

26 April 2018 | 1QFY18 Results Review

Westports Holdings Berhad

Gateway continues to drive container volume

INVESTMENT HIGHLIGHTS

- 1QFY18 results broadly inline
- Gateway segment continues to gain volume traction
- 2HFY18 is set to perform better year-over-year
- Maintaining earnings forecast
- Maintain BUY with revised TP of RM3.85 per share

1QFY18 earnings broadly in line. Westports recorded a first quarter normalised PAT of RM123.9m (-12.1%yoy) which is within ours and consensus' expectations, accounting for 21.2% and 22.2% of full years forecasts respectively. The decline in earnings was mainly due to higher finance cost and depreciation charges.

1QFY18 volume cushioned by gateway. The total container throughput volume in 1QFY18 declined by -7.4%yoy. Transshipment volume registered an -18.7%yoy drop due to the absence of the Ocean 3 Alliance volume which were present in 1QFY17 prior to the reshuffling of alliances in April last year. Nonetheless, the overall decline in container volume was cushioned by the +26.2%yoy increase in gateway volume underpinned by resilient trade growth. In fact, the gateway segment maintained its highest ever TEU volume at 0.77m for the second consecutive quarter despite shorter days in a month and the Lunar New Year Holidays (refer to Figure 2).

With that, the ratio of gateway to transshipment volume as of 9th April 2018 stood at 34:66 compared to 25:75 in 1QFY17. This provides some relief as yields for gateway cargo are higher than that of transshipment.

Looking ahead. Container volume in 2QFY18 is expected to be flat on a yearly basis but slightly higher than the preceding quarter. Recall that the formation of new shipping alliances took place in April 2017 and the impact from the recalibration would usually last for 15 months. Therefore, the positive impact on volume should be felt after 1HFY18, making 2HFY18 the turning point for container volume growth. Management reiterated container volume growth to be within a range of 0-5%. Meanwhile we are slightly more optimistic, maintaining our forecast of a +5.2%yoy increase in throughput volume in FY18 (refer to Figure 1). Our more upbeat view hinges on continued strength in Malaysian external trade that is estimated to grow by +9.3%yoy (internal forecasts) which would bode well for the gateway segment.

Maintain BUY

Revised Target Price (TP): RM3.85
(Previously RM3.89)

RETURN STATS	
Price (25 April 2018)	RM3.33
Target Price	RM3.85
Expected Share Price Return	+15.6%
Expected Dividend Yield	+4.2%
Expected Total Return	+19.8%

STOCK INFO	
KLCI	1,851.93
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Market cap. (RM'm)	11,355.30
Price over NA	1.62
52-wk price Range	RM3.12 - RM4.06
Beta (against KLCI)	0.40
3-mth Avg Daily Vol	1.26m
3-mth Avg Daily Value	RM4.44m
Major Shareholders (%)	
PRSB	42.4
South Port Invest Hldgs Ltd	23.6
EPF	10.4

Scenario analysis from trade war. We note that trade tensions between the U.S and China is more of a rhetoric play. Assuming that trade tensions are to escalate between the two nations, China will still be able to source goods such as; (i) swine from the Eurozone and; (ii) soybean from Latin America. This would bode well for Westports due to its strategic location where shipping liners would pass through them in servicing routes covering Europe to Asia and Latin America to Asia.

Welcoming bigger vessels. From only being able to accommodate container vessels of up to 2,900 TEUs in 1996, Westports is now able to handle Ultra-Large Container Vessels (UCLV) slightly above 20,000 TEUs. For instance, CMA CGM's newest and largest flagship vessel, the CMA CGM Antoine de Saint Exupery with a carrying capacity of 20,600 TEUs made its first call at Westports. Westports would be a regular port of call for this UCLV under the French Asia Line 1 Service, which is one of the longest sea routes in the world. It is noteworthy that five UCLVs have been delivered in January 2018, resulting in the global containership fleet to expand by 1.2% in that month which equals the entire fleet expansion in 2016. Henceforth, Westports' ability to accommodate large container vessels is an important factor to attract large clients.

Year	1996	1999	2006	2011	2012	2014	2018
Size of vessels that can be accommodated (TEU)	2,900	6,600	8,400	14,100	16,000	19,000	20,600

Table 1: Size of container vessels that can be accommodated by Westports (TEU)

Source: Company

Update on expansion plans. With the completion of CT9 Phase 1 last year, Westports' capacity currently stands at 14m TEUs per annum with a utilisation rate of around 70%. Westports will start to consider the development of CT9 Phase 2 upon hitting a utilisation rate ranging from 75%-85% which translates to 10.5m TEU-12.0m TEU per annum. For the longer term, the expansion plans for CT10-CT19 that is expected to increase Westport's capacity to 30m TEUs per annum is currently undergoing feasibility studies. This would allow Westports' to compete more effectively against Ports of Singapore which has plans to raise capacity from circa 45m TEU to 65m TEU by 2027.

Impact on earnings. We are maintaining our earnings forecast as the financial results were within our estimates.


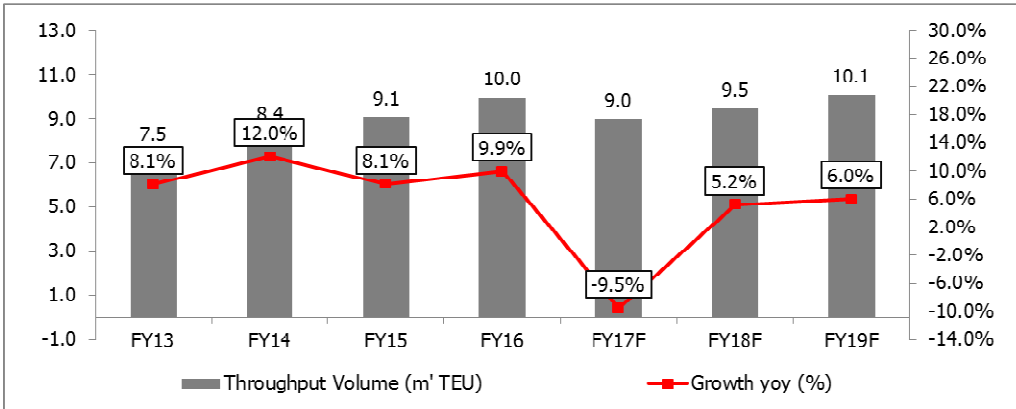
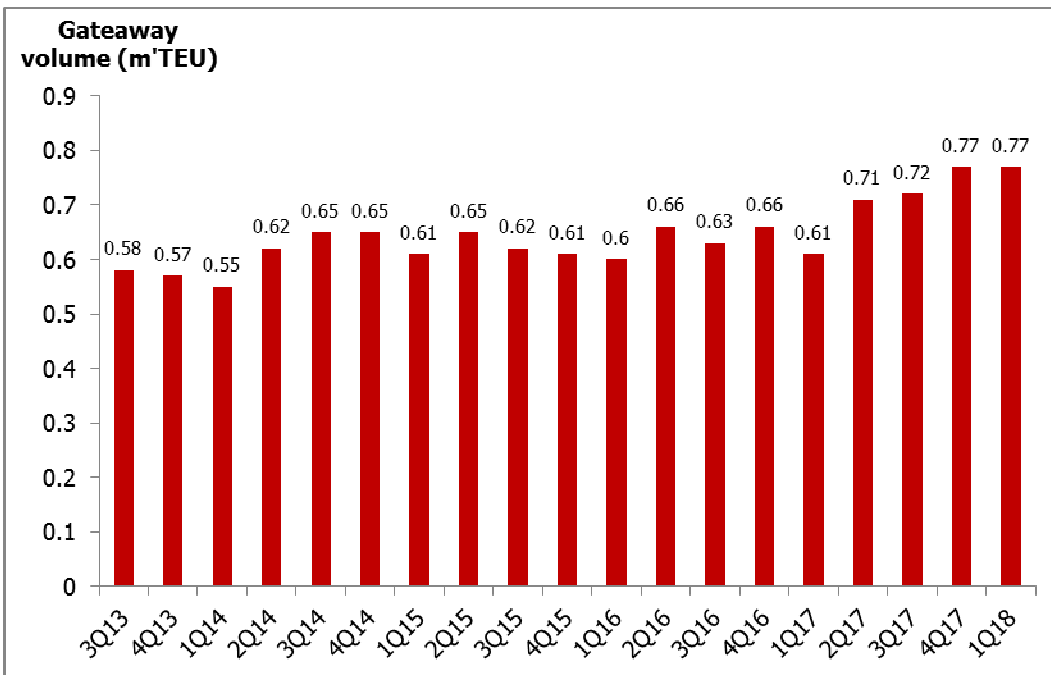
Maintain to BUY with revised TP of RM3.85 per share (previously RM3.89 per share) based on DCF valuation as we reduce terminal growth to 1.9% (from 2.0%) to reflect our cautiousness on the uncertainty of the trade wars while maintaining the WACC at 8.5%. Westports is currently trading at a forward FY18 price-to-earnings ratio of 19.5x which is justified by: (i) a dividend yield of 4.2% and (ii) manageable net gearing of 0.56x. Overall, we favour Westports due to; (i) its strength in gateway container volume; (ii) the intra-Asia containerised trade which is expected to grow at 5.1%yoy in 2018 and; (iii) its attractive tariffs compared to it Port of Tanjung Pelepas and PSA. Moreover, Westports' incoming capacity coupled with plans to increase automation in the long run would enable the company to compete for transshipment businesses more effectively. 

Figure 1: WPRTS annual container throughput (m' TEU) and growth (% yoy)



Source: Company, MIDF

Figure 2: WPRTS quarterly gateway container throughput (m' TEU)



Source: Company

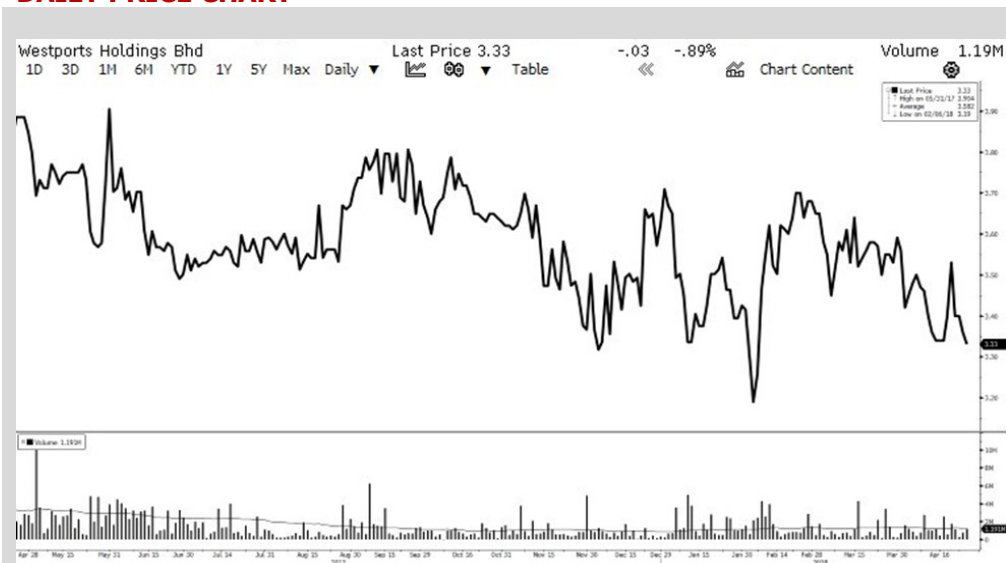
INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue* (RM' m)	1,681.8	2,035.0	2,088.6	2,315.0	2,394.4
Core Revenue (RM' m)	1,542.1	1,767.1	1,715.6	1,915.0	1,994.4
EBIT (RM' m)	713.9	819.0	744.7	844.3	869.8
Pretax Profit (RM' m)	650.1	754.8	676.9	769.3	807.5
Net Profit (RM' m)	504.9	637.0	651.5	584.6	613.7
EPS (sen)	14.8	18.7	19.1	17.1	18.0
EPS growth (%)	-1.4	26.4	2.2	-10.3	5.0
PER (x)	22.5	17.8	17.4	19.4	18.5
Net Dividend (sen)	11.0	14.0	14.3	14.0	14.0
Net Dividend Yield (%)	3.3	4.2	4.3	4.2	4.2

Source: MIDFR, Company

*Excluding IC12

DAILY PRICE CHART



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Source: Bloomberg

WPRTS: 1QFY18 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results					<i>Comments</i>
	1QFY18	4QFY17	1QFY17	%QoQ	%YoY	
FYE Dec						
Core Revenue*	385.1	435.1	438.6	(11.5)	(12.2)	Absence of construction revenue
Revenue	385.1	574.0	520.9	(32.9)	(26.1)	Full adoption of MFRS15
COGS	(159.4)	(341.5)	(282.4)	(53.3)	(43.6)	
Gross profit	225.7	232.5	238.5	(2.9)	(5.4)	
Other income	2.3	2.5	2.0	(9.9)	14.3	
Admin expenses	(5.3)	(8.8)	(5.4)	(39.6)	(2.6)	
Other operating expense	(39.9)	(62.4)	(40.3)	(36.1)	(1.0)	
Operating profit	182.8	163.8	194.7	11.6	(6.2)	
Net finance expense	(19.2)	(18.4)	(15.7)	4.2	22.3	Drawdown of sukuk to finance facilities expansion
Profit before tax	163.6	145.4	179.1	12.5	(8.6)	
Taxation	(39.8)	65.5	(38.2)	(160.7)	4.2	Absence of ITA
Profit after tax	123.8	211.0	140.9	(41.3)	(12.1)	
Extraordinary items	0.1	1.3	0.0	(93.0)	n/a	
Core PAT	123.9	212.3	140.9	(41.6)	(12.1)	Higher effective tax rate of 24%

OPERATING SUMMARY

Container throughput	1QFY18	4QFY17	1QFY17	%QoQ	%YoY	Comments
Transshipment ('m)	1.48	1.46	1.82	1.4	(8.7)	Absence of Ocean 3 volumes
Gateway ('m)	0.77	0.77	0.61	0.0	26.2	
Total	2.25	2.23	2.43	0.9	(7.4)	
Segmental revenue	1QFY18	4QFY17	1QFY17	%QoQ	%YoY	Comments
Container	322.0	366.0	373.0	(12.0)	(13.7)	Ful adoption of MFRS15
Conventional	33.0	38.0	36.0	(13.2)	(8.3)	
Marine	18.0	19.0	19.0	(5.3)	(5.3)	
Rental	11.0	11.0	10.0	0.0	10.0	

Source: Company, MIDFR

*Excluding IC12

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.