

23 September 2013
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Listing details

Retail offer price (RM)	2.50
Listing sought	Main market
Listing date	18 Oct
Opening date of the IPO	19 Sep
Closing date of IPO	27 Sep

Key stock information

Syariah-compliant?	Yes
Market cap at IPO price (RM m)	8,525.0
Share capital (m)	3,410
Estimated free float (%)	23.8
Par value (RM)	0.10
NTA per share post IPO (RM)	0.40

Major shareholders (post IPO)

	%
Gnanalingam Family	46.8
Hutchison Port Holdings	24.4
Khazanah Nasional	5.0

Westports Holdings

Port

Bloomberg Ticker: **WPRTS MK** | Bursa Code: **5246**
Non-rated

Ride on ASEAN growth with minimal risks

Westports is one of the three key transshipment hubs in the Straits of Malacca. It accounts for 7.9% of Southeast Asia's container throughput in FY12. We expect Westports to benefit from (1) rising containerisation, (2) Southeast Asia's secular growth story, and (3) increasing adoption of larger vessels. Based on DDM valuation model, we estimate Westports' fair value at RM2.84. At retail IPO price of RM2.50, Westports offers FY14 dividend yield of 3.9% based on a generous 75% payout policy.

Westports, a key transshipment hub in the Straits of Malacca

- Westports is one of the three key transshipment hubs in the Straits of Malacca, with the other being Port of Tanjung Pelepas and Port of Singapore. It handled a total of 6.9m TEUs of containers in FY12, accounting for 7.9% of Southeast Asia's container throughput.
- It is for the most part, a container port as containerised cargo account for 82.3% of its FY12's core revenue. This is followed by conventional cargo (10.0%), marine services (5.2%), and rental services (2.5%).
- Westports' competitive advantage as a transshipment hub includes (1) strategically located close to the main trade lane, (2) favourable geographical attributes, (3) lowest transshipment tariffs among its peers, and (4) efficient port design.

Investment merits

- Container trade in Southeast Asia is expected to be resilient given the (1) advantage of containerisation in international trade, and (2) low level of containerisation in Southeast Asia. This bodes well for a container port such as Westports.
- Westports is also good proxy to Southeast Asia's secular growth story, given the linkage between economic growth and container throughput. Southeast Asia's economy is expected to outpace global average going forward. In addition, the formation of ASEAN Economic Community in 2015 is expected to drive intra-regional trade.
- Westport is also expected to benefit from the rise in transshipment volume, which results from the increasing use of larger vessels by Main Line Operators. The larger vessels will not be able to call on smaller ports and would have to rely on transshipment "hub" port to deliver the goods to "spoke" port.

Expansion will be positive over long term

- Westports is currently constructing container terminal 7 (CT7) which will add 15.8% capacity once completed in 2015. The construction of CT7 is expected to result in higher depreciation, amortisation, personnel and finance costs from FY14.
- Although we expect core revenue to grow at 3-year CAGR of 5.2% to RM1,427.2m in FY15 due to rising container throughput, we forecast the group's core net profit to grow at a 3-year CAGR of 2.5% to RM449.7m in FY15 as we anticipate the growth in container throughput lags behind the incremental operating cost of CT7.

Valuation

- Based on its policy to payout 75% of net profit, we expect Westports' FY13-FY15 DPS of 9.0 sen, 9.8 sen and 9.9 sen respectively. Based on the IPO retail price, this translates into a dividend yield of 3.6%, 3.9% and 4.0%, for FY13 to FY15, respectively.
- We derive a fair value of RM2.84, using our dividend discount model. This implies an upside potential of 13.6% to the retail IPO price of RM2.50.
- Our fair value of RM2.84 translates into FY14 P/E of 21.7x and FY14 dividend yield of 3.5%, which is in line with Westports' peers.
- Key investment risks include (1) loss of major customers, (2) delay or failure to extend concession period, (3) rising protectionism which will adversely affect global trade, (4) competition from other ports in the region, and (5) risk of slowdown in global trade.



SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 31 Dec	FY11	FY12	FY13F	FY14F	FY15F
Revenue (RM m)	1,387.4	1,492.3	1,663.9	1,635.4	1,427.2
Core revenue (RM m)	1,115.3	1,226.2	1,290.8	1,356.9	1,427.2
EBITDA (RM m)	524.8	592.1	657.7	708.4	729.0
EBIT (RM m)	428.2	413.0	484.4	541.3	587.9
Pretax profit (RM m)	365.1	434.7	488.4	525.0	529.1
Reported net profit (RM m)	316.5	361.0	410.2	446.3	449.7
Core net profit (RM m)	378.1	417.7	437.7	446.3	449.7
EPS (sen)*	9.3	10.6	12.0	13.1	13.2
Core EPS (sen)*	11.1	12.2	12.8	13.1	13.2
Core EPS growth (%)	14.3	10.5	4.8	2.0	0.8
P/E (x)	22.5	20.4	19.5	19.1	19.0
EV/EBITDA (x)	18.0	15.8	14.8	14.0	13.7
ROE (%)	28.4	28.0	27.7	26.2	24.8
Net gearing (%)	88.5	56.7	75.9	0.8	0.8
Net DPS (sen)*	5.9	29.6	9.0	9.8	9.9
Net dividend yield (%)	2.3	11.8	3.6	3.9	4.0
BV/share (RM)*	0.39	0.44	0.46	0.50	0.53
P/B (x)	6.4	5.7	5.4	5.0	4.7

* assume 3,410m shares

Source: Company, Alliance Research

Figure 2 : Peer comparison

Company	Call	Local Currency	Target price	Share price	Mkt Cap (USD m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
						CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
Shanghai International Port	NR	RMB	NR	6.08	22,616.8	8.3	9.3	25.8	23.6	2.7	2.5	10.6	10.8	2.2	2.3
DP World	NR	USD	NR	15.85	13,155.5	-21.3	13.2	22.3	19.7	1.6	1.5	7.0	7.5	1.6	1.7
Hutchinson Port Holdings	NR	SGD	NR	0.78	6,794.7	-12.5	6.5	26.3	24.7	0.8	0.8	3.0	3.2	6.7	7.2
Adani Ports & SEZ	NR	INR	NR	139.70	4,608.6	21.9	23.4	16.1	13.0	3.5	2.8	24.9	24.7	0.8	1.0
Int. Container Terminal	NR	PHP	NR	93.00	4,398.7	34.6	20.0	30.9	25.7	4.6	4.0	15.5	16.5	0.7	0.8
Cosco Pacific	NR	HKD	NR	11.98	4,339.8	64.0	-39.0	7.5	12.4	1.0	0.9	13.4	8.0	6.2	3.2
Bintulu Port Holdings	NR	RM	NR	8.00	1,162.5	-16.1	10.7	26.1	23.5	3.3	3.0	18.3	17.5	3.8	3.8
NCB Holdings	NR	RM	NR	4.10	609.1	-51.1	51.4	23.4	15.5	1.3	1.2	5.3	8.1	3.4	3.2
Average						5.2	8.7	23.3	21.2	2.3	2.1	10.7	10.6	2.7	2.6
Westports Holdings	NR	RM	NR	2.50	8,525.0	4.8	2.0	19.5	19.1	5.4	5.0	27.7	26.2	3.6	3.9

Source: Alliance Research, Bloomberg

Share price date: 20 Sep 2013

BACKGROUND INFORMATION

Company background

One of the three main transshipment hubs in the Straits of Malacca

Westports Holdings is a multi-cargo port operator located in Pulau Indah, Port Klang, Malaysia. It is one of three main transshipment hubs in the Straits of Malacca, with the other two being Port of Tanjung Pelepas (PTP) and Port of Singapore. Westports also serves as a major gateway for import/export cargo for Peninsular Malaysia. The group handled 6.9m twenty equivalent units (TEUs) of containers in FY12, accounting for 33% and 7.9% of Malaysia and Southeast Asia's container throughput.

Westports was originally awarded the concession to develop and operate the port for a period of 30 years in 1994. Westports is required to pay an annual lease payment with a total sum of RM1.1bn over the concession period to the Port Klang Authority. In addition, the latter is also entitled to an annual profit share, amounting to RM1.00 per TEU and RM0.10 per tonne of containerised and conventional cargo handled.

Have a concession to develop and operate Westports until 2054

The federal government subsequently agreed to extend the concession period by another 30 years (until 2054), subject to the fulfilment of the following conditions: (1) the completion of land reclamation for Container Terminal (CT) 6 to CT9 before 1 Jan 2014, and (2) completion of CT6 before 1 Jan 2014. The second condition was fulfilled in Mar 2013. Management guided that the land reclamation works are 93% completed as of Sep 2013, and expect to complete it by end-FY13, thereby fulfilling the first condition for extension of concession period.

Tariff is regulated by government

The maximum tariffs, for both containerised and conventional cargo, are regulated by the Port Klang Authority and set by the Government of Malaysia. Westports charges the same rate for the movement of empty and laden containers.

Figure 3 : Maximum published handling tariffs

Container Size	Transshipment (RM per move)	Import/Export (RM per move)
20 feet	140	230
40 feet	210	345
> 40 feet	240	420

Source: Company

The government is supportive and has given various forms of assistance to Westports. The government has granted Westports, an Investment Tax Allowance (ITA) equivalent to 70% of the qualifying capex incurred in FY10 to FY14, which will be available to set off against 60% of statutory income in each FY. Note that this is in addition to the capital allowance claims. Westports intends to apply for an extension of ITA period to FY19. In addition, the government will reimburse Westports for cost incurred on land reclamation works for CT6 to CT9.

Controlled by Tan Sri Gnanalingam

Westports is currently helmed by its executive chairman, Tan Sri Gnanalingam a/l Gunanath Lingam. He is assisted by his son, Ruben Emir Gnanalingam Bin Abdullah who currently holds the position of CEO. The family is expected to own 46.8% stake in Westports post-listing. Other major shareholders include Hutchison Port Holdings Trust and Khazanah Nasional who are expected to own 24.4% and 5.0% stakes in the group post-listing.

Listing scheme

IPO only involves offer for sale

The initial public offering (IPO) of Westports consists entirely of an offer for sale by its promoters. The retail and institutional offering are expected to close on 27 Sep and 1 Oct 2013 respectively. The listing is expected to be completed on 18 Oct 2013.

9 cornerstone investors

The listing has attracted a total of 9 cornerstone investors. They are Permodalan Nasional, Kumpulan Wang Persaraan, Employees Provident Fund, Hwang Investment Management, Hong Leong Assurance, AIA, Genesis Investment Management, LLP and Utilico Emerging Markets Ltd. They have collectively undertaken to subscribe to 340.0m of the IPO shares.

Figure 4 : Listing scheme

Category of issuance	Number of shares (m)	Percentage of enlarged share base (%)
Institutional offering		
• Bumiputera investors approved by MITI	392.2	11.5
• Malaysia institutional, foreign institutional and Qualified Institutional Buyers in US and selected investors	318.7	9.3
Retail offering		
• Eligible directors, employees and persons contributed to the success of the group	34.1	1.0
• Malaysian public investors	68.2	2.0

Source: Company

Business overview

Container business accounts for 82% of FY12 core revenue

Westports is for the most part, a container port. Containerised cargo contributed RM1.0bn revenue to the group in FY12, representing 82.3% of the group's core revenue (excluding terminal construction revenue). Meanwhile, conventional cargo only contributes RM122.7m revenue in FY12, accounting for 10.0% of the core revenue. These were followed by marine services and rental services which accounted for 5.2% and 2.3% of core revenue in FY12, respectively.

There are only two port operators currently based in Port Klang, namely Westports and Northport. Westports being the larger port, accounted for 69% of the container throughput in Port Klang in 2012. There are two types of traffic associated with container ports, namely (1) gateway traffic, and (2) transshipment traffic.

Serves the Greater Klang Valley region for gateway traffic

Gateway traffic refers to cargo bound to or originating from the port's hinterland where the port act as a gateway, interfacing between the market abroad and the domestic hinterland. In other words, such cargo traffic relates to the import or export activities of the hinterland. Westports serves the Greater Klang Valley region for their import/export demands. It has roughly an equal share of this traffic with Northport, accounting for 54% of Port Klang's gateway throughput in FY12. Note that the tariffs for gateway traffic are higher due to strong bargaining power of port operators.

Dominates Port Klang's transshipment throughput

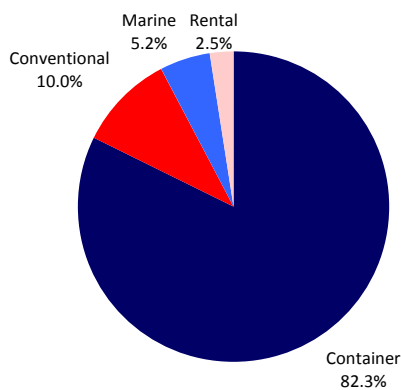
On the other hand, transshipment traffic refers to cargo which is transhipped from one vessel to another in order to reach its final destination. The port acts as a transit point between the origin and destination ports. Westport's dominance over Northport can be clearly seen in this segment. The group handled a total of 4.9m TEUs of transshipment throughput in FY12, which is 79% share of Port Klang's transshipment throughput.

Dry bulk and liquid bulk contribute the majority of the conventional throughput

In addition to its container segment, Westports also has a sizeable conventional cargo segment comprising of dry bulk, liquid bulk, break bulk, roll-on roll-off (RORO) and cement services. The group handled a total of 10.2m tonnes of conventional cargo in FY12, representing 7.1% of Malaysia's conventional traffic in FY12. The small share is mainly due to the fact that the demand for the handling conventional cargo are more localised. Liquid bulk and dry bulk accounts for 41.2% and 35.2% of the conventional throughput in FY12. Also of note is the cement cargo throughput which has increased by 218% in FY12 due to robust construction activities in the Klang Valley.

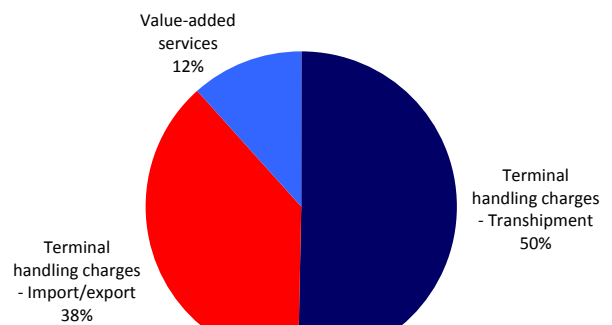
Westports also derives a small amount of revenue from its marine and rental services segment. The marine segment involves tugboat and pilotage services provided to vessels that are calling on Westports. Rental segment involves the leasing of warehouse and on dock depot space.

Figure 5 : Core revenue breakdown



Source: Company

Figure 6 : Breakdown of container revenue



Source: Company

Competitive advantage as a transshipment hub

Located within 1 hour deviation from Straits of Malacca shipping trade lane

Westports is strategically located at Port Klang, which is approximately 12 nautical miles from the Straits of Malacca shipping trade lane. This is within 1 hour of sailing time from the main trade lane. This compares favourably with PTP which is located 15 nautical miles from main trade lane. Generally, shipping lines prefer to call on ports located at a minimal deviation from main trade lane.

Favourable geographical attributes in the form of (1) deep access channel, (2) protected harbour and (3) deep water berth

Westports also possess favourable geographical attributes in the form of (1) deep access channel, (2) protected harbour and (3) deep water berth. Westports is located at the southern approach to Port Klang, which has a 17m deep access channel vis-à-vis the northern approach which only has a 12m deep access channel. As such, large vessels calling on Port Klang will prefer to berth at Westports given the shorter travel time. Furthermore, the channel fronting Westports' berth is naturally sheltered by Pulau Che Mat Zin, eliminating the need for costly artificial breakwaters. Westports also has a deep water berth which is able to handle the largest vessel in the world with capacities up to 18,000 TEUs.

Lowest transshipment tariff amongst the 3 main transshipment hubs in the Straits of Malacca

In addition, Westports also offers the lowest transshipment tariffs among the major transshipment hubs in the Straits of Malacca. Its transshipment tariff of USD46 per TEU represents a discount of 50% and 30% to Port of Singapore's and PTP tariffs of USD94 and USD65 per TEU, respectively. This acts as a major plus point to attract main line operators (MLO) to designate Westports as their transshipment hub.

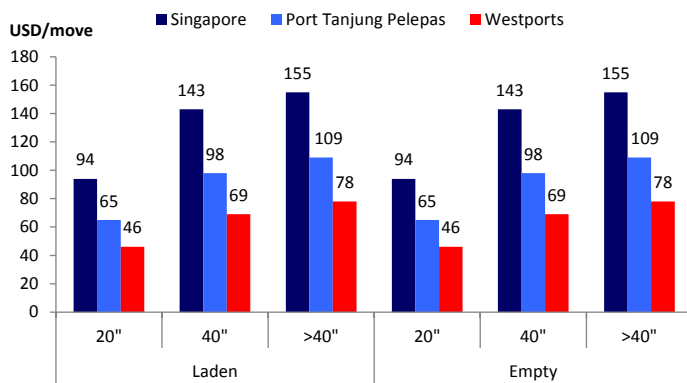
Provision of on dock depot services at competitive rates

As a value-added service, Westports provides yard rental for on dock depot where containers are repaired and cleaned. Of note is Westports' ability to provide rental of on dock depot at competitive rates due to its extensive container yard space of 137.7ha. This will entice MLOs to choose Westports as they can clean and repair their containers at lower cost here. We believe the spill-over effect of this service on container throughput far outweighs the small revenue contribution derived from the on dock depot services.

Efficient port design

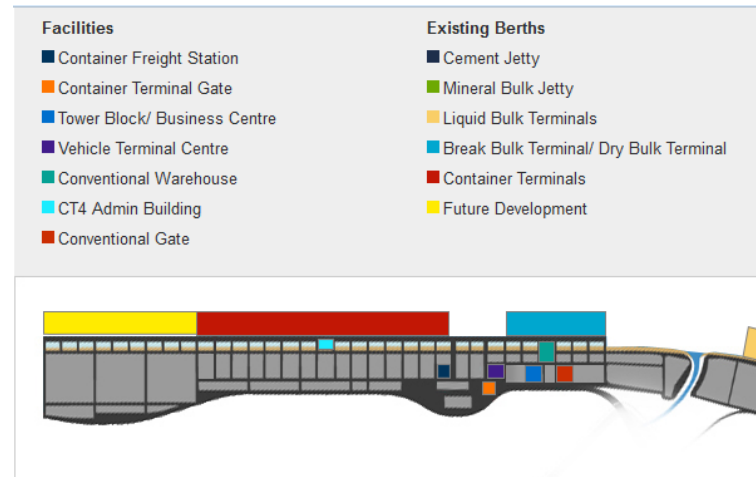
Westports also has an efficient design whereby 18 of its 25 berths are contiguously connected in a straight line, extending to a total length of 4.8km. This provides maximum usable quay length and flexibility in berthing vessels. The straight line extension of the berth allows for greater flexibility in berthing vessels, thus resulting in higher berth utilisation.

Figure 7 : Comparison of transshipment tariffs



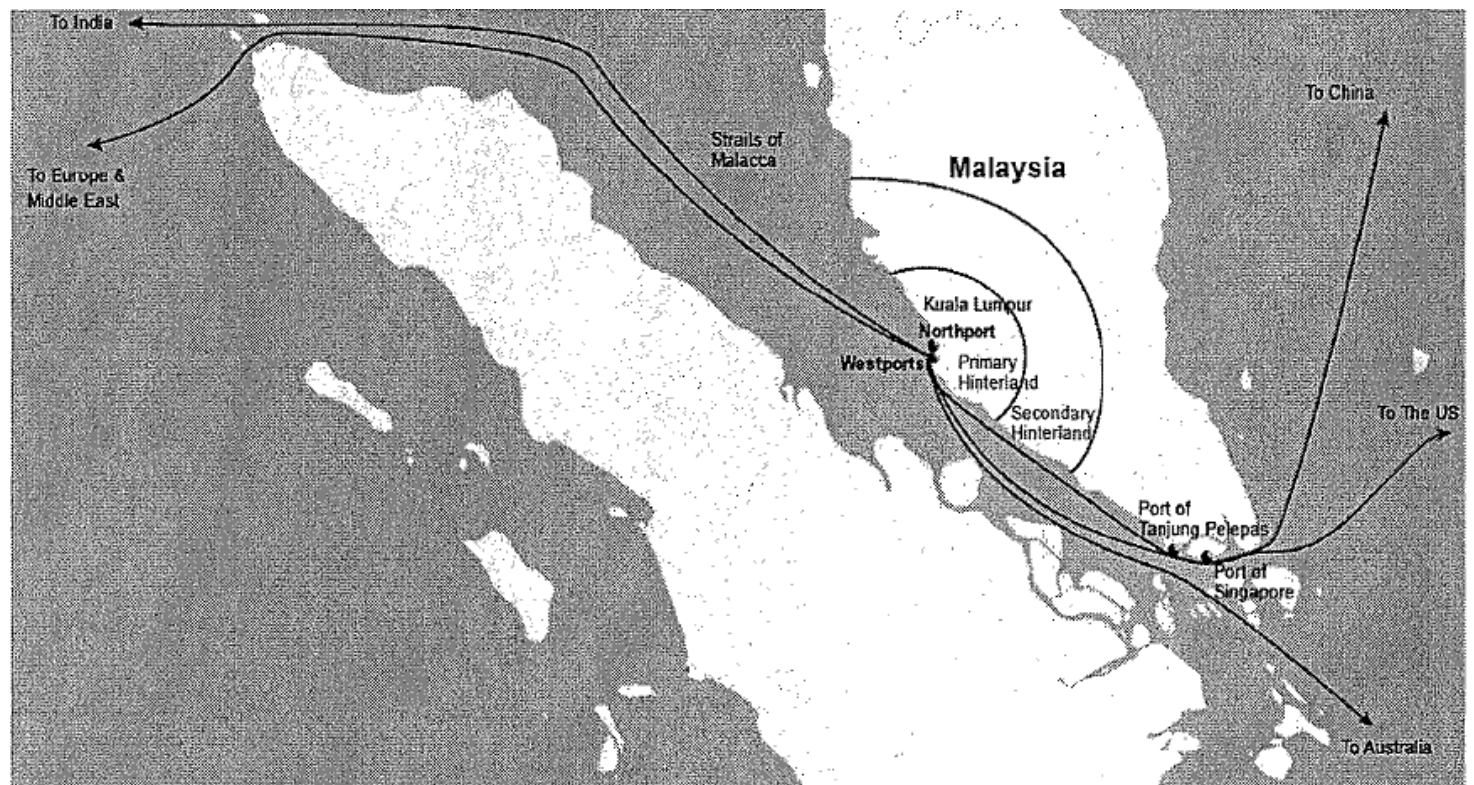
Source: Drewry Maritime Advisors

Figure 8 : Westports' layout



Source: Company

Figure 9 : Shipping trade lanes



Source: Drewry Maritime Advisors

INVESTMENT MERITS

Resilient container demand to drive Westports' container throughput

Given its advantage, containerised cargo will continue to feature prominently in international trade

The advent of containerisation has greatly reduced the cost whilst increasing the speed of international trade. The standardized dimensions of containers enables cargo to be loaded and unloaded, stacked, transported efficiently over long distances, and transferred from one mode of transport to another - container ships, rail transport flatcars, and semi-trailer trucks - without being opened.

Southeast Asia's cargo is expected to achieve a higher level of containerisation

Drewry Maritime Advisors estimates that only 72% of Southeast Asia's general cargo trade was containerised in 2012. This is still lower than West Europe (74%) and North America (86%), leaving room for Southeast Asia's general cargo to achieve higher level of containerisation. We believe this is likely given the advantage of containerisation.

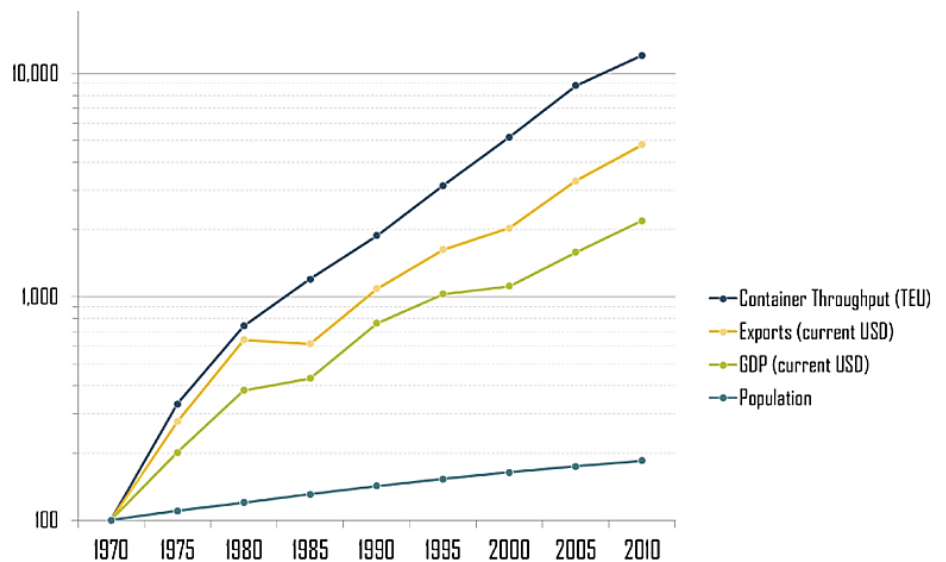
As such, container trade is expected to be resilient even in the face of any slowdown

Back by the trend of containerisation, we believe container throughput demand will remain resilient even in the event of economic slowdown. Hofstra University has conducted a study which shows that container growth has always been on an uptrend since 1970. We observe that the only exception to the uptrend was in 2009, as the Global Financial Crisis has severely curbed global trade flow. However, global container throughput rebounded swiftly and increased by 14.6% in 2010, demonstrating the resilient demand for container trade.

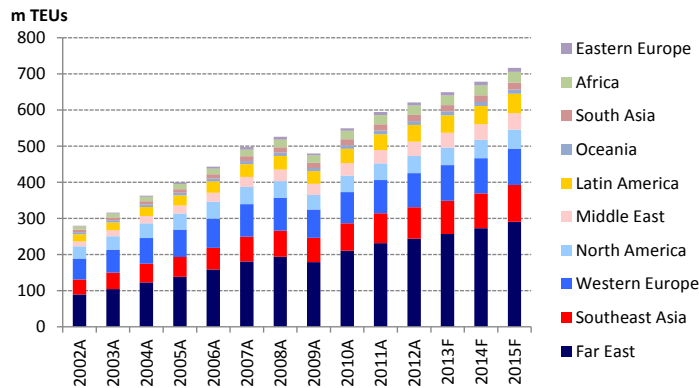
Container throughput is expected to be strong on the back of rising containerisation and strong trade flow

Drewry Maritime Advisors expects container throughput in Southeast Asia to grow at a 3-year CAGR of 5.4%, outpacing the global average by 50bps. We believe this to be achievable due to (1) rising intra-ASEAN trade, and (2) economic recovery in Europe to drive Asia-Europe traffic, a key segment for Westports. Management also reported strong traffic in China-middle east and China-Africa trade lanes. Driven by the strong trade flow and rising level of containerisation, we expect Westports' container throughput growth to be resilient.

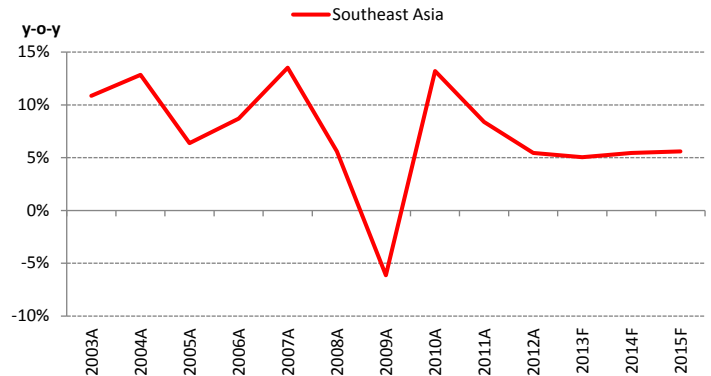
Figure 10 : Global trade and container throughput (1970=100)



Source: Hofstra University, World Bank, World Trade Organization, Containerization International

Figure 11 : Global container throughput


Source: Drewry Maritime Advisors

Figure 12 : Southeast Asia's growth in container throughput


Source: Drewry Maritime Advisors

A proxy to Southeast Asia's secular growth story

Formation of AEC by 2015 to drive intra-regional trade and economic growth

ASEAN Economic Community (AEC) is expected to go live in 2015. As the end goal of the bloc's economic integration, AEC envisages the following key characteristics: (1) a single market and production base, (2) a highly competitive economic region, (3) a region of equitable economic development, and (4) a region fully integrated into the global economy. We believe these initiatives will give rise to higher intra- and inter-regional trade as well as economic growth, thereby driving container throughput.

Southeast Asia's economy is expected to grow above global average

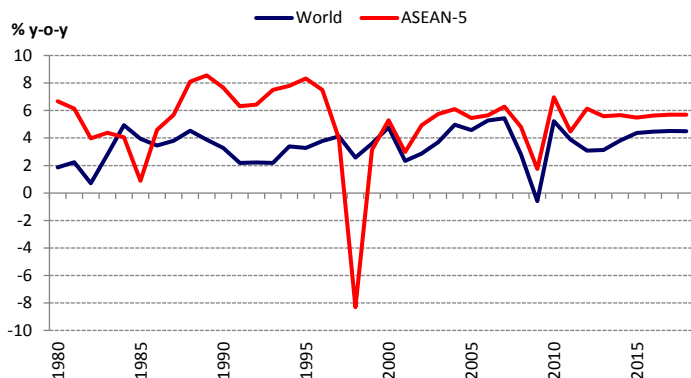
The International Monetary Fund (IMF) forecast ASEAN-5 (Malaysia, Thailand, Indonesia, Philippines, Singapore) to have real GDP growth of above 5% from 2013-2015, far outpacing the global average of 3.0%-4.5% during the same period. We believe the formation of AEC by 2015, will continue to drive regional economic and trade growth going forward, thereby providing a long-term growth story for investors.

Container trade is expected to rise in tandem with economic growth

A strong relationship exists between economic growth and container trade. Drewry Maritime Advisors has found out that every percentage change in GDP at current prices has led to a 3% change in global container shipping volume over the period from 1980 to 2012. Despite our belief that the linkage will continue to hold going forward, we expect the multiplier to move closer to 1 as the containerisation trend begins to saturate.

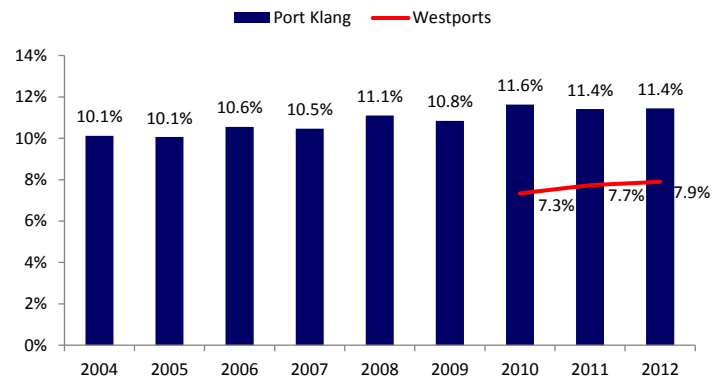
Westports as proxy to Southeast Asia's secular growth story

As such, we believe container trade will be robust going forward. We view Westport to be a direct proxy to Southeast Asia's secular growth story. Its role as a container port as well as its location along the Straits of Malacca's main trade lane will enable it to directly benefit from rising intra- and inter- regional container trade.

Figure 13 : Real GDP growth


*2013-2018 are IMF's estimates

Source: IMF, Bloomberg

Figure 14 : Share of ASEAN container throughput


Source: Ministry of Transport, Drewry Maritime Advisors



Construction of large vessels to drive demand for transshipment hubs

MLOs are increasingly adopting larger vessels

MLOs are increasingly building larger vessels in order to improve economies of scale and keep unit costs low. According to Drewry Maritime Advisors, average container vessel size has grown three-fold over the past two decades. The largest container vessel currently has the ability to accommodate 18,000 TEUs. As shown in Figure 15, MLOs continue to order larger ships in the quest to drive down slot costs. These larger vessels will be more selective in the ports they call on, as they require suitable cranes, berth lengths, berth draft, approach channel draft, and a yard and landside operation.

The trend of larger vessels to benefit transshipment "hub" port

The trend of larger vessels will benefit transshipment hubs such as Westports as these large vessels could not call on smaller ports. As such, "hub and spoke" transshipment model will flourish. Westports have and will undertake the necessary measures to attract these vessels by: (1) increasing the depth of the access channel to 18m, (2) completed the construction of CT6 in Mar 2013, which has the ability to handle vessels with capacities of up to 18,000 TEUs, and (3) having an extensive network of 65 feeder services.

Evidenced by rising Port Klang's share of ASEAN container throughput

In line with the above, Port Klang's share of ASEAN's container throughput has increased from 10.1% in 2003 to 11.4% in 2012. We believe this trend will continue as transshipment share of container traffic continue to rise in response to MLOs adoption of larger vessels.

Figure 15 : Container vessels orderbook by size – as of Jun 2013

							% of Current
Size Range (TEUs)	2013	2014	2015	2016 Total		Current Fleet	Fleet
< 500	-	-	-	-	0	113	0.0%
500-999	7	2	-	-	9	599	1.5%
1,000-1499	10	13	4	-	27	819	3.3%
1,500-1,999	35	14	-	-	49	927	5.3%
2,000-2499	6	20	13	2	41	639	6.4%
2,500-2,999	37	-	8	-	45	1,050	4.3%
3,000-3,999	80	19	27	19	145	992	14.6%
4,000-4,999	166	33	-	-	199	2,867	6.9%
5,000-5,999	25	42	35	5	107	1,786	6.0%
6,000-6,999	105	20	14	-	139	1,421	9.8%
7,000-7,999	14	-	-	-	14	357	3.9%
8,000-8,999	163	127	85	53	428	2,109	20.3%
9,000-9,999	94	216	167	9	486	719	67.6%
10,000-11,999	100	90	40	-	230	483	47.6%
12,000+	303	592	367	104	1,366	1,820	75.1%
Total	1,145	1,188	760	192	3,285	16,701	19.7%
Largest vessel to be delivered (TEUs)	18,000	18,400	18,400	18,000			

Source: Drewry Maritime Advisors

FINANCIAL HIGHLIGHTS

Revenue expected to grow at 3-year CAGR of 5.2%

Double digit revenue growth in FY11- FY12 due to market share gain from Northport

In grabbing market share from Northport, Westports' reported strong container throughput growth of 14.3% and 7.8% in FY11 and FY12, respectively, outpacing Port Klang's (Northport and Westport) container throughput growth of only 6.4% and 6.0% during the same period. In addition, blended ASP for containers has also trend upwards during the same period, due to lesser rebates given and more value-added services provided to MLOs. As a result, revenue grew by 14.4% and 9.9% in FY11 and FY12, respectively.

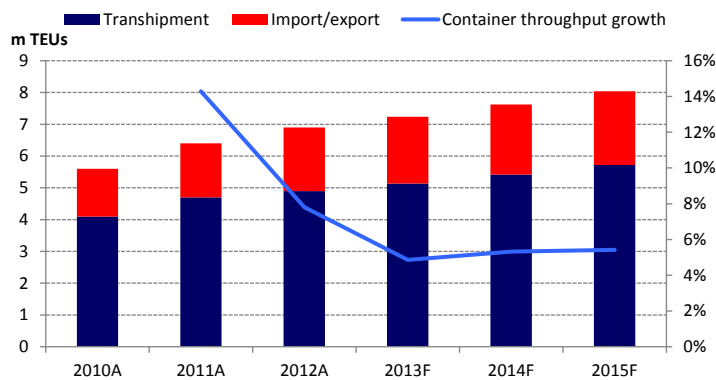
Westports' container growth is expected to normalise and mirror regional container trade

However, we expect Westports' container throughput growth to normalise to circa 5%, in line with the industry volume growth going forward. Drewry Maritime Advisors expects ASEAN container throughput to grow by 4.8% to 5.6% during FY13 to FY15, and we expect Westports throughput growth to mirror this. Westports' statistics in 1HFY13 support this expectation.

Revenue is expected to grow at a 3-year CAGR of 5.2%

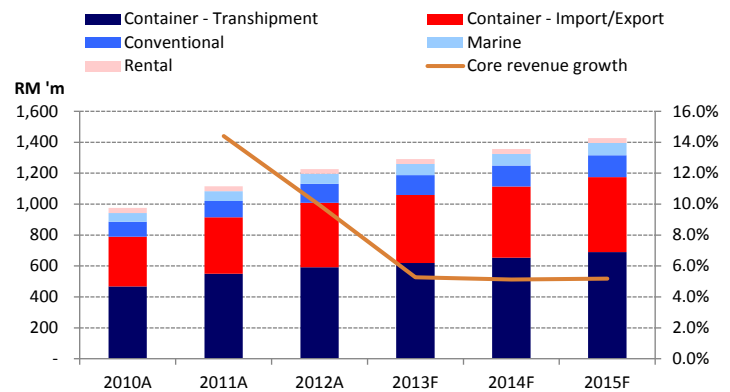
As a result, we expect Westports' core revenue to grow to RM1,427.2m in FY15, implying a 3-year CAGR of 5.2%. Our revenue assumptions include (1) 5.2% 3-year CAGR in container throughput, (2) 5% growth in conventional throughput, and (3) a stable ASP.

Figure 16 : Container throughput



Source: Company, Alliance Research

Figure 17 : Core revenue (excluding construction)



Source: Company, Alliance Research

Core net profit growth to be depressed by fixed costs

Double digit core net profit growth in FY11 -FY12

In line with the strong revenue growth, Westports have reported a core net profit growth of 14.3% and 10.5% in FY11 and FY12, respectively. In addition to various non-recurring items, we exclude the management fee related to the management service agreement (MSA) with Pembinaan Redzai Sdn Bhd in calculation of core net profit. The MSA was terminated in Sep 2013 and management fee will no longer be charged going forward.

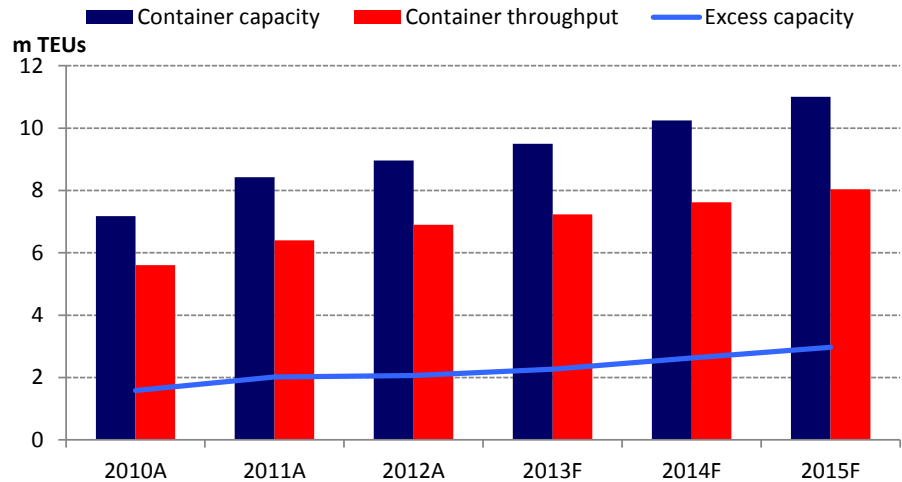
RM1.1bn capex expected for next two financial years

Westports is expected to incur a capex of RM658.0m and RM398.0m in FY13 and FY14, respectively. These capex primarily relate to the construction of CT7, which is expected incur a total cost of RM828m. Phase 1 of CT7 is expected to be completed by mid-FY14 while Phase 2 of CT7 by 1HFY15. The completion of CT7 is expected to add a total of 1.5m TEUs to Westports' capacity, translating into a 15.8% increase to its current capacity.

Higher depreciation and amortisation as well as manpower costs expected for FY14-FY15

The completion of Phase 1 and Phase 2 of CT7 is expected to lead to higher depreciation and amortisation charges from FY14. In addition, manpower costs will also increase as more personnel are expected to be hired in order to handle the capacity increase. Note that bulk of the necessary personnel for the new terminal will be hired when the terminal commences operations. Although the completion of Phase 1 of CT6 in FY12 allowed Westports to gain substantial market share from Northport in the past, we have conservatively assume incremental throughput from the completion of CT7 to be driven by organic growth.

Figure 18 : Westports' capacity and throughput analysis



Source: Company, Alliance Research

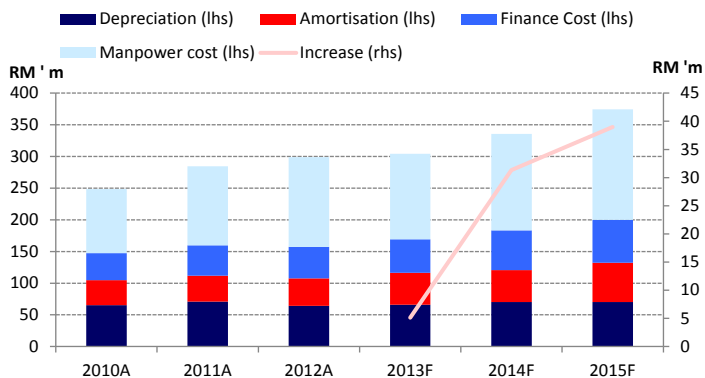
Higher finance cost expected in FY14-FY15 as well

In addition, we expect Westports to finance substantial portion of its capex through borrowings as it only generate circa RM500 operating cash flow per annum, of which RM300m is expected to be distributed as dividends. The group currently has a RM2.0bn Sukuk Musharakah Medium Term Note II programme, of which RM700m has already been drawdown. We expect Westports to draw down a further RM200m and RM300m in FY13 and FY14 respectively, thereby giving rise to higher finance cost.

This should lead to tepid earnings growth, well below the level of topline growth

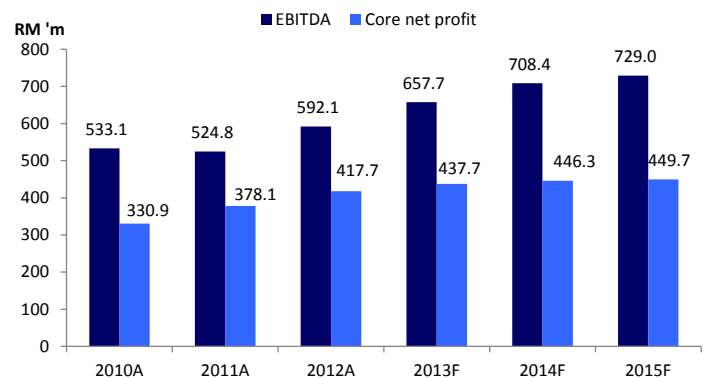
As a result, we expect Westports' near term earnings growth to be tepid, growing at a 3-year CAGR of 2.5% to RM449.7m in FY15. We expect earnings growth to normalise from FY16 onwards. Despite the expected lower earnings growth in the near term, we are positive on Westports' expansion plan as it will lead to longer term benefit. Without CT7, we expect the utilisation rate of the group's container terminal to rise above 85% by FY15, thereby affecting its service quality and operational efficiency.

Figure 19 : Fixed cost



Source: Company, Alliance Research

Figure 20 : EBITDA and core net profit



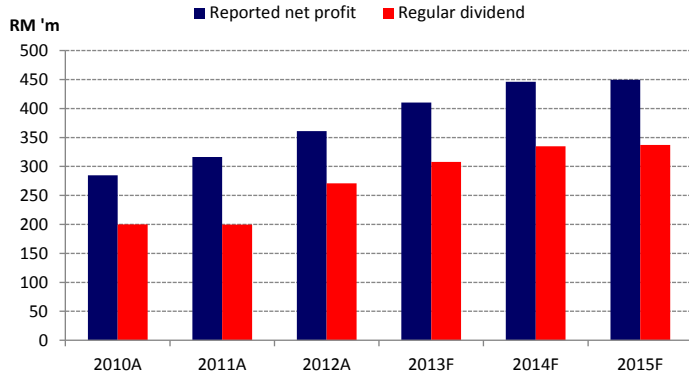
Source: Company, Alliance Research

Dividend policy of 75% payout ratio

3.9% FY14 dividend yield

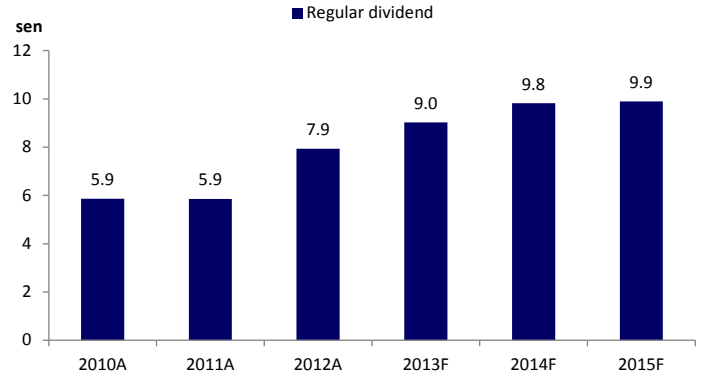
Management has declared a dividend policy of 75% payout ratio, based on reported net profit. We expect Westports to pay a DPS of 9.0 sen, 9.8 sen and 9.9 sen for FY13 to FY15. Based on the IPO retail price, this translates into to a dividend yield of 3.6%, 3.9% and 4.0%, for FY13 to FY15, respectively.

Figure 21 : Net profit and dividend payments



Source: Company, Alliance Research

Figure 22 : Dividend per share



Source: Company, Alliance Research

VALUATION

Given Westports' generous dividend policy and relatively stable revenue growth, we believe investors will be attracted to Westports as a stable dividend yielding stock. As such, we believe dividend discount model (DDM) to be the most suitable valuation methodology for Westports.

FV of RM2.84 based on DDM valuation model

Using a 2-stage DDM valuation model, we derive a fair value of RM2.84 for Westports, implying an upside potential of 13.6% to the retail IPO price of RM2.50. Key parameters used include cost of equity of 7.3% (based on 4% risk-free rate, 0.6 beta and market risk premium of 5.5%) and terminal growth rate of 4%. The beta is derived from average beta of two mid-cap port operators listed on Bursa, namely Bintulu Port Holdings, and NCB Holdings. Our fair value implies FY14 P/E of 21.7x and FY14 dividend yield of 3.5%, which is in line with peers.

Figure 23 : Westports' fair value using DDM valuation model

DDM Valuation Model

Key Assumptions:

Market Risk Premium (MRP)	5.5%
Beta (B)	0.60
Risk free rate (Rf)	4.0%
Constant dividend growth rate (g)	4.0%
Cost of equity (r) = Rf + (B x MRP)	7.3%

Equity value per share (RM) = Present value of future dividend + Terminal value

$$\begin{aligned}
 &= \frac{D_{0.5}}{(1+r)^0} + \frac{D_{1.5}}{(1+r)^{0.5}} + \frac{D_{2.5}}{(1+r)^{1.5}} + \left[\frac{D_{2.5} \times (1+g)}{(r-g)} \times \frac{1}{(1+r)^{1.5}} \right] \\
 &= \frac{0.047}{(1.073)^{0.5}} + \frac{0.098}{(1.073)^{1.5}} + \frac{0.099}{(1.073)^{2.5}} + \left[\frac{0.099 \times (1.04)}{(0.073 - 0.04)} \times \frac{1}{(1.073)^{2.5}} \right] \\
 &= 0.05 + 0.09 + 0.08 + 2.61 \\
 &= 2.84
 \end{aligned}$$

* n = period

*FY13 interim dividend is excluded as it was paid pre-IPO to the promoters

Source: Bloomberg, Alliance Research

INVESTMENT RISKS

Loss of major customers

The formation of the P3 Alliance may cause CMA CGM to move to PTP

Westports' largest customer, CMA CGM Group, accounted for 22.8% of the group's core revenue in FY12. CMA CGM has announced in Jun 2013 that it has agreed to establish a long-term operational alliance covering three major East-West trades (Asia-Europe, transpacific and transatlantic) called the P3 Network, with Maersk Line and Mediterranean Shipping Company (MSC). Speculations are rife that the alliance will move their transshipment hub to PTP given that Maersk, the partner with largest weightage in the alliance have a 30% stake in PTP. Should this materialise, Westports will see its transshipment throughput decline significantly.

However, we think it is premature to be overly concern with this risk as the formation of the P3 Network alliance is still subject to the regulatory approval for compliance with of anti-competition rules. The decision by regulators is only expected by 2QFY14. Furthermore, PTP's terminal utilisation in 2012 has already hit 89.2% and current capacity only allows it to handle an annual container throughput of 8.4m TEUs, which we believe is not sufficient to act as the transshipment hub for the entire P3 Alliance.

Delay or failure to extend concession period

Failure to complete land reclamation works by 1 Jan 2014 will lead to shorter concession period

Recall that the extension of concession period to 2054 requires the fulfilment of two key conditions, namely (1) completion of land reclamation for CT6 to CT9, and (2) the completion of construction works for CT6 by 1 Jan 2014. The second condition was fulfilled when CT6 was completed in Mar 2013, whilst the first condition is yet to be fulfilled. There is a risk that the concession period will not be extended should there be any delay in the land reclamation works. Should this materialises, it will significantly affect the investment merits of Westports.

However, the management guided that the land reclamation works is on track to complete by end FY13, with 93% completion rate as of Sep 2013. We believe any delay in the completion of land reclamation works beyond the deadline to be an unlikely scenario. The contractor carrying out the land reclamation works, Inai Kiara Sdn Bhd, is one of the largest marine services providers in the region. Its operational track record of 16 years is testament to their capability.

Rising protectionism

Growing trade protectionism will constrain container throughput

Following the advent of global financial crisis, there is a trend of rising trade protectionism globally. According to the World Trade Organisation, the threat of protectionism is rising as policies to restore growth have been tried and found wanting. The European Commission also reported increasing trade protectionism across the world, with over 150 new trade restrictions created and almost 700 introduced since October 2008.

All these are negative for Westports as trade volume has direct correlations with container throughput. Any rise in protectionist policy by a major trading nations will adversely impact global trade flow, and hence Westports' operations.

Competition from other ports in the region

Failure to respond to competitive threats may affect its profitability

Westports faces significant competition from other ports operating in the region. It competes with Northport for import/export traffic and with PTP and Port of Singapore for transshipment traffics. PTP in particular has a long-term master plan which envisages the construction of over 95 berths with 150m TEUs terminal handling capacity, with a vision to be "the transshipment hub" in Southeast Asia. Any failure by Westports to respond to these competitive threats will be detrimental to its business. However, we view Westports as being proactive in responding to these competitive threats with various initiatives such as (1) building terminals capable of handling larger vessels, and (2) deepening the access channel to facilitate easy access to its berth.

Risk of slowdown in global trade

Weak manufacturing activities will adversely impact Westports' container throughput

Container throughput is dependent on global trade. Any significant slowdown in global trade activities, particularly China, will affect Westports' container throughput. The shifting of manufacturing activities from West to East over the past decade was the key catalyst driving the growth of Asia-Europe traffic. Westports is highly dependent on this traffic as its strong container throughput in the previous financial years was mainly driven by the Asia-Europe traffic. As such, any slow-down in China's manufacturing activities will directly impact Westports.

However, this risk is mitigated by a rebound seen in China's manufacturing and external trade activities. The National Bureau of Statistics and China Federation of Logistics and Purchasing reported that China has reported a PMI of 51.0 for Aug 2013, a 16-month high.



Westport Holdings

Financial Summary

Based on retail IPO Price of RM2.50

Balance Sheet

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
PPE	898.0	994.1	1,140.2	1,189.4	1,119.2
Concession assets	1,612.0	1,684.1	2,012.7	2,248.4	2,454.5
Receivables	226.4	210.7	234.8	230.8	201.4
Other assets	13.2	-	-	-	-
Cash and ST funds	351.0	325.5	151.0	243.5	137.6
Total Assets	3,100.7	3,214.4	3,538.6	3,912.0	3,912.7
LT Borrowings	695.0	450.0	900.0	1,200.0	1,200.0
ST borrowings	100.0	245.0	-	-	-
Concession liability	496.3	475.1	451.2	426.0	399.6
Payables	266.7	316.4	368.6	347.3	260.8
Other liabilities	212.7	238.3	238.3	238.3	238.3
Liabilities	1,770.7	1,724.8	1,958.1	2,211.7	2,098.7
Share capital	117.0	117.0	341.0	341.0	341.0
Reserves	1,213.0	1,372.7	1,239.5	1,359.4	1,473.1
Shareholders' equity	1,330.0	1,489.7	1,580.5	1,700.4	1,814.1
Minority interest	-	-	-	-	-
Total Equity	1,330.0	1,489.7	1,580.5	1,700.4	1,814.1
Total Equity and Liabilities	3,100.7	3,214.4	3,538.6	3,912.0	3,912.7

Cash Flow Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Pretax profit	365.1	434.7	488.4	525.0	529.1
Depreciation & amortisation	111.8	107.7	116.4	120.6	132.2
Changes in working capital	10.6	66.7	28.1	(17.3)	(57.1)
Net interest paid	(21.9)	(35.2)	(33.5)	(46.5)	(53.8)
Tax paid	(56.4)	(35.2)	(78.1)	(78.8)	(79.4)
Others	60.2	57.1	52.9	62.8	67.7
Operating Cash Flow	469.4	595.7	574.2	565.9	538.7
Capex	(506.6)	(448.2)	(585.2)	(397.9)	(259.5)
Others	11.8	173.8	-	-	-
Investing Cash Flow	(494.8)	(274.3)	(585.2)	(397.9)	(259.5)
Issuance of shares	-	-	738.0	-	-
Net change in borrowings	302.7	(147.3)	205.0	300.0	-
Concession lease payments	-	-	(49.1)	(49.1)	(49.1)
Dividends paid	(300.0)	(199.6)	(1,057.4)	(326.4)	(336.0)
Others	(9.2)	(0.7)	20.6	-	-
Financing Cash Flow	(6.6)	(347.6)	(142.9)	(75.5)	(385.1)
Net cash flow	(32.0)	(26.2)	(153.9)	92.5	(105.9)
Beginning cash	363.1	331.1	304.9	151.0	243.5
Ending cash	331.1	304.9	151.0	243.5	137.6

Income Statement

FY 31 Dec (RM m)	2011A	2012A	2013F	2014F	2015F
Revenue	1,387.4	1,492.3	1,663.9	1,635.4	1,427.2
Core revenue	1,115.3	1,226.2	1,290.8	1,356.9	1,427.2
EBITDA	524.8	592.1	657.7	708.4	729.0
Depreciation & amortisation	(111.8)	(107.7)	(116.4)	(120.6)	(132.2)
Net interest expense	(47.9)	(49.7)	(52.9)	(62.8)	(67.7)
Pretax profit	365.1	434.7	488.4	525.0	529.1
Taxation	(48.6)	(73.7)	(78.1)	(78.8)	(79.4)
Minority interests	-	-	-	-	-
Net profit	316.5	361.0	410.2	446.3	449.7
Core net profit	378.1	417.7	437.7	446.3	449.7

Key Statistics & Ratios

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Growth					
Revenue	38.9%	7.6%	11.5%	-1.7%	-12.7%
Core revenue	14.4%	9.9%	5.3%	5.1%	5.2%
EBITDA	-1.6%	12.8%	11.1%	7.7%	2.9%
Pretax profit	-5.3%	19.1%	12.4%	7.5%	0.8%
Core net profit	14.3%	10.5%	4.8%	2.0%	0.8%
Core EPS	14.3%	10.5%	4.8%	2.0%	0.8%

Profitability

EBITDA margin	37.8%	39.7%	39.5%	43.3%	51.1%
Pretax profit margin	26.3%	29.1%	29.4%	32.1%	37.1%
Core net profit margin	27.3%	28.0%	26.3%	27.3%	31.5%
Return on asset	12.2%	13.0%	12.4%	11.4%	11.5%
Return on equity	28.4%	28.0%	27.7%	26.2%	24.8%
Leverage					
Total debt / total assets (x)	0.42	0.36	0.38	0.42	0.41
Total debt / equity (x)	0.97	0.79	0.85	0.96	0.88
Net debt / equity (x)	0.88	0.57	0.76	0.81	0.81

Key Drivers

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
Container throughput (m TEUs)	6.4	6.9	7.2	7.6	8.0
- Transshipment (m TEUs)	4.7	4.9	5.1	5.4	5.7
- Gateway (m TEUs)	1.7	2.0	2.1	2.2	2.3
Conventional throughput (m ton)	9.6	10.2	10.9	11.4	12.0

Valuation

FY 31 Dec	2011A	2012A	2013F	2014F	2015F
EPS (sen)	9.3	10.6	12.0	13.1	13.2
Core EPS (Sen)	11.1	12.2	12.8	13.1	13.2
P/E (x)	22.5	20.4	19.5	19.1	19.0
EV/EBITDA (x)	18.0	15.8	14.8	14.0	13.7
Net DPS (sen)	5.9	29.6	9.0	9.8	9.9
Net dividend yield (%)	2.3	11.8	3.6	3.9	4.0
BV per share (RM)	0.39	0.44	0.46	0.50	0.53
P/BV (x)	6.4	5.7	5.4	5.0	4.7

DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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