Seaport& Logistics

4QCY23 Report Card: Red Sea Raises Red Flag

NEUTRAL ↓

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The sector's earnings delivery (against our expectations) was more subdued sequentially in the recently concluded 4QCY23 results season. We downgrade our sector call to NEUTRAL from OVERWEIGHT as a prolonged war in the Middle East, particularly, the escalating Red Sea conflict of late, is weighing down on the Europe-Asian trade. The World Trade Organisation (WTO) said in end-Feb 2024 that it is cutting its current projection of a 3.3% growth in global merchandise trade volume in CY24, also quoting lower water levels in Panama Canal due to an extreme drought, which is disrupting the movement of shipping liners. We also acknowledge that global trade will have to navigate stricter regulations on carbon emissions. However, we continue to see a bright spot in the domestic logistics sector as it is: (i) driven internally and less directly exposed to external headwinds, and (ii) a beneficiary of the booming e-commerce. We do not have any stock picks for the sector.

The sector's earnings delivery (against our expectations) was more subdued sequentially in the recently concluded 4QCY23 results season with 75% and 25% coming in within and below our forecasts, as opposed to 25%, 50% and 25% beating, meeting and missing in the preceding quarter. **BIPORT (MP; TP: RM5.55), SWIFT (MP; TP: RM0.55) and WPRTS (MP; TP: RM3.80)** met our expectations but **POS (UP; TP: RM0.33)** disappointed.

BIPORT's 4QFY23 cargo volume jumped QoQ which could be signs of green shoots of recovery particularly from recovery in LNG demand from China, and Samalaju Industrial Port from a pick-up in cargo volumes from key customers, i.e. **PMETAL (MP; TP: RM4.90) and OMH (OP; TP: RM1.80)**. Meanwhile, **WPRTS** saw a small top-line growth due to a stronger container volume, partially offset by lower yields. However, it earnings rose significantly, thanks to lower fuel cost (which is unsubsidized), lower finance costs and non-recurrence of the one-off prosperity tax. Meanwhile, **SWIFT**'s top-line continued to grow driven by the increased transportation activities for petrochemical products and higher warehouse and container depot capacity utilisation from onboarding of new customers, but its bottom-line was weighed down by additional cost incurred to support its fleet and warehouse expansion. On the other hand, **POS** disappointed as the deteriorating operating environment at its postal and logistics services segments negated the recovery at its aviation services division.

We downgrade our sector call to **NEUTRAL** from **OVERWEIGHT** as a prolonged war in the Middle East, particularly, the escalating Red Sea conflict of late, is weighing down 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. The World Trade Organisation (WTO) said in end-Feb 2024 that it is cutting its current projection of a 3.3% growth in global merchandise trade volume in CY24, also quoting lower water levels in Panama Canal due to an extreme drought, which is disrupting the movement of shipping liners.

We acknowledge that stricter regulations on carbon emissions may pose new challenges to global trade, particularly, one from the United Nations' International Maritime Organization (IMO) and another from the European Union (EU). While the exact implications of the regulation of IMO and EU's Carbon Border Adjustment Mechanism (CBAM) on the seaport and logistics sectors remain unclear (especially for CBAM which is still pending finalisation), the volume of containers heading to the EU will certainly be affected (about 18% of container throughput under Asia-Europe trade), especially those originating from China, which is a major exporter of iron, steel and aluminium to the EU.

1. Under the new IMO rules, effective January 2023, all ships must report their carbon intensity and will be rated accordingly. The ships must record a 2% annual improvement in their carbon intensity from 2023 through 2030 or face being removed from service.
2. Meanwhile, the EU's CBAM policy could disrupt the exports of certain commodities (iron and steel, cement, aluminium, fertiliser, electricity, hydrogen) to the EU. During the transition period between Oct 2023 and Dec 2025, EU importers must report embedded emissions in goods imported on a quarterly basis, as well as any carbon price paid to a third country. When the CBAM takes full effect starting 2026, importers will need to buy carbon credits reflecting the emissions generated in producing them.

On more positive note, we see a bright spot in the domestically-driven third-party logistics (3PL) sector which is less vulnerable to external headwinds being buoyed by the booming e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a CAGR of 7% from 2023 to 2027, with size reaching RM1.9t by 2027 from RM1.4t in 2023.

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.

Quarterly Results Performance

	4QCY23						3QCY23					
	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		
Total	**0**	**3**	**1**	**1**	**2**	**1**	**1**	**2**	**1**	**2**	**1**	**1**
Total (%)	**0**	**75**	**25**	**25**	**50**	**25**	**25**	**50**	**25**	**50**	**25**	**25**

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.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	MP	5.75	5.55	-3.5%	2,645.0	Y	12/2024	25.8	26.6	1.2%	3.0%	22.3	21.6	1.4	6.4%	13.0	2.3%
POS MALAYSIA BHD	UP	0.490	0.330	-32.7%	383.6	Y	12/2024	(11.5)	(6.7)	-161.5%	-158.3%	N.A.	N.A.	0.9	-19.0%	0.0	0.0%
SWIFT HAULAGE BHD	MP	0.540	0.550	1.9%	480.5	Y	12/2024	5.5	5.8	-3.6%	6.8%	9.9	9.2	0.7	6.8%	1.7	3.1%
WESTPORTS HOLDINGS BHD	MP	3.83	3.80	-0.8%	13,060.3	Y	12/2024	23.4	24.5	2.5%	4.6%	16.4	15.6	3.5	22.1%	17.6	4.6%
SECTOR AGGREGATE					**4,142.3**					**-40.4%**	**-36.0%**	**16.2**	**15.5**	**1.6**	**4.1%**		**2.5%**

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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