Westports Holdings Berhad

(5246 | WPRTS MK) Main | Transportation & Logistics

Unveiling the Long-Awaited WP2 Expansion

***Maintain* BUY**

***Revised* Target Price: RM4.30**

(Previously RM4.00)

KEY INVESTMENT HIGHLIGHTS

- **Guaranteed concession until Aug-70, extendable to Aug-82**
- **Fixed PKA lease payment to increase by +40%**
- **Consider DRIPs, if required, if no valuable strategic investor emerges**
- **CT10 operations to start in 2HFY27**
- **Maintain BUY with a revised TP of RM4.30**

Westports Holdings Berhad (Westports) conducted a special briefing last Friday after the Third Supplemental Agreement for the Privatisation of Westports was signed. Here are the main highlights:

Concession period. The existing 30-year concession, signed until Aug-24, will be replaced by a new 46-year concession from Sep-24 to Aug-70. This includes the Phase 1 of Westports 2 (WP2) expansion, incorporating container terminals 10-13 (CT10-CT13). The concession may extend to Aug-82, contingent on acquiring and transferring the underwater third land by Aug-45, for the development of CT14-CT17.

Land transfer and demised area. The demised area for the existing WP1 (CT1-CT9) is 2,011 acres. In Phase 1 of the W2 expansion, Westports will be transferring two acquired land parcels to the Port Klang Authority (PKA) at no cost. The 381-acre PKNS land will be transferred by Sep-24, and the 362-acre Marina Land will be transferred by Aug-26 (Figure 2). The total land costs and associated expenses incurred were approximately RM610.0m. Upon land transfer, it will be reflected as concession assets on the balance sheet, entailing no financial impact on Westports as there is no loss on disposal.

Lease terms and payments. Effective 1 September 2024, the fixed lease for WP1 will rise to RM90.0m/annum from the current RM64.0m/annum. Future lease increases will align with the container tariff revision rate. Additionally, the fixed lease for WP2 will be RM1.0m/annum. Meanwhile, the container variable lease for local boxes will increase to RM3.00 from RM1.00/TEU, and the transshipment box lease will rise to RM2.00. The conventional variable lease remains unchanged at RM0.10 per tonne.

Financing for Phase 1. In addition to utilising internally generated funds, Westports is exploring a new RM5.0b Wakalah Shariah principle Sukuk Programme for WP2. If an equity injection is required, it will be pursued through either (i) securing a strategic investor (potentially a shipping line or a major customer), (ii) dividend reinvestment plans (DRIPs) and (iii) share placements. However, the decision is expected by the end of FY25F, at the earliest, aiming to rise between RM800.0m and RM1.2b by FY27F. Furthermore, Westports will retain the existing Sukuk Musharakah Medium-Term Note of RM850.0m until full redemption in FY28.

RETURN STATISTICS	
Price @ 8th December 2023 (RM)	3.57
Expected share price return (%)	+20.4
Expected dividend yield (%)	+4.7
Expected total return (%)	**+25.1**

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	2,153.4	2,262.8	2,652.2
EBIT	1,012.4	1,097.3	1,192.5
PBT	973.8	1,067.9	1,158.7
Core PATAMI	759.5	843.7	915.4
Core EPS (RM)	0.22	0.25	0.27
DPS (RM)	0.17	0.19	0.20
Dividend yield (%)	4.7%	5.2%	5.6%

KEY STATISTICS	
FBM KLCI	1,441.97
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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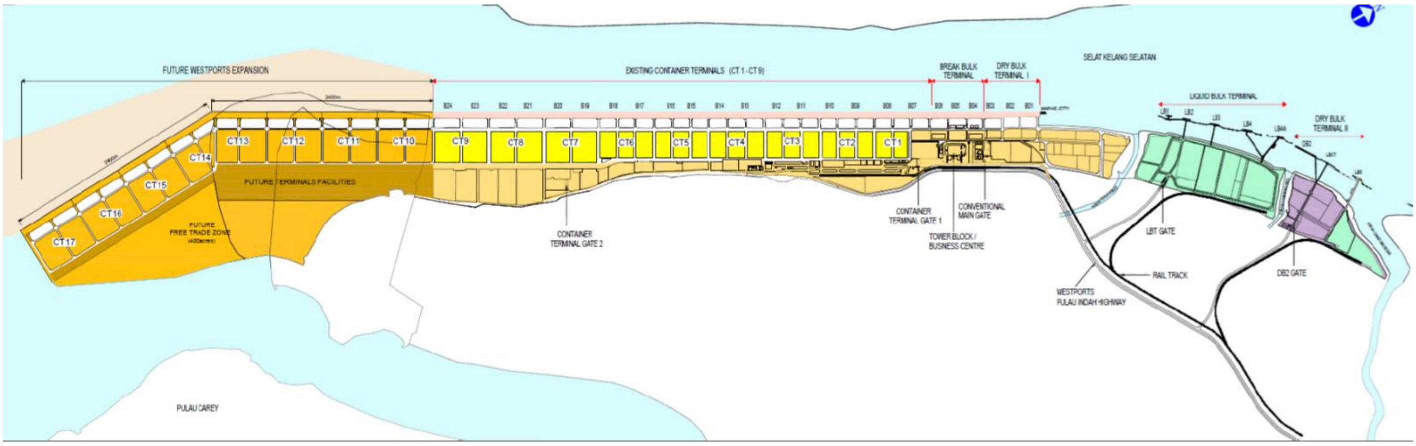
Initial development CAPEX. The initial development capital expenditure (CAPEX) for WP2 is estimated to be RM12.6b, with Phase 1 covering CT10-CT13 between CY24 to CY38 and Phase 2 for CT14-CT17 between CY36 and CY53. Phase 1 of the WP2 expansion is projected to cost RM6.30b, with an estimated RM4.80b allocated for terminal construction and the remaining amount dedicated to land acquisition and dredging. The initial stage will focus on constructing the first two terminals, CT10-CT11, with the aim to commence operations for CT10 by 2HFY27 and for CT11 by 2HFY29. Despite CT12-CT13 being introduced at a later stage, Westports intends to commence dredging up to CT13 at one go.

Maintain BUY. After considering the implications of the new concession, we adjust our FY24F/FY25F earnings by +4%/+10%. The revision accounts for several factors, including (i) increased lease payments to PKA, (ii) anticipated higher rental income post the expiry of the current concession, (iii) reduced depreciation and amortisation due to the extended concession period, (iv) initial financing costs and (v) an estimated effective tax rate of 18% to 21% for FY24F to FY28F with the WP2 expansion due to the investment tax allowance (ITA). Our FY23E earnings remain unchanged, as the adjustments will only take effect from Sep-24 onward. Consequently, our DCF-derived TP has been revised upward to **RM4.30** (from RM4.00) (WACC: 7.2%, g: 3%). Key downside risks to our earnings are: (i) the potential delay in the revision of container tariffs, (ii) weaker-than-expected container throughput, and (iii) the continued appreciation of the USD which could exert pressure on fuel costs.

Figure 1: Westports 2 Expansion



Source: Westports

Figure 2: Locations of PKNS and Marina Lands

Source: Westports

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	2,022.0	2,069.0	2,153.4	2,262.8	2,652.2
EBIT	1,101.3	996.2	1,012.4	1,097.3	1,192.5
PBT	1,039.5	943.9	973.8	1,067.9	1,158.7
PAT	808.2	699.6	759.5	843.7	915.4
Core PAT	777.1	670.8	759.5	843.7	915.4
EPS (RM)	0.23	0.20	0.22	0.25	0.27
PER (x)	15.7x	18.1x	16.0x	14.4x	13.3x
DPS (RM)	0.18	0.14	0.17	0.19	0.20
Dividend yield (%)	5.0%	4.0%	4.7%	5.2%	5.6%

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	1,727.2	1,775.8	1,699.5	1,723.0	1,729.3
Non-current assets	**4,407.6**	**4,443.4**	**4,413.5**	**5,185.5**	**5,429.7**
Receivables	296.3	210.1	322.2	338.0	395.6
Cash	656.0	552.1	890.7	723.6	690.6
Current assets	**1,007.7**	**838.3**	**1,212.9**	**1,061.6**	**1,086.1**
Long-term debt	975.0	850.0	975.0	1,150.0	1,275.0
Non-current liabilities	**1,529.9**	**1,387.7**	**1,047.9**	**1,462.2**	**1,479.8**
Short-term debt	175.0	125.0	125.0	125.0	125.0
Payables	146.6	195.3	166.6	162.2	184.4
Current liabilities	**758.6**	**619.6**	**590.9**	**586.5**	**608.7**
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	3,160.4	3,389.3
Equity	**3,126.9**	**3,274.4**	**3,987.5**	**4,198.4**	**4,427.3**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,039.5	943.9	973.8	1,067.9	1,158.7
Depreciation & amortisation	230.3	258.2	304.3	263.4	264.9
Changes in working capital	1.9	34.9	81.0	3.0	73.4
Operating cash flow	**1,100.6**	**898.9**	**1,144.8**	**1,110.1**	**1,253.7**
Capital expenditure	-369.6	-250.0	-320.0	-819.5	-725.2
Investing cash flow	**-471.3**	**-183.7**	**-320.0**	**-819.5**	**-725.2**
Debt raised/(repaid)	-150.0	-175.0	125.0	175.0	125.0
Dividends paid	-510.5	-552.1	-569.7	-632.8	-686.5
Financing cash flow	**-753.2**	**-820.4**	**-444.7**	**-457.8**	**-561.5**
Net cash flow	**-123.9**	**-105.2**	**380.1**	**-167.1**	**-33.0**
Beginning cash flow	**739.2**	**615.3**	**510.6**	**890.7**	**723.6**
Ending cash flow	**615.3**	**510.6**	**890.7**	**723.6**	**690.6**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBIT margin	54.5%	48.2%	47.0%	48.5%	45.0%
PBT margin	51.4%	45.6%	45.2%	47.2%	43.7%
PAT margin	40.0%	33.8%	35.3%	37.3%	34.5%
Core PAT margin	38.4%	32.4%	35.3%	37.3%	34.5%

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