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Westports could see challenging 2019 volume growth but offset by tariff hike

Westports Holdings Bhd (March 18, RM3.83)

Maintain hold with a target price (TP) of RM3.70: The fourth quarter of 2018 (4Q18) ports statistics compilation shows Westports Holdings Bhd's container market share in the Straits of Malacca increased yearly from below 16% in 4Q17 to 17.2%, although it's still below the 19% level before 1Q17; and Westports' market share among the 10 Malaysian ports increased from 37% to 39%, mainly driven by a surge in its gateway market share and a strong recovery in transhipment volume in the second half of 2018.

Port Klang recorded a volume growth of 2% yearly to 12.3 million twenty-foot equivalent units (TEUs), driven by Westports' 9.5 million TEUs or 5% year-on-year (y-o-y). Westports' market share in Port Klang rose from 75% in 2017 to 77% in 2018 (transhipment: from 81% to 82%; gateway: from 65% to 70%), implying Northport's volume had declined. Among the 10 Malaysian ports, Westports' gateway was the star performer with its highest market share at 38% (2017: 34%, past a 10-year average of 29%).

However, its total market share in the Straits of Malacca declined slightly from 16.7% to 16.5% in 2018. This was because rival ports Tanjung Pelepas and PSA Singapore recorded a very strong 9% growth each in transhipment volumes in 2018, supporting a 7.4% growth to 58 million TEUs by all three Straits of Malacca ports combined. This growth was last matched in 2011.

In view of the pockets of local economic risks and global trade tensions, 2019 will be a challenging year to sustain the phenomenal 2018 transhipment growth by all three Straits of Malacca ports. On Feb 19, AP Moller-Maersk, the largest container shipper globally, guided for the container demand growth to slow to between 1% and 3% this year, from 3.7% to 3.8% last year. This is compared with consultants' forecasts of an annual 5% fleet growth for shipping liners.

With rising fuel costs, *The Wall Street Journal* and Freightwaves reported a trend of blank sailings and cancelled weekly port calls, to get as many boxes as possible on each ship. As at January 2019, PSA Singapore's monthly estimated volume growth was 0% y-o-y and -4% quarter-on-quarter — likely seasonal due to demand for a festive period. More time is required to gauge the potential downside risks to earnings.

Our volume growth assumption for 2019 is unchanged at 8%, at the higher end versus management's single-digit growth guidance. Although this has a downside risk, the mitigating factors are a 13% tariff hike today and contained costs; we assumed bunker costs in tandem with US$65 to US$75 per barrel oil price.

Therefore, at implied 20 times 2019 forecast price-earnings, 14 times enterprise value or earnings before interest, taxes, depreciation and amortisation, and a 4% dividend yield, our TP is based on a discounted cash flow valuation to 2054. We believe the current valuations had factored in the optimistic volume growth and tariff hike. Further earnings catalysts will depend on volume performance and the expansion status of container terminals 10 to 19, not factored in our valuation. The entry price is RM3.50. — *UOB Kay Hian, March 18*