APEX SECURITIES BERHAD

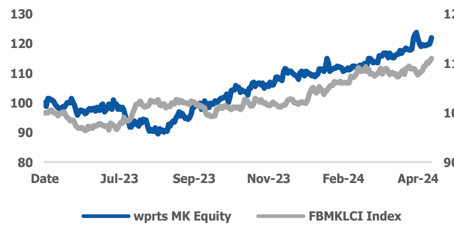
Jayden Tan
(603) 7890 8888 (ext 2069)
kdtan@apexsecurities.com.my

Recommendation:	**BUY**
Current Price:	**RM 4.19**
Previous Target Price:	**-**
Target Price:	**RM 5.08**
Upside/Downside:	**21.2%**

Stock information	
Board	MAIN
Sector	Logistic Services
Bursa / Bloomberg Code	5246 / WPRTS MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	3,410.0
Market Cap (RM' m)	14,287.9
52-Week Price Range (RM)	5.08-3.15
Beta (x)	0.7
Free float (%)	9.3
3M Average Volume (m)	1.0
3M Average Value (RM' m)	3.9

Top 3 Shareholders	**(%)**
Pembinaan Redzai Sdn Bhd	42.4
South Port Investment Holdings Ltd	23.6
Employees Provident Fund Boar	9.6

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	4.5	9.1	16.4
Relative (%)	6.4	5.8	1.8

Westports Holdings Berhad

Riding onto International Trade Growth

Summary

- **Westports manages Port Klang operations, handling container and conventional cargo. In addition, the Group offers a comprehensive array of port services, encompassing marine services, rental services, and various ancillary services.**
- **We project core net profit to grow by approximately 8% and 4% yoy in FY24F and FY25F, driven by (i) prospects of recovery in external and international trade, (ii) resilience of the domestic economy and (iii) influx of FDI supporting gateway volumes.**
- **Westports is valued at RM 5.08 (21.2% potential upside from the current price) with BUY recommendation. This valuation is based on the DCF-TP method, with key assumption of WACC at 5.8%.**

Group Background

- Westports Holdings Berhad (Wesports) commence their business on 1996 and has since evolved into one of the largest and most efficient container terminals in the Asia Pacific region. The Group operates Port Klang under the privatisation agreement of concession by government, which is strategically located along the Straits of Malacca, one of the busiest shipping lanes in the world.

- The Group was listed on the main market of Bursa Malaysia in year 2013, now boasting a market capitalization of more than RM14.0bn (ranked 33rd on Bursa Malaysia).

- Port Klang, boasts state-of-the-art facilities and infrastructure designed to accommodate the increasing demands of global trade. The port features deep-water berths, advanced container handling equipment, and efficient cargo handling systems, enabling it to handle large volumes of container traffic efficiently.

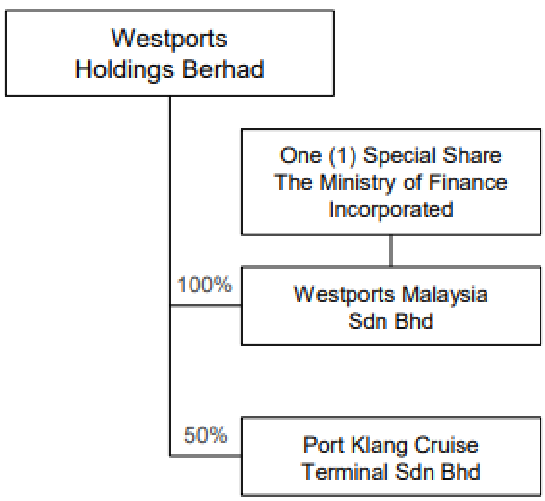
- Westports primarily engages in the handling of containers, general cargoes, and bulk cargoes. The Group offers a comprehensive range of port services including vessel handling, container handling, cargo storage, warehousing, and distribution.

- The Group holds a dominant position in the Malaysian port industry, commanding c.77.0% market share in Port Klang in 2023 and plays a crucial role in facilitating international trade. Its strategic location, modern infrastructure, and operational efficiency have positioned as a preferred transshipment hub for global shipping lines, serving as a gateway to the Southeast Asian region.

Bird's-eye view of Port Klang

Source: Apex Securities

Corporate Structure



Source: Westports

Business Overview

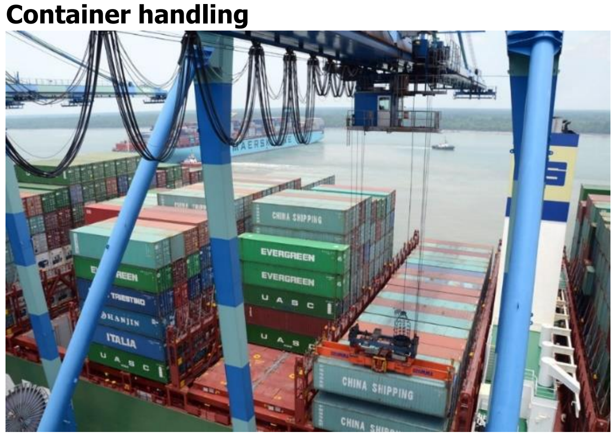
- Westports operates as a leading port operator and logistics Group in Malaysia, with primary asset being Port Klang, strategically positioned along the Strait of Malacca. The Group's core business revolves around the efficient handling of containers, and conventional cargoes, offering a comprehensive suite of port services including marine services, rental services and other ancillary services to domestic and international clients.

- At the heart of Westports' business lies Port Klang, which handles both import/export (gateway) and transshipment of cargoes. The port features deep-water berths capable of accommodating the largest container vessels, advanced container handling equipment, and efficient cargo handling systems. These infrastructure investments have enabled Westports to manage substantial volumes of container traffic, making it a preferred choice for global shipping lines.

- Westports serves a diverse customer base, including shipping lines, freight forwarders, exporters, importers, and logistics service providers. Its strategic location along major trade routes, attracts leading multinational corporations and trading partners seeking seamless connectivity to global markets.

- Westports generates revenue through various channels within its port operations, with the primary source being container terminal handling charges, contributing >80% of total revenue. Other revenue streams include conventional handling charges, marine services, and land rentals.

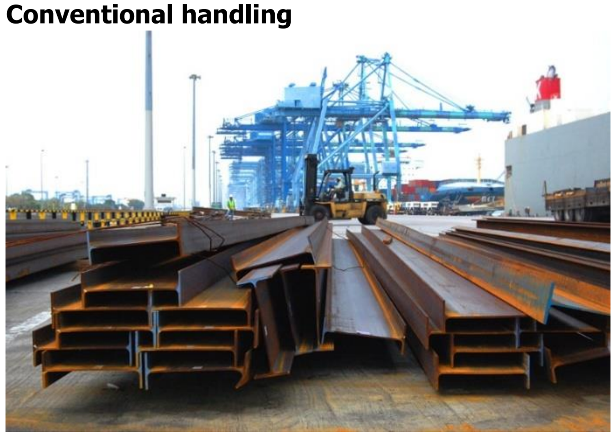
Container handling



Source: Westports

- The Group offers container terminal handling services to shipping lines and forwarders. Terminal handling charges, with tariff rates governed by the government of Malaysia through the Port Klang authority (PKA), cover container handling between the wharf and yard as well as specific storage days outlined in the PKA tariff circular. THC revenue is recognized at the point in time when control of the container is transferred upon the completion of handling, which involves moving the container between the wharf and yard.

Conventional handling



Source: Westports

- The Group provides non-container terminal handling services to shipping lines and consignees. Conventional revenue includes Dry Bulk, Break Bulk, Liquid Bulk, Cement Cargo, and Roll-On-Roll-Off (RORO) services. Revenue is recognised at the point in time when control of the cargo is transferred upon completion of handling, which involves moving the cargo between the wharf and yard.

Marine services

Source: Westports

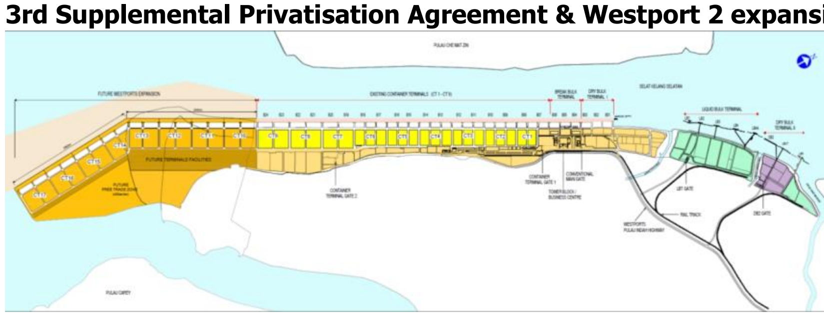
- Westports provides value-added marine services, including tugboats and pilot boat services, to vessels calling at the terminal, assisting with berthing and unberthing.

Rental

Source: Westports

- Westports generates rental income from short-term and long-term leases on its assets, primarily land for warehouse owners, short-term storage facilities, and office space.

3rd Supplemental Privatisation Agreement & Westport 2 expansions



Source: Westports

- Back in December 2023, Westports entered into a third supplemental privatisation agreement with the government and PKA along with the proposed expansion plan of its container terminals (CT). This agreement extends the original concession agreement signed in 1994 between the parties. The new supplemental privatisation agreement extends the concession period to another 58 years from 2024 to 2070/2082. It encompasses both the existing port facilities at Westports and new facilities to be developed during this extended period, requiring an investment of RM 39.6bn.

- The expansion plan, known as Westport 2, aims to double the port's container capacity from its current 14.0m twenty-foot equivalent units (TEUs) to 27.0m TEUs by the year 2053. This ambitious plan revolved around the addition of 8 new container terminals to accommodate the increased capacity and growing demand.

- The new supplementary agreement extends the concession period initially to 31 August 2070 for CT10-CT13. Furthermore, the concession period will be extended to 31 August 2082, contingent upon the acquisition and transfer of the third land parcel (underwater) by 31 August 2045, facilitating the development of CT14-CT17.

Industry Overview

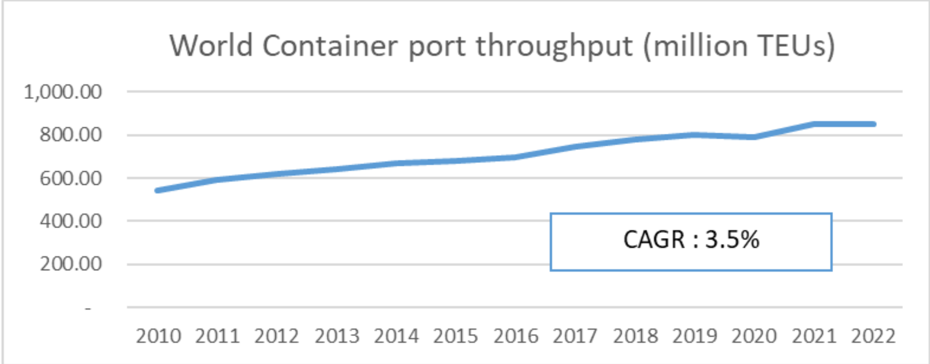
- The global maritime and port industry plays a crucial role in international trade by enabling the transportation of goods across the world's oceans and supporting global supply chains. This industry encompasses various activities such as shipping, port operations, logistics, and related services. These activities are vital for transportation of raw materials, intermediate goods, and finished products efficiently between countries and continents.

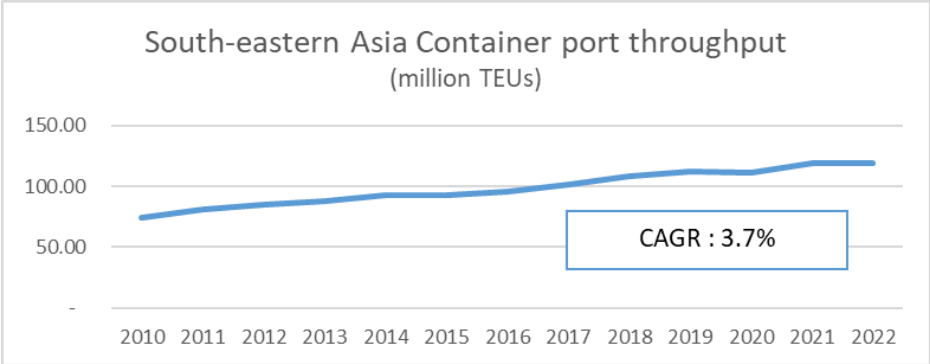
- Following the disruptions caused by the Covid-19 pandemic, the maritime industry experienced a steep recovery marked by increased shipping volumes and port activities. The resurgence of global trade, fuelled by the reopening of economies and pent-up consumer demand has resulted in higher container throughput and cargo handling at ports across the globe.

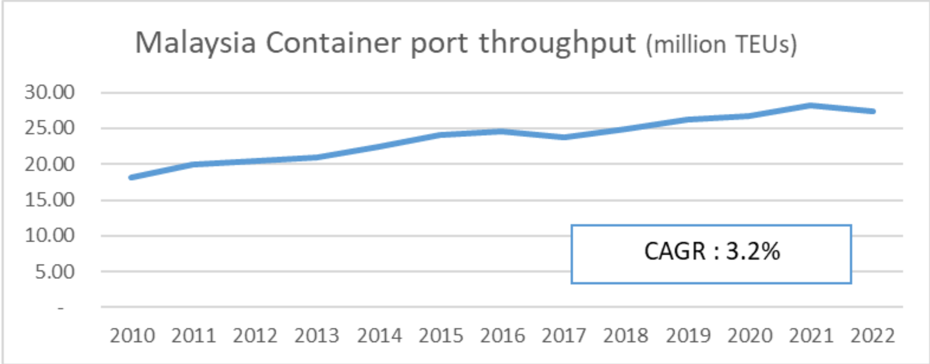
- Southeast Asia is strategically positioned amongst emerging markets and expansion of economies, is transforming into a key region in the global maritime industry. The region's ports are essential transshipment hubs, connecting major trade routes between Asia, Europe, and the Americas. Increasing intra-regional trade and significant investments in port infrastructure and connectivity are driving growth in the maritime sector.

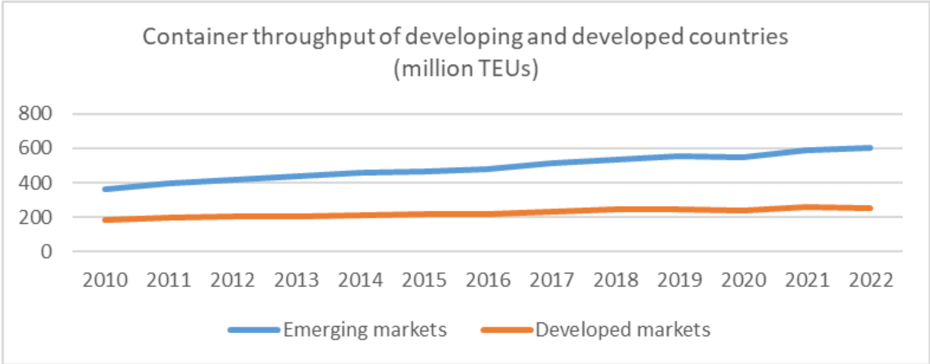
- Geopolitical developments and shift in trade policies have impacted the maritime industry. Ongoing trade tensions, particularly between major economies with the likes of United States and China, are impacting shipping routes and trade volumes. Ports in Southeast Asia, including Malaysia, are well-positioned to benefit from trade diversions and increased regional trade.

Historical container port throughput





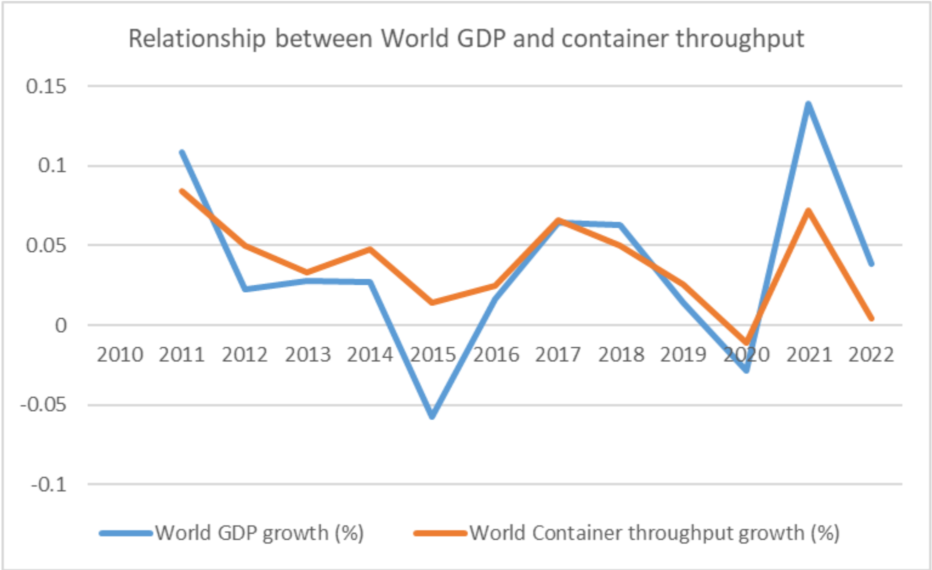




Source: Unctadstat, Apex Securities

- In recent decade, the global container port throughput expanded more than 50.0% with an average 12-year cumulative annual growth rate (CAGR) of 3.5%. Meanwhile, we gather that Southeast Asia grew at a quicker pace with a 12-year CAGR of 3.7%, while Malaysia's port throughput rose a 12-year CAGR of 3.2%.

- We also witnessed growth in the container port throughput has shown faster pace in emerging markets comparing to developed markets.



Source: Unctadstat, Worldbank, Apex Securities

- Container throughput is highly dependent on economic health, with any changes in economic activity impacting the volume and spatial distribution of container trade. This relationship is illustrated by the historical correlation between world GDP and total container throughput. We project Malaysia's GDP to grow by 4.1% yoy in 2024F and 4.4% yoy in 2025F, expecting container throughput to follow a similar growth trajectory.

Straits of Malacca

Source: Nikkei Asia

- Westports is strategically positioned along the Straits of Malacca, a narrow waterway between Peninsular Malaysia and the Indonesian island of Sumatra. Straits of Malacca serve as one of the world's most crucial maritime chokepoints, as a primary conduit for transshipment traffic for Asia-Europe and intra-Asia shipping lines, connecting the Indian Ocean with the Pacific Ocean. It is one of the busiest shipping lanes globally, with an estimated 25%-30% of the world's traded goods, including oil, transported annually.

- Along with the Straits of Malacca, Port of Singapore dominates the traffic commanding c.38.0% of total traffic and Westport is ranked as the second largest traffic commanding c.11.0% of the total traffic.

Investment Highlights

- **Strategic geographical location.** Westports is strategically located in Port Klang, benefiting from the high density of vessels sailing through the Straits of Malacca. This waterway connects the Andaman Sea and the Pacific Ocean, accommodating approximately 90,000 vessels annually. Westports is ranked as one of the busiest ports in the Straits, with the advantage of natural deep-water berths that allows to accommodate large vessels.

- **Riding on the resilient external trade of Malaysia.** We are optimistic over Malaysia's external trade outlook for 2024F and 2025F, which bodes well for Westports' gateway throughput. Projected growth will be driven by the recovery and expansion of the global E&E sector, which accounts for c.40.0% of Malaysia's total external trade. Additionally, we anticipate a significant influx of FDI and Malaysia's emergence as a regional alternative hub for multinational corporations, bolstered by various government initiatives to stimulate FDI. As the main gateway for container and conventional cargo for the central Peninsular Malaysia hinterland, Westports is well-positioned to benefit from this stronger external trade environment.

- **Benefiting from global supply chain diversion and relocation.** Diversification and relocation of global supply chains are becoming increasingly crucial amid heightened geopolitical tensions. Companies are actively adopting a more prudent risk management and enhancing resiliency through diversification of supply chain and manufacturing locations. This trend has significantly benefited Southeast Asia, including Malaysia, with Westport emerging as a pivotal hub for regional connectivity. Intra-Asia container throughput alone accounts for c.65.0% of the Group's total throughput, positioning Westport to capitalise onto the rising transshipment and gateway traffic that is expected from increasing trade flows. Additionally, ongoing recovery and growth of China's economy are anticipated to further stimulate economic activity across the region, with ASEAN being China's largest trading partner.

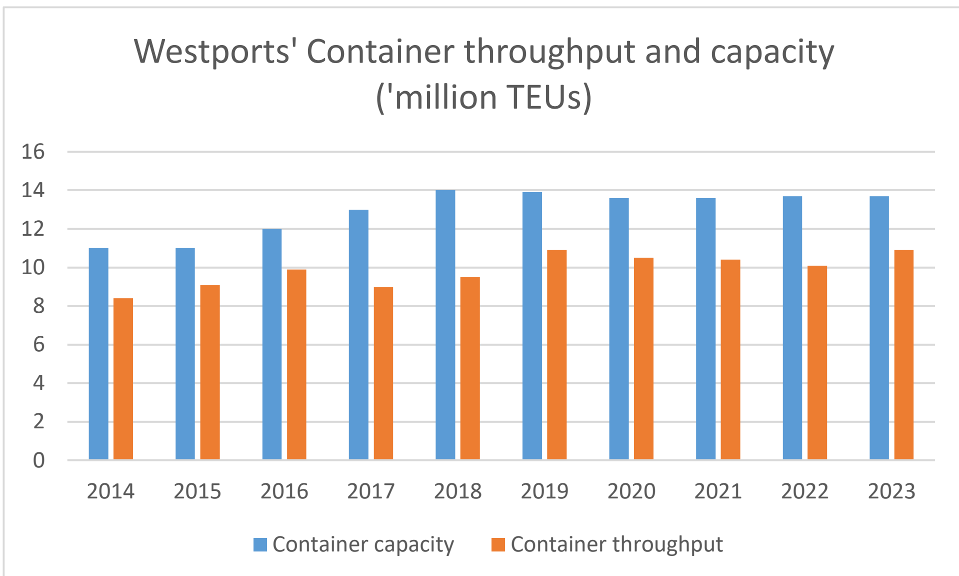
- **Massive expansion underway.** The expansion of Westport 2 will significantly increase capacity, enabling the port cater towards rising demand and fuel growth. This strategic move aims to support the anticipated increase in container throughput driven by economic growth and higher trade volumes. The phased development of new terminals will position Westports to accommodate larger vessels and increased traffic, ensuring sustained long-term growth and maintaining its competitive edge in the region.

- **Anticipation of tariff revision to bolster growth.** An anticipated tariff hike is poised to enhance revenue and margin growth for Westports. Tariffs represent the maximum charges levied on shipping liners, currently set at RM300/TEU for gateways and RM182/TEU for transshipments. The last increase occurred between 2016 and 2019, resulting in a 20% rise. Presently, the Group has initiated discussions with the government to secure approval for a tariff adjustment, aligned with its expansion plans. We anticipate approval may materialise within a two-year timeline. This tariff adjustment is expected to bolster the Group's revenue and margin expansion.

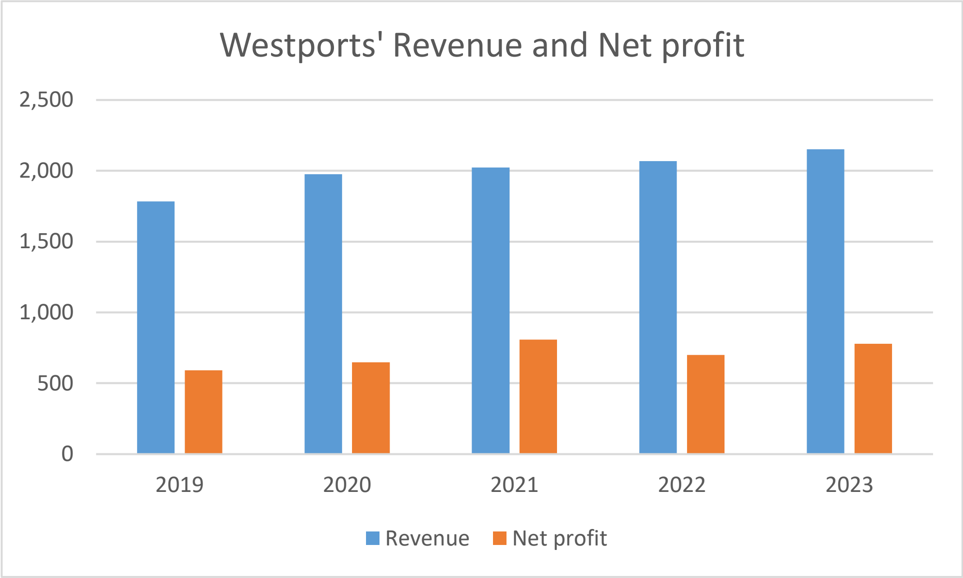
- **ECRL to capture more transhipment throughput from China.** The East Coast Rail Link (ECRL) is set to significantly increase transshipment throughput from China. The Malaysian government has accelerated construction progress, aiming for completion by 2026. One of ECRL's key objectives is to shorten travel time from Shenzhen, China to Port Klang by bypassing Singapore and the Straits of Malacca, utilizing the Kuantan port and ECRL route instead. This route promises to reduce shipping time from Shenzhen to Port Klang from 165 hours (via Singapore and the Straits of Malacca) to 135 hours. Westports stands to benefit substantially from this development, capturing increased transshipment volumes from China compared to regional competitors from the reduced shipping times.

- **75% of dividend payout ratio.** The Group maintains a dividend policy committing to distributing c.75% of net profit as dividend. Reflecting a robust performance bolstered by resilient throughput volume in FY23, the Group disbursed a total dividend amounting to RM 577.0m (payout of 74.1% from net profit). This marks the second-highest dividend payout since its IPO.

Financial Highlights



Source: Westports, Apex Securities



Source: Westports, Apex Securities

- Over the past five years, Westports has consistently shown growth in both top-line revenue and profit, achieving compound annual growth rates (CAGR) of 3.8% and 5.7% respectively. The improved performance underscores strong market position and the increasing demand for port services. Despite global disruptions caused by the Covid-19 pandemic over recent years, Westports managed to sustain financial growth in FY20 and FY21. This resilience was maintained despite a slight drop in container throughput, supported by construction and value-added services, highlighting the Group's robustness and the essential role of its port operations.

- Looking ahead, we anticipate Westports' net profit to grow by approximately 8% and 4% yoy in FY24F and FY25F. The projected earnings growth is expected to be driven by the recovery of external and international trade, benefiting from higher throughput volumes. Additionally, the resilience of the domestic economy and an influx of FDI are anticipated to support gateway volumes.

Valuation & Recommendation

- We derived a fair value of RM5.08 for Westports and assigned a **BUY** recommendation based on the Discounted Cash Flow (DCF) to Equity method. This valuation considers Westports' long-term concession until 2082 and its stable cash flow business model. The fair value/target price was established using a discount rate (WACC) of 5.8%.

- This assigned fair value also corresponds to a two-year forward Price-to-Earnings Ratio (PER) of 18.0x. Based on our valuation metrics, this represents a 21.2% potential upside from the current share price of RM 4.19.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x) FY23	P/E (x) FY24F	Gross DY (%)	Revenue RM 'm	Net Income RM 'm
Westports Holdings Bhd	**MAIN**	**Dec**	**4.19**	**14287.9**	**17.9**	**19.6**	**2.8%**	**2151.9**	**779.4**
Bintulu Port Holdings Bhd	MAIN	Dec	6.29	2893.4	19.7	18.0	1.9%	765.6	125.1
Suria Capital Holdings Bhd	MAIN	Dec	1.96	677.8	17.3	11.5	1.8%	280.5	34.9
Avg ex-Westports					**18.5**	**14.8**	**1.9%**	**523.1**	**80.0**

Source: Bloomberg, Apex Securities

Key Risks

- **Stiff regional competition**. Intense regional competition poses a challenge for Westports. Situated along the Straits of Malacca, the Group competes with ports in Singapore and Thailand for over three decades. In recent times, all regional competitors are aggressively expanding their capacities to accommodate higher throughput volumes. Quicker-than-expected competitors' expansions to capture more throughput could potentially dilute Westports' market share.

- **Volatility of container trade**. Throughput of containers is closely tied to economic health, influencing both volume and spatial distribution of trade. Changes in economic activity may lead to fluctuations in container trade volume.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	**2022.0**	**2069.0**	**2151.9**	**2350.9**	**2460.4**
Gross Profit	**1230.7**	**1190.0**	**1235.7**	**1340.0**	**1402.4**
EBITDA	**1190.7**	**1360.5**	**1214.6**	**1296.4**	**1387.7**
Depreciation & Amortisation	-260.4	-258.8	-264.5	-258.9	-259.3
EBIT	**930.3**	**1101.7**	**950.1**	**1037.5**	**1128.4**
Net Finance Income/ (Cost)	-61.7	-52.3	-41.7	-43.2	-48.2
Associates & JV	-0.4	46.2	10.5	23.5	24.6
Pre-tax Profit	**1039.6**	**944.0**	**1006.2**	**1108.8**	**1157.4**
Tax	-231.3	-244.4	-226.8	-266.1	-277.8
Profit After Tax	**808.3**	**699.7**	**779.4**	**842.7**	**879.6**
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**808.3**	**699.7**	**779.4**	**842.7**	**879.6**
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	**808.3**	**699.7**	**779.4**	**842.7**	**879.6**

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	58.9%	65.8%	56.4%	55.1%	56.4%
EBIT margin	46.0%	53.2%	44.2%	44.1%	45.9%
PBT margin	51.4%	45.6%	46.8%	47.2%	47.0%
PAT margin	40.0%	33.8%	36.2%	35.8%	35.8%
NP margin	40.0%	33.8%	36.2%	35.8%	35.8%
Core NP margin	40.0%	33.8%	36.2%	35.8%	35.8%
Dividend yield	5.0%	5.0%	5.0%	5.0%	5.0%
ROE	25.8%	21.4%	22.1%	22.3%	21.6%
ROA	18.3%	15.7%	17.5%	16.8%	16.0%
Net gearing	15.8%	12.9%	7.7%	15.8%	16.4%

Key Assumptions

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Container	1735.0	1774.0	1805.0	1873.1	1970.2
Conventional	134.0	155.0	139.0	139.4	144.9
Marine Service	65	76	91	83	86

Valuations	FY25F
WACC	5.8%
Fair Value (RM)	**5.08**

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	656.0	552.1	577.9	277.0	233.6
Receivables	296.3	210.1	280.7	257.6	269.6
Inventories	5.4	5.3	5.3	-98.4	-145.5
Other current assets	50.0	70.8	20.4	47.0	49.2
Total Current Assets	**1007.7**	**838.4**	**884.4**	**483.3**	**407.0**
Fixed Assets	4293.0	4282.6	4283.7	4778.0	5223.5
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	114.6	160.7	171.2	251.6	274.5
Total Non-current assets	**4407.6**	**4443.3**	**4454.9**	**5029.6**	**5498.1**
Short-term Debt	175.0	125.0	125.0	127.5	133.9
Payables	146.6	195.3	159.0	198.5	196.8
Other Current Liabilities	390.1	299.3	332.2	333.6	349.1
Total Current Liabilities	**758.6**	**619.6**	**616.1**	**659.6**	**679.8**
Long-term Debt	975.0	850.0	725.0	746.8	769.2
Other non-current liabilities	554.9	537.7	478.0	478.0	478.0
Total Non-current Liabilities	**1529.9**	**1387.7**	**1203.0**	**1224.8**	**1247.2**
Shareholder's equity	4177.7	4472.7	4964.2	5469.8	6085.6
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	**3126.9**	**3274.4**	**3520.1**	**3772.9**	**4080.8**

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	**1039.6**	**944.0**	**1006.2**	**1108.8**	**1157.4**
Depreciation & amortisation	260.4	258.8	264.5	258.9	259.3
Changes in working capital	1.9	34.9	-89.9	-141.2	-46.7
Others	-199.7	-344.1	-180.7	-180.7	-180.7
Operating cash flow	**1100.6**	**899.3**	**994.6**	**1046.1**	**1241.2**
Net capex	-370.9	-246.1	-226.8	-752.3	-755.3
Others	-100.4	62.4	13.6	13.6	13.6
Investing cash flow	**-471.3**	**-183.7**	**-213.2**	**-738.7**	**-741.7**
Dividends paid	-510.5	-552.1	-533.7	-589.9	-571.7
Others	-242.7	-268.3	-223.0	24.3	28.8
Financing cash flow	**-753.2**	**-820.4**	**-756.7**	**-565.6**	**-543.0**
Net cash flow	**-123.9**	**-104.7**	**24.6**	**-258.2**	**-43.4**
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	739.2	615.3	510.6	535.2	277.0
Ending cash	**615.3**	**510.6**	**535.2**	**277.0**	**233.6**
Pledge deposits for Sukuk programees	40.68	41.53	42.68	-	-
Balance sheet figure	656.0	552.1	577.9	277.0	233.6

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

Head Office:
5th Floor Menara UAC, 12, Jalan PJU 7/5,
Mutiara Damansara,
47800 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7890 8899

Petaling Jaya Office:
16th Floor, Menara Choy Fook Onn,
No.1B Jalan Yong Shook Lin,
46050 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7620 1118

DEALING TEAM

Head Office:
Kong Ming Ming (ext 2002)
Lee Chen Ming (ext 2029)
Shirley Chang (ext 2026)
Ahmad Mujib (ext 2028)
Azfar Bin Abdul Aziz (ext 2031)
Aizzat Bin Mohd Daud (ext 2030)

Institutional Dealing Team:

PJ Office:
General Line: (603) 7620 1118

RESEARCH TEAM

Head Office:
Kenneth Leong (ext 2093)
Steven Chong (ext 2068)
Jayden Tan (ext 2069)
Chelsea Chew (ext 2070)
Tan Sue Wen (ext 2095)

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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