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HIKE

Westports earnings forecast unchanged despite tariff hike

PETALING JAYA: AmInvestment Bank kept its earnings forecast for Westports Holdings Bhd for the financial year 2019 to 2020 (FY19-20) unchanged, although the port operator is allowed to raise its container tariff by 13% from March 1 onwards.

In a note last Friday, AmInvestment said the hike generally only affects the "captive" gateway segment that makes up 25-35% of Westports' total container throughput and it expects the group to maintain the effective rates for the transshipment segment given the stiff competition from local and regional transshipment ports.

The tariff hike, which is under the Port Klang Authority (Scale of Rates, Dues and Charges) (Amendment) By-Laws in 2015, was originally scheduled to take effect on Sept 1, 2018, but was deferred by the government to March 1, 2019.

AmInvestment said the government felt that it needed to "give more time for port users and other industry players to adapt and stabilise their businesses, following the implementation of the sales and services tax."

This is the second part of a 30% hike allowed under the by-laws following the first hike of 17% on Nov 1, 2015.

"Ceteris paribus, the latest hike boosts our FY19-20 net profit forecasts by 6.3% and 7.9% respectively. However, as mentioned, we are keeping our FY19-20F forecasts relatively unchanged after reflecting higher



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depreciation charges and operating cost, to bring ourselves more in line with the numbers announced in the recent FY18 full year results.

"On one hand, we believe the port operator has weathered the negative impact from the global shipping alliances reshuffling in 2016. On the other hand, we are concerned about the slowing global economy and trade that will weigh down port operators worldwide," it added.

However, AmInvestment said raised Westports' fair value by 5.3% to RM3.94 from RM3.74 previously, as it rolled forward its

valuation base year to FY20 from FY19.

"We value Westports at 21 times forward earnings, at about a 10% discount to its average five-year historical forward price-earnings (P/E) of 23 times. This is to reflect the subdued outlook for the port sector over the short to medium term on slowing global economy and potential headwinds from the US-China trade tension."

The research house expects Westports' container throughput to moderate to 4% per annum in FY19-21, compared with the 5% it achieved in FY18.