COMPANY UPDATE

Westports Holdings (WPRTS MK)

WPRTS 2 Concession Sanctioned, But More Factors Need To Be Ironed Out

The long-awaited CT10-17 terminal expansion has been sanctioned. WPRTS 2 will boost capacity from 15m TEUs to 27m TEUs, and the concession period until 2082. Our target price has partially factored in the expansion, but in our view it is still not immune to political risks (exposed to projects like ECRL and Pulau Carey). Key terms (like tariff, capex and funding) are still being finalised, but without this guidance, it is not possible to project a realistic IRR and DCF upside for now. Maintain BUY. Target: RM4.10.

WHAT'S NEW

- **Growth in industry container volume justifies capacity expansion.** Westports (WPRTS) has finally sealed the third additional agreement on Westports Privatisation, and sanctioned the long-awaited WPRTS 2 which expands: a) Container Terminals (CT) from 9 to 17 (new CT10-17), b) capacity (to almost double), and c) concession expiry (for CT1-17) from Aug 2054 to 2082 (or to 2070, if it is only CT1-13). Effectively, the concession extension for both phases is 28 years (instead of 58 years as per announcement), as the operating licence expiry is actually in 2054. Despite economic concerns on high interest rate and inflationary environment, market conditions support port expansion. Container growths continued to chart new highs, especially from Port Klang, Port of Tanjung Pelepas and Singapore Port.
- **However, more parameters need to be ironed out; otherwise, not likely to be a major market mover.** The Port Klang Authority (PKA) has no plans to consider revising up the container tariff. It was the same scenario when the first concession was signed. Without this government assurance, it is difficult to project the minimum IRR.
- **Secondly, the projected capex of RM40b for both WPRTS 1 and WPRTS 2 may shock investors** (our capex assumption for WPRTS 1 until 2054 is around RM6b). Moreover, we understand that the capex estimates are still subject to changes, as they included feedback from vendors since three years ago, and we assume that WPRTS has not yet locked in long-lead items, as the agreement was only finalised last week. Also, WPRTS 1 lease payments will spike by 40% after 2023, as they reflect the revaluation of the Pulau Indah Land. The revaluation is so huge that extending the concession expiry (to smoothen the lease payment) may be the only reasonable choice.
- **Thirdly, there are funding structure uncertainties**. For equity funding, WPRTS has opted to use a RM5b perpetual sukuk and a dividend reinvestment plan (DRP) of RM0.8b-1.2b. Although WPRTS has ample time to raise equity by 2027 (ie close to CT10 startup), securing a strategic partner will be the best-case scenario. However, we are unsure if any potential partner is in consideration, and whether it will be for the whole concession or a CT.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,978	2,056	2,047	2,164	2,277
EBITDA	1,361	1,215	1,256	1,342	1,420
Operating profit	1,102	950	978	1,053	1,122
Net profit (rep./act.)	809	700	740	798	841
Net profit (adj.)	732	623	735	798	841
EPS (sen)	21.5	18.3	21.6	23.4	24.7
PE (x)	16.6	19.5	16.6	15.3	14.5
P/B (x)	3.9	3.7	3.5	3.3	3.1
EV/EBITDA (x)	9.0	10.1	9.8	9.2	8.7
Dividend yield (%)	5.0	4.0	4.5	4.8	5.1
Net margin (%)	40.9	34.0	36.1	36.9	36.9
Net debt/(cash) to equity (%)	14.2	12.9	3.6	(3.3)	(9.2)
Interest cover (x)	22.0	23.2	27.2	30.8	24.4
ROE (%)	27.2	21.9	21.9	22.3	22.2
Consensus net profit	-	-	739	780	808
UOBKH/Consensus (x)	-	-	0.99	1.02	1.04

Source: Westports Holdings Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.57
Target Price	RM4.10
Upside	+14.8%

COMPANY DESCRIPTION

An integrated facility situated at the Port Klang, Malaysia's premier port. It offers container-handling - whereby volumes are in the unit of twenty-foot equivalent units (TEUs) - dry bulk, liquid bulk and other conventional cargo services

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	WPRTS MK
Shares issued (m):	3,410.0
Market cap (RMm):	12,173.7
Market cap (US$m):	2,609.9
3-mth avg daily t'over (US$m):	1.5

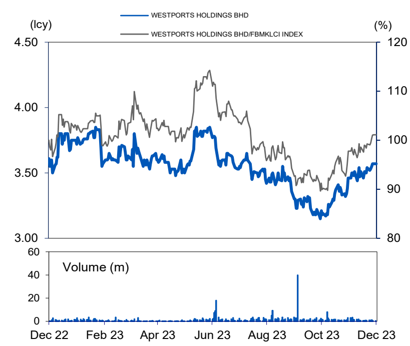
Price Performance (%)

52-week high/low RM3.85/RM3.15

1mth	3mth	6mth	1yr	YTD
6.9	6.3	(7.0)	1.4	(6.1)

Major Shareholders	%
Gnanalingam Family	45.5
EPF	9.2
FY23 NAV/Share (RM)	1.02
FY23 Net Debt/Share (RM)	0.04

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Potential ESG issues or targets.** The Environmental Impact Assessment (EIA) report cited one major risk, which is the material loss of mangrove (of up to 97 ha) and related ecosystems due to site clearing. In response, WPRTS proposed to replant 100 ha of mangroves (>250,000 trees) over 25 years. In addition, in a state government's proposal document dated 2021, there were recommendations dictating that the WPRTS 2 development has to embrace green port and automation technology. Several other ESG parameters were mentioned, but we are unsure if these terms were carried over to the final agreement. Examples are a 45% carbon emissions abatement, and utilisation of LNG fuel.
- **We also do not discount "political risks".** The state document also recommended that WPRTS 2 must align to other adjacent developments that are of national importance, such as East Coast Rail Link (ECRL) and Pulau Carey. The East Coast Rail Link (ECRL) rail yard was proposed to be installed at Ph 1, and will house electric freight trains, designed to run at 80km per hour, 22.5 hours daily. Theoretically, ECRL offers huge value accretion to WPRTS 2 and land value; however ECRL has had a notorious history, with the Malaysian government flip-flopping on cost amendments and track alignment several times.
- There is a 381-acre free trade zone land adjacent to the Port Klang Free Zone that is likely to still be up for sale today. Any potential buyer of that land may demand different terms. In addition, WPRTS will have to consider buying a third parcel of land (605 acres) for the CT14-17 expansion. There was also speculation that dredging and reclamation for all Federal Ports will be handled by a concessionaire, vs an open tender market to vendors.

EARNINGS REVISION/RISK

- **Retain forecasts as key parameters are still unknown.** The only known parameter that materially deviate forecasts is the lease payments to PKA, whereby the fixed portion will be increased from RM64m to RM91m, and the variable lease cost is also increased, leading to potentially RM110-150m of opex p.a.. If all other parameters are unchanged and effective from 2025, this change may potentially cut our 2025 profit forecast by 10%.

VALUATION/RECOMMENDATION

- **Retain BUY, and DCF target price of RM4.10,** which implies 18x 2024F PE (at -1SD of mean). Our current valuation (until 2054 horizon) implies the expansion is partially factored in, and also factors in resilient near-term container volume growth. We continue to exclude the full WPRTS 2 expansion in our valuation, assuming a wait-and-see approach, and likewise expect a muted market reaction this week. We still give the benefit of the doubt to WPRTS' proven track record as it is a world-class private port operator, and that it will continue to secure favourable terms to improve the viability of the project, but over time. If we only assume the latest capex guidance and lease payments throughout the concession until 2082, our back-of-the-envelope target prices may range between RM3.10-5.40.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

- **Environmental**
  - **Carbon (CO2) emission reduction.** WPRTS is formulating plans to enhance energy-efficient equipment, or may upgrade assets to become a smart/automated port.
  - **Enhance safety**. Lesser incidents in 2022 (699) vs 2021 (836) after better reporting.
- **Social**
  - **Diversity.** >30% female representation on the Board of Directors (2021: >30%).
  - **Social investments in** 2020/2021/2022 amounted to RM2.8 m/RM5.6m/RM3.0m.
- **Governance**
  - 6 out of 9 board members are independent, despite having family representation

PORT STATISTICS

m TEUs	3Q22	4Q22	1Q23	2Q23	3Q23
Westports	2.59	2.58	2.55	2.70	2.77
Growth (%)	-1.5	4.5	6.7	8.4	6.9
Port Klang	3.39	3.34	3.29	3.45	3.62
Growth (%)	-1.1	1.6	2.6	5.2	6.6
PTP	2.81	2.47	2.33	2.65	2.67
Growth (%)	0.6	-13.3	-10.6	0.7	-4.7

m TEUs	3Q22	4Q22	1Q23	2Q23	3Q23
PSA Singapore	9.66	9.27	9.01	10.02	9.96
Growth (%)	*2.5*	*-0.5*	*-0.7*	*7.4*	*3.1*
SOM*	15.86	15.08	14.63	16.12	16.25
Growth (%)	*1.4*	*-2.4*	*-1.7*	*5.8*	*2.5*
WPRTS market Share (%)	*16.3*	*17.1*	*17.4*	*16.7*	*17.0*
11 Malaysia Ports	7.08	6.70	6.47	7.01	7.19

**Note: Straits Of Malacca (SOM) combines Port Klang, PTP and PSA*
Source: Westports, MOT, PSA Singapore, UOB Kay Hian

DCF VALUATION AND TARGET PRICE

	Stage 1 (2024-29)	Stage 2 (-2054)
EBITDA CAGR (tariff hike)	4.0%	3.0%
EBITDA CAGR (no tariff hike)	3.0%	1.1%
Maintenance Capex (RMm)	110	110
Max Capacity on TEU/hectare	47,550	59,488
Max Capacity on TEU/crane	146,074	182,748
DCF (RMm)	4,493.0	9,393.0
Risk Free Rate	5.5%	
Beta (x)	0.9	
Tax Rate	25%	
Cost of Equity	8.7%	
Cost of Debt	5.5%	
WACC	7.9%	
Enterprise Value (RMm)	13,886.0	
- Net Debt, FY24F (RMm)	(116.4)	
Target Price	RM4.10	

Source: UOB Kay Hian

KEY TERMS OF WPRTS 2 CONCESSION SIGNED ON DEC 23 (PART 1)

	Existing	New concession, details
Concession expiry	30 year till 2024 Operating license until 2054	• For WPRTS 2, Ph 1 (CT10-13) only: 46 years until 2070 • For WPRTS 2, Ph 1 and 2 (including CT14-17): 58 years until 2082 (a 3rd underwater land must be transferred by 2045) *Our view: The concession extension was effectively 16 years or 28 years for both scenarios (vs 58 years). This is because the original concession's expiry was extended to 2054, governed by the expiry of the operating licence. But because the lease payments beyond 2023 were not finalised, hence the announcement worded the new concession period of 2024-2082*
Land costs	2 parcels of land i.e. PKNS and Marina Land, total RM610m costs	• 381 acres Underwater land from a Selangor unit (PKNS), RM116m (double the reserve price) – transfer by Sep 24 • 362 acres Marina Land from a related party, RM478m (include conversion cost) – transfer by Aug 26 • 605 acres of Government Land (not yet negotiated. Please refer to appendix) – transfer by 2045, WPRTS 2 Ph 2 expansion *Our view: Assuming the Government Land is mostly submerged under the sea, and priced at comparable market prices of RM21 per psf, it is possible that WPRTS may need to incur another RM0.6b (before transfer and reclamation costs).*

Source: Westports

KEY TERMS OF WPRTS 2 CONCESSION SIGNED ON DEC 23 (PART 2)

	Existing	New concession, details
Target operational date	CT9: 2018 started	CT10 target operations at 2H17 (3 years' delay); prior to this period, financing costs have to be capitalised
Funding	Equity funding : Structure guided was for dividend reinvestment plan (DRP); will avoid rights issue	• Perpetual Wakalah of RM5b, incorporates green and sustainability commitments. Indicatively, is 4-4.5% interest rate • Between RM0.8-1.2b equity injection via strategic investor entry, DRP or share placements *Note: Existing sukuk (RM850m), as well as its covenant ratios (<2x debt-equity, >1.25x debt service cover) are maintained.* *Our view: We think securing a strategic investor is the most ideal option, but WPRTS has yet to enter into late-stage discussions with potential partners, despite having engaged with the top three shipping liners CMA CGM, Maersk and Hapag-Lloyd, and other major port players like Shanghai Port. Hence, WPRTS is unable to guide if any potential partners are keen on investing in the whole concession, or co-funding on the CT development level (owning one CT implies a business proposition of locking the security of an allocated port capacity for its own cargoes). Hence, we are unable to realistically forecast potential dilution from the said funding.*
Container tariff	None secured initially	None secured for WPRTS 2 concession negotiations. Recap for WPRTS 1, the 30% tariff hike was only allowed in 2015-19
Capex (may exclude Government Land)	RM4 - 4.5b (2010-22)	• Total projected capex (include all maintenance and replacement capex) for both WPRTS 1 + WPRTS 2 = RM39.6b • WPRTS 2 Ph 1 and Ph 2 Initial Development Capex = RM6.3b each; • WPRTS 2 Ph 1, initial reclamation, dredging and containment bund (free trade zone) capex = RM0.3-0.6b p.a. for four years *Our view: WPRTS had three years ago sent request for proposals to vendors to quote prices for initial construction works. Given the inflation, it is possible that the capex guidance included feedback from the vendors during the past three years, but are not representative of today's costs.* *For instance, WPRTS guided that CT10-13 reclamation and dredging costs may be RM1.1b and RM0.6b respectively. But a recent Edge article quoted industry sources estimating that the said costs per year will be RM0.5b (total >RM2b). Also, another Edge article highlighted a possibility of one company being appointed as concessionaire holder to execute capital dredging and reclamation works for ALL Federal ports, instead of appointment via open tender (with many players available)* *Out of the total projected RM39.6b, there was no guidance on the rough split of capex until 2054, or until 2070.* *There was also no guidance mix between inorganic capex for ports, replacement capex, and green or sustainability capex.*
Lease payments to PKA	RM64m as of Aug 2023	1) WRPTS 1: 40% revision from RM64m to RM90m eff Sep 24, any increase in container tariff will alter further this payment 2) WPRTS 2: RM1m annually, as the RM600m PKNS and Marina lands will be transferred to PKA *Our view: This is the biggest fixed cost increase vs the existing concession that is known so far. Along with the variable lease rate (below), the potential cost items that may be recognised in the accounts could reach RM150m. The cost will be even higher if the container tariff rates are adjusted higher in tandem.* *These cost changes reflect the updated lease liabilities, as the land area of WPRTS 1 had been revalued significantly higher. On hindside, if the WPRTS 2 concession was not approved and the concession period ends in 2054, the lease payment will be far higher vs RM150m (due to shorter lease period)* *For the Government Land (third parcel of land for CT14-17 development), after transferring back the land to PKA, we do not expect the lease payment of WPRTS 2 to spike from RM1m annually*
Container variable lease	RM1 per TEU	RM3 per local (gateway box), RM2 per transshipment box *Our view: Typically, ports handle about 60-70% boxes are 20-ft boxes, which implies an* average of 1 box handled = 1.56 TEUs *WPRTS' gateway business was around 30-40% TEU mix. The new change in "profit-sharing" cost structure to PKA from TEU to boxes. Theoretically it also means WPRTS can "pay less profit-sharing" if it is able to handle more 40-ft and 60-ft boxes in its container mix.* ***Maximising larger boxes mix in the gateway business may be the best route, as gateway margins are high.***
ITA	20% tax rate guidance	10-year ITA from 2022-Dec 2031. With WPRTS 2, estimate average Effective Tax Rate 18-21% for 2024-28

Source: Westports

WPRTS 2 EXPANSION, INCLUDING 3 PARCELS OF LAND (LHS: PKNS LAND, MARINA LAND B, AND GOVERNMENT LAND C), AND 1MDB FTZ LAND (RHS)

Source: Cadangan Pembangunan Tambahan Terminal Kontena CT1O-CT13 (Fasa1) dan CT14-CT17 (Fasa 2), PLANMalaysia dated 2021, The Edge Financial Daily

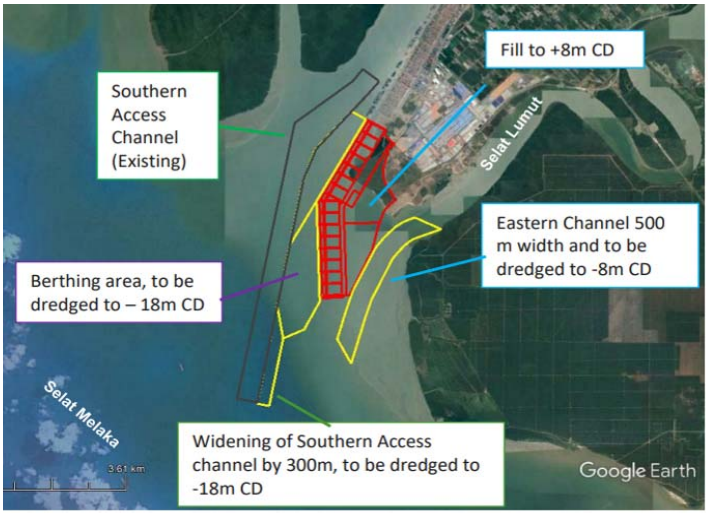
PROPOSED AREA OF WPRTS 2 EXPANSION, INCLUDING THREE PARCELS OF LAND

BIL	KOMPONEN PEMBANGUNAN	UNIT	HEKTAR	EKAR	PERATUS (%)
PEMBANGUNAN FASA 1 : LOT 72778 DAN PT 73171 (2021-2034)					
1	PLOT INDUSTRI	15	100.46	248.24	18.41
2	PERKARANGAN KONTENA (*CONTAINER YARD*)	7	83.41	206.12	15.29
	JUMLAH KECIL	22	183.87	454.36	33.70
KEMUDAHAN DAN INFRASTRUKTUR					
1.	KAWASAN HIJAU	-	12.10	29.90	2.22
2.	JALAN	-	66.42	164.12	12.17
3.	BADAN AIR / DERMAGA	-	38.210	94.42	7.00
	JUMLAH KECIL	-	116.89	288.84	21.39
	JUMLAH KESELURUHAN FASA 1	22	300.60	742.80	55.09
PEMBANGUNAN FASA 2 : (TANAH KERAJAAN YANG DIPOHON) (2033-2050)					
1.	PEMBANGUNAN AKAN DATANG (PLOT INDUSTRI)	-	245.01	605.43	44.91
	JUMLAH KESELURUHAN FASA 2	-	245.01	605.43	44.91
	JUMLAH KESELURUHAN FASA 1 & 2	22	545.61	1,348.23	100.00

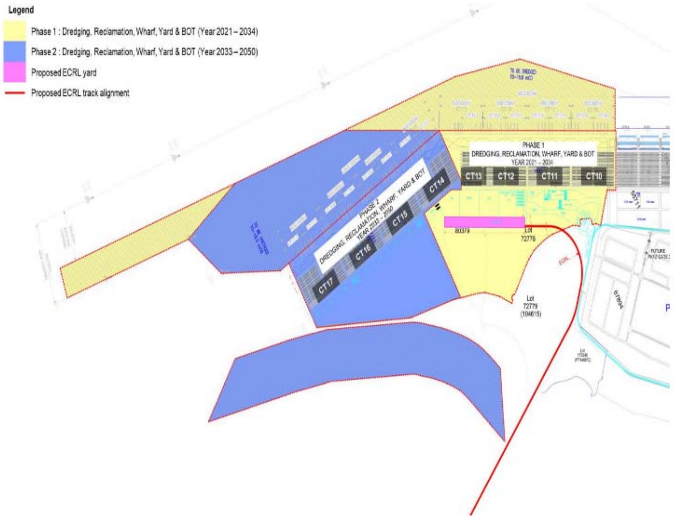
PETUNJUK :
Plot Industri | Badan Air | Sirkulasi/ Jalan/ Lorong Dalaman
Perkarangan Kontena | Kawasan Hijau | Pembangunan Akan Datang

Note: We believe WRPTS has yet to begin negotiations to acquire the 605 acres of Government Land, but the transfer back to government has to be done by 2045 in order for CT14-17 development to happen
***Note: The parameters in this 2021 government proposal document are not the finalised parameters. We intend to display this document as reference on the parcel of lands and the development concept of both phases*
Source: Cadangan Pembangunan Tambahan Terminal Kontena CT1O-CT13 (Fasa1) dan CT14-CT17 (Fasa 2), PLANMalaysia dated 2021

DREDGING PLANS OF WPRTS 2, FOR 18 METERS CHART DATUM (CD, LHS)*



ECRL RAIL YARD PROPOSAL AT CT10-13 TERMINAL



**Note:*
CT10-13: Involve Southern Access Channel Widening and Dredging for -18m CD (to allow safer navigation conditions)
CT14-17: Involve Eastern Channel "Compensation Dredging" for -8m CD on Selat Lumut (offset reclamation issues)
Source: Westport's EIA Report for the project

PROJECTIONS OF CONTAINER VOLUME AND OTHER TYPE OF GOODS BY ECRL

M tonnes	2027	2032	2037	2042	2047
Gateway volume,	3.5	6.0	10.1	15.8	22.2
Iron Ore	2.5	3.8	5.7	8.3	7.9
Coal	0.5	1.1	2.1	3.8	5.4
Cement	0.3	0.9	2.5	4.9	7.2
Rubber (containers)	0.2	0.2	0.5	0.6	0.7
Polyethylene	0.2	0.4	0.5	0.7	0.7

Source: ECRL Section C Railway Scheme, Malaysia Rail Line

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	2,056	2,047	2,164	2,277
EBITDA	1,215	1,256	1,342	1,420
Deprec. & amort.	265	278	289	299
EBIT	950	978	1,053	1,122
Associate contributions	46	12	13	15
Net interest income/(expense)	(52)	(46)	(44)	(58)
Pre-tax profit	944	948	1,023	1,078
Tax	(244)	(209)	(225)	(237)
Minorities	0	0	0	0
Net profit	700	740	798	841
Net profit (adj.)	623	735	798	841

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,776	1,487	1,423	1,353
Other LT assets	2,668	2,630	2,591	2,549
Cash/ST investment	552	735	957	1,172
Other current assets	286	296	312	328
Total assets	5,282	5,148	5,283	5,403
ST debt	125	125	125	150
Other current liabilities	495	536	562	587
LT debt	850	734	711	664
Other LT liabilities	538	287	209	104
Shareholders' equity	3,274	3,467	3,676	3,897
Minority interest	0	0	0	0
Total liabilities & equity	5,282	5,148	5,283	5,403

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	899	1,037	1,082	1,134
Pre-tax profit	944	948	1,023	1,078
Tax	(320)	(209)	(225)	(237)
Deprec. & amort.	265	278	289	299
Associates	(46)	(12)	(13)	(15)
Working capital changes	35	31	9	9
Other operating cashflows	22	0	0	0
Investing	(184)	(187)	(185)	(187)
Capex (growth)	(215)	(137)	(135)	(137)
Investments	(31)	(50)	(50)	(50)
Others	62	0	0	0
Financing	(820)	(625)	(676)	(732)
Dividend payments	(552)	(542)	(588)	(620)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	103	102	103
Loan repayment	(175)	(125)	(125)	(150)
Others/interest paid	(93)	(61)	(64)	(65)
Net cash inflow (outflow)	(105)	225	222	215
Beginning cash & cash equivalent	615	510	735	957
Changes due to forex impact	42	0	0	0
Ending cash & cash equivalent	552	735	957	1,172

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	59.1	61.3	62.0	62.4
Pre-tax margin	45.9	46.3	47.3	47.3
Net margin	34.0	36.1	36.9	36.9
ROA	13.1	14.2	15.3	15.7
ROE	21.9	21.9	22.3	22.2
Growth				
Turnover	3.9	(0.4)	5.7	5.2
EBITDA	(10.7)	3.4	6.8	5.9
Pre-tax profit	(9.2)	0.5	7.9	5.4
Net profit	(13.5)	5.7	7.9	5.4
Net profit (adj.)	(14.9)	18.0	8.5	5.4
EPS	(14.9)	18.0	8.5	5.4
Leverage				
Debt to total capital	22.9	19.9	18.5	17.3
Debt to equity	29.8	24.8	22.7	20.9
Net debt/(cash) to equity	12.9	3.6	(3.3)	(9.2)
Interest cover (x)	23.2	27.2	30.8	24.4

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