

07 November 2014 | 3QFY14 Results Review

Westports Holdings Berhad

Benefited from higher terminal utilisation

Maintain NEUTRAL

Revised Target Price (TP): RM3.11
(previously RM2.95)

INVESTMENT HIGHLIGHTS

- **Results above expectations.** The improved result was due to higher throughput and lower effective tax rate.
- **3Q14 container throughput grew robustly by +11.3%yoy to 2.16m TEUs.**
- **CT8 expansion plan to cater for future demand.**
- **Maintain NEUTRAL with revised TP of RM3.11 after rolling forward valuation to FY15.**

Above expectations. Westport reported a higher 3Q14 net profit of RM141m (+33%yoy, +15%qoq). The accumulated 9M14 net profit of RM372m was ahead of expectations, accounting 78% and 76.1% of ours and consensus full year forecasts respectively. The improved 3Q14 results were underpinned by continual rise in container throughput by +11.3%yoy to 2.16m TEUs, operational savings from the greater economies of scale and investment tax allowance which led to lower effective tax rate.

EBITDA margin expansion on higher throughput. Excluding the construction revenue, 3Q14 core revenue grew +12%yoy to RM390m due to higher container throughput. The laden and transshipment container throughput each registered +12%yoy and +11%yoy respectively. Consequently, 3Q14 EBITDA margin expanded to 53.8% from 50.4% resulting from higher yard utilisation rate.

Embarking of CT8 expansion plan. The CT7 is expected to be fully operational by end November 2014 once the last batch of three ship-to-ship (STS) cranes is installed. In order to ease the port congestion in future, the group shed some light on the RM1.0b construction plan of CT8. The expansion plan would be carried out in early 2015 over two phases. Upon CT8 completion in 2017, its handling capacity will rise from the current 11m to 13.8m TEUs p.a. A total of RM400m CAPEX will be allocated in 2015.

Ocean 3 alliance. The forming of the Ocean 3 alliance would reinforce the status of regional transshipment hub for Westport. The management guided that its largest client, CMA-CGM would possibly divert more container volume of the alliance partners to Westport. At the moment, the Intra-Asia route is the key trunk route for Westport, contributing 49% of throughput. Meanwhile, the Asia-Europe and Asia-Africa routes have achieved robust growth.


RETURN STATS	
Price (6 Nov 2014)	RM2.90
Target Price	RM3.11
Expected Share Price Return	+7.0%
Expected Dividend Yield	+4.0%
Expected Total Return	+11.0%

STOCK INFO	
KLCI	1,831.98
Bursa / Bloomberg	5246/ WPRTS MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,410.0
Par Value (RM)	0.10
Market cap. (RM'm)	9,889.0
Price over NA	6.1
52-wk price Range	RM2.45-RM3.10
Beta (against KLCI)	n.a.
3-mth Avg Daily Vol	2.82m
3-mth Avg Daily Value	8.35m
Major Shareholders	
PRSB	42.4%
Hutchison Port Hld.	23.6%
Lankayan Ventures	4.74%

INVESTMENT STATISTICS

FYE Dec	FY13	FY14F	FY15F	FY16F
Revenue (RM'm)	1,712.6	1,607.0	1,876.1	2,112.9
Core Revenue (RM;m)	1,348.5	1,487.0	1,626.1	1,762.9
EBITDA (RM'm)	662.8	768.4	829.7	764.1
PBT(RM'm)	517.0	595.9	637.1	701.2
Net Profit (RM'm)	435.3	506.5	535.2	589.0
EPS (sen)	12.8	14.9	15.7	17.3
EPS growth (%)	20.6	16.4	5.7	10.1
PER(x)	22.7	19.5	18.5	16.8
Net Dividend (sen)	9.6	11.3	11.6	13.0
Net Dividend Yield (%)	3.3	3.9	4.0	4.5

Source: Company, Forecasts by MIDFR

Reaffirm NEUTRAL with revised TP of RM3.11. We tweak our FY14-15 earnings forecasts by 5.2-6.5% in tandem with the lower effective tax rate and more operational savings from improved port efficiency. Consequently, we raise our dividend forecasts and DDM valuation to RM3.11 (from RM2.95). Due to the recent surge in share price, Westport is now trading at a slight premium of 18.5x FY15 PER against its regional peers while offering decent dividend yield of 4.0%. Hence, we maintain NEUTRAL stance on Westport. 

Westport: 3QFY14 RESULTS SUMMARY

FYE Dec	Quarterly Results			Cumulative		Comments
	3Q14	%YoY	%QoQ	FY14	%YoY	
Core Revenue	378.8	14.8%	8.8%	727.1	13.1%	Higher handling throughput achieved for laden and transhipment containers.
Revenue	409.0	1.9%	12.6%	772.2	2.9%	
COGS	(203.3)	7.9%	-14.1%	(381.5)	5.1%	
Gross profit	205.8	13.9%	11.2%	390.7	12.3%	
Other income	1.6	-95.2%	-10.6%	3.5	-90.4%	
Admin exp	(6.6)	70.4%	-17.7%	(12.2)	70.4%	Savings from termination of MSA
Other OPEX	(35.7)	-5.2%	-0.1%	(71.3)	-6.1%	
Operating result	165.1	4.2%	13.5%	310.6	12.8%	
Net finance cost	(16.4)	-41.7%	-18.1%	(30.3)	-29.1%	
PBT	148.7	1.3%	13.0%	280.3	11.3%	
Tax expenses	(26.2)	3.9%	-16.0%	(48.8)	8.9%	Lower effective rate due to investment tax allowance
PAT	122.5	2.4%	12.3%	231.5	16.7%	
Container throughput ('m TEU)	2.1	14.2%	10.0%	4.0	13.0%	

Source: Company, MIDFR

DDM Valuation Table

Market Risk Premium (MRP)	6.4%
Risk free rate (RFR)	3.7%
Beta (β)	0.6
Required equity return (k)	7.5%
Dividend growth rate (g)	3.8%
FY15 dividend (D1)	11.0
TP = D1/(k-g)	RM3.11

Source: Company, Forecasts by MIDFR

BALANCE SHEET

FYE Dec	FY13	FY14F	FY15F	FY16F
Fixed asset	1,159.4	1,259.5	1,236.6	1,246.5
Other LT asset	1,872.6	2,055.0	2,105.6	2,122.3
Cash and near cash	341.7	517.2	764.0	715.9
Other current asset	200.3	214.0	151.8	220.8
Total asset	3,574.0	4,045.8	4,258.0	4,305.4
Share capital	1,038.0	1,038.0	1,038.0	1,038.0
Retained earnings	565.9	656.3	750.5	857.3
ST borrowings	349.9	395.0	391.3	425.9
Other current liab.	900.0	1,150.0	1,200.0	1,100.0
LT Borrowings	654.0	719.1	799.9	805.6
Total equity and liab.	3,507.9	3,958.4	4,179.7	4,226.8

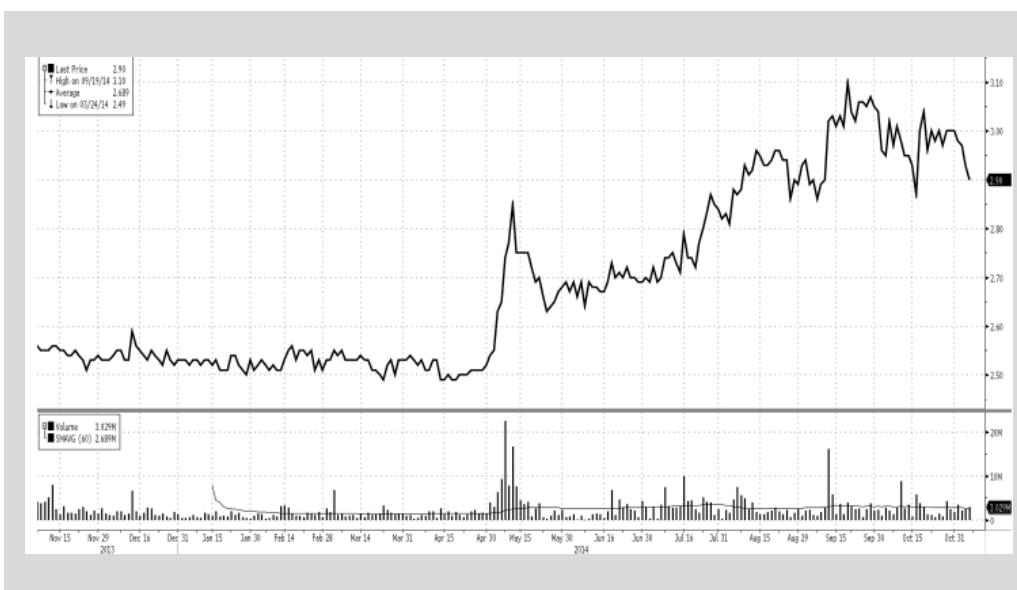
Source: Company, Forecasts by MIDFR

CASH FLOW

FYE Dec	FY13	FY14F	FY15F	FY16F
Operating cash flow				
Net Income	435.3	475.7	508.9	569.8
Depreciation & Amort.	120.8	115.3	122.4	123.4
Other non-cash adj	50.0	51.0	53.0	(21.8)
Changes in Working Capital	50.6	41.5	51.2	(29.4)
Cash from Operations	656.7	683.5	735.5	642.0
Investing cash flow				
CAPEX	(607.4)	(397.9)	(150.0)	(150.0)
Other investing CF	126.7	53.0	42.0	44.0
Cash from Investings	(480.6)	(344.9)	(108.0)	(106.0)
Financing cash flow				
Dividends paid	(1,057.4)	(361.5)	(376.6)	(427.3)
Share issuance	738.0	0.0	0.0	0.0
Changes in borrowings	205.0	250.0	50.0	(100.0)
Other financing CF	(49.1)	(51.5)	(54.1)	(56.8)
Cash flow Financings	(163.5)	(163.1)	(380.6)	(584.1)
Net changes in cash	12.7	175.5	246.8	(48.2)

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.