04 January 2018 | Corporate Update

Westports Holdings Berhad

New offerings by OCEAN alliance to sustain earnings

***Maintain* NEUTRAL**

***Reduced* Target Price (TP): RM3.83**

(Previously RM3.87)

INVESTMENT HIGHLIGHTS

- **Year-over-year decline in container throughput in FY17**
- **Gateway segment continues to gain volume traction**
- **News services from OCEAN alliance**
- **Revising downwards earnings forecast for FY17**
- **Maintain NEUTRAL with reduced TP of RM3.83 per share**

Reported container throughput to decline by about -9.5%yoy. Westports reported that the container throughput for FY17 was at approximately 9 million TEU, which translates into a -9.5%yoy decline. The decline is within the range guided by the management; between -7% and -12%yoy.

Gateway segment continues to gain volume traction. It comes as no surprise to us that the transhipment segment mainly contributed to the overall volume decline. Total transhipment volume dropped by -16%yoy, partially cushioned by the gateway segment that had a +10%yoy volume growth. With that, the ratio of transhipment to gateway 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 transhipment at an estimated premium of 60%.

4QFY17 volume may experience growth. With the 9m TEU achieved in FY17, the container volume in 4QFY17 is estimated to be 2.2m TEU, posting its first gain of +14%qoq after three consecutive quarters of decline. We ascribe such quarterly improvement to the recalibration currently taking place in the new shipping alliances, establishing a new base in 2HFY17.

New offerings from OCEAN alliance. In December 2017, the OCEAN alliance announced its 'Day Two Product' services that will commence in April 2018. This new range of services covers 41 east west loops with an estimated carrying capacity of 3.6m TEUs, facilitated by larger vessels. For Westports, it remains with 12 port calls per week by the OCEAN alliance, reaffirming its role as an important hub to the shipping pact.

Earnings forecast. We are adjusting downwards our earnings forecasts slightly for FY17 to RM570.0m (previously RM575.4m) as we incorporate the management's guidance on the -9.5% decline in container throughput volume in FY17. We were previously expecting an even lower annual decline in volume throughput.

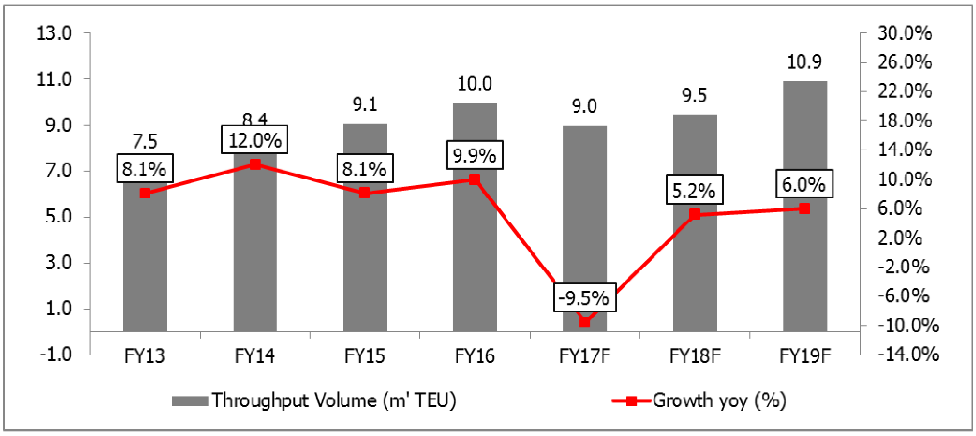
RETURN STATS	
Price (3 January 2018)	RM3.75
Target Price	RM3.83
Expected Share Price Return	+2.1%
Expected Dividend Yield	+3.5%
Expected Total Return	**+5.6%**

STOCK INFO	
KLCI	1792.79
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Market cap. (RM'm)	12,787.50
Price over NA	6.20
52-wk price Range	RM3.34 - RM4.35
Beta (against KLCI)	0.81
3-mth Avg Daily Vol	0.86m
3-mth Avg Daily Value	RM3.16m
Major Shareholders (%)	
PRSB	42.4
South Port Invest Hldgs Ltd	23.6
EPF	10.4

In addition, the management believes that FY18's overall container throughput would increase by between +2-3%yoy. Meanwhile we are slightly optimistic, forecasting 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 MIDF Research economics units and growth in global trade by +3.7yoy in FY18 according the International Monetary Fund. Hence, we are revising upwards our earnings forecasts for FY18 to RM554.9m (previously RM553.2m).

Maintain NEUTRAL with reduced TP of RM3.83 per share based on DCF valuation (terminal growth: 2.5%, WACC: 8.4%). The overall container throughput volume is expected to grow in FY18 combined with its increased container handling capacity as its CT9 phase 1 has just been completed. Nonetheless, we maintain our neutral stance due to: (i) the competition between Westports and Ports Singapore Authority in servicing the OCEAN alliance; (ii) ongoing appeal proceedings regarding the RM59.5m bill of demand from the Royal Malaysian Customs. The impetus to revise our call upwards would be new updates on the expansion plans for container terminal facilities from CT10 to CT19, and also the improving utilisation rate. For the time being, Westports is preparing to undertake feasibility studies for the proposed expansion.

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



Source: Company, MIDF

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue* (RM' m)	1,562.0	1,681.8	2,035.0	2,039.4	2,199.7
Core Revenue (RM' m)	1,503.0	1,542.1	1,767.1	1,739.4	1,899.7
EBIT (RM' m)	784.6	867.3	983.9	705.4	752.7
Pretax Profit (RM' m)	578.8	650.1	754.8	633.4	676.7
Net Profit (RM' m)	512.2	504.9	637.0	570.0	554.9
EPS (sen)	15.0	14.8	18.7	16.7	16.3
EPS growth (%)	17.7	(1.4)	26.2	(10.6)	-2.6
PER (x)	26.9	27.3	21.6	22.4	23.0
Net Dividend (sen)	10.3	11.0	14.0	13	14
Net Dividend Yield (%)	2.6	2.7	3.5	3.5	3.7

Source: MIDFR, Company
**Excluding IC12*

DAILY PRICE CHART

Adam Mohamed Rahim
adam.mrahim@midf.com.my
03-2772 1686

Source: Bloomberg

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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 *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.