13 August 2018 | Corporate Update

Westport Holdings Berhad

Second Phase of Tariff Hike Delayed to March 2019

***Downgrade to* NEUTRAL**
(Previously BUY)
***Reduced* Target Price (TP): RM3.62**
(Previously RM3.69)

INVESTMENT HIGHLIGHTS

- **Second phase of tariff hike delayed for six months**
- **Slight revision in quantum of tariff hike**
- **Revising earnings forecast downwards**
- **Downgrade to NEUTRAL with reduced TP of RM3.62 per share**

Second phase of tariff hike delayed for six months. Westports announced that the second phase of the increase in Port Klang's container tariff, initially scheduled for 1 September 2018 has been deferred to 1 March 2019. According to the Minister of Transport, YB Anthony Loke, the rationale behind the deferment of the tariff hike is to give more time to industry players and port users to adapt and stabilise their operations after the sales and services tax (SST) comes into effect on 1 September 2018.

Slight revision in quantum of tariff hike. Based on the company's announcement in August 2015, the second tariff hike was supposed to entail another average approximate increase of 15%. However, the latest announcement reveals that the rate hike is happening at a lower quantum of approximately 13%. This is expected to have minimal impact on our earnings forecast as Westports is not fully able to impose higher rates immediately due to competition within the gateway segment and 1-3 year contracts for the transhipment segment.

Figure 1: Tariffs at Port Klang per TEU

Phase of Tariff Hike	Gateway	Transhipment	Increase
Tariffs (prior to November 2015)	230	140	n/a
Phase 1	265	161	15%
Phase 2	300	182	13%

Source: Company, Port Klang Authority
**Phase 1 of hike from 1/11/2015 – 28/2/2019*
**Phase 2 of hike from 1/3/2019 onwards*

Impact on earnings. As we factor in the lower quantum of tariff hike and the revised period of its implementation, we are tweaking our total container revenue/TEU assumption for FY18 and FY19 to RM154.28 and RM156.53 (from: RM158.35 and RM160.55) respectively as we had initially forecasted a +15% tariff hike. Therefore, our earnings forecast is revised slightly downwards by -1.7% and -1.6% for FY18 and FY19 respectively.

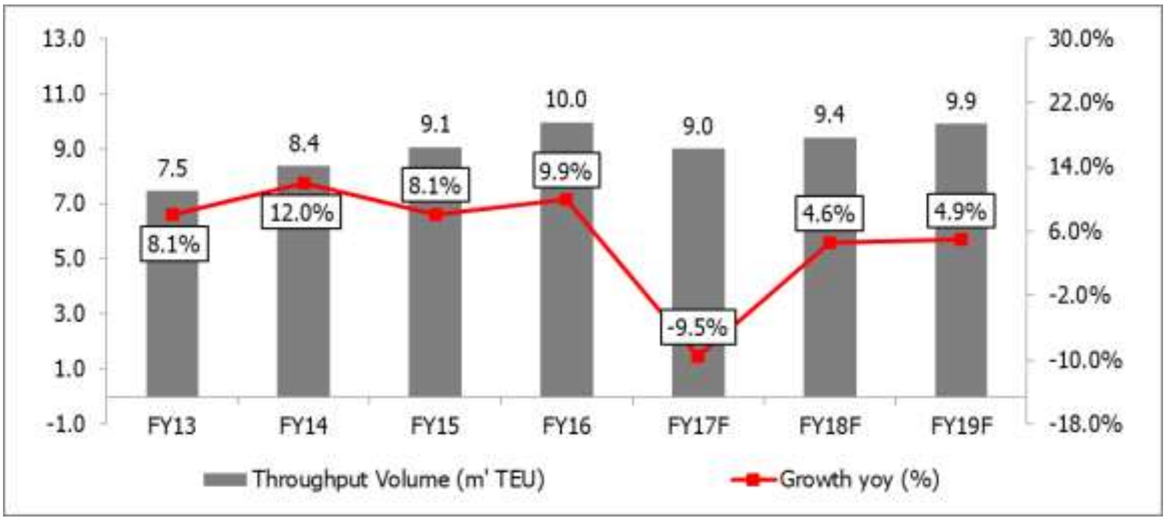
RETURN STATS	
Price (10 August 2018)	RM3.80
Target Price	RM3.62
Expected Share Price Return	-4.7%
Expected Dividend Yield	+3.2%
Expected Total Return	**-1.5%**

STOCK INFO	
KLCI	1,805.75
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Market cap. (RM'm)	12,958.00
Price over NA	5.76
52-wk price Range	RM3.10 – RM3.95
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	1.47m
3-mth Avg Daily Value	RM5.15m
Major Shareholders (%)	
PRSB	42.4
South Port Invest Hldgs Ltd	23.6
EPF	10.8

Effective rate per move has traditionally been at a 65%-75% discount to the maximum tariff. According to our estimates, the past three year average effective rate per move for transhipment has been at a 65% discount while gateway at a 75% discount to the maximum tariff of RM161 and RM285 respectively mainly due to competition with other ports. As such, it is unlikely that Westports will charge their clients at the maximum rate this time around as well.

Downgrade to NEUTRAL with reduced TP of RM3.62 per share (previously RM3.69 per share) based on DCF valuation (terminal growth 1.9%, WACC: 8.5%) following the downward revision in our earnings forecast. While 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. Therefore, we are still maintaining out total container volume growth of +4.6%yoy for FY18. It is noteworthy that Port Klang still offers the lowest tariff for transhipments amongst its peers such as Port of Tanjung Pelepas and Port of Singapore at a ~10% and ~50% discount respectively even after taking into account of the second phase of tariff hike. However, we remain cautious on this matter amidst residual effects from the reshuffling of shipping alliances.

Figure 2: 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	2,145.5	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	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)	25.7	20.3	19.9	24.5	21.8
Net Dividend (sen)	11.0	14.0	14.3	12.0	13.0
Net Dividend Yield (%)	2.9	3.7	3.8	3.2	3.4

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

DAILY PRICE CHART

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

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

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.