

30 September 2014

# Westports

## Port ahoy! Initiate at Buy

### Buy

**Price**  
RM3.05

**Target price**  
RM3.80

We like Westports for its advantageous port attributes, operational efficiency and strong organic growth potential. While the stock's PE is in line with other regional ports, the group's FCF and dividend yields are superior based on our estimates. We initiate coverage with a Buy call and DCF derived TP of RM3.80.

#### Market data

Bloomberg code	WPRTS MK
No. of shares (m)	3,410.0
Market cap (RMm)	10,400.50
52-week high/low (RM)	3.10 / 2.45
Avg daily turnover (RMm)	n.a.
KLCI (pts)	1,840.50

Source: Bloomberg

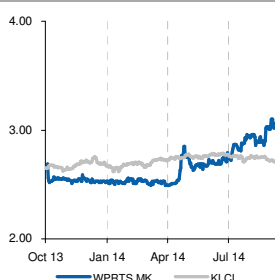
#### Valuation

Target price (RM)	3.80
Methodology	DCF
Key assumptions	WACC = 9.1%
	g = 4.4%
Implied FY15 PE (x)	24.5
Implied FY15 PBV (x)	7.0
Implied FY15 Yield (%)	3.1

Source: KAF

#### Performance

	1M	3M	12M
Absolute (%)	5	13	n.a.
Rel market (%)	7	16	n.a.



Source: Bloomberg

#### Analyst

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#### Financial Highlights

FYE Dec (RMm)	FY12	FY13	FY14F	FY15F	FY16F
Core revenue	1,226	1,348	1,488	1,632	1,779
Core net profit	361	435	477	530	591
Core EPS (sen)	10.6	12.8	14.0	15.5	17.3
Core EPS growth (%)	18.9	20.6	9.6	11.0	11.5
PE (x)	28.8	23.9	21.8	19.6	17.6
Net DPS (sen)	-	10.3	10.5	11.7	13.0
Net yield (%)	-	3.4	3.4	3.8	4.3
Core ROE (%)	24.3	27.1	27.7	28.6	29.5
PBV (x)	7.0	6.5	6.0	5.6	5.2
Net gearing (%)	24.8	34.8	34.2	19.7	11.0

Source: Company, KAF

\* Price as at 26 September 2014

#### Port Klang's leading port

Westports is the leading port operator in Port Klang with overall market share of 72% in 2013. However, as a regional transshipment hub, it trails the likes of Port of Tanjung Pelepas (PTP) and Port of Singapore (PSA) in terms of volume. From FY10 to FY13, transshipment and import/export volumes have been growing at a CAGR of 8.9% and 13.5%. This is in tandem with the increase in capacity from 7.0m TEUs to 9.5m TEUs.

#### P3 overhang removed while new alliance solidifies growth

Following the blocked P3 alliance, Maersk and MSC broke away forming a two party alliance leaving CMA CGM to team up with CSCL and UASC. All three are major customers and use Westports as their regional hub. If the alliance does gain approval from the US Federal Maritime Commission, this could solidify Westports' customer base in future. None of the three shipping companies have investments or JV terminals along the Straits of Malacca unlike Maersk and MSC.

#### Earnings leveraged to container volume growth

Westports' earnings growth is highly leveraged to increases in volumes or tariffs given that a high proportion of its costs – 70% on our estimates - are fixed. We project FY14 earnings to grow at a CAGR of 11% between FY13 and FY16 mainly driven by container growth assumptions of 9-10%. Improving global trade, 1.5m TEU capacity expansion (CT7) and structural advantages given the shorter deviation and deeper approach channel seem to support our volume growth projection. These factors enhance Westports' attractiveness compared to Northport, in our view.

#### Initiate coverage with a Buy recommendation and RM3.80 TP

We initiate coverage of Westports with a Buy call and DCF derived RM3.80 TP. The implied premium valuations fair value, we believe are well supported by several positive attributes including 1) respectable estimated earnings CAGR of 11% over the next two years, 2) reasonable operational FCF yields of 6-7% at current values, 3) higher dividend yield support when compared to its peers and 4) advantageous port attributes, improving market share, strong customer base and operational excellence.

Produced by KAF-Seagroatt & Campbell Securities Sdn Bhd  
Important disclosures can be found in the Disclosure Appendix

# Additional information

**Table 1 : Assumptions and forecasts**

FY Dec	2011	2012	2013	2014F	2015F	2016F
<b>Assumptions</b>						
Container cargo handled growth (%)	14.3	7.1	9.0	11.0	10.0	9.0
Conventional cargo handled growth (%)	9.0	5.2	3.9	(1.0)	-	1.0
<b>Forecasts (RMm)</b>						
Revenue (ex construction)	1,115	1,226	1,348	1,488	1,632	1,779
EBITDA (ex construction)	503	575	662	751	822	892
EBIT (ex construction)	413	484	564	635	700	768
PBT (ex construction and exceptionals)	365	435	517	572	634	706
Net Profit (ex construction and exceptionals)	304	361	435	477	530	591
<b>Growth (%)</b>						
Revenue (ex construction)	14.4	9.9	10.0	10.3	9.7	9.0
EBITDA (ex construction)	(3.4)	14.3	15.2	13.4	9.4	8.5
EBIT (ex construction)	(3.6)	17.3	16.5	12.5	10.3	9.7
PBT (ex construction and exceptionals)	(5.3)	19.1	18.9	10.6	10.9	11.3
Net Profit (ex construction and exceptionals)	11.1	18.9	20.6	9.6	11.0	11.5
<b>Margins (%)</b>						
EBITDA (ex construction)	45.1	46.9	49.1	50.5	50.4	50.1
EBIT (ex construction)	37.0	39.5	41.8	42.7	42.9	43.2
PBT (ex construction and exceptionals)	32.7	35.4	38.3	38.4	38.8	39.7
Net Profit (ex construction and exceptionals)	27.2	29.4	32.3	32.1	32.5	33.2

Source: Company, KAF

**Table 2 : Sensitivity analysis**

Variables	Sensitivity	Impact (RMm)	% FY15 earnings
Container cargo handled growth	+ / - 1m TEUs	68	13
Conventional cargo handled growth	+ / - 1m tonnes	1	0

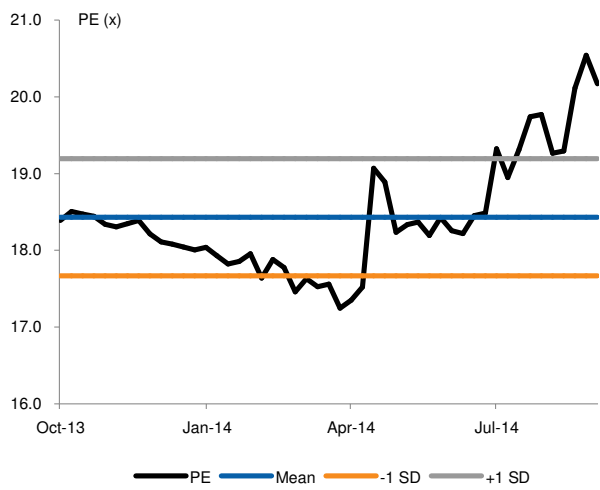
Source: Company, KAF

**Table 3 : DCF for Westports**

Items	Value (RMm)
DCF from port operations	2,775
Terminal value	11,013
<b>Enterprise value</b>	<b>13,788</b>
Net cash / (debt)	(759)
<b>Equity value</b>	<b>13,029</b>
Number of shares (m)	3,410
<b>Equity value per share (RM)</b>	<b>3.80</b>

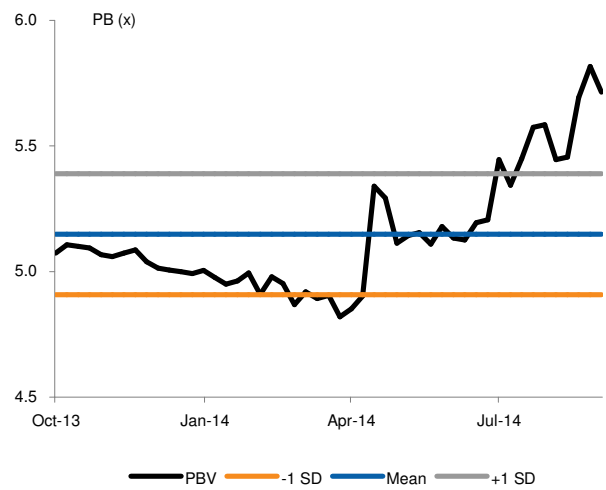
Source: Company, KAF

**Chart 1 : WPRTS 12-month rolling forward PE**



Source: Bloomberg, Company, KAF

**Chart 2 : WPRTS 12-month rolling forward PBV**



Source: Bloomberg, Company, KAF

## Income statement

FYE Dec (RMm)	2011	2012	2013	2014F	2015F	2016F
Revenue	1,387	1,492	1,713	1,813	1,732	1,979
Operating costs	(884)	(918)	(1,050)	(1,062)	(910)	(1,087)
<b>EBITDA</b>	<b>503</b>	<b>575</b>	<b>662</b>	<b>751</b>	<b>822</b>	<b>892</b>
Depreciation & amortisation	(90)	(90)	(98)	(116)	(122)	(124)
<b>EBIT</b>	<b>413</b>	<b>484</b>	<b>564</b>	<b>635</b>	<b>700</b>	<b>768</b>
Net interest income / (expense)	(48)	(50)	(47)	(63)	(66)	(63)
Net operating profit / (loss)	365	435	517	572	634	706
Exceptional items	-	-	-	-	-	-
<b>PBT</b>	<b>365</b>	<b>435</b>	<b>517</b>	<b>572</b>	<b>634</b>	<b>706</b>
Taxation	(61)	(74)	(82)	(94)	(104)	(115)
<b>PAT</b>	<b>304</b>	<b>361</b>	<b>435</b>	<b>477</b>	<b>530</b>	<b>591</b>
Revenue w/o IC12	1,115	1,226	1,348	1,488	1,632	1,779

Source: Company, KAF

## Balance sheet

FYE Dec (RMm)	2011	2012	2013	2014F	2015F	2016F
<b>Non-current assets</b>	<b>2,510</b>	<b>2,678</b>	<b>3,032</b>	<b>3,291</b>	<b>3,319</b>	<b>3,446</b>
Net fixed assets	898	994	1,159	1,452	1,515	1,677
Long term investments	-	-	-	-	-	-
Other long term assets	-	-	-	-	-	-
Intangible assets	1,612	1,684	1,873	1,839	1,804	1,768
Deferred tax assets	-	-	-	-	-	-
Associates / JVs	-	-	-	-	-	-
<b>Current assets</b>	<b>591</b>	<b>536</b>	<b>542</b>	<b>569</b>	<b>875</b>	<b>1,151</b>
Bank balance	351	326	342	348	633	887
Liquid assets	-	-	-	-	-	-
Short term investments	-	-	-	-	-	-
Inventory	-	-	-	-	-	-
Debtors	226	211	200	221	242	264
Other non-cash current assets	13	-	-	-	-	-
<b>Total assets</b>	<b>3,101</b>	<b>3,214</b>	<b>3,574</b>	<b>3,860</b>	<b>4,195</b>	<b>4,597</b>
<b>Non-current liabilities</b>	<b>1,358</b>	<b>1,105</b>	<b>1,554</b>	<b>1,592</b>	<b>1,652</b>	<b>1,752</b>
Long-term debt	695	450	900	938	998	1,098
Deferred tax liabilities	205	220	242	242	242	242
Other long-term liabilities	458	435	412	412	412	412
<b>Current liabilities</b>	<b>414</b>	<b>621</b>	<b>416</b>	<b>545</b>	<b>687</b>	<b>842</b>
Short-term debt	100	245	-	-	-	-
Creditors	267	327	367	402	440	480
Other current liabilities	47	49	49	144	248	362
<b>Total liabilities</b>	<b>1,772</b>	<b>1,726</b>	<b>1,970</b>	<b>2,137</b>	<b>2,339</b>	<b>2,594</b>
<b>Equity</b>	<b>1,328</b>	<b>1,488</b>	<b>1,604</b>	<b>1,723</b>	<b>1,856</b>	<b>2,003</b>
Common shareholders equity	1,328	1,488	1,604	1,723	1,856	2,003
Preferred shares	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-
<b>Total liabilities and equity</b>	<b>3,101</b>	<b>3,214</b>	<b>3,574</b>	<b>3,860</b>	<b>4,195</b>	<b>4,597</b>

Source: Company, KAF

## Cash flow statement

FYE Dec (RMm)	2011	2012	2013	2014F	2015F	2016F
<b>Operating cash flows</b>	<b>491</b>	<b>631</b>	<b>687</b>	<b>702</b>	<b>772</b>	<b>847</b>
Profit before tax	365	435	517	572	634	706
Associates profits	-	-	-	-	-	-
Depreciation	71	64	70	83	87	88
Amortization of intangibles	44	49	55	33	35	36
(Profit)/ loss on disposal of FAs/subsidiaries/investments	7	(1)	(1)	-	-	-
(Increase)/ decrease in working capital requirement	11	67	51	96	111	122
Tax paid	(56)	(35)	(53)	(82)	(94)	(104)
Other operating cash flow	50	52	49	-	-	-
<b>Investing cash flows</b>	<b>(488)</b>	<b>(267)</b>	<b>(468)</b>	<b>(375)</b>	<b>(150)</b>	<b>(250)</b>
Net capital expenditure	(498)	(276)	(478)	(375)	(150)	(250)
Net change in investments	3	1	0	-	-	-
Net change in associates & JVs	-	-	-	-	-	-
Associates' dividends (investing)	-	-	-	-	-	-
Other cash flow (for)/from investments	7	7	10	-	-	-
<b>Financing cash flows</b>	<b>(35)</b>	<b>(390)</b>	<b>(207)</b>	<b>(320)</b>	<b>(337)</b>	<b>(343)</b>
Net change in debt	341	(101)	202	38	60	100
Minority interests	-	-	-	-	-	-
Dividends paid	(300)	(200)	(1,057)	(358)	(397)	(443)
Proceeds from share issues/(buyback)	-	-	738	-	-	-
Gain/ (loss) from currency adjustments	-	-	-	-	-	-
Other cash flow items (for)/from financing activities	(76)	(90)	(89)	-	-	-
Net Change for the financial year	(32)	(26)	13	6	285	254
Cash and cash equivalents at beginning	363	331	305	318	324	609
<b>Cash and cash equivalents at end</b>	<b>331</b>	<b>305</b>	<b>318</b>	<b>324</b>	<b>609</b>	<b>863</b>
Fixed deposits	20	21	24	24	24	24
<b>Cash and cash equivalents at end ex fixed deposits</b>	<b>351</b>	<b>326</b>	<b>342</b>	<b>348</b>	<b>633</b>	<b>887</b>

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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