Westports Holdings Berhad

(5246 | WPRTS MK) Main | Transportation & Logistics

***Maintain* BUY**

Upbeat Prospects

***Unchanged* Target Price: RM4.00**

KEY INVESTMENT HIGHLIGHTS

- **Container volumes are growing in quarter-to-date**
- **Carey Island Port proceeds, possible delay**
- **Conventional tariff revision underway**
- **Minimal concerns on Southern Thailand land bridge**
- **Maintain BUY with an unchanged TP of RM4.00**

We recently visited Westports Malaysia Sdn Bhd and had a lunch meeting with Port Klang Authority (PKA) representatives. Here are the main takeaways:

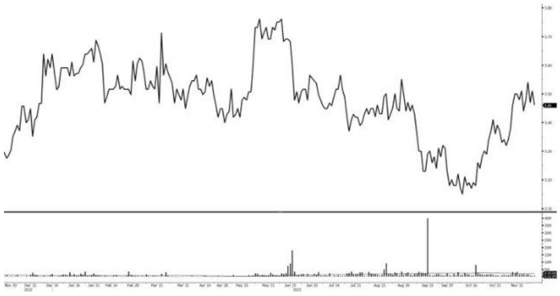
Empty container repositioning normalises. Quarter-to-date, container volumes are showing a year-on-year increase, even with a high base. Recall that container volumes grew by +7.2%yoy in 9MFY23, surpassing the initially guided low single-digit growth, driven in part by the repositioning of empty containers to China (Chart 1). Should this repositioning normalise in 2HFY23, the projected year-end growth is estimated to fall within the range of 5% - 6%. Notably, the increase in gateway container composition, from historically 30% to 40% (Chart 2), fueled by strong local exports and foreign direct investments (FDIs), is advantageous due to the higher tariffs associated with handling gateway cargoes. We anticipate a surge in goods movements preceding the Chinese New Year, expected in late Dec-23 or early Jan-24.

Green light for Carey Island Port. The proposed Carey Island Port is expected to proceed as planned, but there may be a delay due to town planning concerns, particularly given the congestion in the Westports area. Simultaneous infrastructure upgrades are emphasised alongside the new port construction, and a high-level committee will be established in Jan-24 to oversee the project. The initial phase of the Carey Island port is designed to focus on handling conventional cargoes, avoiding competition with Westports' container business. Westports is currently grappling with capacity constraints in managing cargoes like liquid bulk. The plan is for the additional container capacity from the Carey Island port to be introduced once Westports 2 expansion reaches optimal utilisation.

Tariff revision may take time. The revision of conventional tariffs, (last revised over 10 years ago), is currently in progress. Due to the need for standardisation across all terminals, the process is expected to be time-consuming as the ports have submitted requests for differing proposed increases. While the exact increase amount is yet to be finalised, PKA plans to implement it in two phases, with the initial phase expected to take about two years, followed by the subsequent increase scheduled three years thereafter.

RETURN STATISTICS	
Price @ 27th November 2023 (RM)	3.46
Expected share price return (%)	+15.6
Expected dividend yield (%)	+4.8
Expected total return (%)	**+20.4**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.7	2.2
3 months	7.1	0.3
12 months	0.3	2.9

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	2,153.8	2,242.3	2,310.6
EBIT	1,009.6	1,058.2	1,084.4
PBT	973.9	1,039.6	1,065.7
Core PATAMI	759.6	810.9	831.3
Core EPS (RM)	0.22	0.24	0.24
DPS (RM)	0.17	0.18	0.18
Dividend yield (%)	4.8%	5.2%	5.3%

KEY STATISTICS	
FBM KLCI	1,448.15
Issue shares (m)	3,410.0
Estimated free float (%)	9.44
Market Capitalisation (RM'm)	11,798.60
52-wk price range	RM3.15 - RM3.88
3-mth average daily volume (m)	2.2
3-mth average daily value (RM'm)	7.4
Top Shareholders (%)	
Pembinaan Redzai Sdn Bhd	42.4
South Port Investment Holdings	23.6
Employees Provident Fund	9.2

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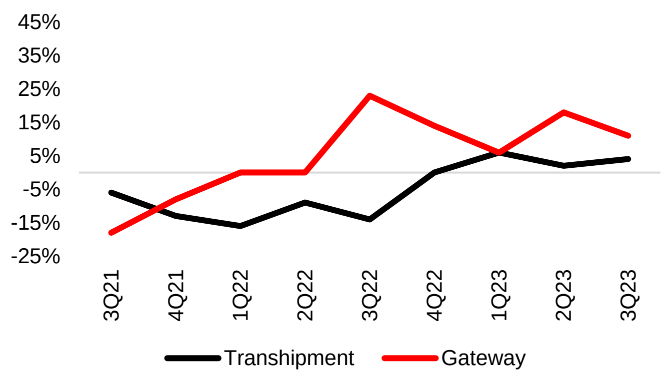
Minimal concerns on Southern Thailand land bridge. The perceived threat from the proposed land bridge at the Southern tip of Thailand is considered minimal. The project entails the construction of a rail and road system spanning about 90km, connecting the deep-sea port in Chumphon Province on the Gulf of Thailand to a newly planned deep-water port in Ranong Province on the Andaman Sea. However, the use of road or rail for transporting goods between the proposed ports could potentially slow down the ship turnaround time, considering capacity constraints associated with this transport method. Moreover, the estimated cost of USD28.0b is even higher than the Tuas Mega Port (USD20.0b), raising concerns about the rate competitiveness against local ports. Stakeholders have indicated that bypassing the Straits of Malacca would result in a mere 1.5 to 2.5 days of saved sailing time, prompting questions about the rationale behind the considerably higher cost for a marginal time reduction. While we do not anticipate a major impact, Penang Port is likely to be the most affected among other ports if the project materialises, as a portion of the cargoes from Southern Thailand currently passes through it.

Feoso Oil (Malaysia) visit. We also had the chance to visit one of Westports' conventional customers, Feoso Oil (Malaysia) Sdn Bhd (Feoso). Feoso manufactures a diverse range of high-quality lubricants and engine oils, catering to various vehicles, including passenger cars, commercial vehicles, motorcycles, as well as industrial and metalworking lubricants. Feoso currently holds a 7-acre space in the free commercial zone at the liquid bulk terminal at Westports, with Westports offering berthing facilities for its base oil. The plant features 26 bulk storage tanks with a total capacity of 10,300 metric tonnes. Additionally, it includes 5 blending tanks ranging from 5mT to 40mT and comprises 4 blending lines with a production capacity of 30m litres per shift per annum. Feoso has recently incorporated 5 new 60mT base oil tanks, enhancing flexibility for storing a broader range of oils. As part of its expansion strategy, Feoso intends to invest about RM15.0m to introduce 10 storage tanks in various sizes with direct pipelines to Jetty 3 and 4. Once completed, this will serve as a dedicated hub for the export of base oil from Westports to its customers, Petronas, and ExxonMobil.

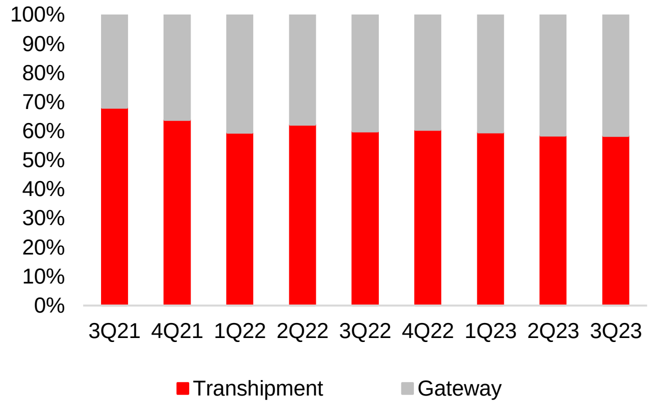
Maintain BUY. Intra-Asia trade is anticipated to remain robust, with other trade routes adjusting to handle excess shipping capacity from new buildings. Assuming no recession and limited monetary policy tightening in major economies, improved Western consumption patterns may lead to increased interregional container movements. This outlook aligns with the World Trade Organization's (WTO) projection of a +3.3% growth in global merchandise trade for CY24, with the potential for further growth if inflation subsides rapidly. On a positive note, discussions regarding Westports 2 expansion have reportedly concluded, and the concession agreement could be signed in early Dec-23. Management has indicated plans for a special call to brief analysts on the details before Christmas. Overall, we maintain our **BUY** recommendation with an unchanged DCF-derived TP of **RM4.00** (WACC: 7.0%, g: 3.0%). The stock is trading at a -20% discount compared to its 5-year historical mean. Key risks to our call include: (i) weaker-than-expected container throughput and (ii) the continued appreciation of the USD which could exert pressure on fuel costs.

Chart 1: Container Throughput Volume (YoY%)



Source: Westports, MIDFR

Chart 2: Composition of Container Volume (%)



Source: Westports, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	2,022.0	2,069.0	2,153.8	2,242.3	2,310.6
EBIT	1,101.3	996.2	1,009.6	1,058.2	1,084.4
PBT	1,039.5	943.9	973.9	1,039.6	1,065.7
PAT	808.2	699.6	759.6	810.9	831.3
Core PAT	777.1	670.8	759.6	810.9	831.3
EPS (RM)	0.23	0.20	0.22	0.24	0.24
PER (x)	15.2x	17.6x	15.5x	14.5x	14.2x
DPS (RM)	0.18	0.14	0.17	0.18	0.18
Dividend yield (%)	5.1%	4.2%	4.8%	5.2%	5.3%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	1,727.2	1,775.8	1,699.5	1,682.8	1,660.0
Non-current assets	**4,407.6**	**4,443.4**	**4,414.1**	**4,428.4**	**4,437.1**
Receivables	296.3	210.1	323.8	337.4	347.8
Cash	656.0	552.1	864.4	1,193.7	1,231.6
Current assets	**1,007.7**	**838.3**	**1,188.2**	**1,531.1**	**1,579.4**
Long-term debt	975.0	850.0	975.0	1,100.0	925.0
Non-current liabilities	**1,529.9**	**1,387.7**	**1,023.2**	**1,172.2**	**961.4**
Short-term debt	175.0	125.0	125.0	125.0	175.0
Payables	146.6	195.3	167.2	172.7	179.2
Current liabilities	**758.6**	**619.6**	**591.5**	**597.0**	**653.4**
Share capital	1,038.0	1,038.0	1,038.0	1,038.0	1,038.0
Retained earnings	2,088.9	2,236.4	2,949.5	3,152.3	3,360.1
Equity	**3,126.9**	**3,274.4**	**3,987.5**	**4,190.3**	**4,398.1**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,039.5	943.9	973.9	1,039.6	1,065.7
Depreciation & amortisation	230.3	258.2	304.3	319.6	335.6
Changes in working capital	1.9	34.9	55.3	15.9	13.7
Operating cash flow	**1,100.6**	**898.9**	**1,119.2**	**1,146.5**	**1,180.5**
Capital expenditure	-369.6	-250.0	-320.7	-334.0	-344.2
Investing cash flow	**-471.3**	**-183.7**	**-320.7**	**-334.0**	**-344.2**
Debt raised/(repaid)	-150.0	-175.0	125.0	125.0	-175.0
Dividends paid	-510.5	-552.1	-569.7	-608.2	-623.5
Financing cash flow	**-753.2**	**-820.4**	**-444.7**	**-483.2**	**-798.5**
Net cash flow	**-123.9**	**-105.2**	**353.8**	**329.3**	**37.9**
Beginning cash flow	**739.2**	**615.3**	**510.6**	**864.4**	**1,193.7**
Ending cash flow	**615.3**	**510.6**	**864.4**	**1,193.7**	**1,231.6**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	54.5%	48.2%	46.9%	47.2%	46.9%
PBT margin	51.4%	45.6%	45.2%	46.4%	46.1%
PAT margin	40.0%	33.8%	35.3%	36.2%	36.0%
Core PAT margin	38.4%	32.4%	35.3%	36.2%	36.0%

Source: Westports, MIDFR

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology