

23 January 2014 | Corporate update

Westports Holdings Berhad

A question of port fee, as P3 risks may be overblown

Maintain NEUTRAL

**Revised Target Price (TP): RM2.65
(from RM2.56)**

INVESTMENT HIGHLIGHTS

- Westport plans to submit an application for container tariff hike to PKA.
- High terminal utilization at PTP should restrain the re-routing of transshipment volume from Westport.
- Maintain NEUTRAL with revised TP of RM2.65, derived from DDM valuation with required return of 7.4% and dividend growth rate of 4.0%.

MIDF organised a luncheon talk on the topic of the transshipment business recently, featuring CEO of Westports Bhd, Mr Ruben Emir Gnanalingam as the keynote speaker. Below are the key takeaways :

Considering a proposal for a tariff hike. Westport is considering applying to Port Klang Authority (PKA) for a container tariff hike. Tariff rates have been unchanged since 2002-03 despite the significant fuel cost hike in 2005-06. Port Klang currently charges the 20ft transshipment container at RM140/move, which is lower by 29% and 51% respectively as compared to PTP and Port of Singapore. We estimate that a 5% hike in tariff rate will enhance the Westport's FY14 bottomline by 8-10%.

Port congestion to be eased by CT7 completion. The Government of Malaysia and PKA have given the nod to extend Westport's concession by another 30 years to 2054, which is subject to the fulfilment of two conditions. The first condition is the completion of CT6, which is academic, as construction work has been completed 10 months ahead of schedule. The second condition is for Westport to undertake reclamation work for CT7-CT. Westport's terminal utilisation currently stands at 76% (figure 1) and is expected to increase to 83% in FY14 based on the current container growth trend. Westport is committed to keep the terminal utilisation within the range of 70-80% to optimise the efficiency level of the port's container handling.

Lesser impact from P3 alliance. The P3 alliance is expected to receive regulatory clearance in mid-2014. As Westports' single largest client, CMA-CGM constituted circa 15% of its revenue in FY12. The collaboration of the three largest global container carriers has raised the concern that certain transshipment volume will be diverted to PTP, as Maersk owns 30% stake in the port. Maersk may make that call as it has the highest weightage in the P3 alliance. However, Westports' management is unperturbed given the currently already high terminal utilisation at PTP (above 90%). Hence, the risks of port congestion at PTP should limit the volume of transshipment boxes that may be rerouted from Westports, if any.

RETURN STATS	
Price (22 Jan 2014)	RM2.51
Target Price	RM2.65
Expected Share Price Return	+5.6%
Expected Dividend Yield	+3.6%
Expected Total Return	+9.2%

STOCK INFO	
KLCI	1,814.10
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Par Value (RM)	0.10
Market cap. (RM'm)	8,559.1
Price over NA	5.81
52-wk price Range	RM2.47-RM2.71
Beta (against KLCI)	n.a.
3-mth Avg Daily Vol	3.81
3-mth Avg Daily Value	9.67
Major Shareholders	
PRSB	42.4%
Hutchison Port Hld.	23.6%
Khazanah	2.2%

INVESTMENT STATISTICS

FYE Dec	FY12	FY13F	FY14F	FY15F
Revenue (RM' m)	1,492.3	1,646.8	1,684.4	1,754.4
Core revenue (RM'm)	1,226.2	1,320.8	1,465.4	1,604.4
EBITDA (RM'n)	597.6	642.8	683.0	744.2
PBT (RM'm)	434.7	502.3	503.5	538.9
Net Profit (RM' m)	361.0	411.9	410.4	452.7
EPS (sen)	10.6	12.1	12.0	13.3
EPS growth (%)	14.1	14.1	(0.4)	10.3
PER (x)	23.7	20.8	20.9	18.9
Net Dividend (sen)	29.6	9.1	9.0	10.0
Net Dividend Yield (%)	11.8	3.6	3.6	4.0

Source: Company, Forecasts by MIDFR

Improving world economic conditions. The transshipment business is strongly linked to the global and regional economic conditions. IMF has anticipated the world economy to grow by +3.7% in 2014 and rise to +3.9% in 2015, outpacing the growth rate of 3.0% in 2013. The upbeat FY14-15 world economy forecasts bode well for the global container trade flow and transshipment business of Westports. Moreover, Westports is located in the second fastest-growing containerization region in the world in terms of total throughput, with 5.4% CAGR (figure 2) for the period 2012-15.

Maintain NEUTRAL with revised TP of RM2.65. We increase our forecast of Westports' container growth rate to 7% from 5% on the basis of improving global economic conditions and the resulting higher dividend payout for FY14. Subsequently, we revise upwards our FY14-15 earnings forecasts by +3.8% and +5.9% respectively. If PKA consented to the hike in tariff rate, it will serve as a re-rating factor for our Westports valuation. Nonetheless, we expect the Westports' FY14 net income growth to be dragged down by the higher depreciation and finance charges following its port capacity expansion. Hence, we reiterate our NEUTRAL recommendation on Westport with revised TP of RM2.65.

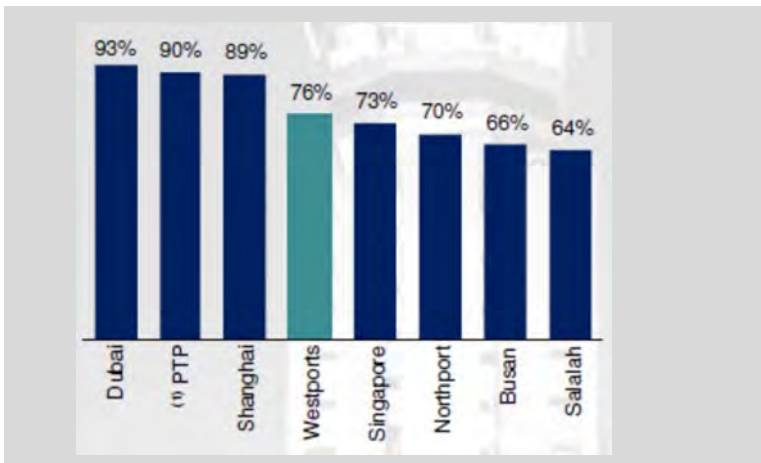


DDM Valuation Table

Market Risk Premium (MRP)	6.5%
Risk free rate (RFR)	3.5%
Beta (β)	0.6
Required equity return (k)	7.4%
Dividend growth rate (g)	4.0%
FY14 dividend (D1)	9.0 sen
TP = $D1/(k-g)$	RM2.65

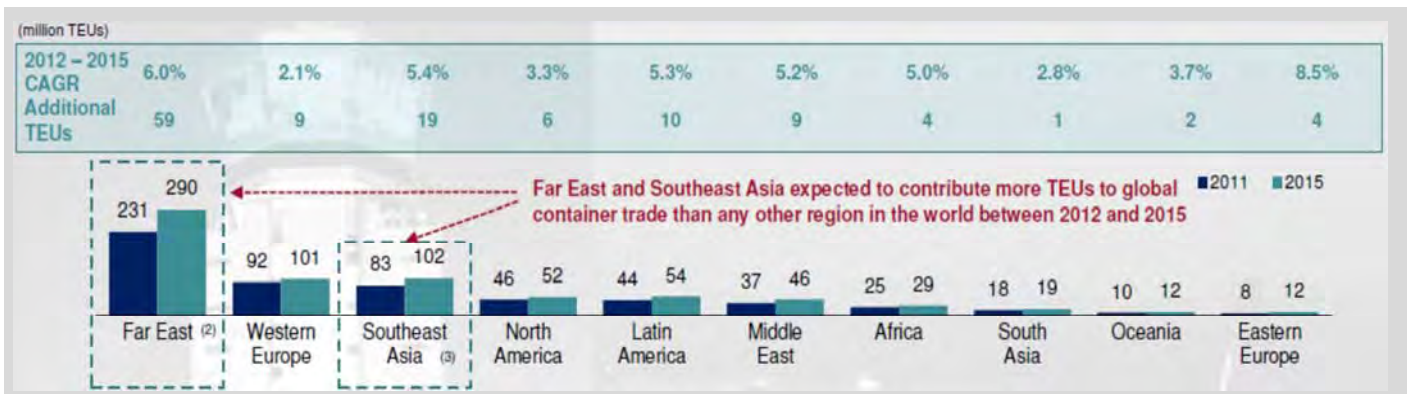
Source: Company, Forecasts by MIDFR

Figure 1: Terminal utilization across regional ports



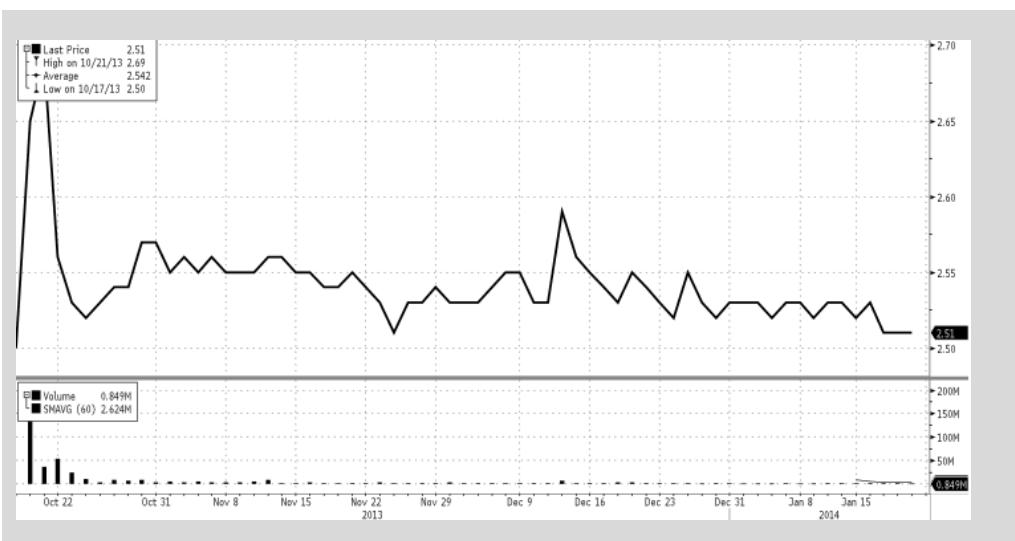
Source: Company, MIDFR

Figure 2: Global container throughput by major region



Source: Company, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.