AmInvestment Bank

Sector report

19 Apr 2021

TRANSPORTATION & LOGISTICS

Port congestion could be a boon or a bane

OVERWEIGHT

(Maintained)

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Rationale for report: Sector update

Investment Highlights

- We maintain our **OVERWEIGHT** recommendation for the transportation & logistics sector. We believe the seaport segment is poised to grow further in 2021 as global trade recovery gains further momentum, backed by the reopening of economies, businesses and borders, as well as the rollout of huge stimulus packages which will continue to support consumption and investment. Meanwhile, over the immediate term, seaport operators will face challenges or benefit from port congestion worldwide.
- The Shanghai Containerised Freight Index (SCFI) has resumed its uptrend in recent weeks, after coming off throughout March from its recent peaks registered in January and February (Exhibit 3). A good barometer to the container demand and the state of the containerised trade globally, we believe the index is reacting to:

  1. The sustained container shortages (or empty boxes not being where they are needed) due to the lopsided east-west seaborne trade with more Asian goods flowing to American consumers (compared with vice versa), as the US economy reopens (backed by a successful rollout of vaccines) coupled with the impact from the latest US stimulus package (particularly, the US$1,400 relief cheques to US households); and
  2. The aftermath of the recent Suez Canal blockage. Supply chain visibility platform *Project44* reported that there have been backlogs at the Port of Singapore (PSA) equivalent to 6x the average container volume handled by it and at Port Klang equivalent to 3x the average container volume handled by **Westports (BUY, fair value RM5.07)**.

- **Slight negative impact on Westports** – We cut our FY21F net profit forecast by 2% as we now assume its throughput to grow at 2% (vs. 3% previous). However, we maintain our fair value (FV) which is based on 23x unchanged FY22F EPS. Maintain **BUY**.

  Being a transhipment port operator, Westport is not spared the loss of operational efficiency from the congestion. However, we believe it is more prepared this time around thanks to the experience gained during the similar situation at the height of the pandemic last year. During the time, **Westports** created additional yard space and imposed stricter storage charges to help ease the situation at the port. Priority berthing was given to ships with more containers to be loaded than discharged to reduce the number of containers in the storage yard. Meanwhile, The Port Klang Authority also withdraw the additional free storage period and the exemption of Special Services Request (SSR) charges on empty export containers, as well as expedited the custom and quarantine and inspection clearance by increasing manpower and set up special lanes to facilitate the release of reefer containers process.

- **Positive for MMC Corp (BUY, FV RM1.68)** - We raise our FY21F net profit forecast by 7% as we now assume its throughput to grow at 6% (vs. 3% previously) and adjust up our FV by 11% to RM1.68 based on sum-of-parts as we roll forward our valuation base year for its port operations to FY22F (from FY21F) based on an unchanged 16x PE (Exhibit 2). Maintain **BUY**.

  The transhipment seaports under **MMC Corp's** stable, i.e. Port of Tanjung Pelepas (PTP) and Northport, that are largely secondary in the geographical area they serve and hence less congested, stand to gain from the diversion of port calls by shipping lines from busier primary ports amidst prolonged congestion, resulting in increase volumes and market share gains.

  Recall, during the pandemic-induced congestion in 2020, PTP registered a record container volume of 9.85mil TEUs (+8% yoy) while Northport recorded its highest ever monthly volume in December 2020 (when **Westports** and the PSA could hardly cope with the traffic).

- On a separate note, we believe **Westports** and PTP are poised to gain market share from the PSA following PSA's plans to raise its port charges in two phases from 1 Jan 2022 which will widen further the gaps in port charges between ports in Malaysia and Singapore. Recall, for instance, **Westports'** market share in the Strait of Malacca shot up to 23% in 2015 from 20-21% over the last five years prior to that, a year after PSA raised its port charges in 2014. While we maintain our assumptions for FY23F, we believe there could be upside to both **Westports** and PTP due to this latest development.

- Looking beyond FY21F, we believe the port sector in the region (Malaysia included) will remain to be well positioned to benefit from the shifting sourcing patterns accelerated by the pandemic, arising from the relocations of the manufacturing base by multi-national companies out of China to the region. According to Japan Maritime Centre (JMC), the share of US container imports originating in Asean broke through 20% for the first time in 2020 as volumes grown by 16.1% to 4m TEUs, while China's share declined for the second successive year. We advocate investors to stay invested in the seaport segment via **Westports (BUY, FV RM5.07)** and **MMC Corp (BUY, FV RM1.68)**.

EXHIBIT 1: VALUATION MATRIX

	Recomm.	Price	FV	Upside	Mkt Cap	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B*	ROE*	NDPS*	Div Yield
		(RM)	(RM)	(%)	(RMmil)		FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	(x)	(%)	(sen)	(%)
AirAsia	SELL	0.95	0.63	-33.7	3,621.6	Dec	-59.2	6.1	-43.0	-110.3	-1.6	15.6	-2.6	-16.5	0.0	0.0
Malaysia Airport	BUY	6.43	6.65	3.4	10,668.6	Dec	-19.2	30.2	-40.0	-257.3	-33.5	21.3	1.3	6.2	0.0	0.0
Pos Malaysia	BUY	0.87	1.04	20.2	677.1	Dec	-7.9	6.7	-62.2	-184.8	-10.9	12.9	0.6	4.6	0.0	0.0
Westports	BUY	4.15	5.07	22.2	14,151.5	Dec	19.8	21.4	2.9	8.3	21.0	19.4	5.0	43.6	14.8	3.6
MMC Corporation	BUY	1.05	1.68	60.0	3,197.4	Dec	13.9	15.6	-7.9	12.2	7.6	6.7	0.3	7.2	7.6	7.3
Simple Average									**-30.1**	**-106.4**	**-3.5**	**15.2**	**0.9**			
Weighted Average									**-18.8**	**-96.3**	**-1.5**	**18.2**	**2.4**			

**FY21*

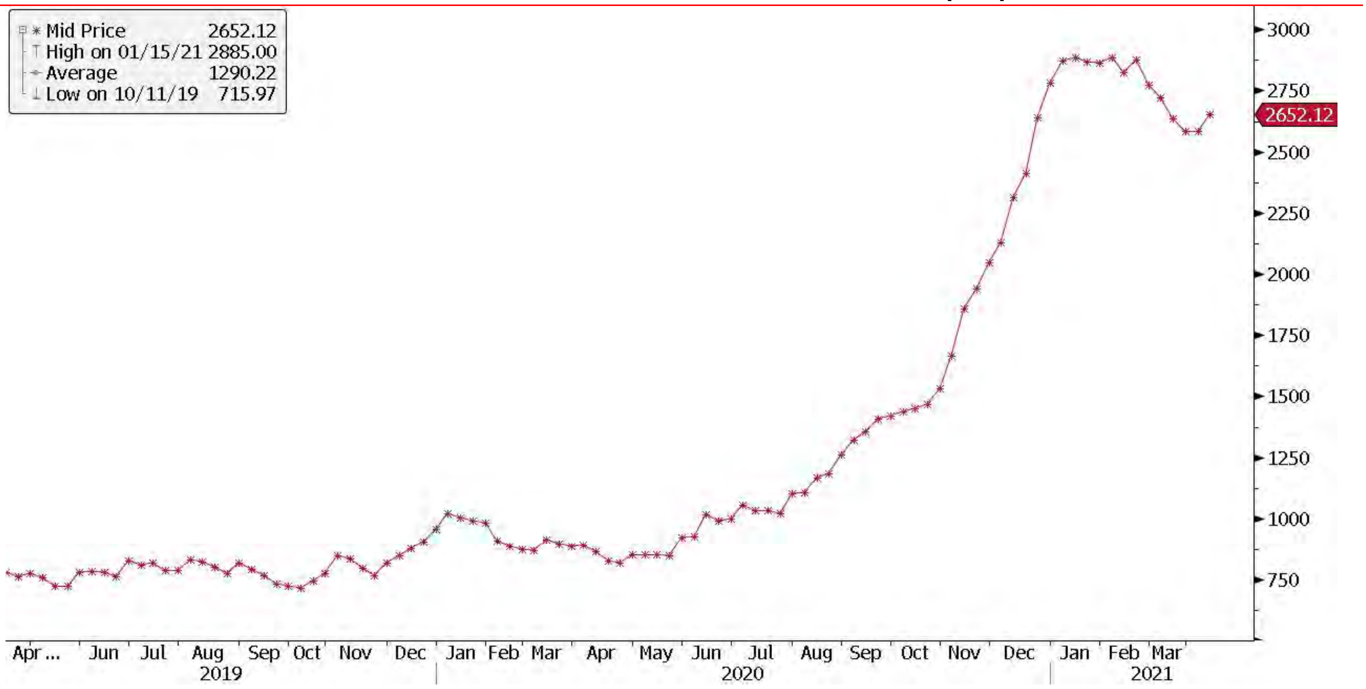
Source: company, AmInvestment Bank

EXHIBIT 2: MMC'S SOP VALUATION

FYE Dec	Value (RM mil)	Basis
Ports & Logistics		
Ports	6,605.0	16x FY22F earnings, a 30% discount to 23x of peers historical average
Senai Airport	160.0	Book value
Engineering & Construction	256.8	Net profit from outstanding orderbook, discounted to NPV at a 10% discount rate
Energy & Utilities		
Malakoff (38.5%)	1,608.7	AmBank's FV @ RM0.95 with 10% discount
Gas Malaysia (30.9%)	1,110.5	Consensus FV @ RM3.11 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
Net Cash/(Debt)	(4,957.0)	As at 31 Dec 2020 (at company level)
Total Value (RM mil)	**5,270.9**	
No of shares	**3,045.1**	
FV per share	**1.73**	
ESG-adjusted FV	**1.68**	Adjusted for a 3% discount to reflect a 2-star ESG rating

Source: company, AmInvestment Bank

EXHIIBIT 3: SHANGHAI CONTAINERIZED FREIGHT INDEX (SCFI)



Source: Bloomberg

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