

COMPANY RESULTS

Westports Holdings (WPRTS MK)

2022: Profits In Line; Partially Factor In New Concession Event

2022 core profit was in line, after excluding major impairment reversal of the JV cruise business and investment tax allowance (ITA). Noting that: a) low 0-5% container growth guidance for 2023, b) gateway now at a high base, and c) moderating VAS, we believe share price may have started to price in chances of the new WPRTS 2 concession materialising, instead of earnings catalysts. Maintain HOLD with a higher DCF-based target price of RM3.80.

4Q22 RESULTS

Year to 31 Dec (RMm)	4Q FY22	qoq (% chg)	yoy (% chg)	YTD FY22	yoy (% chg)
Operating Revenue	521.1	0.1	3.4	2,069.0	2.3
- Container	440.0	(0.2)	1.4	1,334.0	(23.1)
- Conventional	37.0	(14.0)	5.7	118.0	(11.9)
EBIT	233.2	0.0	(17.0)	496.7	(54.9)
Operating margin (%)	44.8%	-0.1%	-11.0%	24.0%	-30.5%
Net finance cost	(12.6)	0.8	(18.8)	(52.3)	(15.3)
JV/associates	43.2	1,055.6	Na	46.2	Na
PBT	251.3	12.2	(5.2)	943.9	(9.2)
Tax	(16.2)	(77.9)	(61.6)	(244.4)	5.6
Net Profit	235.0	56.3	5.5	699.6	(13.4)
Core Profit	158.5	5.3	(21.6)	622.8	(14.8)
Net Margin (%)	30.4	1.5	-9.7	30.1	-6.1

Source: Westports Holdings, UOB Kay Hian

RESULTS

• **2022 core profit in line at 103%/100% of our/consensus estimates.** Despite weakening global trade growth towards end-22, Westports Holdings' (WPRTS) 4Q22 total container volume (2.58m TEUs, 0%/+5% qoq/yoy) was resilient - transshipment business (1.56m TEUs, +1%/0% qoq/yoy) saw higher blank sailings (ie repositioning of boxes) as supply chain disruptions eased. The high-yielding gateway (1.02m TEUs, -2%/+14% qoq/yoy) continued to benefit from favourable local export growth and foreign investment. This helped lift 4Q22 profits qoq, although the yoy decline was due to higher cost items (ie fuel). Even though 2022's gateway mix jumped yoy from 35% to 40%, this was offset by lower value-added services (VAS) income which normalised to pre-COVID-19 levels.

• **4Q22 exceptional items were:** a) RM43m impairment reversals and RM3m cost items from the JV business Boustead Cruise Terminal (core JV profit for 2022 was RM6m-7m), b) RM14m write-back on dismantling of seven old quay cranes (QC), and c) RM51m investment tax allowance (ITA) for 2022. The ITA was all incurred in 4Q22, and this entirely reversed the impact of the Prosperity Tax, leading to group tax rate of 25%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,978	2,056	1,982	2,096	2,206
EBITDA	1,361	1,215	1,202	1,299	1,375
Operating profit	1,102	950	923	1,010	1,076
Net profit (rep./act.)	809	700	694	764	805
Net profit (adj.)	732	623	694	764	805
EPS (sen)	21.5	18.3	20.3	22.4	23.6
PE (x)	17.5	20.6	18.5	16.8	15.9
P/B (x)	4.1	3.9	3.7	3.5	3.3
EV/EBITDA (x)	9.5	10.7	10.8	10.5	10.4
Dividend yield (%)	4.7	3.8	4.0	4.4	4.6
Net margin (%)	40.9	34.0	35.0	36.4	36.5
Net debt/(cash) to equity (%)	14.2	12.9	4.2	n.a.	n.a.
Interest cover (x)	22.0	23.2	26.1	29.8	23.6
ROE (%)	27.2	21.9	20.6	21.5	21.4
Consensus net profit	-	-	692	736	790
UOBKH/Consensus (x)	-	-	1.00	1.04	1.02

Source: Westports Holdings, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.76
Target Price	RM3.80
Upside	+1.0%
(Previous TP)	RM3.20)

COMPANY DESCRIPTION

An integrated facility situated at the Port Klang, Malaysia's premier port. It offers container-handling, dry bulk, liquid bulk and other conventional cargo services.

STOCK DATA

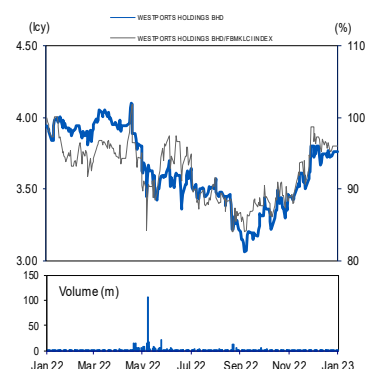
GICS sector	Industrials
Bloomberg ticker:	WPRTS MK
Shares issued (m):	3,410.0
Market cap (RMm):	12,821.6
Market cap (US\$m):	2,992.1
3-mth avg daily t'over (US\$m):	0.7
Price Performance (%)	

52-week high/low RM4.10/RM3.06

1mth	3mth	6mth	1yr	YTD
5.3	12.9	4.4	(4.6)	(1.1)

Major Shareholders	%
Gnanalingam Family	45.5
EPF	8.8
-	-
FY23 NAV/Share (RM)	1.01
FY23 Net Debt/Share (RM)	0.04

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Gateway boxes at all-time high of 4m, though offset by higher costs and lower VAS.** Although transshipment boxes saw -10% growth yoy in 2022, the gateway boxes saw +9% growth. The resilient gateway performance was the key anchor to the port's 2022 profit strength, which offset higher costs (fuel costs surged by 69% to RM201m, and comprised 23% of total COGS for 2022), and lower VAS (average yard occupancy in 4Q22 fell by 13%, which implied that congestion has eased).
- **Maintain low volume growth (0-5%) guidance for 2023.** This assumes imminent recession happening in the US/ European hemisphere, which will have a material impact on the transshipment business. WPRTS thinks that the reopening of China's economy will positively contribute further to the gateway business' sustained strength (more so vs transshipment). 1Q23 is expected to be weak as Lunar New Year demand for container trades happened in Dec 22-Jan 23. Jan 23 volumes ytd recorded flattish yoy growth.
- **Delivering new QCs is a key target for 2023.** We note that the port's available capacity in end-22 declined yoy from 13.5m TEUs to 13m TEUs, represented by the reduction in QC fleet from 65 to 63. This is given that WPRTS dismantled seven old QCs, to be replaced by six new QCs, but there is a transitional period as only three of the new QCs were operational in end-22, and the other three QCs will be delivered by end-Jan 23, but are expected to be operational only in Mar 23. WPRTS guided to have 66 QCs by end-23, with no more new deliveries and dismantling of old QCs (two more old QCs will be retained for operations to service the smaller barges). This implies a yard capacity of 13.8m TEUs, close to its maximum capacity of 15m. WPRTS 2's capacity is planned to be 13m TEUs.
- **WPRTS2 concession negotiations "at faster progress".** The negotiations for the new concession are still pending final approval from the Malaysian government. But the signing is still expected by mid-23. The three-year capex estimate (pre-2019) was RM1.5b-2.0b (land: RM0.5b) for the first phase. The equity funding needs to be raised one year after signing, and while the mode is unclear, WPRTS will prioritise securing strategic investors, otherwise the next step will be a dividend reinvestment plan (to avoid a rights issue scenario). It is hopeful for conventional tariffs to be revised upwards; however it seems that the container tariff (for the whole of Port Klang) is not in the plans for upward revision despite the cost inflation. The minimum IRR target is still 8-9%.
- **WPRTS internally assumes 20% group tax rate.** 2022's RM0.2b capex spent was for a new power substation and a new liquid bulk terminal, and capex guidance for 2023 is also at RM0.2b. While 2022's ITA of RM51m was a surprise to us, WPRTS guided that future ITA quantum will depend on future capex (especially if WPRTS 2 is sanctioned).

EARNINGS REVISION/RISK

- **Adjust 2023-24 earnings by -1%/-4%.** We cut 2023-24 volume by 2%, and our new volume assumptions reflect 75-79% port utilisation across our forecast years. For the JV/associate line, management expects RM10m core profit from the cruise terminal for 2023. We assume tax rate of 22-23% at this juncture (vs 20% guidance).

VALUATION/RECOMMENDATION

- **Retain HOLD, DCF-based target price adjusted to RM3.80 (vs RM3.20).** This implies 19x 2023F PE (-1SD of mean), based on DCF to 2054. We see lack of earnings catalysts, as near-term container volume/earnings outlook is lackluster; on top of this, the gateway business is at a high base while VAS is moderating. Hence, we opine the share price uptrend may have started to price in the WPRTS 2 event. Our DCF valuation is raised to factor potentially higher ITA taxes from the new concession. It is still too premature to value the RM10b WPRTS 2 concession accurately, as new concession terms/margins are uncertain. At the same time, markets may need to digest the impact of long-term port competition (among others include Tuas Singapore and Thailand's Land Bridge), and shipping liners' capacities in reaction to the green shipping regulations.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

• 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. More incidents in 2021 (699) vs 2020 (538) due to better reporting.
• Social
- Diversity. >30% female representation on the Board of Directors (2020: 27%).
- Social investments in 2019/2020/2021 amounted to RM2.9m/RM2.8m/RM5.6m.
• Governance
- 8 out of 13 board members (including two alternate directors) are independent, despite having family representation within the management team.

VOLUME PERFORMANCE BY TRADE ROUTES

Container m TEU	4Q22	4Q21	% YoY	% Split	3Q22
Transshipment	1.56	1.57	0%	60.5%	1.55
Gateway	1.02	0.89	14%	39.5%	1.04
Total^	2.58	2.47	5%	100%	2.59
Intra-Asia	1.61	1.52	6%	62.2%	1.65
Asia-Europe	0.46	0.38	20%	17.7%	0.43
Asia-Australasia	0.23	0.26	-9%	9.0%	0.24
Asia-America	0.16	0.20	-19%	6.2%	0.17
Asia-Africa	0.06	0.08	-23%	2.3%	0.05
Others	0.06	0.03	86%	2.5%	0.03
Total^	2.58	2.47	5%	100%	2.59

Source: Westports, UOB Kay Hian

COGS BREAKDOWN

Cost RM million	4Q22	4Q21	% YoY	% Split	3Q22
Manpower	67	60	13%	31.1%	66
Depreciation	52	51	2%	24.0%	52
Fuel	48	34	40%	22.2%	54
M&R	21	19	10%	9.9%	20
Electricity	12	11	8%	5.5%	12
Others	16	16	-2%	7.4%	16
Op. Cost^	216	192	13%	100%	221
Construction	10	10	-2%	-	4
Total Cost^	226	201	12%	-	225

Source: Westports, UOB Kay Hian

CONTAINER REVENUE, THROUGHPUT AND YIELDS

(RMm)	2022	2023F	2024F
Container Revenue	1,774.0	1,806.7	1,916.6
- Growth (%)	2.2	1.8	6.1
Throughput (TEUs)	10.05	10.46	11.05
- Growth (%)	-3.4	4.0	5.6
- Transshipment	6.08	6.44	6.79
- Gateway	3.97	4.03	4.25
Implied gross container yields/ box	271.84	265.89	267.22
- Growth (%)	5.8	-2.2	0.5

Source: Westports, UOB Kay Hian

DCF VALUATION AND TARGET PRICE

	Stage 1 (2023-29)	Stage 2 (-2054)
EBITDA CAGR (tariff hike)	4.7%	3.0%
EBITDA CAGR (no tariff hike)	3.8%	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)	4,644.0	8,478.3
Risk Free Rate		5.5%
Beta (x)		0.9
Tax Rate		25%
Cost of Equity		9.0%
Cost of Debt		5.5%
WACC		8.0%
Enterprise Value (RMm)		13,122.3
- Net Debt, FY23F (RMm)		(144.1)
Target Price		RM3.80

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	2,056	1,982	2,096	2,206
EBITDA	1,215	1,202	1,299	1,375
Deprec. & amort.	265	278	288	299
EBIT	950	923	1,010	1,076
Associate contributions	46	12	13	15
Net interest income/(expense)	(52)	(46)	(44)	(58)
Pre-tax profit	944	889	980	1,032
Tax	(244)	(196)	(216)	(227)
Minorities	0	0	0	0
Net profit	700	694	764	805
Net profit (adj.)	623	694	764	805

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	715	928	1,134
Other current assets	286	287	303	319
Total assets	5,282	5,119	5,245	5,355
ST debt	125	125	125	150
Other current liabilities	495	521	547	571
LT debt	850	734	711	664
Other LT liabilities	538	282	204	100
Shareholders' equity	3,274	3,457	3,658	3,870
Minority interest	0	0	0	0
Total liabilities & equity	5,282	5,119	5,245	5,355

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	899	986	1,049	1,098
Pre-tax profit	944	889	980	1,032
Tax	(320)	(196)	(216)	(227)
Deprec. & amort.	265	278	289	299
Associates	(46)	(12)	(13)	(15)
Working capital changes	35	26	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)	(594)	(651)	(705)
Dividend payments	(552)	(511)	(563)	(593)
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)	205	213	206
Beginning cash & cash equivalent	615	510	715	928
Changes due to forex impact	42	0	0	0
Ending cash & cash equivalent	552	715	928	1,134

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	59.1	60.6	61.9	62.3
Pre-tax margin	45.9	44.9	46.7	46.8
Net margin	34.0	35.0	36.4	36.5
ROA	13.1	13.3	13.7	13.7
ROE	21.9	20.6	21.5	21.4
Growth				
Turnover	3.9	(3.6)	5.7	5.2
EBITDA	(10.7)	(1.1)	8.1	5.9
Pre-tax profit	(9.2)	(5.8)	10.2	5.4
Net profit	(13.5)	(0.8)	10.2	5.4
Net profit (adj.)	(14.9)	11.4	10.2	5.4
EPS	(14.9)	11.4	10.2	5.4
Leverage				
Debt to total capital	22.9	19.9	22.9	21.0
Debt to equity	29.8	24.9	22.9	21.0
Net debt/(cash) to equity	12.9	4.2	n.a.	n.a.
Interest cover (x)	23.2	26.1	29.8	23.6

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