Westports Holdings

Not Rough Seas, Not Calm Waters Either

UNDERPERFORM ↔

Price: **RM4.53**
Target Price: **RM3.80** ↔

By Wan Mustaqim Bin Wan Ab Aziz l wanmustaqim@kenanga.com.my

WPRTS's 1HFY24 results met expectations. Its 1HFY24 core net profit grew 8% YoY driven by a 3% increase in container throughput, slightly better yields and lower finance cost. It reiterated guidance for a cautious outlook on prolonged conflicts in the Middle East. We maintain our forecasts, TP of RM3.80 and UNDERPERFORM call.

Its 1HFY24 results met expectations at 51% and 50% of our full-year forecast and the full-year consensus estimate, respectively. The group declared a first interim dividend of 8.89 sen, as expected.

YoY, its 1HFY24 revenue rose 4% underpinned by: (i) a stronger container volume (+3%), (ii) an improved average revenue per TEU (+1%) backed a better cargo mix with expanding high-margin gateway cargoes, and (iii) a higher storage income ratio of 21.6% in 2QFY24 (vs. 18.4% in 2QFY23) thanks to boxes re-routed from the Port of Singapore (which has since eased).

Its gateway container volume (+11%) remained strong on the back of brisk exports by local manufacturers (partly fuelled by the weak MYR). This was partially offset by a 3% decline in the transhipment volume due to: (i) lingering conflicts in the Middle East that weighed down on the Asia-Europe trade, (ii) the disruption in the form of intermittent port congestions (due to vessels bunching, i.e. vessels arriving back-to-back or within a short time interval between each vessel), and (iii) the cessation of operations in Malaysia of a shipping liner on Malaysia's docking ban on Israel-flagged ships.

On the other hand, its conventional cargo volume improved to 5.68m metric tonnes (+5%) on higher volume of break bulk throughput (ingots, coils, mixed steel and rubber) in 2QFY24.

Its core net profit grew by a sharper 8% due to a better mix skewed towards higher-margin gateway cargoes and lower finance cost (-4%).,

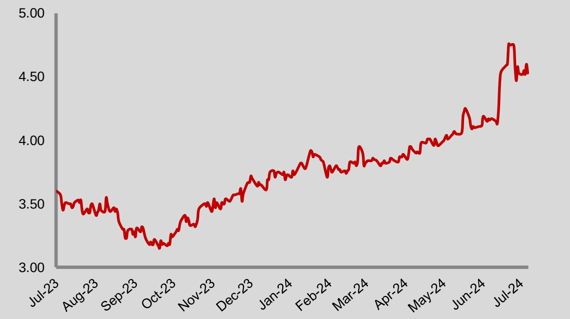
QoQ, its 2QFY24 revenue rose 2% on seasonally stronger transhipment volume throughput (+3%), partially mitigated by weaker gateway volume (-1%) due to reduced cargoes volume from China, and flat average revenue per TEU. However, its core net profit was flat on a reduced higher-margin gateway cargo volume as well as reduced efficiency arising from container yard congestion.

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 (vs. our assumption of 4%) as it believes prolonged conflicts in the Middle East will continue to weigh down on the Asia-Europe trade. The diversion from Suez Canal to the Cape of Good Hope 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).

   Not helping either, the drought-induced low water levels of Panama Canal will continue to disrupt the movement of shipping liners. Nonetheless, it is slightly more positive on FY25, guiding for a single-digit container volume growth rate (vs. our assumption of 4%).

Share Price Performance



KLCI	1,612.88
YTD KLCI chg	10.9%
YTD stock price chg	24.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WPRTS MK Equity
Market Cap (RM m)	15,447.3
Shares Outstanding	3,410.0
52-week Range (H)	4.78
52-week Range (L)	3.15
3-mth avg. daily vol.	1,426,952
Free Float	9%
Beta	0.7

Major Shareholders

Pembinaan Redzai Sdn Bhd	42.4%
South Port Invest Holdings	23.6%
Employees Provident Fund	9.5%

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	-	825.6	855.2
Earnings Revision	-	-	-
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)	19.8	19.3	18.5
Price/BV (x)	4.4	4.2	3.9
Net Gearing (x)	0.1	0.1	0.1
Dividend Yield (%)	3.7	3.9	4.1

2. The diversion of shipping liners from Suez Canal to the Cape of Good Hope has resulted in intermittent port congestion due to vessels bunching (vessels arriving back-to-back or within a short time interval between each vessel). The container yard utilisation eased to 85% in July 2024 compared to 100% in Jun 2024, which it expects to ease further in Aug 2024. The yard congestion in Jun 2024 was due to containers boxes re-routed from the Port of Singapore (heading to the Port of Bangladesh which was also congested). Nevertheless, it remains optimistic that the port congestion is manageable.

3. Meanwhile, the approval for container tariff revision and the Westports 2 (WP2) expansion project is still pending (expecting to be concluded by end-2024, implementation by 2026, though could potentially be delayed). On the other hand, the new RM5b Sukuk Wakalah programme has now been put in place with initial drawdown of RM355m in May 2024, mainly to refinance Marina land acquisition (RM423m). It expects slight increases in its finance cost (from the initial drawdown of the sukuk) and fuel bills (elevated diesel price which is unsubsidised).

   Recall, after much delay, WPRTS, in Dec 2023, 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 will nearly double its capacity to 27m TEUs from 14m TEUs, spread over 26 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, its valuations have become unattractive after the recent run-up in its share price, and its earnings risk remain elevated on the prolonged conflicts in Middle East. Maintain **UNDERPERFORM.**

Risks to our call include: (i) a significant pickup in the global economy, boosting the global containerised trade traffic, (ii) de-escalation in Middle East conflicts; (iii) operating costs turn more benign, particularly fuel, and (iii) its expansion plans and tariff revision materialise sooner than expected.

Results Highlight

FY Dec (RM m)	2QFY24	1QFY24	QoQ	2QFY23	YoY	1HFY24	1HFY23	YoY
Revenue	**553.0**	**543.2**	**2%**	**542.6**	**2%**	**1,096.1**	**1,055.6**	**4%**
Gross Profit (GP)	336.7	324.1	4%	311.6	8%	660.8	605.5	9%
EBITDA	**342.2**	**335.7**	**2%**	**324.0**	**6%**	**677.9**	**633.3**	**7%**
EBIT	**275.3**	**273.9**	**0%**	**263.8**	**4%**	**549.2**	**511.5**	**7%**
Finance Income	3.0	3.8	-20%	2.3	33%	6.9	5.1	35%
Finance Costs	(12.4)	(12.3)	1%	(12.2)	2%	(24.8)	(25.8)	-4%
Share of JV	0.5	3.7		3.5		4.2	6.0	
PBT	265.9	265.4	0%	253.9	5%	531.3	490.7	8%
Taxation	(62.1)	(60.9)	2%	(59.1)	5%	(123.1)	(112.4)	9%
Net Profit	**203.7**	**204.5**	**0%**	**194.8**	**5%**	**408.3**	**378.4**	**8%**
Exceptional Items	0.0	0.0		0.0		0.0	0.7	
Core Net Profit (CNP)	**203.7**	**204.5**	**0%**	**194.8**	**5%**	**408.3**	**377.7**	**8%**
NDPS (sen)	**8.89**	**0.00**		**8.19**		**8.89**	**8.19**	
GP Margin	60.9%	59.7%		57.4%		60.3%	57.4%	
EBIT Margin	49.8%	50.4%		48.6%		50.1%	48.5%	
PBT Margin	48.1%	48.9%		46.8%		48.5%	46.5%	
CNP Margin	36.8%	37.7%		35.9%		37.2%	35.8%	
Effective Tax Rate	23.4%	23.0%		23.3%		23.2%	22.9%	
Container Throughput (m TEU)	**2QFY24**	**1QFY24**	**QoQ**	**2QFY23**	**YoY**	**6MFY24**	**6MFY23**	**YoY**
Transhipment	1.53	1.48	3%	1.58	-3%	3.01	3.10	-3%
Gateway	1.19	1.20	-1%	1.12	6%	2.39	2.15	11%
Total	**2.72**	**2.68**	**1%**	**2.70**	**1%**	**5.40**	**5.25**	**3%**

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	6.30	6.30	0.0%	2,898.0	Y	12/2024	31.0	32.4	21.7%	4.4%	20.3	19.4	1.5	7.7%	15.7	2.5%
POS MALAYSIA BHD	UP	0.400	0.330	-17.5%	313.1	Y	12/2024	(11.5)	(6.7)	-161.5%	-158.3%	N.A.	N.A.	0.7	-19.0%	-	-
SWIFT HAULAGE BHD	MP	0.520	0.510	-1.9%	459.2	Y	12/2024	5.1	5.5	-10.3%	7.1%	10.2	9.5	0.6	6.3%	1.7	3.3%
WESTPORTS HOLDINGS BHD	UP	4.53	3.80	-16.1%	15,447.3	Y	12/2024	23.4	24.5	2.5%	4.6%	19.3	18.5	4.2	22.1%	17.6	3.9%
SECTOR AGGREGATE					**4,779.4**					**-36.9%**	**-35.6%**	**16.6**	**15.8**	**1.8**	**4.3%**		**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.***

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my