Ports & Logistics

Lacking Near-term Catalysts

NEUTRAL

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We keep our NEUTRAL call on the sector, premised on (i) muted earnings from the last-mile delivery players with little signs of recovery in sight as competition remains heightened within the space, coupled with (ii) outperforming share performance from our ports player, which we believe, have priced in all positives at this juncture. Meanwhile, we note that the commendable improvement in Port Klang's container throughput volume (+21% YoY, in 1H19) is likely to persist, on the back of (i) increase in Ocean Alliance calls, (ii) U.S.-China trade diversions to spur the gateway segment, and (iii) rapidly growing Southeast Asia economies which may expedite greater trade activities in the Intra-Asia trade lines. As such, we opted to pencil in higher throughput growth assumption of 10% (from previously 5%) for WPRTS as we maintain our MP call with a higher DCF-driven TP of RM4.15.

Marginal recovery in share prices. Our coverage of ports and logistics players have seen marginal share price recovery in 9M19, with an average YTD gain of 11.1%, outperforming the slump in FBMKLCI of 5.5% YTD. Notably, **MMCCORP (MP; TP: RM1.10)** continued to see a huge share price appreciation of 28.9% YTD, which we believe may be hugely motivated by a return in market confidence towards its construction segment following the revival of infrastructure projects in Malaysia, which is in line with KLCON index's rally of 33% YTD. Meanwhile, the shift in spotlight towards continuous earnings disappointment from **POS (UP; TP: RM1.25)** has dampened its share price, which saw a YTD drop of 4.1%.

Signs of pick-up in port throughput volumes. After bottoming out from the tail-end residual effects of the reshuffling of shipping alliances, Port Klang's container throughput has been recovering since FY18. Notably, **WPRTS (MP; TP: RM4.15)** posted a commendable throughput growth of 21% YoY for 1H19. This was largely driven by the continued growth at the intra-Asia segment coupled with an increase in Ocean Alliance's calls in its Asia-Europe segment. The trade diversions caused by the on-going U.S-China trade war has also helped to spur the group's higher margin gateway segment (+10%). That said, we have opted to **tweak our throughput assumption upwards to 10% growth for FY19-20** from previously 5% translating into 5.1-10.5% improvement to our FY19-20E earnings forecast. 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 that the expansion project is a longer-term prospect with full completion by 2040. All-in, we keep our MP call with higher TP of RM4.15.

Persistent losses from 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. **POS** reported yet another quarter of losses of –RM15m as the group remains weighed down by persistent double-digit contraction in mail volumes. While the group continues to hope for a tariff hike, we believe that losses are likely to balloon moving forward, premised on its inability to close down post offices, unionised workforce and underperforming segments. Meanwhile, **CJCEN (UP; TP: RM0.300)** saw widening losses with its 1H19 plummeting into losses of RM4.8m, dragged by widening expansion costs for its courier business and weaker total logistics operation. 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 bleak outlook, likely to be dragged further by its widening costs 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.

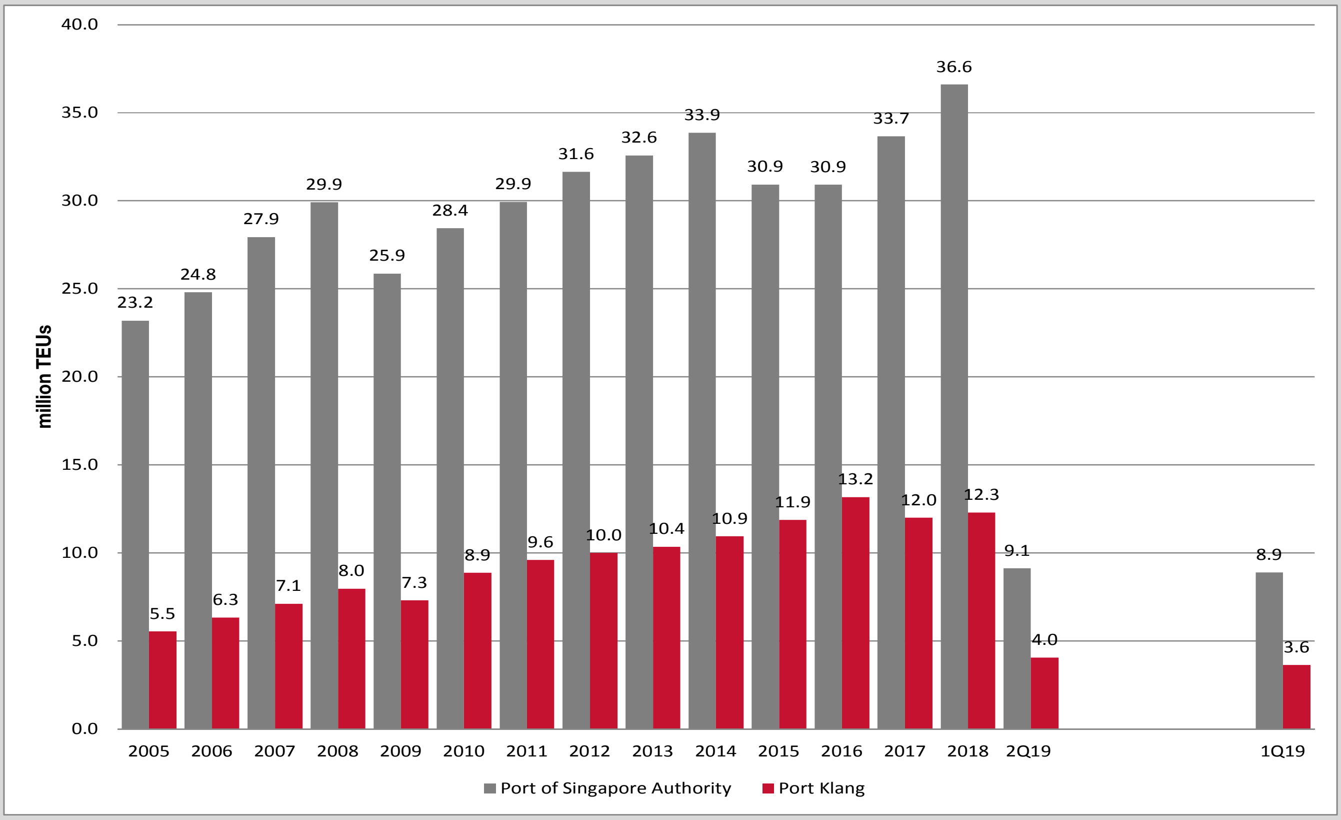
Appendix

Share Prices Performances as at 20 Sep 2019

Company	Price as at 20 Sep 2019 (RM)	2019 YTD Changes (%)	3Q CY19 QTD Changes (%)	2019 YTD High (RM)	2019 YTD Low (RM)
CJCEN	0.415	6.4%	1.2%	0.530	0.370
MMCCORP	1.07	28.9%	-6.1%	1.220	0.825
POS	1.65	-4.1%	9.3%	2.220	1.230
WPRTS	4.10	13.3%	4.1%	4.200	3.450
Simple Average		11.1%	2.1%		
FBMKLCI	1597.41	-5.5%	-4.5%	1730.68	1589.82
FBMSC	13082.99	15.8%	0.7%	13809.14	11203.89

Source: Bloomberg, Kenanga Research

Container Throughput (mil TEUs) – Port Klang vs PSA



Source: Bloomberg, Port Klang Authority, WPRTS, MMCCORP

Peer Comparison

Name	Price @ 20 Sep 2019 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth 1-Yr. Fwd.	Revenue Growth 2-Yr. Fwd.	Core Earnings Growth 1-Yr. Fwd.	Core Earnings Growth 2-Yr. Fwd.	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div.Yld. (%) 1-Yr. Fwd.	Target Price (RM)	Rating
CJ CENTURY LOGISTICS HOLDINGS	0.415	162.0	Y	12/2019	6.4%	4.6%	-194.3%	-230.6%	19.3	N.A.	N.A.	0.5	0.5	-2.6%	0.0%	0.300	UP
MMC CORP BHD	1.07	3,258.2	Y	12/2019	-14.3%	4.8%	22.0%	0.9%	21.4	25.5	24.3	0.3	0.3	1.9%	1.4%	1.10	MP
POS MALAYSIA BERHAD	1.65	1,291.6	Y	12/2019	-24.3%	29.1%	-200.7%	-75.5%	N.A.	N.A.	N.A.	0.8	0.8	-2.4%	242.4%	1.25	UP
WESTPORTS HOLDINGS BHD	4.10	13,981.0	Y	12/2019	11.4%	8.2%	15.2%	11.0%	25.8	22.4	20.2	5.8	5.9	26.1%	3.3%	4.15	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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