Westports Holdings Berhad

1H19 Within Expectations

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MARKET PERFORM ↔

Price: **RM3.89**

Target Price: **RM3.75** ↔

1H19 CNP of RM306.2m and declared dividend of 6.74 sen came in within expectations. Despite management's higher revised throughput growth guidance following a stronger 1H throughput growth of 17%, we remain conservative with our forecast of 5%. With land reclamation works for Westports 2 expected to begin earliest by 1Q20, we continue to view it as a longer-term prospect. Maintain MARKET PERFORM with an unchanged TP of RM3.75.

No surprises. 1H19 core net profit (CNP) of RM306.2m came in within expectations at 52%/50% of our and street's estimates, respectively. An interim dividend of 6.74 sen was also declared, in-line with our full-year forecast of 13.1 sen.

Great first half of the year. 1H19 CNP of RM306.2 jumped 25% YoY, on the back of: (i) 12% improvement in revenue, and (ii) flattish opex and full 2Q19 impact from the tariff revision which took effect from March 2019 yielding 4.4 ppt expansion in GP margin. While the volume recovery in transhipment throughput (+21%) was largely contributed by the continued growth at the intra-Asia segment coupled with an increase in Ocean Alliance's calls for its Asia-Europe segment, we believe trade diversions caused by the on-going US-China trade war had also helped to spur the group's higher margin gateway segment (+10%), further contributing to the margins expansion.

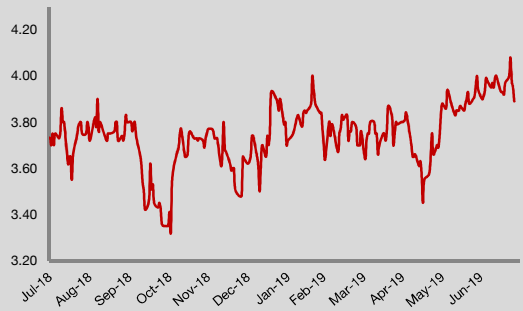
Sequentially, 2Q19 CNP of RM166.3 rose 19%. Similarly, due to the aforementioned factors, revenue jumped by 10%, driven by the record-breaking container throughput level of 2.74m TEU (+8%); in addition to a full quarter impact from the tariff revision.

Westports 2. With total CAPEX for Westports 2 (CT10-17) amounting to ~RM10b, the new CTs are expected boost capacity by nearly double to 27m TEUS from 14m TEUs post-completion. While the heavy capex will be spread over 20 years, we believe the company would likely have to fund a portion of the capex through equity, i.e., dividend reinvestment plan. Nevertheless, we are fairly neutral towards the possibility of a dividend reinvestment plan as (i) shareholders would be given an option to receive dividends instead of reinvesting them, and (ii) EPS dilution may not be substantial at less than 10% dilution based on our preliminary calculations. However, we view this to be a longer-term prospect for the group with anticipated full completion by 2040, thus ruling out any earnings accretive development over the next two years. Currently, we gathered that the management is still in the midst of negotiations and design phase, hence land reclamation works are likely to begin earliest by 1Q20, with an expected capex of ~RM1.0b over 2 years.

Improved throughput outlook? Following a commendable 17% hike in throughput volume for 1H19, the group has revised their throughput guidance upwards to a high single-digit percentage growth (from previously 3-8% growth). Nonetheless, we opt to maintain our 5% growth assumption as we are comfortable with our earnings forecast for now, coupled with an expected tapering down in throughput growth levels in 2H19 following previous year's higher-base effect.

Maintain MARKET PERFORM given the lack of near-term catalysts. Nevertheless, the call is supported by a decent dividend yield of c.3% with an unchanged DDM-derived TP of RM3.75, based on: (i) 6.2% discounting rate, (ii) 1% terminal growth, and (iii) unchanged dividend pay-out policy of 75%. Our TP implies a Fwd. FY20E PER of 21x, somewhat in line with its 3-year historical average, which we deem to be justifiable given its modest throughput growth outlook. Risks to our call include: (i) significant deterioration/improvement in container throughput, and (iii) changes in dividend policy.

Share Price Performance



KLCI	1,647.96
YTD KLCI chg	-2.5%
YTD stock price chg	7.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	WPRTS MK Equity
Market Cap (RM m)	13,264.9
Shares Outstanding	3,410.0
52-week range (H)	4.15
52-week range (L)	3.29
3-mth avg daily vol:	1,849,916
Free Float	23%
Beta	0.8

Major Shareholders

Pembinaan Redzai Sdn Bhd	42.4%
South Port Invest Holdings	23.6%
Employees Provident Fund	11.4%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Revenue	1,614.7	1,738.7	1,817.1
EBIT	782.3	883.6	933.1
PBT	701.2	791.3	835.9
Net Profit (NP)	**533.5**	**593.5**	**626.9**
Core Net Profit	**541.4**	**593.5**	**626.9**
Consensus NP		609.4	665.0
Earnings revision (%)		-	-
Core EPS (sen)	15.9	17.4	18.4
CNP growth (%)	-17.1	9.6	5.6
DPS (sen)	11.7	13.1	13.8
BV/Share (RM)	0.7	0.7	0.7
Core PER	24.8	22.6	21.4
Price/BV (x)	5.6	5.7	5.3
Net-Gearing (x)	0.4	0.4	0.5
Dividend Yield (%)	3.0	3.3	3.5

Result Highlight

FY Dec (RMm)	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
Revenue	454.6	415.0	10%	394.0	15%	869.6	779.1	12%
Gross Profit (GP)	**287.3**	**256.0**	**12%**	**227.0**	**27%**	**543.3**	**452.7**	**20%**
EBITDA	**293.3**	**259.5**	**13%**	**236.3**	**24%**	**552.8**	**470.8**	**17%**
EBIT	**238.3**	**205.6**	**16%**	**183.4**	**30%**	**443.8**	**366.1**	**21%**
Finance Income	3.6	2.9	25%	2.3	58%	6.5	5.8	11%
Finance Costs	-23.1	-22.8	1%	-24.4	-6%	-45.8	-47.1	-3%
Exceptional Items	0.0	0.0	N.A.	0.4	-100%	0.0	0.4	-100%
PBT	**218.8**	**185.7**	**18%**	**161.6**	**35%**	**404.5**	**325.2**	**24%**
Taxation	-52.5	-45.8	15%	-39.8	32%	-98.3	-79.6	23%
Net Profit	166.3	139.9	19%	121.8	37%	306.2	245.6	25%
CNP	**166.3**	**139.9**	**19%**	**121.4**	**37%**	**306.2**	**245.2**	**25%**
NDPS (sen)	**6.7**	**0.0**	**N.A.**	**5.4**	**25%**	**6.7**	**5.4**	**25%**
GP Margin	63.2%	61.7%		57.6%		62.5%	58.1%	
EBIT Margin	52.4%	49.5%		46.5%		51.0%	47.0%	
PBT Margin	48.1%	44.7%		41.0%		46.5%	41.7%	
CNP Margin	36.6%	33.7%		30.8%		35.2%	31.5%	
Effective Tax Rate	24.3%	24.7%		24.6%		24.3%	24.5%	
Container Throughput (m TEU)								
Transhipment	1.83	1.71	7.0%	1.44	27.1%	3.54	2.92	21.2%
Gateway	0.91	0.82	11.0%	0.81	12.3%	1.73	1.58	9.5%
Total	**2.74**	**2.53**	**8.3%**	**2.25**	**21.8%**	**5.27**	**4.50**	**17.1%**

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	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	0.455	177.6	Y	12/2019	6.4%	4.6%	-15.9%	8.1%	21.2	25.2	23.3	0.6	0.6	2.3%	1.5%	0.370	UP
MMC CORP BHD	1.14	3,471.4	Y	12/2019	-14.3%	4.8%	22.0%	0.9%	22.8	27.1	25.9	0.4	0.4	1.9%	1.3%	1.10	MP
POS MALAYSIA BERHAD	1.75	1,369.9	Y	03/2020	13.9%	4.4%	-835.1%	-99.3%	N.A.	N.A.	N.A.	0.8	0.8	-0.9%	1.1%	1.30	UP
WESTPORTS HOLDINGS BHD	3.89	13,264.9	Y	12/2019	7.7%	4.5%	9.6%	5.6%	24.5	22.4	21.2	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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