Seaport & Logistics

1QCY24 Report Card: Surprised China's Uptick

NEUTRAL

By Wan Mustaqim Bin Wan Ab Aziz l wanmustaqim@kenanga.com.my

The sector's earnings delivery (versus our expectations) improved sequentially in the recently concluded 1QCY24 reporting season, thanks to a surprise uptick in China's economy (of which sustainability is in doubt). Nonetheless, we maintain our NEUTRAL stance on the sector due to the disruption to global trade, especially in the Asia-Europe sector, from the shipping diversion from the Red Sea. The World Trade Organisation (WTO) in Apr 2024, cut its projection for global merchandise trade volume growth in CY24 to 2.6% (from 3.3%), also quoting lower water levels in Panama Canal due to an extreme drought, which is disrupting the movement of shipping liners. We also acknowledge that global trade will have to navigate stricter regulations on carbon emissions. However, we continue to see a bright spot in the domestic logistics sector, which is a beneficiary of the booming e-commerce. We do not have any top pick for the sector.

The sector's earnings delivery (versus our expectations) improved sequentially in the recently concluded 1QCY24 results season with 25%, 50% and 25% beating, meeting and missing our forecasts, as opposed to 75% and 25% coming in within and below in the preceding quarter. **BIPORT (MP; TP: RM6.30)** beat our expectation, while **WPRTS (MP; TP: RM3.80), POS (UP; TP: RM0.33)** met our expectations but **SWIFT (MP; TP: RM0.51)** disappointed.

BIPORT beat expectations with its core net profit doubling YoY driven by strong cargo volumes in both Bintulu Port due to the recovery in LNG demand from China (which started in 4QFY23), and Samalaju Industrial Port from a pick-up in cargo volumes from key customers, i.e. **PMETAL (OP; TP: RM6.35)** and **OMH (OP; TP: RM1.80)**, as well as lower finance cost and reduced effective tax rate under an interim lease arrangement (from Jul 23 to Dec 2024) for Bintulu Port.

Meanwhile, **WPRTS** saw a stronger top-line growth due to a stronger container volume with improved yields mainly from robust gateway container volume partly negated by weaker transhipment volume due to the prolonged war in the Middle East with no immediate sign of the Red Sea conflict de-escalating. However, its earnings rose significantly, thanks to better mix skewed towards higher-margin gateway cargoes and lower finance costs.

Meanwhile, **POS** saw slight increase in top-line growth and narrower losses as its postal sales received a one-time boost from postal services rendered to a government agency, which cushioned the slowdown in online shopping and lower demand from major e-commerce players that were investing in their in-house delivery capabilities (for instance, Shopee Express of Shopee).

On the other hand, **SWIFT** disappointed as stronger top-line growth was negated by higher-than-expected start-up costs from its new warehouse in Westport and loss of operational scale at its container depot and freight forwarding businesses due to global shipping disruptions arising from the Red Sea conflict.

The shipping diversion from the Red Sea continues to weigh down on global trade, especially in the Asia-Europe sector. The diversion from Suez Canal to the Cape of Good Hope has resulted in a longer voyage for the Asia-Europe route (which contributes to 30% of global container volume), reducing the frequency of calls the shipping service could make at **WPRTS** (and all other ports in the region). The WTO in Apr 2024 cut its projection for global merchandise trade volume growth in CY24 to 2.6% (from 3.3%), also quoting lower water levels in Panama Canal due to an extreme drought, which is disrupting the movement of shipping liners.

We also acknowledge that stricter regulations on carbon emissions may pose new challenges to global trade, particularly, one from the United Nations' International Maritime Organization (IMO) and another from the European Union (EU). While the exact implications of the regulation of IMO and EU's Carbon Border Adjustment Mechanism (CBAM) on the seaport and logistics sectors remain unclear (especially for CBAM which is still pending finalisation), the volume of containers heading to the EU will certainly be affected (about 18% of container throughput under Asia-Europe trade), especially those originating from China, which is a major exporter of iron, steel and aluminium to the EU.

- Under the new IMO rules, effective January 2023, all ships must report their carbon intensity and will be rated accordingly. The ships must record a 2% annual improvement in their carbon intensity from 2023 through 2030 or face being removed from service.
- Meanwhile, the EU's CBAM policy could disrupt the exports of certain commodities (iron and steel, cement, aluminium, fertiliser, electricity, hydrogen) to the EU. During the transition period between Oct 2023 and Dec 2025, EU importers must report embedded emissions in goods imported on a quarterly basis, as well as any carbon price paid to a third country. When the CBAM takes full effect starting 2026, importers will need to buy carbon credits reflecting the emissions generated in producing them.

Logistics to ride on e-commerce boom. On a more positive note, we see a bright spot in the domestically-driven third-party logistics (3PL) sector which is less vulnerable to external headwinds being buoyed by the booming e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a CAGR of 7% from 2023 to 2027, with size reaching RM1.9t by 2027 from RM1.4t in 2023.

The booming e-commerce will spur demand for distribution hubs and warehouses to enable: (i) just-in-time (JIT) delivery, (ii) reshoring/nearshoring to bring manufacturers closer to end-customers, (iii) efficient automation system including interconnectivity with the customer system, and (iv) warehouse decentralisation to reduce transportation costs and de-risk the supply chain. There is also strong demand for cold-storage warehouses on the back of the proliferation of online grocery start-ups.

We maintain **NEUTRAL** on the sector and do not have any top pick for the sector.

Quarterly Results Performance

	1QCY24						4QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
BIPORT	1			1				1			1	
POS		1			1				1			1
SWIFT			1			1		1		1		
WPRTS		1			1			1			1	
Total	**1**	**2**	**1**	**1**	**2**	**1**	**0**	**3**	**1**	**1**	**2**	**1**
Total (%)	**25**	**50**	**25**	**25**	**50**	**25**	**0**	**75**	**25**	**25**	**50**	**25**

Source: Kenanga Research, Bloomberg

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	MP	6.40	6.30	-1.6%	2,944.0	Y	12/2024	31.0	32.4	21.7%	4.4%	20.6	19.7	1.6	7.7%	15.7	2.5%
POS MALAYSIA BHD	UP	0.475	0.330	-30.5%	371.8	Y	12/2024	(11.5)	(6.7)	-161.5%	-158.3%	N.A.	N.A.	0.8	-19.0%	0.0	0.0%
SWIFT HAULAGE BHD	MP	0.545	0.510	-6.4%	484.9	Y	12/2024	5.1	5.5	-10.3%	7.1%	10.7	10.0	0.7	6.3%	1.7	3.1%
WESTPORTS HOLDINGS BHD	MP	4.11	3.80	-7.5%	14,015.1	Y	12/2024	23.4	24.5	2.5%	4.6%	17.6	16.8	3.8	22.1%	17.6	4.3%
SECTOR AGGREGATE					**4,454.0**					**-36.9%**	**-35.6%**	**16.3**	**15.5**	**1.7**	**4.3%**		**2.5%**

Source: 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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

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