

07 November 2014

Westports Holdings Bhd

3Q14 Results Inline

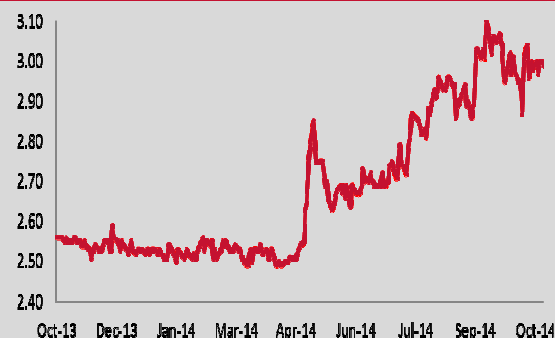
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Period	▪ 3Q14/9M14
Actual vs. Expectations	▪ WPRTS recorded 3Q14 core profit of RM140.9m, bringing its 9M14 core profit to RM372.4m. This is within expectations, which accounted for 78.5% and 74.8% of ours, and streets', FY14 full-year forecast, respectively.
Dividends	▪ No dividend was declared for the quarter.
Key Result Highlights	<ul style="list-style-type: none"> ▪ Core profit in 3Q14 rose 8.0% YoY underpinned by: (i) 11.3% YoY growth in container throughput handled and (ii) lower effective tax rate of 9.9% vs. 20.8% in 3Q13 due to higher investment tax allowance. ▪ Sequentially, 3Q14 core earnings gained 15.0%, which was driven by 3.3% growth in throughput and lower effective tax rate of 9.9% vs. 17.6% in 2Q14 which we believe is due to uneven tax investment allowance across different quarters. ▪ In 9M14, core profit grew 10.0% YoY attributable to 12.0% YoY gain in container throughput handled and also lower effective tax rate of 14.7% vs. 21.1% in 9M13, due to the same reasons mentioned above.
Outlook	<ul style="list-style-type: none"> ▪ In view of robust growth of container throughput achieved in the first 9 months of 2014, WPRTS has decided to embark on the expansion of Container Terminal 8 (CT8) which will bring its container handling capacity from 11.0m TEUs to 13.8m TEU. ▪ Commencement of the construction of the Phase 1 of CT8 is expected to be in early 2015, expected to be completed in 2016. Phase 2 of the expansion project, on the other hand, is scheduled to be completed in 2017. ▪ We are positive on the expansion plan of CT8 as it will position the group to ride on the encouraging growth of container throughput handled in Westport. ▪ The newly-formed OCEAN 3 alliance consisting of the group's major clients is expected to benefit WPRTS in the medium-term as their clients may capture further market share from peers from efficiencies gain through route sharing agreements.
Change to Forecasts	▪ We maintain our earnings forecast for now as results are in-line.
Rating	Maintained at MARKET PERFORM
Valuation	▪ TP is maintained at RM3.13/DDM share. (Ke: 7.3%, g: 1.25%)
Risks to our Call	<ul style="list-style-type: none"> ▪ Lower-than-expected throughput growth ▪ Emergence of major shipping alliances

MARKET PERFORM ↔

Price: RM2.90
Target Price: RM3.13 ↔

Share Price Performance



KLCI	1831.98
YTD KLCI chg	-1.9%
YTD stock price chg	14.6%

Stock Information

Bloomberg Ticker	WPRTS MK EQUITY
Market Cap (RM m)	9,889.0
Issued shares	3,410.0
52-week range (H)	3.10
52-week range (L)	2.45
3-mth avg daily vol:	2,844,184
Free Float	29%
Beta	N.A.

Major Shareholders

PEMBINAAN REDZAI SDN	42.4%
SOUTH PORT INVEST HO	23.6%
LANKAYAN VENTURES SD	4.7%

Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	1712.6	1853.6	1955.8
EBIT	564.3	589.9	626.6
PBT	517.0	528.7	561.7
Net Profit (NP)	435.3	474.2	503.8
Core NP	435.3	474.2	503.8
Consensus (NP)		497.7	529.2
Earnings Revision	-	-	-
Core EPS (sen)	12.8	13.9	14.8
Core EPS growth (%)	20.6	8.9	6.2
DPS (sen)	9.6	10.4	11.1
BVPS (RM)	0.5	0.5	0.5
Core PER	22.7	21.3	20.6
Price/NTA (x)	6.2	6.0	5.6
Net Gearing (x)	0.3	0.5	0.5
Net Dvd Yield (%)	3.3	3.5	3.6

07 November 2014

Result Highlight

	2Q	1Q	Q-o-Q	2Q	Y-o-Y			Y-o-Y
	FY14	FY14	Change	FY13	Change	1H14	1H13	Change
Y/E : Dec (RM'm)								
Construction revenue*	15.4	30.2	-48.9%	111.5	-86.2%	60.5	218.8	-72.3%
Construction cost of sales	(15.4)	(30.2)	-48.9%	(111.5)	-86.2%	(60.5)	(218.8)	-72.3%
Operational revenue	390.0	378.8	2.9%	348.4	11.9%	1,117.0	991.2	12.7%
Gross profit	214.7	205.8	4.4%	193.7	10.9%	605.4	541.6	11.8%
Other income	1.6	1.6	-0.1%	1.5	8.5%	5.1	37.5	-86.4%
Admin expenses	(6.5)	(6.6)	-1.3%	(14.9)	-56.4%	(18.7)	(56.1)	-66.7%
Other expenses	(36.7)	(35.7)	2.8%	(34.6)	6.1%	(108.0)	(101.8)	6.1%
Operating profit	173.2	165.1	4.9%	145.7	18.9%	483.8	421.1	14.9%
Net interest	(16.9)	(16.4)	2.9%	(12.1)	39.5%	(47.2)	(35.6)	32.7%
Pretax profit	156.3	148.7	5.1%	133.6	17.0%	436.6	385.5	13.3%
Taxation	(15.4)	(26.2)	-41.2%	(27.8)	-44.7%	(64.2)	(81.4)	-21.1%
Net Profit	140.9	122.5	15.0%	105.7	33.2%	372.4	304.1	22.4%
Core Net Profit	140.9	122.5	15.0%	130.5	8.0%	372.4	338.6	10.0%
EPS (sen)	4.1	3.6	15.0%	3.4	23.0%	10.9	10.0	9.5%
DPS (sen)*	-	5.1		-		5.1	4.4	
Operational gross margin (%)	55.1	54.3		55.6		54.2	54.6	
Pretax margin (%)	40.1	39.3		38.3		39.1	176.2	
Net margin (%)	36.1	32.3		30.3		33.3	139.0	
Effective tax rate (%)	9.9	17.6		20.8		14.7	21.1	
Container throughput (m TEUs)	2.16	2.09	3.3%	1.9	11.3%	6.2	5.5	12.0%

Source: Company, Kenanga Research

Valuation table (DDM)

(RM m)	RM m	RM/Share	%	Remarks
PV of dividends for CY15-CY22	3,172.7	0.93	18.7%	7.34% Ke
PV of dividends in perpetuity	7,506.4	2.20	81.3%	7.34% Ke, g = 1.25%
Total	10,679.1	3.13	100.00%	
Issued share (m)	3,410.0			
DDM value per share (RM)	3.13			

Source: Kenanga Research

07 November 2014

Malaysian Shipping & Logistics Sector Comparisons

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY13	CY14	CY15				CY14	CY15		
BIPORT	7.07	3,252.2	20.6	21.4	19.0	3.4%	22.2	3.0	-3.6%	12.4%	8.08	OP
MISC	6.85	30,577.0	20.2	18.7	16.0	0.6%	3.6	1.2	7.8%	16.9%	7.49	OP
WPRTS	3.10	10,571.0	24.3	22.3	21.0	3.4%	25.6	6.6	8.9%	6.2%	3.13	MP
INTEG	2.25	676.8	16.6	17.5	14.3	1.7%	7.2	1.1	-5.3%	22.2%	2.41	MP
MBC	1.69	1,690.0	37.9	23.2	16.7	1.4%	3.8	0.9	63.5%	38.4%	2.53	OP
HARBOUR	1.81	329.4	10.2	9.5	4.9	1.1%	10.6	1.6	7.5%	93.9%	2.20	OP
NCB	2.83	1,330.8	25.8	295.8	242.0	1.1%	9.9	0.9	-91.3%	22.2%	1.83	UP
SURIA	2.72	770.7	12.6	12.2	11.9	2.7%	6.5	0.9	3.4%	2.1%	3.41	OP
Simple Average		49,197.9	21.0	52.6	43.2							
Weighted Average			22.0	27.6	23.6							

Source: Kenanga Research

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07 November 2014

Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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