

## Seaport & Logistics

### 3QCY24 Report Card: Cost Conscious

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**NEUTRAL**



The sector's earnings delivery (versus our expectations) saw a slight improvement in the recently concluded 3QCY24 reporting season, as WPRTS beat expectations on lower-than expected operating costs under longer concession period. We maintain our NEUTRAL stance on the sector due to the shipping diversion from the Red Sea continuing to weigh down on global trade, especially in the Asia-Europe sector with a possibility of a further disruption on extreme weather at alternative shipping routes, and worsening Middle-East crisis. The WTO in May 2024 kept its projection for CY24 global merchandise trade volume growth at 2.6% and introduced CY25's at 3.3%, also quoting lower water levels in Panama Canal due to an extreme drought that 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, but had upgraded WPRTS to MP from UP over the results season.

The sector's earnings delivery (versus our expectations) saw a slight improvement in the recently concluded 3QCY24 results season with 25%, 25% and 50% beating, meeting and missing our forecasts, as opposed to 50% meeting and 50% missing our forecasts in the preceding quarter. **WPRTS (MP; TP: RM4.30)** beat, **SWIFT (MP; TP: RM0.45)** met, our expectations, but **BIPORT (MP; TP: RM6.20)** and **POS (UP; TP: RM0.25)** disappointed.

Meanwhile, **WPRTS** beat expectations largely from lower-than expected operating costs with recognition of lower depreciation cost under longer concession period starting 1st September 2024. Its earnings growth was stronger despite only marginal increase in container volume driven by the better yield from gateway cargoes, and lower operating costs with recognition of lower depreciation cost under longer concession period starting 1st September 2024. It expects a better year ahead, anticipating Middle East conflicts to ease, on new shipping service to Premier Alliance, and container volume frontloading activities on the possible tariff hike under the in-coming Trump administration. In our results note, we had upgraded WPRTS to MARKET PERFORM from UNDERPERFORM as we believe that its risk-and-reward profile appears balanced with its share price having declined more than 10% from the peak.

**SWIFT** met our expectation despite weaker earnings growth (due to higher operating expenses in line with the increase in business activities) as we expect a stronger quarter ahead as port congestion has eased, on the usual year-end festivities and to a certain extent from container volume frontloading activities due to potential US trade tariff hikes on China. Nonetheless, it remain an MARKET PERFORM call as we take note that its margin has eroded for the quarter, due to unfavourable mix toward shorter route i.e. its Singapore operation (higher volume but lower margin) while its usual longer routes (better margin) for major customers i.e. Lotus and Ikea saw lower volume due to intense competition between logistics players.

**BIPORT's** results disappointed due to higher-than-expected operating and tax expenses in the 3QFY24 (its supply base service contract is expected to incur higher operating costs for the next 2-3 years as it ramps up its services offerings, concurrent with the oil & gas exploration projects and it has to personally undertake major repair and maintenance services pending a new concession in the midst of being finalised which is expected to be by early-2025). Nonetheless, its 9MFY24 core net profit remained strong driven by strong cargo volumes due to higher LNG demand on re-stocking activities before the winter season and Samalaju Industrial Port on higher cargo volumes from key customers, i.e. **PMETAL (OP; TP: RM5.80)** and **OMH (OP; TP: RM1.80)**.

On the other hand, **POS's** results disappointed on poor cost containment, with its core net loss plunging further into the red. The deteriorating operating environment at its postal segment and logistics services negated the recovery at its aviation service. Its postal sales continued to be affected by slowdown in online shopping and lower demand from major e-commerce players that are investing in in-house delivery capabilities (for instance, Shopee Express of Shopee).

**Shipping disruption could worsen.** The shipping diversion from the Red Sea continues to weigh down on global trade, especially in the Asia-Europe sector. 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 shipping lines could make at **WPRTS's** ports (and all other ports in the region). The WTO in May 2024 kept its projection for CY24 global merchandise trade volume growth at 2.6% and introduced CY25's at 3.3%, also quoting lower water levels in Panama Canal due to an extreme drought that is disrupting the movement of shipping liners (see Exhibit 1). Notwithstanding, the recent report on the extreme weather off southern Africa shipping route as well as worsening Middle-East crisis could further disrupts the movement of shipping liners with a possibility of further cut in the WTO's projection for global merchandise trade volume growth.

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 and to take effect by 2026), 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.

- 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.
- 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.

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.

Quarterly Results Performance												
	3QCY24						2QCY24					
	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	
<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>2</b>
<b>Total (%)</b>	<b>25</b>	<b>25</b>	<b>50</b>	<b>25</b>	<b>0</b>	<b>75</b>	<b>-</b>	<b>50</b>	<b>50</b>	<b>-</b>	<b>50</b>	<b>50</b>

Source: Kenanga Research, Bloomberg

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09 December 2024

### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	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.
<b>Stocks Under Coverage</b>																	
BINTULU PORT HOLDINGS BHD	MP	6.12	6.20	1.3%	2,815.2	Y	12/2024	31.5	32.4	23.6%	2.9%	19.4	18.9	1.5	7.8%	14.0	2.3%
POS MALAYSIA BHD	UP	0.250	0.250	0.0%	195.7	Y	12/2024	(20.6)	(16.3)	-210.5%	-178.8%	N.A.	N.A.	0.5	-35.5%	0.0	0.0%
SWIFT HAULAGE BHD	MP	0.445	0.450	1.1%	396.0	Y	12/2024	3.8	4.5	-32.9%	18.3%	11.7	9.9	0.5	4.7%	1.2	2.7%
WESTPORTS HOLDINGS BHD	MP	4.42	4.15	-6.1%	15,072.2	Y	12/2024	24.9	25.4	9.0%	1.9%	17.7	17.4	4.0	23.4%	18.7	4.2%
<b>SECTOR AGGREGATE</b>					<b>4,619.8</b>					<b>-52.7%</b>	<b>-38.9%</b>	<b>16.3</b>	<b>15.4</b>	<b>1.6</b>	<b>0.1%</b>		<b>2.3%</b>

Source: Kenanga Research

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09 December 2024

**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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