

WESTPORTS HOLDINGS

(WPRTS MK EQUITY, WPHB.KL)

27 July 2020



Company report

AmInvestment Bank

www.aequities.com.my

03-2036 2240

Resilient in the face of a pandemic

BUY

(Upgraded)

Rationale for report: Company results/update

Price	RM3.65
Fair Value	RM4.45
52-week High/Low	RM4.54/RM2.97

Key Changes

Fair value	↑
EPS	↑

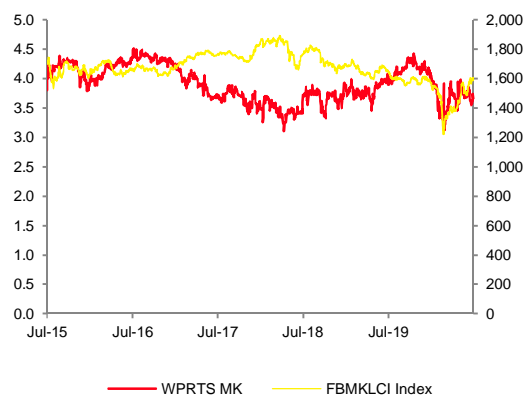
YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,782.9	1,899.4	1,914.7	2,078.3
Core net profit (RM mil)	644.7	619.8	660.3	670.1
FD Core EPS (sen)	18.9	18.2	19.4	19.7
FD Core EPS growth (%)	19.1	(3.9)	6.5	1.5
Consensus Net Profit (RM mil)	-	568.3	635.6	679.7
DPS (sen)	13.1	13.6	14.5	14.7
PE (x)	19.3	20.1	18.8	18.6
EV/EBITDA (x)	12.8	10.9	9.5	8.4
Div yield (%)	3.6	3.7	4.0	4.0
ROE (%)	23.8	17.5	12.9	10.7
Net Gearing (%)	27.5	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	3,410.0
Market Cap (RM mil)	12,446.5
Book Value (RM/share)	0.75
P/BV (x)	4.9
ROE (%)	23.8
Net Gearing (%)	27.5

Major Shareholders	Pembinaan Redzai (42.4%) South Port Investment Holdings (23.6%) EPF (5.8%)
Free Float	28.2
Avg Daily Value (RM mil)	5.2

Price performance	3mth	6mth	12mth
Absolute (%)	(3.4)	(10.1)	(6.2)
Relative (%)	(16.8)	(11.0)	(2.7)



Investment Highlights

- We raise our FY20–22F net profit forecasts by 10%, 7%, and 2% respectively, and upgrade our FV by 17% to RM4.45 (from RM3.81 previously) as we now value Westports at 23x its revised FY21F EPS, in line with its average historical forward P/E (vs. 2x multiple discount at 21x previously). We believe the worst may be over for seaport operators as economies, businesses and borders reopen, translating to a recovery in global trade, and hence improvement in seaports' throughput. Upgrade Westports to BUY from HOLD.
- Westports' 1HFY20 core net profit of RM310.2mil (excluding RM23mil one-off items such as written-off PPE and impairment on trade receivables) beat expectations, coming in at 55% of both our full-year forecast and the full-year consensus estimates. We believe the variance against our forecast came largely from a lower-than-expected contraction in its container throughput volume in 2Q, i.e. at only 17% YoY vs. our expectations of more than 20%.
- We now therefore assume in our forecasts a smaller contraction in its FY20F container throughput of 9% (vs. 15% previously), but a smaller growth in FY21F of 7% (vs. 10% previously) due to the high base effect. The upgrade in our assumption is also to reflect Westports' guidance for only a "high single-digit YoY contraction" in its container throughput volume in 2HFY20, underpinned by the robust glove manufacturing and recycled paper processing activities locally, coupled with the recovery in global trade.
- For 1HFY20, Westports container throughput volume declined by 9% YoY. A 14% YoY contraction in transshipment throughput (as the pandemic hit the global trade), was cushioned by a 2% YoY increase in gateway throughput (driven largely by the thriving glove manufacturing and recycled paper processing activities locally). Typically, transshipment contributes to two-thirds of Westports' total throughput with the balance one-third coming from gateway cargoes.

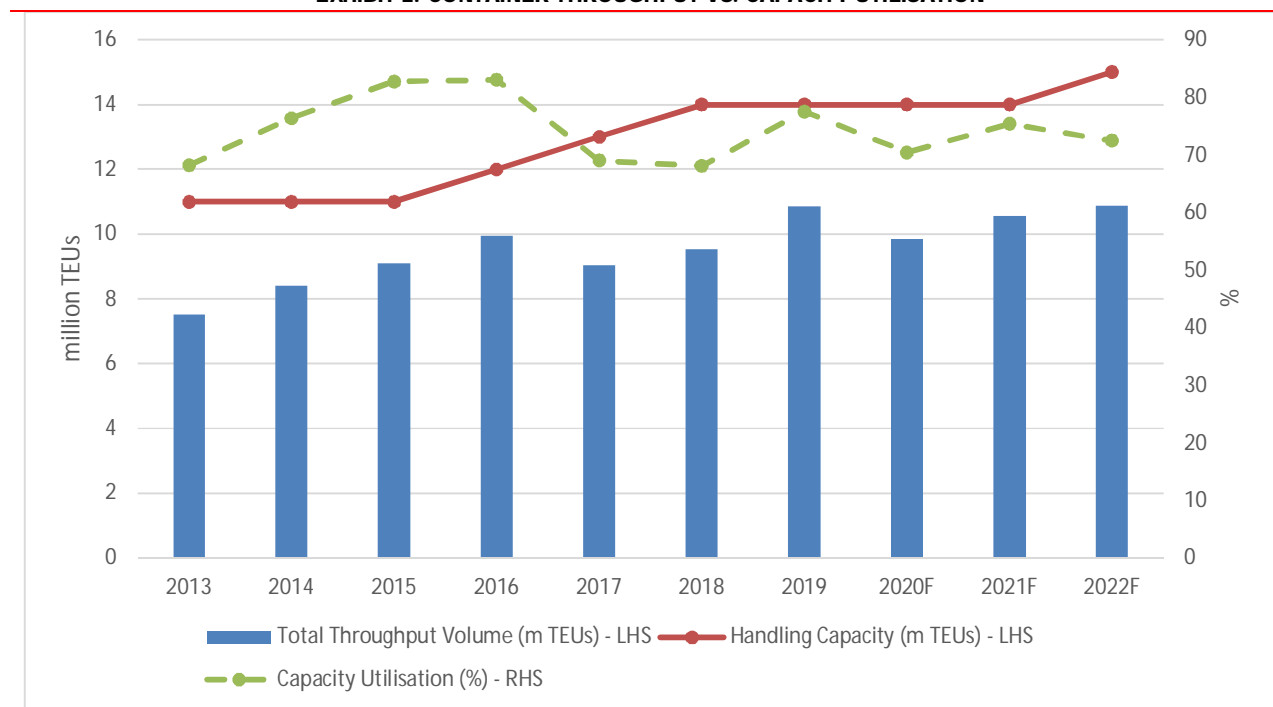
- Despite the contraction in container throughput volume, its 1HFY20 core net profit inched up 1.3% YoY driven largely by: (1) a 6-month impact of an effective 13% hike in container tariff (from 1 Mar 2019), vs. only a 4-month impact in 1HFY19; (2) a slight change in product mix with an increase in high-margin gateway cargoes (at the expense low-margin transshipment cargoes); and (3) higher incomes from value-added services, particularly, reefer services.
- On the Westports 2.0 expansion plan – comprising eight new terminals, CT10 to CT17, which will double its container handling capacity from 14mil TEUs to 28mil TEUs – Westports has obtained shareholders' approval to acquire the second piece of land (marina land), measuring 362 acres for RM394mil cash (or RM25 psf). It is now working on the land use conversion and the green light from the Ministry of Economic Affairs for its expansion plans. Meanwhile, its negotiation with the government on the concession terms is still ongoing and Westports reiterates that it hopes to close the negotiation by the end of this year.
- Looking beyond the pandemic, the outlook for the port sector in the region (Malaysia included) is resilient, underpinned by global trade and investments in the manufacturing sector that generate tremendous inbound (feedstock) and outbound (finished product) throughput for ports. There have been significant relocations of the manufacturing base by multi-national companies out of China to the region due to the rising labour and land costs, exacerbated by the US-China trade war. Westports has charted a long-term expansion plan to capitalise on these.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RM mil)	FY20 1Q	FY20 2Q	QoQ Chg	FY19 6M	FY20 6M	YoY Chg
Turnover	473.5	431.6	(8.8%)	869.6	905.1	4.1%
Container	396.0	355.0	(10.4%)	748.0	751.0	0.4%
Conventional	31.0	22.0	(29.0%)	60.0	53.0	(11.7%)
Marine	20.0	18.0	(10.0%)	41.0	38.0	(7.3%)
Rental	10.0	10.0	0.0%	20.0	20.0	0.0%
Construction	17.0	26.0	52.9%	0.0	43.0	nm
EBIT	217.1	190.4	(12.3%)	443.8	407.5	(8.2%)
Net inc/(exp)	(15.2)	(15.6)	2.7%	(39.3)	(30.9)	(21.5%)
EI	16.3	6.7	(58.6%)	0.0	23.0	-
Pre-tax profit	201.9	174.7	(13.5%)	404.5	376.6	(6.9%)
Taxation	(49.1)	(40.4)	(17.7%)	(98.3)	(89.5)	(9.0%)
Net profit	152.8	134.3	(12.1%)	306.2	287.1	(6.2%)
EPS (sen)	4.5	3.9	(12.1%)	9.0	8.4	(6.2%)
Net profit (ex-EI)	169.1	141.1	(16.6%)	306.2	310.2	1.3%
EBIT margin	46%	44%	-2 ppt	51%	45%	-6 ppt
Pre-tax margin	43%	40%	-2 ppt	47%	42%	-5 ppt
Effective tax rate	24%	23%	-1 ppt	24%	24%	-1 ppt

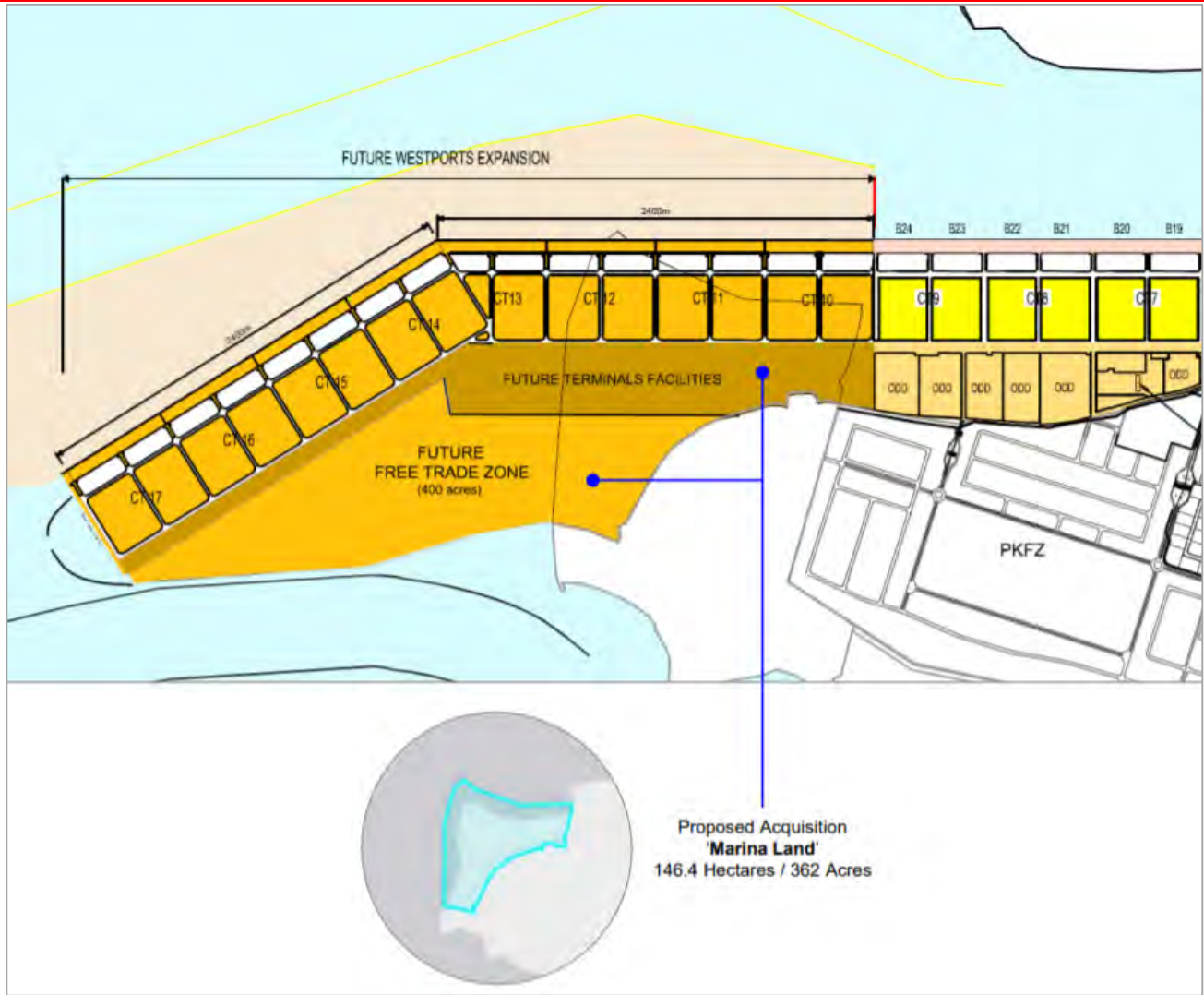
Source: company, AmInvestment Bank Berhad.

EXHIBIT 2: CONTAINER THROUGHPUT VS. CAPACITY UTILISATION



Source: company, AmInvestment Bank Berhad.

EXHIBIT 3: WESTPORTS 2.0 EXPANSION PLAN



Source: Company

EXHIBIT 4: PB BAND CHART

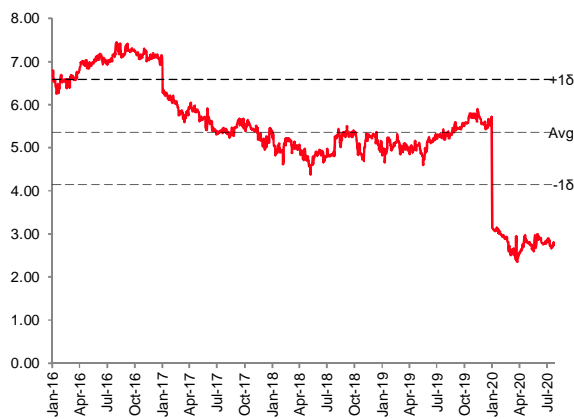


EXHIBIT 5: PE BAND CHART

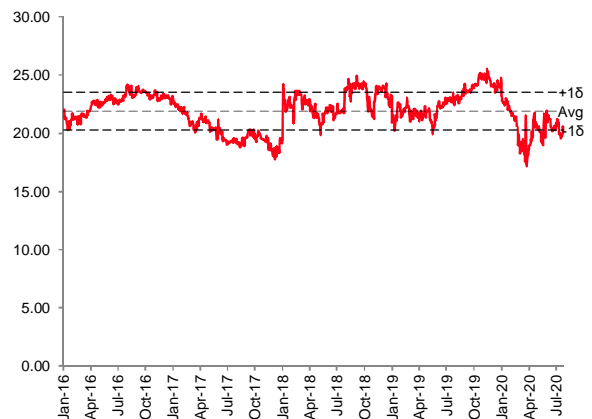


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,614.7	1,782.9	1,899.4	1,914.7	2,078.3
EBITDA	995.2	1,027.9	1,124.8	1,183.1	1,181.2
Depreciation/Amortisation	(212.9)	(179.1)	(230.9)	(247.1)	(264.1)
Operating income (EBIT)	782.3	848.8	893.9	936.0	917.1
Other income & associates	-	-	-	-	-
Net interest	(81.1)	(75.0)	(78.3)	(67.1)	(35.4)
Exceptional items	-	-	-	-	-
Pretax profit	701.2	773.8	815.5	868.9	881.7
Taxation	(167.7)	(182.9)	(195.7)	(208.5)	(211.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	533.5	590.9	619.8	660.3	670.1
Core net profit	541.4	644.7	619.8	660.3	670.1
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	4,206.0	4,013.9	4,614.7	4,829.8	5,050.6
Intangible assets	-	-	-	-	-
Other long-term assets	-	59.2	-	-	-
Total non-current assets	4,206.0	4,073.1	4,614.7	4,829.8	5,050.6
Cash & equivalent	444.1	695.7	1,633.4	3,411.1	5,316.5
Stock	-	-	-	-	-
Trade debtors	431.2	357.9	381.6	384.7	417.5
Other current assets	6.1	5.5	4.0	4.8	5.4
Total current assets	881.4	1,059.1	2,018.9	3,800.6	5,739.5
Trade creditors	177.2	116.8	213.3	234.1	258.0
Short-term borrowings	100.0	100.0	97.1	145.2	188.3
Other current liabilities	350.1	431.9	292.6	294.5	315.1
Total current liabilities	627.3	648.7	603.0	673.8	761.4
Long-term borrowings	1,400.0	1,300.0	1,359.8	2,032.2	2,636.4
Other long-term liabilities	645.1	623.2	137.0	235.0	530.2
Total long-term liabilities	2,045.1	1,923.2	1,496.8	2,267.2	3,166.6
Shareholders' funds	2,415.1	2,560.3	4,533.8	5,689.4	6,862.1
Minority interests	-	-	-	-	-
BV/share (RM)	0.71	0.75	1.33	1.67	2.01
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	701.2	773.8	815.5	868.9	881.7
Depreciation/Amortisation	212.9	179.1	230.9	247.1	264.1
Net change in working capital	(239.3)	67.7	17.1	26.7	77.9
Others	(87.3)	(121.9)	(87.3)	(59.8)	(7.7)
Cash flow from operations	587.6	898.7	976.2	1,082.9	1,216.0
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(69.1)	(43.2)	263.4	299.6	363.6
Others	(130.1)	(24.0)	222.6	230.6	241.4
Cash flow from investing	(197.7)	(67.2)	486.0	530.2	604.9
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(455.2)	(445.7)	(464.9)	(495.3)	(502.6)
Others	(52.3)	(199.6)	(59.7)	659.9	587.0
Cash flow from financing	(507.5)	(645.3)	(524.5)	164.7	84.5
Net cash flow	(117.6)	186.2	937.7	1,777.8	1,905.4
Net cash/(debt) b/f	524.2	406.6	695.7	1,633.4	3,411.1
Net cash/(debt) c/f	406.6	592.8	1,633.4	3,411.1	5,316.5
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	(22.7)	10.4	6.5	0.8	8.5
EBITDA growth (%)	7.0	3.3	9.4	5.2	(0.2)
Pretax margin (%)	43.4	43.4	42.9	45.4	42.4
Net profit margin (%)	33.0	33.1	32.6	34.5	32.2
Interest cover (x)	9.6	11.3	11.4	14.0	25.9
Effective tax rate (%)	23.9	23.6	24.0	24.0	24.0
Dividend payout (%)	85.3	75.4	75.0	75.0	75.0
Debtors turnover (days)	89	81	71	73	70
Stock turnover (days)	-	-	-	-	-
Creditors turnover (days)	163	71	78	112	100

Source: Company, AmInvestment Bank Bhd estimates

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