Ports & Logistics

As Competitive As Ever

NEUTRAL

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The recovery in Port Klang's container throughput volume (+12% YoY in 1Q19) is likely to persist at a moderated pace following an increase in Ocean Alliance calls and the rapidly growing Southeast Asian economies that may expedite greater trade activities for its Intra-Asia trade line. Nonetheless, we opt to remain conservative now with our assumption of c.5% container throughput growth for FY19-20 due to (i) possible throughput growth slowdown in 2H19 due to previous year's high base effect, and (ii) continuous pressure from its competitive neighbour, Port of Singapore Authority. Meanwhile, the on-going trade spat is expected to have a minimal impact on Port Klang as it is more likely to affect the Asia-American trade route (c.5-9% of total throughput volume). For the logistics players, earnings uncertainty continues to cast a shadow over the sub-sector, as the margin compressive environment is unlikely to recover in the near-term. Maintain NEUTRAL on the sector, given the lack of re-rating catalyst.

Flattish YTD share price performance. Our sector coverage have seen marginal recovery in 1H19, with an average YTD gain of 0.2%, marginally beating the decline in FBMKLCI (YTD -0.5%). Notably, **MMCCORP (MP; TP: RM1.10)** continued to see a huge share price appreciation of 18.2% YTD, which we believe may be supported by a recovery in market sentiment towards its construction segment following the revival of major infrastructure projects in Malaysia, which is in line with KLCON index's rally (+43% YTD). Meanwhile, the shift in spotlight towards the continuous earnings disappointment from our national postal service provider, **POS (UP; TP: RM1.30)** has greatly depressed its share price, which saw a YTD drop of -15.8%. *Note that the share price performances are based on a cut-off date of 21st June 2019.*

Port throughput growth picking up? Since FY18, Port Klang's container throughput has started showing signs of recovery (+2.7% YoY to 12.3m TEU) after bottoming out from the tail-end residual effects of the shipping alliances reshuffling. Notably, **WRPTS (MP; TP: RM3.75)** posted an exceptionally strong throughput growth of 12% YoY for 1Q19. We believe that this may persist at a moderate pace, on the back of the increase in Ocean Alliance calls following the realignment of most shipping lines, and the rapidly growing Southeast Asian economies which may flow down to expedite greater trade activities for its Intra-Asia trade line (historically takes up c.50-60% of the total throughput volume). Nevertheless, we opt to maintain conservative now with our assumption of c.5% container throughput growth for FY19-20, as (i) throughput growth may see a slowdown in 2H19 due to its previous year's high base effect, (ii) continuous pressure from its competitive neighbour, Port of Singapore Authority (PSA). Meanwhile, the on-going trade spat is likely to have a minimal impact on Port Klang as it is more likely to affect the Asia-American trade route (c.5-9% of total throughput volume). On a side note, WPRTS is expanding Westports 2, which is anticipated to commence its land reclamation works from FY20 onwards. While we believe that WPRTS is well on-track with its expansion plans to cater for future trade volume growth, we reiterate our view with the aforementioned expansion project being a longer-term prospect will full completion by 2040.

No signs of recovery for logistics players. In the near to medium term, we believe that the crowded parcel delivery space is likely to remain saturated until the intensified competition eventually squeezes out the smaller players, leading to an industry consolidation in the longer-term. Meanwhile, stagnating earnings growth continues to be a key distress among the logistics players as the mounting pricing competition continues to depress margins. In its recent FY19 full-year results, POS saw widened losses with FY19 swimming in red ink, greatly burdened by the continuing double-digit contraction in mail volume and bill payments. While the company is hoping for another tariff hike, we believe that losses are likely to swell going forward, given its inability to close down post offices, unionised workforce and underperforming segments. **CJCEN (UP; TP: RM0.370)** started the year with losses of –RM1.8m, mainly dragged by larger start-up losses. Moving forward, their courier business is expected to continue to dampen earnings; until an eventual breakeven can be expected, likely in FY21. All-in, we opt to stay side-lined from this sub-sector as we await meaningful earnings recovery, most likely from: (i) companies maturing out of their expansion gestation phases, and (ii) an eventual consolidation of the industry.

Maintain NEUTRAL, given the lack of near-term re-rating catalysts. Within our coverage, we reiterate our MARKET PERFORM calls for MMCCORP and WPRTS as we believe that they are fairly valued at this juncture. POS, on the other hand, is given an UNDERPERFORM rating given its gloomy outlook, likely to be dragged further by its widening costs of its universal service obligation, following its responsibility to provide postal coverage to the entire country. We also reiterated our UNDERPERFORM call on CJCEN, as we believe that the company's near-term outlook is expected to be clouded by persistent start-up losses and industry-wide margin compression.

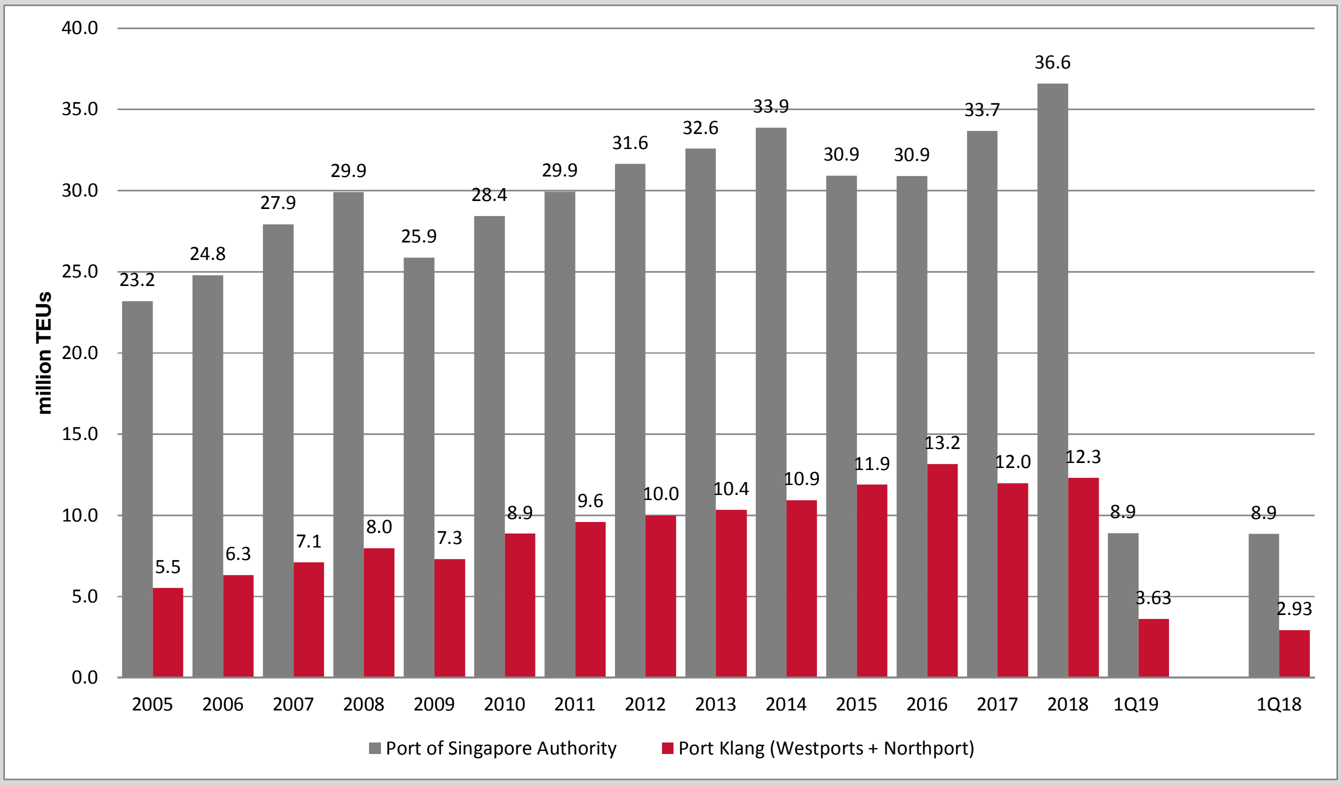
Appendix

Share Prices Performances as at 21 June 2018

Company	Price as at 21 June 2018 (RM)	2Q CY19 QTD Changes (%)	2019 YTD High (RM)	2019 YTD Low (RM)
CJCEN	0.415	-4.6	0.530	0.370
MMCCORP	1.17	18.2	1.190	0.825
POS	1.54	-15.8	2.220	1.230
WPRTS	3.88	3.2	4.000	3.450
Simple Average		0.2		
FBMKLCI	1682.23	-0.5	1730.68	1598.32
FBMSC	12930.25	14.4	13809.14	11203.89

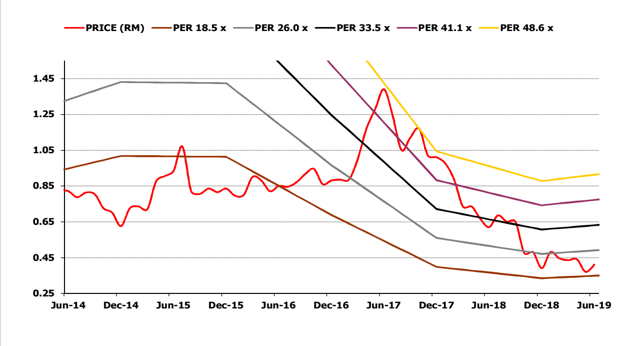
Source: Bloomberg, Kenanga Research

Container Throughput (mil TEUs) – Port Klang vs PSA

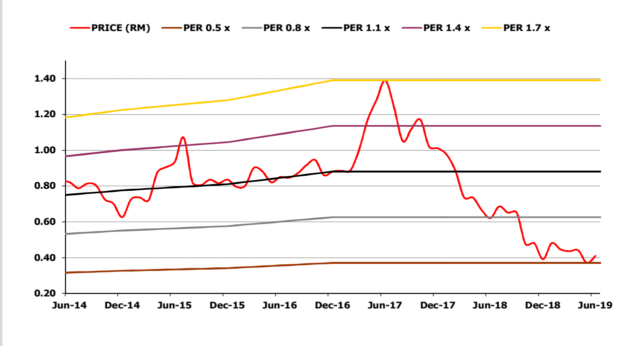


Source: Bloomberg, Port Klang Authority, WPRTS, MMCCORP

CJCEN – Forward PER Band

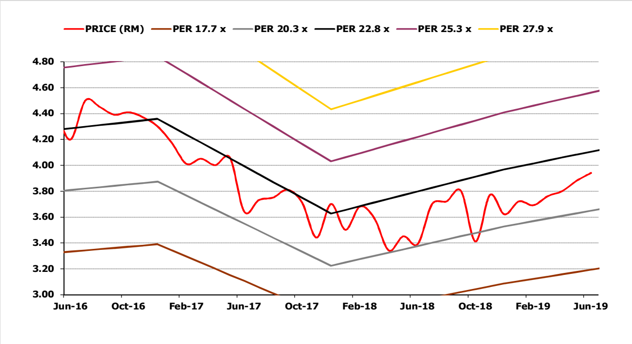


CJCEN – Forward PBV Band

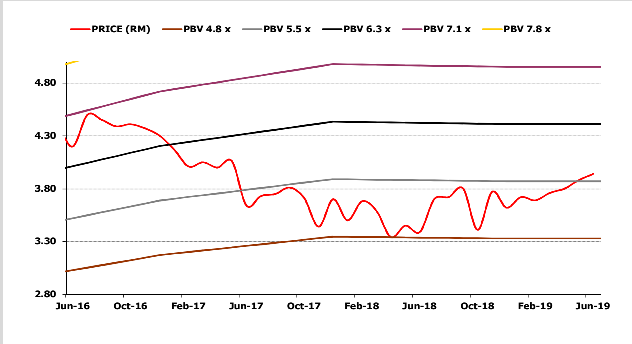


Source: Kenanga Research

MMCCORP – Forward PER Band

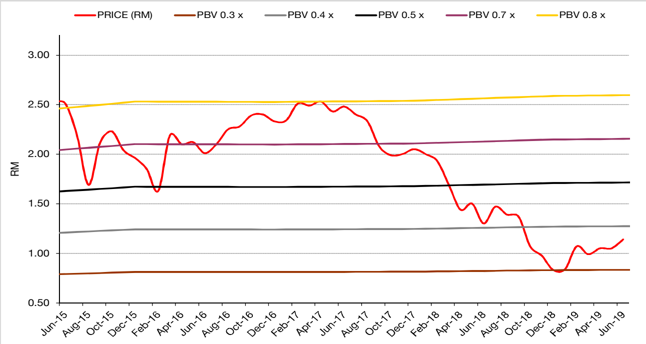


MMCCORP – Forward PBV Band

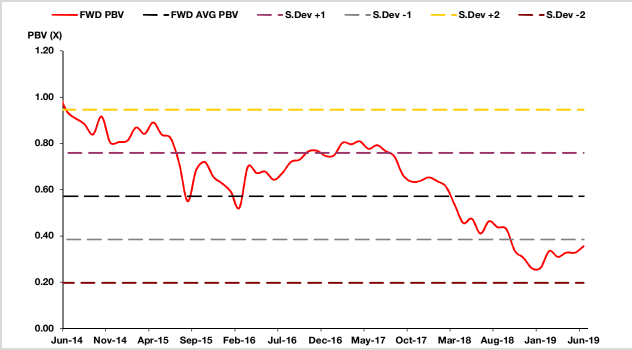


Source: Kenanga Research

POS – Forward PBV Band

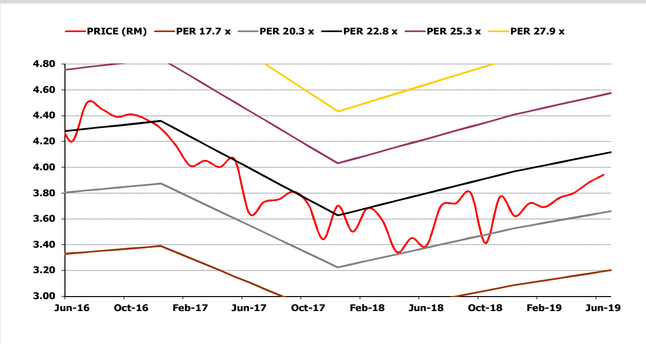


POS – Forward PBV Std. Dev Band

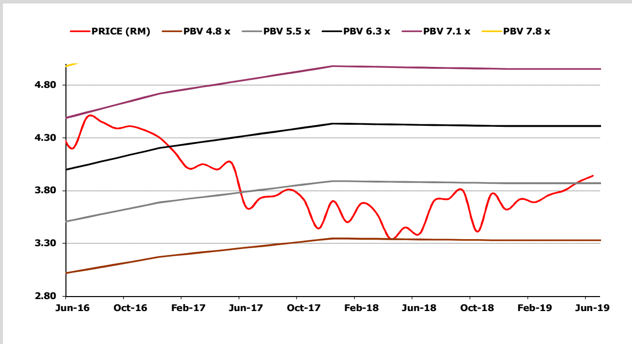


Source: Kenanga Research

WPRTS – Forward PER Band



WPRTS – Forward PBV Band



Source: Kenanga Research

Peer Comparison

Name	Price @ 21 June 2019	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
CJ CENTURY LOGISTICS HOLDINGS	0.415	162.0	Y	12/2019	6.4%	4.6%	-15.9%	8.1%	19.3	23.0	21.3	0.5	0.5	2.3%	1.7%	0.370	UP
MMC CORP BHD	1.17	3,562.7	Y	12/2019	-14.7%	4.8%	22.0%	0.9%	23.4	27.9	26.6	0.4	0.4	1.9%	1.3%	1.10	MP
POS MALAYSIA BERHAD	1.54	1,205.5	Y	03/2020	13.9%	4.4%	-835.1%	-99.3%	N.A.	N.A.	N.A.	0.7	0.7	-0.9%	1.3%	1.30	UP
WESTPORTS HOLDINGS BHD	3.88	13,230.8	Y	12/2019	7.7%	3.8%	9.6%	6.9%	24.4	22.3	20.8	5.5	5.6	24.8%	3.4%	3.75	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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