

## Seaport & Logistics

### Red Sea Conflict Disrupts Asia-Europe Trade

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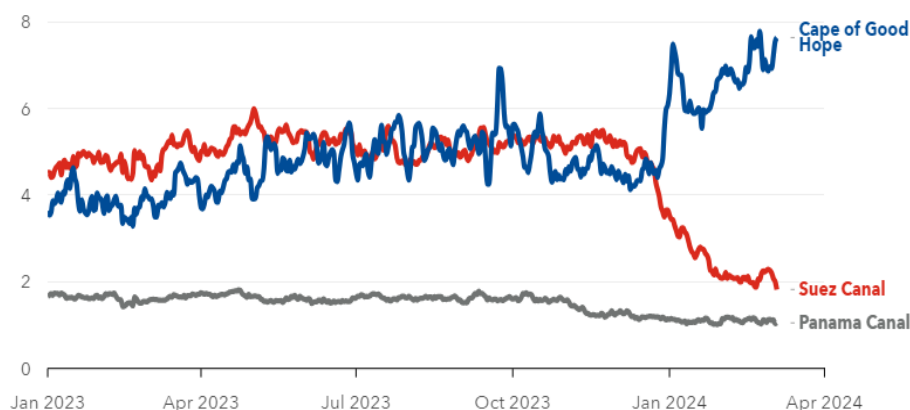
NEUTRAL



We maintain NEUTRAL on the sector. The prolonged war in the Middle East with no immediate sign of the Red Sea conflict de-escalating is weighing down on the Asia-Europe trade. The World Trade Organisation (WTO) said in end-Feb 2024 that it is cutting its current projection of 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, which is a beneficiary of the booming e-commerce. We do not have any top pick for the sector.

**Prolonged Red Sea conflict weighs.** The prolonged war in the Middle East with no immediate sign of the Red Sea conflict de-escalating is weighing down on the Asia-Europe trade. The diversion from Suez Canal to the Cape of Good Hope (see Exhibit 1) has resulted in a longer voyage for the Asia-Europe route (which contributes to 30% of global container volume), reducing the frequency of calls the shipping service could make at **WPRTS** (and all other ports in the region). The WTO said in end-Feb 2024 that it is cutting its current projection of 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 (also see Exhibit 1).

Exhibit 1: Daily Transit Trade Volume\*



\*million tonnes, 7-day moving average

Source: International Monetary Fund, United Nations

We also 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.

**Logistics to ride on e-commerce boom.** On a 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.

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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.

We maintain **NEUTRAL** on the sector and do not have any top pick for the sector.

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### Peer Table Comparison

Name	Rating	Last Price as at 8 <sup>th</sup> March 2024 (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.				
<b>Stocks Under Coverage</b>																	
BINTULU PORT HOLDINGS BHD	MP	5.65	5.55	-1.8%	2,599.0	Y	12/2024	25.8	26.6	1.2%	3.0%	21.9	21.3	1.4	6.4%	13.0	2.3%
POS MALAYSIA BHD	UP	0.505	0.330	-34.7%	395.3	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%	475.6	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%
<b>SECTOR AGGREGATE</b>					<b>4,132.6</b>					<b>-40.4%</b>	<b>-36.0%</b>	<b>16.0</b>	<b>15.4</b>	<b>1.6</b>	<b>4.1%</b>		<b>2.5%</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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