

Profit growth for Westports expected for FY19

Westports Holdings Bhd
(Jan 28, RM3.79)

Upgrade to buy with a higher target price (TP) of RM4.32: Westports Holdings Bhd is expected to release its results for the fourth quarter of financial year 2018 (4QFY18) by end-January 2019. We expect 2018 earnings to meet our and consensus earnings estimates. Although the first nine months of financial year 2018 core net profit of RM388 million made up only 68% of our 2018 forecasts, we believe 4QFY18 was a relatively stronger quarter.

The volume in 4QFY18 likely benefitted from the US-China trade war, on stocking up. In our view, the US-China trade war benefitted Westports' 4QFY18 container throughput volume due to the front-loading of cargoes before a tariff increase. Take note that in *The Edge* weekly's interview with Westports managing director Datuk Ruben Emir Gnanaingam published on Dec 3, 2018, he said "we could have a lot of [positive] impact now [on container through-

Westports Holdings Bhd

FYE DEC (RM MIL)	2016	2017	2018F	2019F	2020F
Total turnover	2,035	2,089	1,875	2,036	2,131
Recurring net profit	637	652	564	649	667
Recurring net profit growth	26.2	2.3	(13.5)	15.1	2.7
Recurring PER (x)	20.9	20.4	23.6	20.5	19.9
P/BV (x)	6.4	5.8	5.9	5.7	5.5
P/CF (x)	15.1	12.3	22.0	14.6	14.4
Dividend yield (%)	3.4	3.4	3.2	3.7	3.8
EV/Ebitda (x)	15.6	14.4	14.2	12.7	12.4
ROE (%)	30.8	28.6	25.1	27.8	27.4
Net debt to equity (%)	35.3	41.3	57.8	53.3	49.4
Interest coverage (x)	10.6	9.3	9.6	11.1	11.7

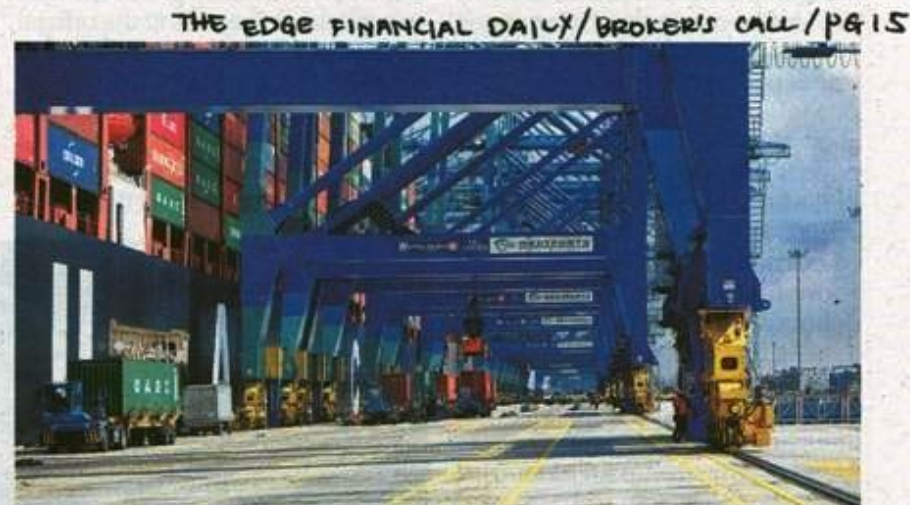
Sources: Company data, RHB

put growth] ... because people stock up." "They might want to front-load a lot of these cargoes before tariffs go up," he added.

Although 2018 core net profit likely declined 12% year-on-year due to a higher effective tax rate of 24%, we are expecting a better outlook for 2019 forecast with an estimated 15% core earnings growth.

This will be driven by an expected 15% container tariff hike scheduled to be implemented on March 1, 2019 after a delay from Sept 1, 2018, and a 4.1% throughput volume growth.

We're also expecting a second interim dividend of seven sen. Combined with the 5.4 sen paid in 2QFY18, we are expecting a total



Westports' volume in 4QFY18 likely benefitted from the US-China trade war, on stocking up.

dividend for 2018 of 12.4 sen, translating into a decent yield of 3.2%. A dividend for 2019 is expected to increase in tandem with our higher earnings assumption, with the same payout ratio of 75%.

We maintained our earnings estimates for 2018 and 2019. Our TP is increased due to a higher terminal growth assumption in our discount-

ed cash flow valuation, to reflect better earnings prospects from 2019. Our new TP values Westports at 22.7 times FY19 price-earnings (P/E), or +0.5 standard deviation above its mean forward P/E. Key downside risks are another delay in container tariff hike, and a weaker-than-expected throughput volume growth. — RHB Research Institute, Jan 28