

12 November 2018 | 3QFY18 Results Review

## Westports Holdings Berhad

*Growth in container volume prevails but risks still lie ahead*

### INVESTMENT HIGHLIGHTS

- **9MFY18 results declined by -13.0%yoy to RM383.3m, in line with ours and consensus expectations**
- **9MFY18 gateway volumes soared to another record high of 2.5m TEUs**
- **On the contrary, 9MFY18 transshipment declined due to the absence of contribution from the O3 alliance**
- **4QFY18 to be buttressed by front-loading of shipments**
- **Maintain NEUTRAL with unchanged TP of RM3.62**

**9MFY18 earnings within estimates.** Westports Holdings Bhd's (Westports) 3QFY18 normalised PAT declined by -7.6%yoy to RM139.3m. Likewise, its 9MFY18 normalised PAT declined by -13.0%yoy to RM383.3m which met ours and consensus met our and consensus estimates, making up 73% and 74% respectively of full year FY18 earnings forecasts. The year-over-year drop was mainly attributable to the: (i) higher effective tax rate in absence of the Investment Tax Allowance (ITA); (ii) the rise in fuel costs (+4.9%yoy) and; (iii) higher finance costs.

**Gateway volumes soared to another record high.** Westports' 9MFY18 total container throughput volume increased +2.1%yoy to 6.9m TEUs, making up 74.0% of our full year FY18 estimates. This was mainly premised on higher gateway volume. Gateway volumes soared +20.1%yoy to 2.5m TEUs in 9MFY18 after recording a fresh record high of 0.87m TEUs for 3QFY18 due to a low base effect. The strength in gateway was supported by the: (i) the increase in polymer resin and plastic waste imports; and (ii) returning customers from Northport to Westports.

**Absence of contribution from the O3 alliance.** Meanwhile, the +11.3%yoy increase in transshipment volume, the first increase after five consecutive quarters of decline, failed to raise the 9MFY18 transshipment volume. This was mainly attributable to the loss of transshipment volume coming from the O3 alliance. 9MFY18 transshipment volumes were down by -5.7%yoy at 4.5m TEUs, mainly due to the absence of volumes from the O3 alliance.

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM3.62**

#### RETURN STATS

Price (9 November 2018)	RM3.77
Target Price	RM3.62
Expected Share Price Return	-4.0%
Expected Dividend Yield	+3.7%
<b>Expected Total Return</b>	<b>-0.3%</b>


#### STOCK INFO

KLCI	1,708.09
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Market cap. (RM'm)	12,855.70
Price over NA	5.72
52-wk price Range	RM3.10 – RM3.95
Beta (against KLCI)	0.74
3-mth Avg Daily Vol	1.07m
3-mth Avg Daily Value	RM3.92m
<b>Major Shareholders (%)</b>	
PRSB	42.4
South Port Invest Hldgs Ltd	23.6
EPF	10.7

**Future prospects.** We expect some normalisation in gateway volumes post-tax holiday in 4QFY18. Nonetheless, this will be partly mitigated by the increase in transshipment volumes following frontloading of cargoes ahead of the January 2019 U.S. tariff deadline imposed on Chinese imports. Hence, we are maintaining our annual container volume growth of +4.6%yoy for FY18. This is within the 0% to 5% growth range guided by the management. Notwithstanding this, overall container volumes may face some short term headwinds especially if the meeting between the U.S and China at the G-20 meeting this month does not result in any favourable trade negotiation.

**Earnings forecast unchanged.** We are maintaining our earnings forecasts as earnings met expectations. FY19F earnings are also left unchanged as we have forecasted a rather conservative growth rate of +4.9%yoy, which is on the low end of the 3% to 8% growth range guided by the management for FY19. We reckon that growth in overall container volumes for FY19 to be aided by the effects in alliance reshuffling which will fade out by then.

**Maintain NEUTRAL with an unchanged TP of RM3.62 per share** based on DCF valuation (terminal growth 1.9%, WACC: 8.5%). While feasibility studies expansion plans for the CT10-CT19 to ramp up capacity to about 30m TEUs per annum (from 14m TEUs per annum currently) by 2040 are gradually progressing with the feasibility studies, we do not foresee any earnings accretion in the next two to four years. Moreover, current utilisation rates of its container terminals are hovering around 70% while the development of CT9 Phase 2 will only be considered upon hitting a utilisation rate ranging from 75%-85% which translates to 10.5m TEU-12.0m TEU per annum.

In the long-term, we do not discount the possibility of: (i) the relocation of operations by Chinese companies to Malaysia which will promote cargo flow between both nations; and (ii) the possibility of Port Klang to be transformed into the next Digital Free Trade Zone. 

## INVESTMENT STATISTICS

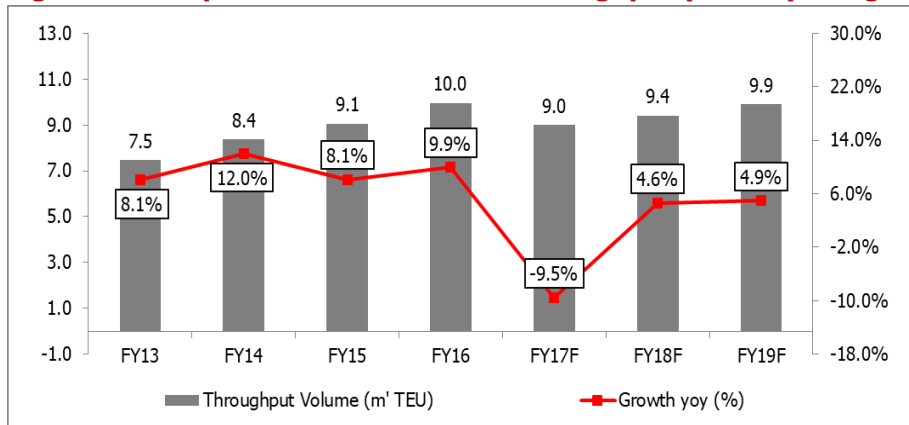
FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue* (RM' m)	1,681.8	2,035.0	2,088.6	2,145.5	2,272.9
Core Revenue (RM' m)	1,542.1	1,767.1	1,715.6	1,745.5	1,872.9
EBIT (RM' m)	713.9	819.0	744.7	788.7	862.9
Pretax Profit (RM' m)	650.1	754.8	676.9	694.9	780.6
Net Profit (RM' m)	504.9	637.0	651.5	528.1 <sup>+</sup>	593.3
EPS (sen)	14.8	18.7	19.1	15.5	17.4
EPS growth (%)	-1.4	26.2	2.3	-18.9	12.3
PER (x)	25.5	20.2	19.7	24.3	21.7
Net Dividend (sen)	11	14	14.3	14	14
Net Dividend Yield (%)	2.9	3.7	3.8	3.7	3.7

Source: Company, MIDFR

\*Excluding IC12

+ Investment tax allowance expired in 2017

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



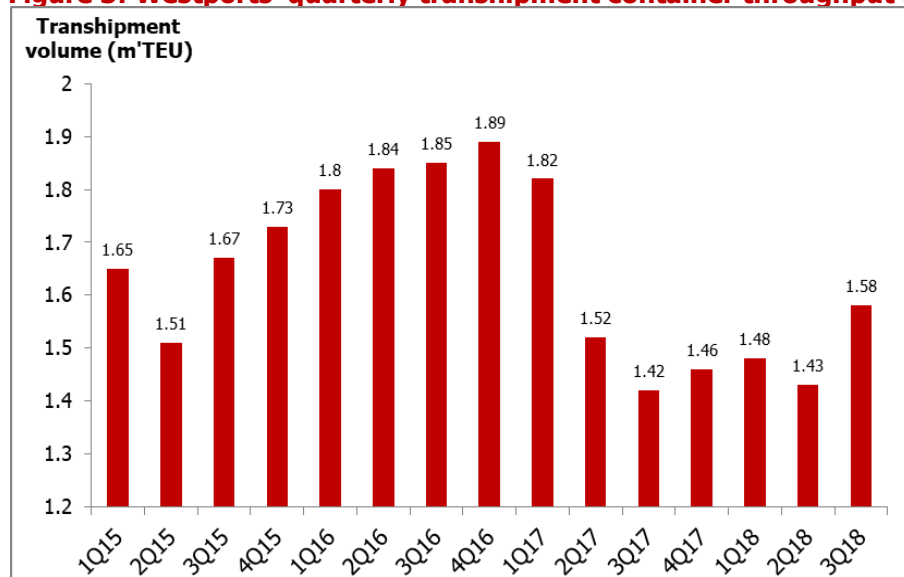
Source: Company, MIDFR

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



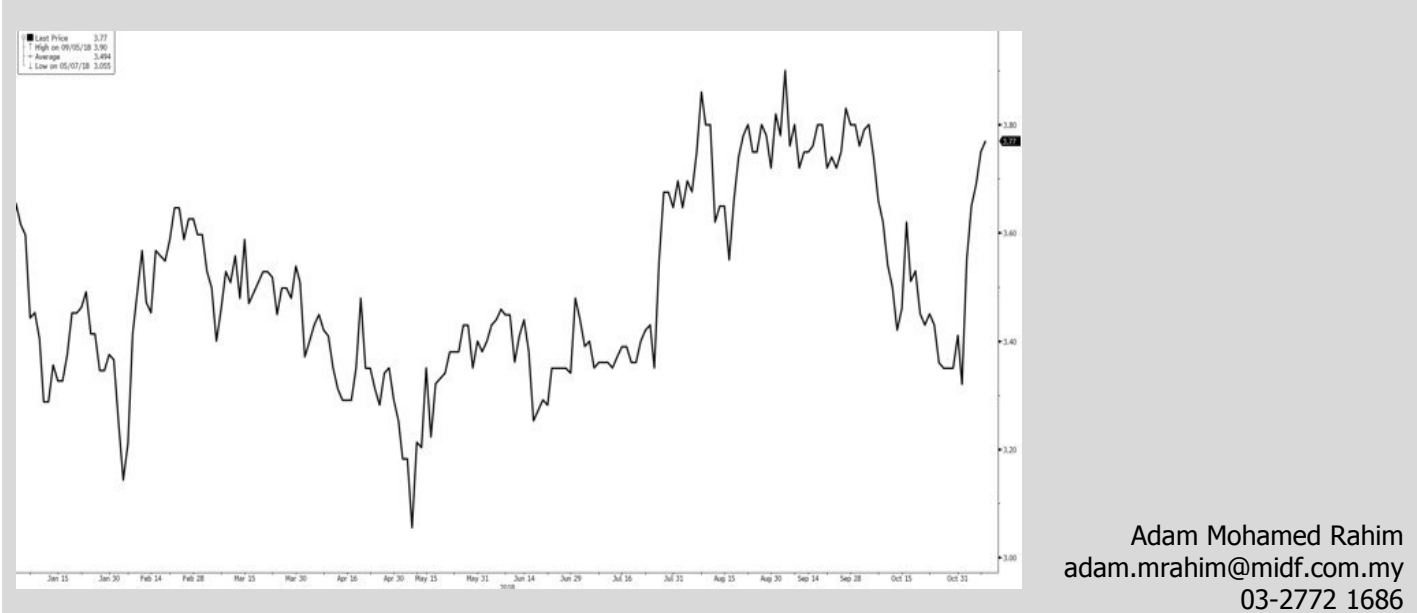
Source: Company, MIDFR

**Figure 3: Westports' quarterly transshipment container throughput (m' TEU)**



Source: Company, MIDFR

**DAILY PRICE CHART**



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Source: Bloomberg

## WESTPORTS HOLDINGS BHD: 9MFY18 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	<i>Quarterly Results</i>			<i>Cumulative</i>		<i>Comments</i>
	<i>3QFY18</i>	<i>%YoY</i>	<i>%QoQ</i>	<i>9MFY18</i>	<i>%YoY</i>	
<b>FYE Dec</b>						
<b>Core Revenue*</b>	417.6	-0.9	6.0	1,196.7	-6.6	
Revenue	417.6	-15.2	6.0	1,196.7	-21.0	Absence of construction revenue
COGS	(171.6)	-34.7	2.7%	(498.0)	-39.3	
<b>Gross profit</b>	246.0	7.2	8.4	698.6	0.7	
Other income	3.1	-70.1	22.6	7.9	-67.3	
Admin expenses	(4.2)	-30.4	-9.6	(14.1)	-23.7	
Other operating expense	(41.7)	6.8	1.3	(122.7)	3.7	
<b>Operating profit</b>	203.2	4.3	10.6	569.8	-1.9	
Net finance expense	(21.1)	24.7	-4.8	(62.4)	26.3	Higher depreciation and finance costs
<b>Profit before tax</b>	182.2	2.	12.7	507.4	-4.5	
Tax expense	(39.8)	-46.9%	0.1	(119.4)	31.4	
<b>Profit after tax</b>	142.3	-5.6	16.8	387.9	-11.9	
Extraordinary items	(3.0)	n/a	-74.9	(4.7)	n/a	
<b>Core PAT</b>	139.3	-7.6	16.0	383.3	-13.0	Absence of investment tax allowance

## OPERATING SUMMARY

<b>Container throughput</b>	<i>3QFY18</i>	<i>%YoY</i>	<i>%QoQ</i>	<i>9MFY18</i>	<i>%YoY</i>	<i>Comments</i>
Transshipment (m)	1.6	11.3	10.5	4.5	-5.7	Absence of O3 Alliance volumes
Gateway (m)	0.9	20.8	7.4	2.5	20.1	Increase in polymer resin and plastic waste imports
Total	2.5	14.5	9.4	6.9	2.1	
<b>Segmental revenue</b>	<i>3QFY18</i>	<i>%YoY</i>	<i>%QoQ</i>	<i>9MFY18</i>	<i>%YoY</i>	<i>Comments</i>
Container	352.0	-0.6	8.3	999.0	-7.8	
Conventional	34.0	-8.1	-12.8	106.0	-1.9	Lower project cargo
Marine	20.0	0.0	5.3	57.0	-1.7	
Rental	11.0	10.0	0.0	33.0	10.0	

Source: Company, MIDFR

\*Excluding IC12

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

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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.