

09 February 2018 | 4QFY17 Results Review

Westports Holdings Berhad

Gateway continues to expand

INVESTMENT HIGHLIGHTS

- **FY17 exceeded our and consensus estimates**
- **Gateway segment continues to gain volume traction**
- **Declared second interim dividend of 7.95sen in 2HFY17**
- **Revising earnings forecast upwards for FY18**
- **Upgrade to BUY with adjusted TP of RM3.89 per share**

Commendable financial performance. Westports' 4QFY17 was the best performing quarter in FY17 with earnings of RM211.0m, representing growth of +39.9%qoq. This brings the cumulative normalised FY17 earnings to RM645.4m (excluding impairment losses on receivables), exceeding our expectations by a variation of more than >10%. It is noteworthy that the +2.0%yoy increase in earnings was partly due to the claims on Investment Tax Allowance (ITA) coming from the capitalisation of RM812m worth of qualifying capital expenditure.

Overall container throughput volume. Although overall container volume dropped by -9.5%yoy, container revenue only dipped by -6%yoy cushioned by higher gateway volumes that grew by +9.8%yoy. Meanwhile the transshipment volume in FY17 dropped by -16%yoy amidst consolidation among shipping liners and recalibration of new shipping alliances. With that, the ratio of gateway to transshipment volume currently stands at 31:69 compared to 26:74 in FY16. This provides some relief as yields for gateway cargo are higher than that of transshipment at an estimated premium of 60%.

Bill of demands from customs. The bill of demands from the Royal Malaysian Customs (RMC) amounts to RM59.5m. Assuming that Westports loses its appeal to the customs, the payment would not impact the financial health of Westports as it has ample operating cash flow worth RM1.09b as at the end of FY17.

Looking ahead. FY18 is set to be a year of growth in terms of container volume. From 3QFY18 onwards, container volume is expected to stage a rebound due to a low base, signalling a return to normalcy as the impact of the new alliances fades. Management is expecting container volume growth to be within a range of 2-3%. Meanwhile we are slightly more optimistic, maintaining our forecast of a +5.2%yoy increase in throughput volume in FY18. Our more upbeat view hinges on continued strength in Malaysian external trade that is estimated to grow by +9.3%yoy according to our economics team which would bode well for the gateway segment.

Upgrade to BUY

(Previously Neutral)

Revised Target Price (TP): RM3.89

(Previously RM3.83)

RETURN STATS	
Price (8 February 2018)	RM3.54
Target Price	RM3.89
Expected Share Price Return	+9.9%
Expected Dividend Yield	+4.0%
Expected Total Return	+13.9%

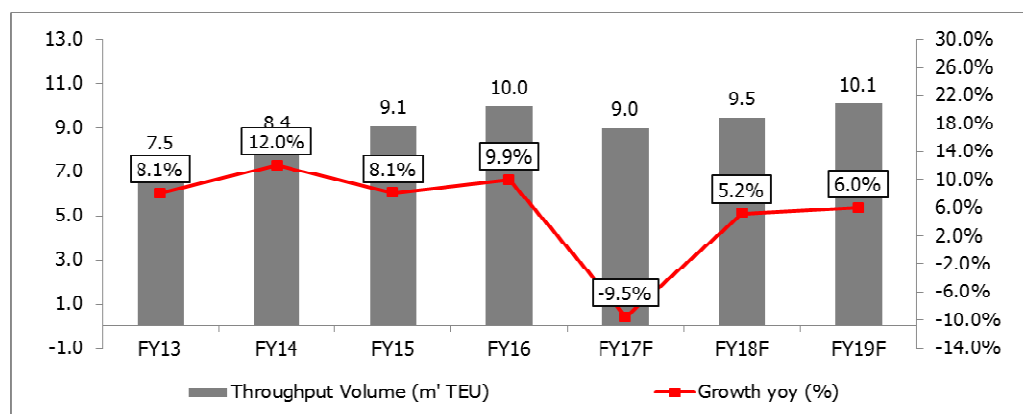
STOCK INFO	
KLCI	1,839.44
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Market cap. (RM'm)	12,071.40
Price over NA	5.31
52-wk price Range	RM3.12 - RM4.19
Beta (against KLCI)	0.61
3-mth Avg Daily Vol	1.20m
3-mth Avg Daily Value	RM4.21m
Major Shareholders (%)	
PRSB	42.4
South Port Invest Hldgs Ltd	23.6
EPF	10.4

Impact on earnings. Taking into consideration: (i) the strength in Malaysia's external trade; (ii) the tariff hike in September 2018 and; (iii) the increased FY18 tax rate to 24% due to realisation of cash benefits in FY18 as a result of the ITA in FY17, we are adjusting our FY18 earnings forecasts upwards to RM584.6m (previously RM554.9m).

Upgrade to BUY with revised TP of RM3.89 per share based on DCF valuation (terminal growth: 2.0%, WACC: 8.5%). Westports is currently trading at a forward FY18 price-to-earnings ratio of 20.6x which is justified by: (i) a dividend yield of 4.0% and (ii) low net gearing of 0.41x. The completion of CT9 phase 1 increases Westports' total capacity to 14.0m TEUs. For the CT10-CT19 expansion plans, the company is still carrying out feasibility studies which are expected to conclude by the end of this year. Overall, we favour Westports as its 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

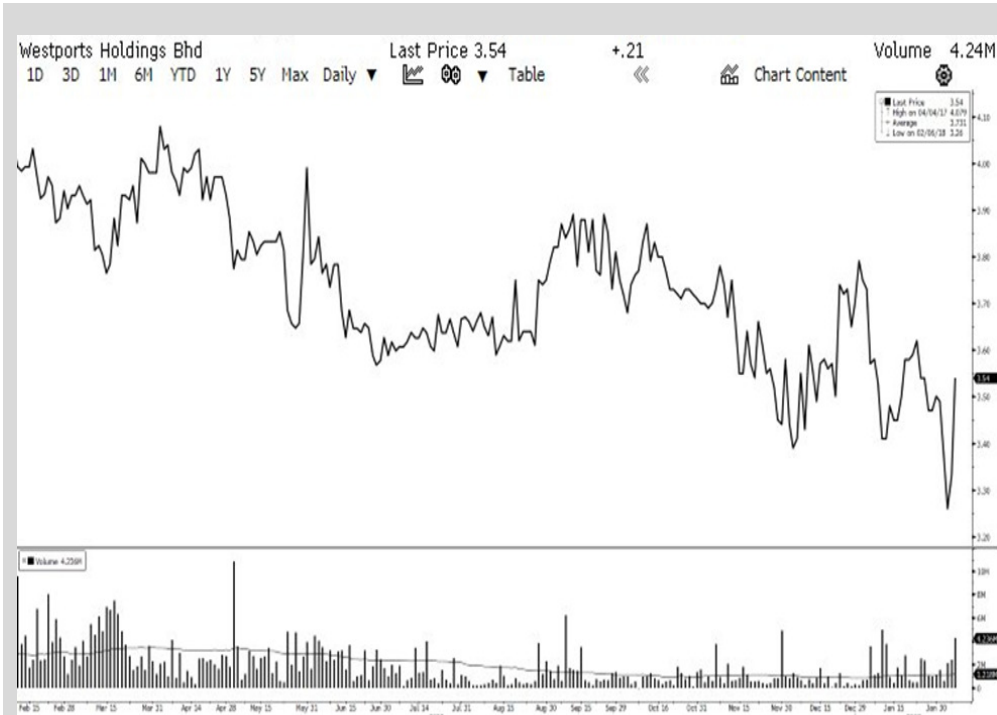
INVESTMENT STATISTICS

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	843.1
Pretax Profit (RM' m)	650.1	754.8	676.9	769.3	767.1
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)	23.9	18.9	18.5	20.6	19.7
Net Dividend (sen)	11	14	14	14	14
Net Dividend Yield (%)	2.7	3.5	4.0	4.0	4.0

Source: MIDFR, Company

*Excluding IC12

DAILY PRICE CHART



Source: Bloomberg

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WPRTS: 12MFY17 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative	
FYE Dec	4Q17	%YoY	%QoQ	12MFY17	%YoY
Core Revenue*	435.1	-7.2%	3.3%	1,715.9	-4.9%
Revenue	574.0	0.1%	16.6%	2,088.6	2.6%
COGS	(341.5)	5.4%	29.9%	(1,162.6)	11.4%
Gross profit	232.5	-6.8%	1.3%	926.0	-6.6%
Other income	2.5	-71.3%	-75.8%	26.7	-18.5%
Admin expenses	(8.8)	-37.7%	46.4%	(27.3)	-24.8%
Other operating expense	(62.4)	16.7%	60.0%	(180.8)	7.1%
Operating profit	163.8	-14.0%	-15.9%	744.7	-9.1%
Net finance expense	(18.4)	12.3%	8.7%	(67.8)	5.6%
Profit before tax	145.4	-16.5%	-18.3%	676.9	-10.3%
Tax expense	65.5	-441.7%	-341.7%	(25.4)	-78.5%
Profit after tax	211.0	36.1%	39.9%	651.5	2.3%
Extraordinary items	1.3	-218.7%	9.7%	1.3	106.0%
Core PAT	212.3	38.0%	40.8%	652.8	6.2%

OPERATING SUMMARY

Container throughput	4Q17	%YoY	%QoQ	12MFY17	%YoY
Transshipment ('m)	1.44	-23.8%	1.4%	6.20	-16.0%
Gateway ('m)	0.76	14.3%	5.6%	2.80	9.8%
Total	2.20	-13.7%	2.8%	9.00	-9.5%
Segmental revenue	4Q17	%YoY	%QoQ	12MFY17	%YoY
Container	366.0	-8.7%	3.4%	1450.0	-5.5%
Conventional	38.0	2.7%	2.7%	146.0	0.0%
Marine	19.0	-5.0%	-5.0%	77.0	-8.3%
Rental	11.0	10.0%	10.0%	41.0	10.8%

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.