



AmInvestment Bank

Sector report
11 Jan 2021

TRANSPORTATION & LOGISTICS

On recovery path, albeit at different paces

OVERWEIGHT

(Upgraded)

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Rationale for report: Sector update

Investment Highlights

- We upgrade the transportation & logistics sector to **OVERWEIGHT** from **NEUTRAL**. We believe the seaport segment will continue to be buoyed by the recovery in global trade, while the air travel industry finally sees the light at the end of the tunnel with vaccination programmes getting underway worldwide. This paves the way to herd immunity and hence the resumption of cross-border flights. Meanwhile, the logistics segment will continue to ride on e-commerce, during and beyond the pandemic.
- **Ports:** The segment has bounced back and shall do even better in 2021F, as evidenced in the record high Shanghai Containerized Freight Index (SCFI) (Exhibit 3), often used to gauge the health of global trade. We believe the pandemic as well as trade tensions between major economies in the world prior to the pandemic are reshaping the global supply chain, resulting in a diversion of investments from China to the Southeast Asian region, thus boosting container throughput in the region. The container throughput growth in the region is also supported by fast-growing sectors, such as communication equipment, semiconductors, textile and apparel, as we are home to many suppliers for the industries in this region.
- We project container throughput at both **Westports (BUY, fair value RM4.83)** and the ports of **MMC Corporation (BUY, FV RM1.56)** to grow by 3% in 2021F (after contracting by an estimated 1–2% in 2020) and shall return to the pre-pandemic growth levels of 3–5% in 2022F.
- **Air travel:** According to the IATA, the passenger volume will not return to 2019 levels until 2024, with domestic markets recovering faster than international services. On a brighter note, it is assuming that borders will start reopening by mid-2021, with testing and the growing availability of vaccines.
- Meanwhile, Mavcom is projecting Malaysia's air passenger traffic to rebound by 94.2%–100.3% YoY in FY21F, which is largely in line with our forecasts of 100% traffic rebound for both **AirAsia (SELL, FV RM0.66)** and **Malaysia Airports (BUY, FV RM6.64)** in FY21F. This shall translate to ~50% of passenger traffic as compared to the pre-Covid-19 level.
- To ride on the recovery in the air travel segment, we prefer airport operator **Malaysia Airports** to airline **AirAsia** as it is a foregone conclusion that the latter will have to raise a significant amount of fresh capital to patch up the damaged balance sheet, which will be highly dilutive to existing shareholders.
- **Logistics:** The parcel delivery segment will continue to be the winner even post-pandemic as we believe consumers have permanently shifted their shopping habits from physical stores to online channels, lifting the growth path for parcels volume to another new level. Meanwhile, we view the MCMC's recent initiatives to address the sector's overcrowded issues as a positive sign, as it finally shows the authorities' will to intervene in the unhealthy competition within the sector. The National Postal and Courier Industry Lab (NPCIL) is set to strengthen the industry and this will benefit all existing players, especially those that already have strong footprint in the country, like **Pos Malaysia (BUY, FV 1.33)** and **GDEX (non-rated)**.
- We also believe that logistics players will continue to focus on improving their service level and operational efficiencies to improve margins and gain market shares, which are critical for the players to continue to strengthen their market position and stay relevant within the industry, and eventually benefit from the e-commerce boom.
- Our top pick within the sector is **MMC Corporation (BUY, FV RM1.56)** and **Westports (BUY, FV RM4.83)**, as we anticipate the recovery in container throughput over the next 6–12 months.
- We may downgrade the sector to NEUTRAL/UNDERWEIGHT if: (1) the container throughput volume came in weaker than expected; (2) the air travel demand recovery is slower than expected; and (3) the parcels volume came in lower than expected.

EXHIBIT 1: VALUATION MATRIX

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B*	ROE*	NDPS*	Div Yield*
							FY20F	FY21F	FY20F	FY21F	FY20F	FY21F				
AirAsia	SELL	0.78	0.66	-15.4	2,606.8	Dec	-93.0	-27.3	922.0	-70.6	-0.8	-2.9	0.6	-20.5	0.0	0.0
Malaysia Airport	BUY	5.38	6.64	23.4	8,926.5	Dec	-42.5	-28.7	-247.1	-32.5	-12.7	-18.7	1.1	-5.8	0.0	0.0
Pos Malaysia	BUY	1.07	1.33	24.3	837.6	Dec	-0.1	0.0	-83.3	-100.0	-1070.0	0	1.5	0.0	0.0	0.0
Westports	BUY	4.42	4.83	9.3	15,072.2	Dec	20.1	21.0	-0.5	4.5	22.0	21.0	5.9	48.1	15.1	3.4
MMC Corporation	BUY	0.84	1.56	85.7	2,557.9	Dec	8.6	9.1	6.2	5.8	9.8	9.2	0.3	4.4	5.0	6.0
Simple Average									119.5	-38.6	-210.3	2.2	1.9			
Weighted Average									4.6	-15.8	-21.8	5.5	3.4			

*FY21

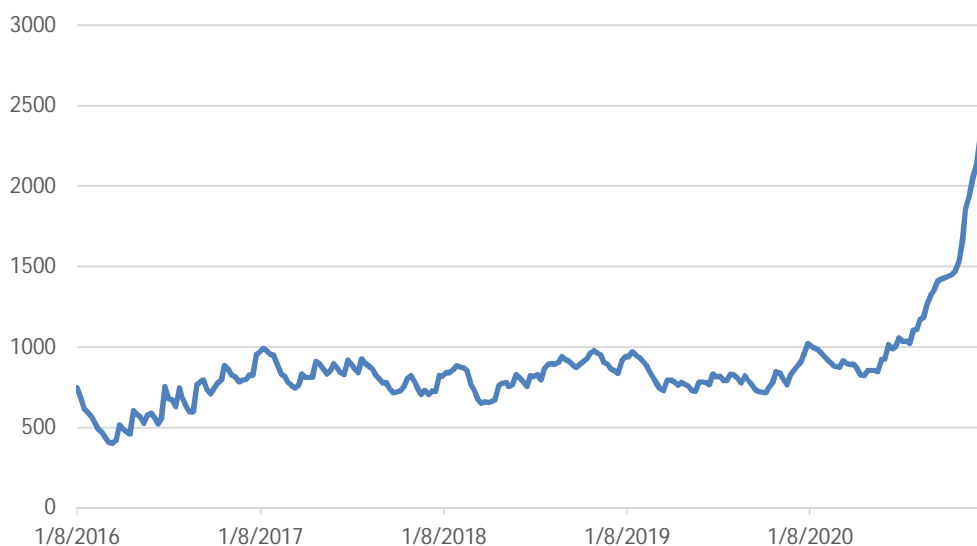
Source: company, AmInvestment Bank

EXHIBIT 2: MMC'S SOP VALUATION

FYE Dec	Value (RM mil)	Basis
Ports & Logistics		
Ports	5,836.5	16x FY21F earnings, a 30% discount to 23x of peers historical average
Senai Airport	160.0	Book value
Engineering & Construction	355.5	Net profit from outstanding orderbook, discounted to NPV at a 10% discount rate
Energy & Utilities		
Malakoff (38.5%)	1,862.7	AmBank's FV @ RM1.10 with 10% discount
Gas Malaysia (30.9%)	1,092.7	Consensus FV @ RM3.06 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
Net Cash/(Debt)	(5,047.3)	As at 31 Dec 2019 (at company level)
Total Value (RM mil)	4,747.1	
No of shares	3,045.1	
FV per share	1.56	

Source: company, AmInvestment Bank

EXHIBIT 3: SHANGHAI CONTAINERIZED FREIGHT INDEX (SCFI)



Source: Bloomberg

EXHIBIT 4: WORLD OUTPUT GROWTH, % (YOY)

Country groups	1991–2001–2009–															
	2000 ^a	2008 ^a	2018 ^a	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 ^b	2020 ^b	2021 ^b
World	3.0	3.6	2.9	-1.3	4.5	3.3	2.8	2.7	3.0	3.0	2.7	3.3	3.1	2.5	-4.3	4.1
Developed countries	2.7	2.3	1.6	-3.4	2.6	1.6	1.2	1.3	2.0	2.4	1.7	2.5	2.3	1.8	-5.8	3.1
<i>of which:</i>																
Japan	1.2	1.2	1.0	-5.4	4.2	-0.1	1.5	2.0	0.4	1.2	0.5	2.2	0.3	0.6	-4.5	1.9
United Kingdom	2.9	2.6	1.7	-4.3	2.0	1.5	1.5	2.1	2.6	2.4	1.9	1.9	1.3	1.4	-9.9	4.4
United States	3.6	2.6	2.0	-2.5	2.6	1.6	2.3	1.8	2.5	2.9	1.6	2.4	2.9	2.3	-5.4	2.8
European Union (EU 27)																
<i>of which:</i>																
Euro area	2.1	1.9	1.0	-4.5	2.2	1.7	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-6.9	3.4
France	2.0	1.8	1.0	-2.9	1.9	2.2	0.3	0.6	1.0	1.1	1.1	2.3	1.7	1.3	-8.1	3.4
Germany	1.6	1.3	1.6	-5.7	4.2	3.9	0.4	0.4	2.2	1.7	2.2	2.5	1.5	0.6	-4.9	2.9
Italy	1.6	0.9	-0.3	-5.3	1.7	0.7	-3.0	-1.8	0.0	0.8	1.3	1.7	0.8	0.3	-8.6	3.2
EU member States after 2004	1.9	5.0	2.4	-3.5	1.5	3.2	0.8	1.2	3.0	4.0	3.1	4.8	4.4	3.7	-5.3	3.9
South-East Europe and CIS	-4.8	7.2	1.8	-6.2	4.6	4.8	3.5	2.5	1.1	-1.5	0.9	2.2	2.8	2.2	-4.3	3.5
South-East Europe ^c	-0.6	5.5	1.6	-1.9	1.6	2.0	-0.5	2.5	0.3	2.5	3.2	2.5	4.0	3.5	-3.2	3.6
CIS incl. Georgia <i>of which:</i>	-4.9	7.3	1.8	-6.4	4.8	4.9	3.7	2.5	1.2	-1.7	0.8	2.2	2.8	2.2	-4.3	3.5
Russian Federation	-4.7	6.8	1.2	-7.8	4.5	4.3	3.7	1.8	0.7	-2.3	0.3	1.6	2.3	1.3	-4.2	3.4
Developing countries	5.1	6.6	5.1	3.1	7.9	6.2	5.4	5.0	4.7	4.3	4.3	4.6	4.3	3.5	-2.1	5.7
Africa	2.5	5.8	3.0	3.9	5.4	-0.7	7.6	1.1	3.1	2.6	1.7	3.5	3.1	3.1	-3.0	3.5
North Africa (incl. South Sudan)	3.1	5.4	0.9	3.8	4.0	-10.1	12.0	-6.1	-0.7	1.7	2.8	5.1	3.3	4.1	-3.4	3.6
Sub-Saharan Africa (excl. South Africa and South Sudan)	2.1	6.6	4.8	5.7	7.2	5.7	6.0	6.0	5.9	3.4	1.4	3.0	3.6	3.3	-2.1	3.6
South Africa	2.1	4.4	1.8	-1.5	3.0	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.2	-6.0	3.0
Latin America and the Caribbean	3.2	3.9	1.7	-2.2	6.0	4.6	2.8	2.8	1.0	0.1	-1.2	1.0	0.6	-0.3	-7.6	3.0
Caribbean	2.1	5.0	2.5	-0.9	3.0	2.3	2.2	2.7	2.6	4.1	1.9	2.2	3.5	1.9	-6.4	2.3
Central America (excl. Mexico)	4.4	4.6	4.0	-0.5	4.0	5.7	5.1	3.9	4.0	4.2	3.8	3.9	2.7	2.6	-5.2	2.6
Mexico	3.2	2.2	2.6	-5.3	5.1	3.7	3.6	1.4	2.8	3.3	2.9	2.1	2.1	-0.1	-10.0	3.0
South America <i>of which:</i>																
Argentina	4.0	5.0	1.2	-5.9	10.1	6.0	-1.0	2.4	-2.5	2.7	-2.1	2.7	-2.5	-2.2	-10.4	4.7
Brazil	2.8	3.7	1.1	-0.1	7.5	4.0	1.9	3.0	0.5	-3.5	-3.3	1.3	1.3	1.1	-5.7	3.1
Asia	6.6	7.8	6.2	4.8	8.9	7.6	5.9	6.1	5.9	5.6	5.9	5.6	5.3	4.4	-0.9	6.3
East Asia <i>of which:</i>																
China	10.6	10.9	7.8	9.4	10.4	9.6	7.9	7.8	7.3	6.9	6.7	6.8	6.6	6.1	1.3	8.1
Republic of Korea	6.6	4.9	3.2	0.8	6.8	3.7	2.4	3.2	3.2	2.8	3.0	3.2	2.7	2.0	0.1	4.3
South Asia <i>of which:</i>																
India	5.9	7.6	7.0	5.0	11.0	6.2	4.8	6.1	7.0	7.5	9.0	6.6	6.8	4.2	-5.9	3.9
South-East Asia <i>of which:</i>																
Indonesia	4.2	5.2	5.4	4.6	6.2	6.2	6.0	5.6	5.0	4.9	5.0	5.1	5.2	5.0	0.1	4.5
West Asia <i>of which:</i>																
Saudi Arabia	1.7	4.5	3.7	-2.1	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	-4.8	3.2
Turkey	3.9	5.9	6.0	-4.7	8.5	11.1	4.8	8.5	5.2	6.1	3.2	7.5	2.8	0.9	-4.6	4.0
Oceania	2.9	2.9	3.2	2.5	6.1	1.6	2.6	2.8	6.9	4.5	0.8	0.8	1.2	2.6	-3.4	2.9

Source: UNCTAD, Trade and Development Report 2020

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