Westports Holdings

Middle-East Conflicts Weigh

MARKET PERFORM ↓

Price: RM3.78
Target Price: RM3.80 ↔

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WPRTS's FY23 results met expectations. It maintained its guidance for a low single-digit container volume growth rate in FY24 as it believes the Middle-East conflicts, if prolonged, will weigh on the Europe-Asian trade. We maintain our forecasts, TP of RM3.80 but downgrade our call to MARKET PERFORM from OUTPERFORM after the recent run-up in its share price.

Its FY23 results met expectations. The group declared a second interim dividend of 8.72 sen, bringing the full-year FY23 dividend to 16.91 sen, as expected.

YoY, its FY23 revenue rose 4%. A stronger container volume (+8%), was partially offset by a lower average revenue per TEU (-4%) on lower storage income as port congestion eased.

Its transhipment volume rose 4% driven by the normalisation of shipping rates on the return of larger container ships on the heels of full reopening 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 (+14%) remained strong on the back of brisk exports by local manufacturers (partly fuelled by the weak MYR).

On the other hand, its conventional cargo volume eased to 11.6m metric tonnes (-4%) due to lower break bulk throughput (ingots, coils, mixed steel and rubber) and the transition toward containerised cargoes, which more than offset the higher throughput of liquid bulk cargoes (with increased LPG, palm oil and gasoline/diesel products handled).

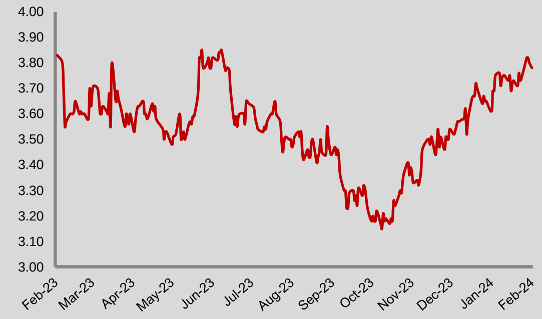
Its core net profit surged by 21% due to lower diesel fuel cost (-18%; which is unsubsidised), lower finance costs (-19%; yearly sukuk repayment of RM125m in June 2023, with balance sukuk borrowings at RM850m), and the normalisation of its effective tax rate to 22.5% (FY22: 25.9%) in the absence of the prosperity tax.

QoQ, its 4QFY23 revenue rose 2%. Slight improvement in container volume (+4%) was offset by lower average revenue per TEU (-2%). Its core net profit rose 6% due to lower effective tax rate at 21.7% (3QFY23:22.7%) and lower diesel fuel cost (-5%).

The key takeaways from the results briefing are as follows:

1. It maintained its guidance for a low single-digit container volume growth rate in FY24 as it believes the Middle-East conflicts, if prolonged, will weigh on the Europe-Asian trade. Given the longer voyage around the Cape of Good Hope, the frequency of calls made to WPRTS (and all other ports in the region) by shipping liners servicing the route, which contributes to 30% of global container volume, has shrunk. Not helping either, the low water levels in areas surrounding Panama Canal recently which is experiencing extreme drought, have further disrupted the movement of shipping liners. Nonetheless, it is slightly more positive on FY25, guiding for a single-digit container volume growth rate.

Share Price Performance



KLCI	1,516.58
YTD KLCI chg	4.3%
YTD stock price chg	3.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WPRTS MK Equity
Market Cap (RM m)	12,889.8
Shares Outstanding	3,410.0
52-week Range (H)	3.88
52-week Range (L)	3.15
3-mth avg. Daily Vol	1,483,702
Free Float	9%
Beta	0.6

Major Shareholders

Pembinaan Redzai Sdn Bhd	42.4%
South Port Invest Holdings	23.6%
Employees Provident Fund	9.3%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	2,151.9	2,203.1	2,324.2
EBIT	1,037.5	1,100.0	1,147.8
PBT	1,006.2	1,050.7	1,099.0
Net Profit (NP)	**779.4**	**798.5**	**835.2**
Core Net Profit	**779.4**	**798.5**	**835.2**
Consensus NP	-	797.6	833.7
Earnings Revision	-	-	NEW
Core EPS (sen)	22.9	23.4	24.5
CNP Growth (%)	21.3	2.4	4.6
DPS (sen)	16.9	17.6	18.4
BV/Share (RM)	1.0	1.1	1.2
Core PER (x)	16.5	16.1	15.4
Price/BV (x)	3.9	3.5	3.3
Net Gearing (x)	0.1	0.1	0.1
Dividend Yield (%)	4.5	4.6	4.9

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% while empty container boxes level normalised to pre-pandemic level (at 27% of total containers, the same level as three months ago). On one hand, WPRTS sees lower storage income. 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.
3. It has commenced the process to request for a container tariff revision in concurrent with its Westports 2 expansion project. Recall, after much delay, WPRTS has finally signed a Third Supplemental Privatisation Agreement with the federal government and PKA governing the development of CTs 10 to 17, which also entails the extension of the port operation concession for both existing facilities (i.e. CTs 1 to 9) and new facilities (i.e. CTs 10 to 17) by 58 years from Sep 2024 to Aug 2082. The new CTs are expected to nearly double its capacity to 27m TEUs from 14m TEUs, spread over 26 years. With anticipated full completion only by 2053, we view this investment as a very long-term play for the group, thus ruling out any earnings accretive development over the next few years.

Forecasts. Maintained.

Valuations. We also maintain our DCF-derived TP at RM3.80 which is based on a discount rate equivalent to its WACC of 6.1% 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).

Investment case. We 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, the upside to its share price is limited after the recent run-up in its share price. Downgrade to **MARKET PERFORM** from **OUTPERFORM.**

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 and tariff revision fail to materialise.

Results Highlight

FY Dec (RM m)	4QFY23	3QFY23	QoQ	4QFY22	YoY	FY23	FY22	YoY
Revenue	**554.1**	**542.3**	**2%**	**521.1**	**6%**	**2,151.9**	**2,069.0**	**4%**
Gross Profit (GP)	318.9	311.3	2%	295.3	8%	1,235.8	1,190.0	4%
EBITDA	**337.2**	**325.8**	**3%**	**286.1**	**18%**	**1,296.3**	**1,214.6**	**7%**
EBIT	**273.7**	**262.7**	**4%**	**220.7**	**24%**	**1,047.9**	**950.4**	**10%**
Finance Income	3.3	2.6	28%	3.6	-9%	10.9	12.3	-11%
Finance Costs	(13.9)	(12.9)	8%	(16.2)	-14%	(52.6)	(65.3)	-19%
Share of JV	2.0	2.5		43.7		10.5	46.7	
PBT	263.1	252.4	4%	251.3	5%	1,006.2	943.9	7%
Taxation	(57.0)	(57.4)	-1%	(16.2)	251%	(226.8)	(244.4)	-7%
Net Profit	**206.1**	**195.0**	**6%**	**235.0**	**-12%**	**779.4**	**699.6**	**11%**
Exceptional Items	(0.6)	(0.0)		56.8		0.0	56.8	
Core Net Profit (CNP)	**206.7**	**195.0**	**6%**	**178.2**	**16%**	**779.4**	**642.7**	**21%**
NDPS (sen)	**8.72**	**0.00**		**7.46**		**16.91**	**14.37**	
GP Margin	57.6%	57.4%		56.7%		57.4%	57.5%	
EBIT Margin	49.4%	48.4%		42.3%		48.7%	45.9%	
PBT Margin	47.5%	46.5%		48.2%		46.8%	45.6%	
CNP Margin	37.3%	36.0%		34.2%		36.2%	31.1%	
Effective Tax Rate	21.7%	22.7%		6.5%		22.5%	25.9%	
Container Throughput (m TEU)	**4QFY23**	**3QFY23**	**QoQ**	**4QFY22**	**YoY**	**FY23**	**FY22**	**YoY**
Transhipment	1.64	1.61	2%	1.56	5%	6.35	6.08	4%
Gateway	1.23	1.15	7%	1.02	21%	4.53	3.97	14%
Total	**2.87**	**2.76**	**4%**	**2.58**	**11%**	**10.88**	**10.05**	**8%**

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	MP	5.75	5.55	-3.5%	2,645.0	Y	12/2023	25.3	25.8	-1.6%	2.0%	22.7	22.3	1.5	6.5%	13.0	2.3%
POS MALAYSIA BHD	UP	0.495	0.390	-21.2%	387.5	Y	12/2023	(11.0)	(5.7)	-184.9%	-152.2%	N.A.	N.A.	0.5	-10.9%	0.0	0.0%
SWIFT HAULAGE BHD	MP	0.610	0.630	3.3%	542.8	Y	12/2023	5.6	6.2	-12.5%	11.4%	10.9	9.8	0.8	7.4%	1.7	2.8%
WESTPORTS HOLDINGS BHD	MP	3.78	3.80	0.5%	12,889.8	Y	12/2024	23.4	24.5	2.5%	4.6%	16.1	15.4	3.5	22.1%	17.6	4.7%
SECTOR AGGREGATE					4,116.3					-49.1%	-33.6%	16.6	15.8	1.6	6.3%		2.4%

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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