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## CIMB Research retains Hold for Westports, ups target price



KUALA LUMPUR: Westports Holdings nine-month to September 2016 core net profit was in-line at 77% of CIMB Equities Research's forecasts.

It said on Friday the factors for the 21% increase in core profits on-year were due to strong volume growth of 8% on-year and last November's 15% gateway tariff hike.

"While Westports is outperforming many of its global port peers, there is uncertainty about how the restructuring of the container shipping alliances in 2017 will affect it.

"Still, Westports is confident enough to start the process to build Phase 1 of container terminal 9 (CT9), to be completed by end-2017, just after the completion of CT8 Phase 2 in mid-2017," it said.

CIMB Research retained its Hold and raised its discounted cash flow-based target price to RM4.58 from RM4.45, and upgrade FY17 EPS.

Westports continued to deliver strong volume growth, with transshipment volumes up 10.8% on-year, although gateway volumes rose only a marginal 1.6%. The 9M16 transshipment volumes grew 13.7% on-year on the back of “ad-hoc” container moves by carriers upsizing their services to larger vessels, and various container services starting/terminating.

As the cheapest transshipment port in Asean, Westports is the natural choice for “ad-hoc” moves. Transshipment volumes were also boosted by the influx of empties, as Westports’ storage fees are low.

The intra-Asia trade performed the best, growing 14.5% on-year during 3Q16 when other major trades were mostly flat or down, because most of the ‘ad-hoc’ lifts and empty box imports were classified as regional in nature.

Most of the empties entering Westports were subsequently redistributed to other parts of ASEAN or to China.

Conversely, gateway volumes stayed lethargic, as a 5% rise in laden exports was largely offset by a decline in laden container imports into Malaysia, due to weak consumer sentiment.

The OCEAN and THE alliances recently announced their new service structures that will take effect on April 1, 2017. The OCEAN alliance clearly scheduled Westports into their Asia-East Coast North America and Asia-Middle East port calls, but announced that it will call at an unnamed “SEA HUB” for their Asia-North Europe and Asia-Mediterranean services.

THE alliance also took the cue and announced port calls at a certain “South East Asia Hub” for all their services from 2Q17.

“We find it hard to believe that the alliances would not already have a good idea which port they would want to call at. However, the strategic ambiguity may be a means for the two alliances to extract price concessions from the Port of Singapore, Westports, as well as the Port of Tanjung Pelepas, in exchange for their combined business.