midf RESEARCH

26 July 2018 | 2QFY18 Results Review

Westport Holdings Berhad

Natural volume growth to be felt in 2HFY18

***Maintain* BUY**

***Revised* Target Price (TP): RM3.69**

(Previously RM3.85)

INVESTMENT HIGHLIGHTS

- **1HFY18 results below estimates**
- **Gateway volumes soared to record high**
- **2HFY18 is set to perform better year-over-year**
- **Revising earnings forecast downwards**
- **Maintain BUY with reduced TP of RM3.69 per share**

1HFY18 earnings below estimates. Westports reported a 1HFY18 normalised PAT of RM245.6m (-15.2%yoy) which missed our estimates by a variance of less than 10%. The decline in earnings was mainly due to higher finance cost and depreciation charges.

Gateway volumes soared to a record high. The total container throughput volume in 1HFY18 declined by -3.6%yoy. Transhipment volume registered a -12.9%yoy decline in 1HFY18 but for 2QFY18, the segment recorded the lowest decline in five quarters at -5.9%yoy. As such, residuals effects from the consolidation of shipping alliances have lessened. Nonetheless, the overall decline in container volume in 1HFY18 was cushioned by the +20.0%yoy increase in gateway volume, reflecting favourable domestic economic growth in spite of the global trade tensions. In fact, the gateway segment posted a record volume of 0.88m TEUs in 2QFY18.

With that, the ratio of gateway to transhipment volume as of 30th June 2018 stood at 36:64 compared to 28:72 in 2QFY17. This provides some relief as yields for gateway cargo are higher than that of transhipment.

Moving forward. To recall, the recalibration of shipping alliances took place in April 2017 with impacts lasting for around 15 months. Therefore, the natural growth in container volumes should be felt from 2HFY18 onwards given the low base effect. Nonetheless, we are exercising conservatism by slightly adjusting our total container throughput growth forecast downwards from +5.2%yoy to +4.6%yoy. Grounds to adjust our forecast include the possibility of gateway volumes to taper off after reaching a record high in 2Q18 amidst the shift in the nation's tax regime which may affect consumption and eventually import volumes. We also take note of the risks from the global trade war but in our opinion, the impact will be minimal as the economic growth in Asia and ASEAN remains resilient at 6.5%yoy and 5.3%yoy for 2018, respectively according to the International Monetary Funds' latest projection.

RETURN STATS	
Price (25 July 2018)	RM3.40
Target Price	RM3.69
Expected Share Price Return	+8.5%
Expected Dividend Yield	+3.5%
Expected Total Return	**+12.0%**

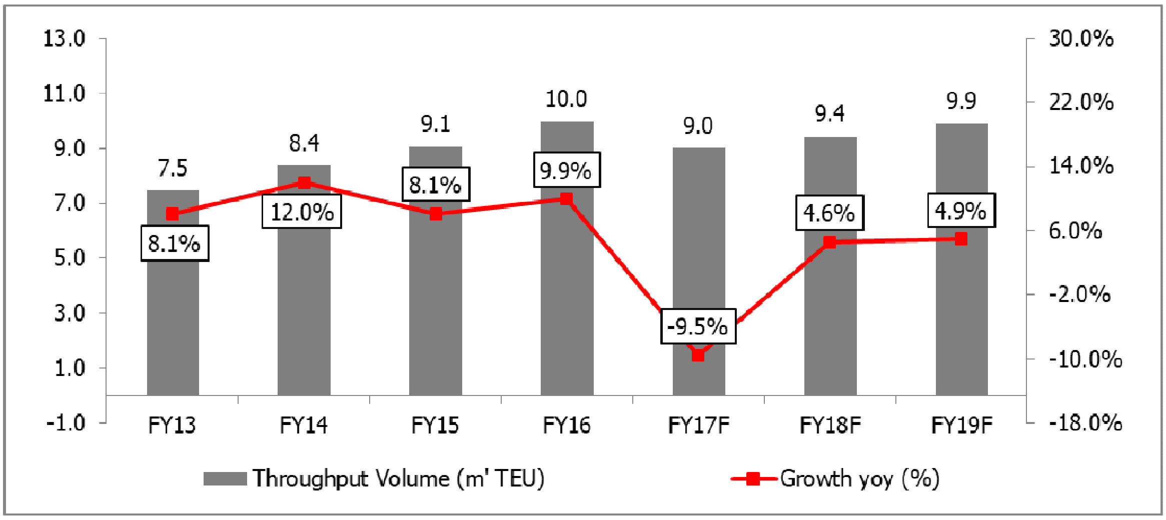
STOCK INFO	
KLCI	1,763.78
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Market cap. (RM'm)	11,594.00
Price over NA	1.62
52-wk price Range	RM3.10 – RM3.90
Beta (against KLCI)	0.52
3-mth Avg Daily Vol	1.45m
3-mth Avg Daily Value	RM4.94m
Major Shareholders (%)	
PRSB	42.4
South Port Invest Hldgs Ltd	23.6
EPF	10.7

Update on expansion plans. 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. We envisage the need for CT 9 Phase 2 to occur in next two to three years. 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 which may conclude by either end FY18 or early FY19. Following the completion of studies, the company will negotiate a concession with the government and will probably start reclamation works sometime in FY20. Overall, this would allow Westports' to compete more effectively against Ports of Singapore (PSA) which has plans to raise capacity from circa 45m TEU to 65m TEU by 2027.

Impact on earnings. We are reducing our earnings forecast for FY18F/FY19F by -8.1%/-1.8% as we factor in: (i) higher finance costs from its sukuk drawdown and; (ii) the reduction in total container volume growth forecast.

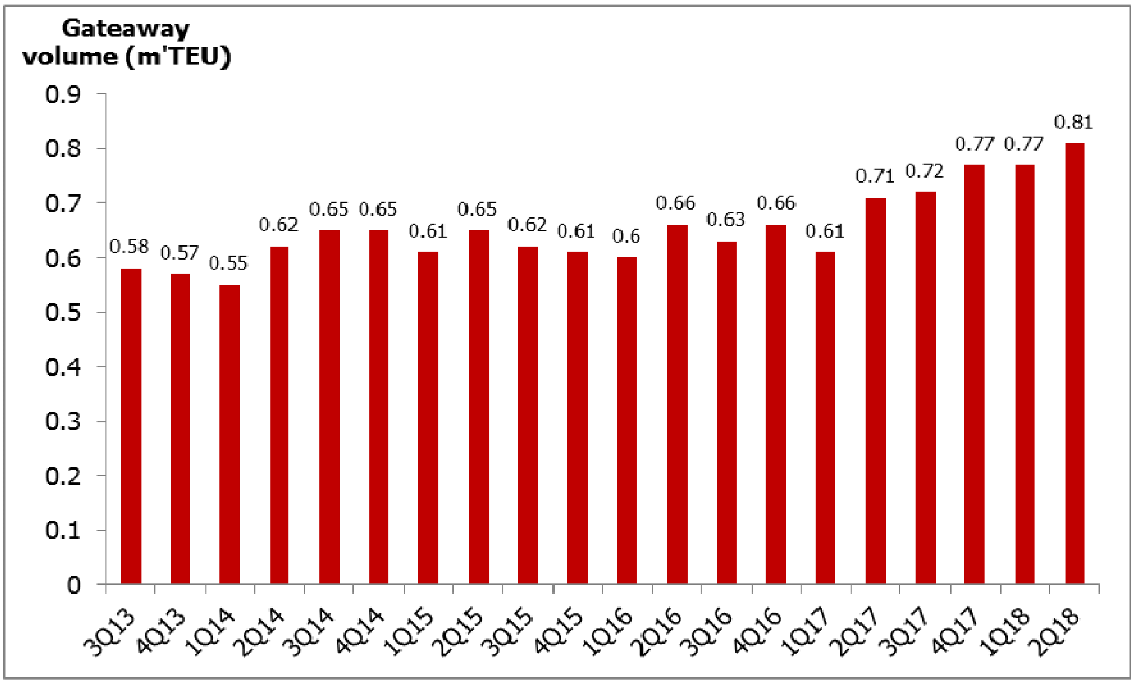
Maintain to BUY with reduced TP of RM3.69 per share (previously RM3.85 per share) based on DCF valuation (terminal growth 1.9%, WACC: 8.5%) following the downward revision in our earnings forecast. Westports is currently trading at a forward FY19 price-to-earnings ratio of 19.2x which is justified by: (i) a dividend yield of 3.5%, (ii) manageable net gearing of 0.53x and; (iii) profit margins consistently above 25% in the past five years which is expected to remain in FY18 and FY19. Overall, we favour Westports due to; (i) its strength in gateway container volume and; (ii) its attractive tariffs compared to it Port of Tanjung Pelepas and PSA despite the scheduled tariff hike in September 2018. Moreover, Westports' incoming capacity coupled with plans to increase automation in the long run would enable the company to compete for transhipment 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, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue* (RM' m)	1,681.8	2,035.0	2,088.6	2,183.8	2,312.7
Core Revenue (RM' m)	1,542.1	1,767.1	1,715.6	1,783.8	1,912.7
EBIT (RM' m)	713.9	819.0	744.7	800.4	875.4
Pretax Profit (RM' m)	650.1	754.8	676.9	706.6	793.1
Net Profit (RM' m)	504.9	637.0	651.5	537.0+	602.7
EPS (sen)	14.8	18.7	19.1	15.7	17.7
EPS growth (%)	-1.4	26.2	2.3	-17.6	12.2
PER (x)	23.0	18.2	17.8	21.6	19.2
Net Dividend (sen)	11.0	14.0	14.3	12.0	13.0
Net Dividend Yield (%)	3.2	4.1	4.2	3.5	3.8

Source: MIDFR, Company
**Excluding IC12*
+ Investment tax allowance expired in 2017

DAILY PRICE CHART

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Source: Bloomberg

WPRTS: 1HFY18 RESULTS SUMMARY

All in RM'm unless stated otherwise	*Quarterly Results*			*Cumulative*		*Comments*
FYE Dec	***2QFY18***	***%YoY***	***%QoQ***	***1HFY18***	***%YoY***	
Core Revenue*	394.0	-6.4	2.3	779.1	-9.4	
Revenue	394.0	-21.4	2.3	779.1	-23.8	Absence of construction revenue
COGS	(167.1)	-39.4	4.8	(326.5)	-41.5	
Gross profit	227.0	0.6	0.6	452.7	-2.5	
Other income	2.5	-78.4	12.0	4.8	-65.1	
Admin expenses	(4.6)	-34.2	-13.0	(9.9)	-20.4	
Other operating expense	(41.1)	5.4	3.1	(81.0)	2.1	
Operating profit	183.8	-3.9	0.5	366.5	-5.0	
Net finance expense	(22.1)	31.6	-15.6	(41.3)	27.1	Higher depreciation and finance costs
Profit before tax	161.6	-7.3	-1.2	325.2	-8.0	
Tax expense	(39.8)	55.4	0.0	(79.6)	24.8	
Profit after tax	121.8	-18.1	-1.6	245.6	-15.2	
Extraordinary items	(0.1)	n/a	-256.4	(0.1)	n/a	
Core PAT	121.7	-18.2	-1.8	245.6	-15.2	Absence of investment tax allowance

OPERATING SUMMARY

Container throughput	***2QFY18***	***%YoY***	***%QoQ***	***1HFY18***	***%YoY***	***Comments***
Transhipment ('m)	1.4	-5.9	-3.4	2.9	-12.9	Ongoing effects of reshuffling of alliances
Gateway ('m)	0.8	14.1	5.2	1.6	19.7	
Total	2.2	0.4	-0.4	4.5	-3.6	
Segmental revenue	***2QFY18***	***%YoY***	***%QoQ***	***1HFY18***	***%YoY***	***Comments***
Container	325.0	-9.0	0.9	647.0	-11.4	
Conventional	39.0	11.4	18.2	72.0	1.4	Higher project cargo
Marine	19.0	0.0	5.6	37.0	-2.6	
Rental	11.0	10.0	0.0	22.0	10.0	

Source: Company, MIDFR
**Excluding IC12*

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.