

05 April 2024

# Bintulu Port Holdings

## Tariff Hikes on the Horizon

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Upon commissioning in 2028, two large-scale hydrogen plants in Bintulu will generate green energy cargoes for BIPORT. Sarawak state's takeover of the Bintulu Port Authority (BPA) could hasten Bintulu Port's tariff hikes. We raise our FY25F net profit forecast by 14%, lift our TP by 6% to RM5.90 (from RM5.55) but maintain our MARKET PERFORM call.

We came away from a recent engagement with BIPORT feeling upbeat on its prospects. The key takeaways are as follows:

- 10% revenue from handling of green energy by 2028.** BIPORT has set itself a target of 10% of total revenue coming from the handling of green energy by 2028, with the balance from LNG (40%) and non-LNG (50%). At present, its revenue mix is 50:50 LNG and non-LNG.

Sarawak state's investment in two large-scale hydrogen plants in Bintulu, namely, H2biscus and H2ornbill, pursuant to its hydrogen economy agenda, will produce green energy cargoes to BIPORT such as green hydrocarbon, ammonia & methanol as well as blue ammonia (see the next page for further details). In addition, BIPORT will also handle biomass fuels produced in the hinterland.

In the meantime, it will benefit from the handling of construction materials for the hydrogen plants.

- Stronger prospects for port tariff hikes.** BIPORT appeared more upbeat on the prospects of Bintulu Port's tariff hikes. This follows Sarawak state's plan to take over the BPA. We understand that the takeover could be completed as soon as June 2024, paving the way for a 10% hike in Bintulu Port's tariffs by FY25, based on our prediction. We also understand that Sarawak state has its own development master plan for all ports in Sarawak, with the key focus being on enhancing shipping connectivity with other major global transportation and logistics hubs.

Recall, there has not been any revision to Bintulu Port's tariffs since 1993. Currently, Bintulu Port's container tariff is 38% lower than that of Samalaju Industrial Port. It currently charges RM207.50 per twenty-foot equivalent unit (TEU) for local containers, vs. RM335/TEU charged by Samalaju Industrial Port. We expect a potential step-up in earnings if Bintulu Port is granted a significant hike in its port tariffs. Currently, Bintulu Port operates under an interim lease agreement until Dec 2024.

Separately, the recent talks on the potential resumption of Malaysia-South Korea free trade agreement covering digital economy, green economy and supply chain could potentially also benefit BIPORT as South Korea is one of the largest importers of Malaysian LNG via BIPORT.

**Forecasts.** We raise our FY25F net profit by 14% based on our assumption of a 10% hike in Bintulu Port's tariffs. We predict tariff hikes of up to 40% in total to be staggered over a 30-year concession period.

## MARKET PERFORM ↔

**Price:** **RM5.70**  
**Target Price:** **RM5.90** ↑

**Expected Capital Gain:** **RM0.20** **4%**  
**Expected Divd. Yield:** **RM0.12** **2%**  
**Expected Total Gain:** **RM0.32** **6%**

**KLCI Index** 1,553.24

### Stock Information

Bloomberg Ticker	BPH MK Equity
Bursa Code	5032
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	460
Market Cap (RM m)	2,622.0
Par value per share (RM)	N/A
52-week range (H)	5.90
52-week range (L)	4.80
Free Float	7%
Beta	0.2
3-mth avg daily vol	9,122

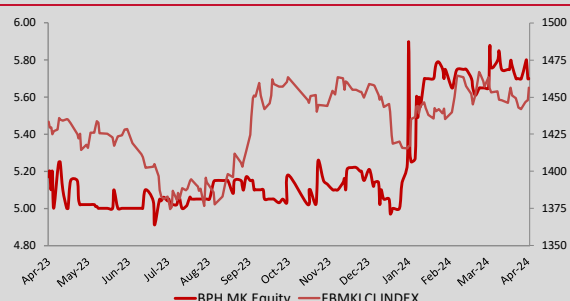
### Major Shareholders

Petroliam Nasional Berhad	28.5%
State Financial Secretary	26.7%
Equisar Asset Sdn Bhd	15.0%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	769.8	865.4	968.0
EBIT	195.3	204.3	227.9
PBT	158.9	155.2	182.2
<b>Net Profit</b>	<b>125.1</b>	<b>118.7</b>	<b>139.4</b>
<b>Core Net Profit</b>	<b>117.3</b>	<b>118.7</b>	<b>139.4</b>
Consensus (NP)	-	124.5	142.0
Earnings Revision	-	-	+14%
Core EPS (sen)	25.5	25.8	30.3
Core EPS Growth (%)	-0.8	1.3	17.4
NDPS (sen)	12.0	13.0	15.3
BVPS (RM)	3.97	4.10	4.25
PER (x)	22.4	22.1	18.8
PBV (x)	1.4	1.4	1.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.1	2.3	2.7

### Share Price Performance



05 April 2024

**Valuations.** Correspondingly, we raise our DCF-derived TP by 6.3% to RM5.90 from RM5.55 (WACC: 5.5%; TG: 2%). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Outlook.** The LNG cargo throughput at Bintulu Port will remain stable as sustained demand from Japan and South Korea will more than cushion the slowdown in demand from China. Meanwhile, there has been a pickup in inbound and outbound cargo volumes at Samalaju Industrial Port from its key customers, i.e. PMETAL and OMH, despite the weak China's economy. We believe its key customers have an edge over their peers in the international market as their products have low-carbon footprint given the hydro power input. Also, as it stands today, Western countries still have outstanding sanctions on Russian aluminium (that makes up c.6% of world aluminium production) and hence will have to look for alternative sources of aluminium supply.

**Investment case.** We continue to like BIPO for: (i) its steady income stream from handling LNG cargoes for Malaysia LNG Sdn Bhd (that typically makes up close to 50% of its total profit), (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. Maintain **MARKET PERFORM**.

**Risks to our call include:** (i) inability of Bintulu Port to secure an adequate port tariff hike to offset escalating operating cost, and (ii) a global recession hurting heavy industries in Samalaju Industrial Park.

- **Hydrogen Economy**

(Please refer to our *Sarawak Field Report: Transformation via New Urban Transport System and Hydrogen Power* dated 18<sup>th</sup> March 2024)

**Japanese partners.** SEDC Energy, a subsidiary of the Sarawak Economic Development Corporation (SEDC), is set to lead hydrogen production initiatives in Sarawak. The company is part of a tripartite agreement with Japan's Eneos and Sumitomo Corp for the H2ornbill project, which aims to produce 90,000 metric tonnes (mt) of clean hydrogen annually. Of this, 2,000 mt are allocated for domestic use within Sarawak, with the remainder for export to Japan.

**H2ornbill project with Japan partners.** Eneos will lend its expertise in technical production and share proprietary technology for transporting hydrogen at room temperature, vital for the project's success. SEDC Energy, a subsidiary of the Sarawak Economic Development Corporation (SEDC), will oversee the technicalities of hydrogen production, ensuring the integration and optimization of the energy procurement process to facilitate efficient project execution. Sumitomo's role encompasses evaluating the project's feasibility and financing aspects. Currently, in the Front-End Engineering (FEED) stage, the H2ornbill project is ambitiously aiming to commence clean hydrogen production by 2030, marking a significant step towards sustainable energy solutions for Sarawak and potential export revenues through collaboration with Japanese partners.

**H2ibiscus project with Korean partners.** In addition to the H2ornbill project, SEDC Energy is collaborating with Lotte Chemical and the Korea National Oil Corporation on the H2ibiscus green hydrogen and ammonia project. This ambitious initiative plans to establish a green hydrogen plant in Sarawak with an annual production capacity of 150,000 metric tonnes, accompanied by a green ammonia conversion facility capable of producing 850,000 metric tonnes annually. Currently in the Front-End Engineering Design (FEED) phase, the H2ibiscus project is on track to be completed by the end of 2024, to commence commercial hydrogen production by early 2028.

For both the H2ornbill and H2ibiscus projects, the final investment decision (FID) is pending. The outcomes are anticipated to be announced towards the end of 2024 or early 2025. Following these decisions, EPCC (Engineering, Procurement, Construction, and Commissioning) contractors will be able to start bidding for the plant construction works. This pivotal step will mark the transition from planning to the actualization phase, setting the stage for Sarawak's advancement in green hydrogen and ammonia production.

**Sarawak possesses an advantage in green power generation such as hydropower.** Scaling up green energy sources for green hydrogen production presents challenges, particularly with solar power's limitations in rapid scalability and maintaining consistent uptime. However, Sarawak's unique geographic advantages position it favourably for leveraging hydropower, a sustainable and scalable energy source. This inherent advantage suggests hydropower as a viable and strategic solution to meet the state's burgeoning demand for green hydrogen. Currently, with an installed capacity of 3,452MW, Sarawak Energy is poised to enhance its hydropower output by an additional 1,285MW upon the full commissioning of the Baleh hydroelectric project by 2027, reinforcing Sarawak's potential as a leader in green hydrogen production.

05 April 2024

Income Statement				
FY Dec (RM m)	2022A	2023A	2024F	2025F
Revenue	793.1	769.8	865.4	968.0
Op. Profit	<b>226.4</b>	<b>195.3</b>	<b>204.3</b>	<b>227.9</b>
Depreciation	-203.9	-220.2	-240.5	-265.8
Int. Inc/(Exp)	-48.4	-36.4	-49.1	-45.7
PBT	<b>178.0</b>	<b>158.9</b>	<b>155.2</b>	<b>182.2</b>
Taxation	-50.3	-33.8	-36.5	-42.8
Net Profit	127.7	125.1	118.7	139.4
Core Net Profit	<b>118.2</b>	<b>117.3</b>	<b>118.7</b>	<b>139.4</b>

Financial Data & Ratios				
FY Dec	2022A	2023A	2024F	2025F
<b>Growth (%)</b>				
Revenue	7.9	-2.9	12.4	11.9
EBITDA	7.9	-2.9	12.4	11.9
Op. Profit	21.8	-13.7	4.6	11.6
PBT	40.9	-10.7	-2.3	17.4
CNP	19.8	-0.8	1.3	17.4
<b>Profitability (%)</b>				
Operating Margin	28.5	25.4	23.6	23.5
PBT Margin	28.5	25.4	23.6	23.5
Core Net Margin	22.4	20.6	17.9	18.8
ROA	14.9	15.2	13.7	14.4
ROE	4.1	3.9	3.9	4.8

Balance Sheet				
FY Dec (RM m)	2022A	2023A	2024F	2025F
F. Assets	302.4	313.2	-436.9	-564.5
Intangible Assets	1,229.5	1,338.7	1,338.7	1,338.7
Other F. Assets	307.0	277.3	277.3	277.3
Inventories	3.8	3.8	4.7	5.3
Receivables	88.2	108.2	101.9	114.0
Other C. Assets	54.4	27.9	27.9	27.9
Cash	1,115.1	1,198.3	1,517.8	1,707.0
<b>Total Assets</b>	<b>3,100.3</b>	<b>3,267.3</b>	<b>2,831.5</b>	<b>2,905.7</b>
Payables	53.7	40.3	45.0	50.4
ST Borrowings	0.0	0.0	0.0	0.0
Other ST Liability	53.3	309.2	0.0	0.0
LT Borrowings	943.4	943.4	943.4	943.4
Other LT Liability	295.6	149.3	0.0	0.0
<b>Net Assets</b>	<b>1,754.3</b>	<b>1,825.2</b>	<b>1,884.0</b>	<b>1,953.0</b>
S.Equity	1,754.3	1,825.2	1,884.0	1,953.0
Minority Interests	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>1,754.3</b>	<b>1,825.2</b>	<b>1,884.0</b>	<b>1,953.0</b>

<b>Leverage</b>				
Debt/Asset (x)	0.3	0.3	0.3	0.3
Debt/Equity (x)	0.5	0.5	0.5	0.5
Net Cash/(Debt)	(171.8)	(255.0)	(574.4)	(763.6)
N.Debt/Equity(x)	(0.1)	(0.1)	(0.3)	(0.4)
<b>Valuations</b>				
Core EPS (sen)	25.7	25.5	25.8	30.3
NDPS (sen)	14.0	12.0	13.0	15.3
BV/sh (RM)	3.8	4.0	4.1	4.2
PER (x)	22.2	22.4	22.1	18.8
Div. Yield (%)	2.5	2.1	2.3	2.7
PBV (x)	1.5	1.4	1.4	1.3
EV/EBITDA (x)	2.8	3.7	10.3	10.2

Cashflow Statement				
FY Dec (RM m)	2022A	2023A	2024F	2025F
Operating CF	226.0	193.5	456.4	482.5
Investing CF	-131.6	-471.8	-177.2	-177.2
Financing CF	-102.0	-152.8	40.2	-116.1
Change In Cash	-7.6	-431.2	319.5	189.2
Free CF	215.0	182.5	279.2	305.2

Source: Kenanga Research

05 April 2024

### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current t 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	MP	5.70	5.90	3.5%	2,622.0	Y	12/2024	25.8	30.3	1.2%	17.4%	22.1	18.8	1.4	6.4%	13.0	2.3%
POS MALAYSIA BHD	UP	0.480	0.330	-31.3%	375.7	Y	12/2024	(11.5)	(6.7)	-161.5%	-158.3%	N.A.	N.A.	0.8	-19.0%	0.0	0.0%
SWIFT HAULAGE BHD	MP	0.520	0.550	5.8%	458.1	Y	12/2024	5.5	5.8	-3.6%	6.8%	9.5	8.9	0.6	6.8%	1.7	3.3%
WESTPORTS HOLDINGS BHD	MP	3.84	3.80	-1.0%	13,094.4	Y	12/2024	23.4	24.5	2.5%	4.6%	16.4	15.7	3.5	22.1%	17.6	4.6%
<b>SECTOR AGGREGATE</b>					<b>4,137.5</b>					<b>-40.4%</b>	<b>-32.4%</b>	<b>16.0</b>	<b>14.5</b>	<b>1.6</b>	<b>4.1%</b>		<b>2.5%</b>

Source: Kenanga Research

### Stock ESG Ratings:

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

☆ 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%

**\*\* The Expected Total Return might contain rounding discrepancy**

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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