brisk exports by local manufacturers (partly fuelled by the weak ringgit).

On the other hand, its conventional cargo volume rose to 2.89m metric tonnes (+9%) 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.

Core net profit surged by 20% due to lower diesel fuel cost (-3%; which is unsubsidised) and the normalisation of its effective tax rate to 22.5% (1QFY22: 39.0%) in the absence of the prosperity tax.

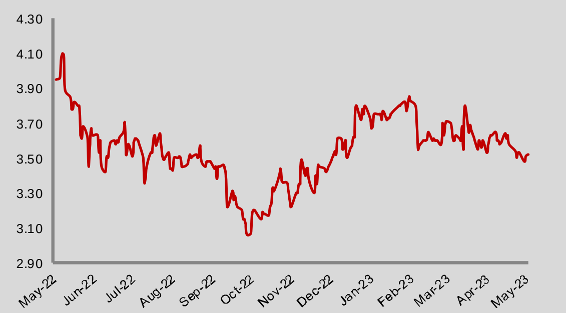
QoQ, 1QFY23 revenue eased (-2%) due to the slowdown of shipping activities during the long Chinese New Year holiday in China, with weakened transhipment volume (-3%), and a flat gateway container volume. However, core net profit rose 3% on lower diesel fuel cost (-20%).

The key takeaways from the results briefing are as follows:

1. It reiterated its guidance for container volume growth rates of 0% to 5% in FY23 and single-digit in FY24 (vs. our more conservative assumptions of 1-3%, respectively). In the event of a global recession, it holds the view that it will be brief and shallow.

2. The port congestion has come to an end, as reflected in the normalisation of its container yard utilisation to the optimal level of about 80%. On one hand, WPRTS sees lower storage incomes. On the other hand, it is regaining customers lost to a neighbouring port at the height of port congestion, translating to a higher container volume. Also, with its container yard operating at an optimal level, there are efficiency gains.

Share Price Performance



KLCI	1,431.04
YTD KLCI chg	-4.3%
YTD stock price chg	-7.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WPRTS MK Equity
Market Cap (RM m)	12,003.2
Shares Outstanding	3,410.0
52-week Range (H)	4.12
52-week Range (L)	3.04
3-mth avg. Daily Vol	427,243
Free Float	10%
Beta	0.7

Major Shareholders

Pembinaan Redzai Sdn Bhd	42.4%
South Port Invest Holdings	23.6%
Employees Provident Fund	9.2%

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	-	714.5	748.9
Earnings Revision	-	-	-
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)	18.7	17.1	16.2
Price/BV (x)	3.7	3.5	3.3
Net Gearing (x)	0.1	0.2	0.2
Dividend Yield (%)	4.1	4.4	4.6

3. 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.
4. WPRTS reiterated that capex from the construction of Westports 2 qualifies 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.

We maintain our forecasts and DCF-derived TP at RM3.65 which is based on a 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).

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 prospect 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 by the unfavourable outlook of the seaport segment amidst the slowing global trade due to a weak global economic outlook on a high interest rate environment. 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.

Results Highlight

FY Dec (RM m)	**1QFY23**	**4QFY22**	**QoQ**	**1QFY22**	**YoY**	**1QFY23**	**1QFY22**	**YoY**
Revenue	**512.9**	**521.1**	**-2%**	**516.4**	**-1%**	**512.9**	**516.4**	**-1%**
Gross Profit (GP)	294.0	295.3	0%	313.8	-6%	294.0	313.8	-6%
EBITDA	**309.3**	**286.1**	**8%**	**328.8**	**-6%**	**309.3**	**328.8**	**-6%**
EBIT	**247.8**	**220.7**	**12%**	**263.7**	**-6%**	**247.8**	**263.7**	**-6%**
Finance Income	2.8	3.6	-23%	2.7	3%	2.8	2.7	3%
Finance Costs	(13.6)	(16.2)	-16%	(17.6)	-23%	(13.6)	(17.6)	-23%
Share of JV	2.5	43.7		(0.7)		2.5	(0.7)	
PBT	236.9	251.3	-6%	248.7	-5%	236.9	248.7	-5%
Taxation	(53.3)	(16.2)	228%	(96.9)	-45%	(53.3)	(96.9)	-45%
Net Profit	**183.6**	**235.0**	**-22%**	**151.9**	**21%**	**183.6**	**151.9**	**21%**
Exceptional Items	0.7	56.8		0.0		0.7	-	
Core Net Profit (CNP)	**182.9**	**178.2**	**3%**	**151.9**	**20%**	**182.9**	**151.9**	**20%**
NDPS (sen)	**0.00**	**7.46**		**0.00**		**0.00**	**0.00**	
GP Margin	57.3%	56.7%		60.8%		57.3%	60.8%	
EBIT Margin	48.3%	42.3%		51.1%		48.3%	51.1%	
PBT Margin	46.2%	48.2%		48.2%		46.2%	48.2%	
CNP Margin	35.7%	34.2%		29.4%		35.7%	29.4%	
Effective Tax Rate	22.5%	6.5%		39.0%		22.5%	39.0%	
Container Throughput (m TEU)	**1QFY23**	**4QFY22**	**QoQ**	**1QFY22**	**YoY**	**1QFY23**	**1QFY22**	**YoY**
Transhipment	1.52	1.56	-3%	1.42	7%	1.52	1.42	7%
Gateway	1.03	1.02	1%	0.97	6%	1.03	0.97	6%
Total	**2.55**	**2.58**	**-1%**	**2.39**	**7%**	**2.55**	**2.39**	**7%**

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)		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.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	OP	5.02	6.00	19.52%	2,309.2	Y	12/2023	31.3	32.0	21.8%	2.2%	16.0	15.7	1.3	8.1%	17.4	3.5%
POS MALAYSIA BHD	UP	0.550	0.460	-16.36%	430.5	Y	12/2023	(6.9)	(2.1)	-153.3%	-129.9%	N.A.	N.A.	0.5	-6.8%	-	-
SWIFT HAULAGE BHD	OP	0.480	1.00	108.33%	427.1	Y	12/2023	7.1	7.5	10.2%	6.7%	6.8	6.4	0.6	9.3%	2.2	4.6%
WESTPORTS HOLDINGS BHD	MP	3.52	3.65	3.69%	12,003.2	Y	12/2023	20.6	21.7	9.3%	5.5%	17.1	16.2	3.5	20.9%	15.5	4.4%
SECTOR AGGREGATE					**3,792.5**					**-28.0%**	**-28.9%**	**13.3**	**12.8**	**1.5**	**7.9%**		**4.2%**

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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