RHB upgrades Westports to 'buy'

PETALING JAYA: Fourth quarter results for Westports Holdings Bhd are likely to be stronger due to front-loading activities ahead of the expected container tariff hike in March.

RHB Research said the multi-cargo port company's volume last year would have benefited from the trade war between United States and China on stock-up activity.

The research house added that although Westports' nine-month financial year 2018 (9M18) core net profit of RM388mil made up only 68% of its 2018 forecast, it is of the view that the fourth quarter was relatively stronger. It is also expecting a better outlook for Westports this year, with an estimated growth of 15% in core earnings, despite a possible decline in Westports' core net profit by 12% year-on-year (YoY) for the 2018 forecast due to higher effective tax rate of 24%.

"This will be driven by an expected 15% container tariff hike and a 4.1% throughput volume growth," RHB Research said in a note.

It upgraded Westports from "neutral" to "buy," with a target price of RM4.32.

A second interim dividend of seven sen is also expected. Combined with the 5.4sen paid in the second quarter last year, this works out to a yield of 3.2%.

It expects the company to release its 2018 fourth quarter results by the end of this month and that its 2018 earnings will meet both consensus and RHB Research's earnings estimate.

"Our target price is increased due to higher terminal growth assumptions in our discounted cash flow (DCF) valuation to reflect better earnings prospects from 2019 onwards.

"Key downside risks are another delay in container tariff hike, and weaker-than-expected throughput volume growth," RHB Research said.

The tariff was supposed to be increased in August last year but Transport Minister Anthony Loke announced a deferment of six months to provide industry players and port users time to adapt and stabilise their operations post SST implementation beginning Sept 1 last year.