

Westports volume growth may slow down in FY17

Flat 2Q revenue seen for Malaysian Pacific Industries

Westports Holdings Bhd (Jan 12, RM4.30)

Maintain hold call with a target price (TP) of RM4: On April 1, the 2017 Ocean Alliance which could eventually include Hong Kong's Orient Overseas Container Line Ltd (OOCL) and Taipei-based Evergreen Marine Corp will finally come into effect.

This caps a tumultuous period in container shipping which started from late 2015, when CMA CGM SA of France (Westports Holdings Bhd's largest customer) began negotiations to acquire American Presidents Lines Ltd (APL), and China Cosco Holdings Bhd (Cosco) was asked by the Chinese government to absorb China Shipping Container Lines Co Ltd (CSCL). As a result, new alliances were negotiated last year.

When the Ocean 3 alliance of CMA CGM, CSCL and United Arab Shipping Co (UASC) took effect in January 2015, Westports benefited handsomely, as CMA CGM broke off a partnership with Maersk on Asia-Mediterranean routes and CMA CGM consequently moved transshipment volumes on the trade from Port of Tanjung Pelepas to Westports.

When CMA CGM successfully negotiated to acquire Singapore's APL in mid-2016, we had hoped that Westports would benefit, but instead, CMA CGM signed a 49% joint-venture deal with Port of Singapore Authority to jointly operate

Westports Holdings Bhd

FY/DEC (RM MIL)	2014A	2015A	2016F	2017F	2018F
Revenue	1,562	1,682	2,039	2,290	1,977
Operating Ebitda	801	874	966	1,004	1,047
Net profit	512.2	504.8	612.6	715.9	572.1
Core EPS (RM)	0.15	0.15	0.18	0.21	0.17
Core EPS growth (%)	24.4	(2.7)	20.4	16.9	(20.1)
FD Core PER (x)	27.98	28.76	23.88	20.43	25.57
DPS (RM)	0.11	0.11	0.13	0.16	0.13
Dividend yield (%)	2.62	2.59	3.14	3.67	2.93
EV/Ebitda (x)	19.14	17.60	16.09	15.76	14.94
P/FCFE (x)	30.38	40.08	20.15	31.22	17.53
Net gearing (%)	40.0	39.7	44.4	53.8	42.8
P/BV (x)	8.29	7.71	7.13	6.56	6.16
ROE (%)	31.0	27.8	31.0	33.4	24.9
% Change in core EPS estimates			0.00	(3.12)	(9.24)
CIMB/consensus EPS (x)			0.99	1.09	0.86

Sources: Company data, CIMB forecasts

a terminal in Singapore. CMA CGM later said that it would transfer some one million twenty-foot equivalent units (TEUs) of transshipment cargo to Singapore, amounting to some one-third of its volume in Westports, effective April 1, 2017. Meanwhile, a successful

merger between Hapag-Lloyd and UASC may see some one million TEUs of UASC cargo at Westports also leave, most likely to Singapore, in our view.

Despite an annualised two million TEUs of transshipment cargo potentially leaving Westports from April 1, 2017, it may get more in-

tra-Asia cargo from Hapag-Lloyd and Cosco, and more long-haul transshipment cargo from Evergreen and OOCL.

Also, Westports may benefit from "ad hoc" lifting in the run-up to the April realignment.

We now forecast a 5.5% year-on-year (y-o-y) volume growth in the forecast for financial year 2017 (FY17E), down from 9.7% previously. As FY18E will not likely have "ad hoc" lifting, we now forecast a 0.3% y-o-y volume decline, instead of the previous forecast of a 6% growth.

Deputy Transport Minister Datuk Abdul Aziz Kaprawi was quoted

by the press on Wednesday saying that "Northport would own the third terminal on Carey Island" and that construction will start by end-2017. Northport is wholly-owned by MMC Corp Bhd. The port capital expenditure (capex) itself will be funded by private money, including possible participation of China Merchants Group, but the government will have to fork out basic infrastructure capex. We expect Phase 1 to open around 2024 to 2025, at about the same time as Singapore's massive Tuas terminal.

The Pulau Carey port will be expensive to build because of breakwater requirements and significant land reclamation works, but the government appears determined on proceeding, to cater to Malaysia's long-term needs. Once fully built, the port may have capacity of 30 million to 40 million TEUs per annum versus Westports maximum capacity of 16 million TEUs by 2020 to 2021. Hence, by mid-2020s, there could be a significant supply of port capacity in Asean that could intensify price competition, notwithstanding high capex costs on Pulau Carey.

Our earnings per share forecast and discounted cash flow-based TP have been reduced on lower volume assumptions. Pulau Carey risks have not been factored into our valuation. We maintain "hold" as Westports remains a solid and profitable company. — *CIMB Investment Research, Jan 12*

Sunway REIT acquires industrial asset for RM91.5m

Sunway Real Estate Investment Trust (Jan 12, RM1.72)

Maintain market perform call with a higher target price (TP) of RM1.68: Sunway Real Estate Investment Trust (REIT) has acquired an industrial asset in Shah Alam for RM91.5 million from Champion Edge Sdn Bhd with a long-term lease of 18 years, which we deemed as neutral-to-mildly positive for earnings.

As such, we increase our earnings marginally by less than 1% for financial year 2017 (FY17) and FY18. We maintain "market perform" but increase our TP to RM1.68 (from RM1.61), on a slightly lower targeted gross yield of 5.7% (from 5.9%), closer to its Malaysian REIT peers' average yield of 5.5%.

Sunway REIT has acquired its first industrial asset, which consists of a factory, warehouse and office space with a long-term lease of 18 years until December 2034 (initial term) and a five-year renewal to IDS Manufacturing Sdn Bhd. Rental reversions are every three years (next review in Janu-

Sunway REIT

FY/JUNE (RM MIL)	2016A	2017E	2018E
Turnover	507	539	573
Ebit	346	358	386
PBT	324	271	291
Net profit	324	271	291
Core NP (RM)	262	271	291
Core EPS (sen)	8.9	9.2	9.9
Core EPS growth (%)	8	3	7
GDPS (sen)	9.2	9.2	9.9
BV/Share (RM)	1.50	1.50	1.50
Core PER (x)	19.4	18.8	17.5
ROE (%)	8	7	7
G.Dividend yield (%)	5.3	5.3	5.7

Source: Kenanga Research

ary 2019) with a minimal step up which is capped at a maximum 10%. The acquisition is expected to be completed by the third quarter of FY17 upon the conditions precedent being met.

The asset's gross yield and net yield are similar at 6.1% as it is a triple net lease asset, implying that most costs are borne by the tenant. Although this is not as attractive as Axis REIT's recent industrial asset acquisitions of 7% to 8%, we believe

this will help improve Sunway REIT's portfolio yield of 5.5% in FY16.

Furthermore, the long lease term of 18 years provides income stability from guaranteed rental to Sunway REIT in tough market conditions due to uncertainty in the office and hospitality segment. Location-wise, the asset is in close proximity to major highways, namely Federal Highway, Elite Highway and Shah Alam Expressway as well as to Kuala Lumpur In-

ternational Airport and Port Klang.

We are neutral to mildly positive about the acquisition as impact to earnings is minimal at 0.4% to 0.7% in FY17 to FY18E (estimated). Post-acquisition, we expect Sunway REIT gearing to inch up slightly to 0.35 times (from 0.34 times currently) as the acquisition is relatively small. This is below Securities Commission Malaysia's limit of 0.5 times and Sunway REIT's internal gearing limit of 0.4 times. All in, we are mildly positive about this acquisition despite it being yield-neutral to shareholders as it provides earnings stability in the long run.

As such, we increase our FY17 to FY18E average gross dividend per share slightly to 9.6 sen (from 9.5 sen), implying gross yields of 5.3% to 5.7% in FY17 to FY18E.

We maintain "market perform" on a higher TP of RM1.68 (from RM1.61) based on a lower FY17 to FY18E target gross yield of 5.7% (net: 5.2%). This is based on a lower spread of +1.5 percentage points (ppis) (from +1.7ppis) to 10-year Malaysia Government Securities of 4.2%. — *Kenanga Research, Jan 12*

Malaysian Pacific Industries Bhd (Jan 12, RM7.83)

Upgrade to buy call with a target price (TP) of RM9.31: Malaysian Pacific Industries Bhd (MPI) is set to release its second quarter of financial year 2017 (2QFY17) results on Jan 25. We expect revenue to be flatish quarter-on-quarter in US dollar terms. Overall profitability, however, could be boosted by weakness in the ringgit in the December quarter.

The US dollar and ringgit rate averaged 4.32 in 4QFY16 (versus 4.05 in 3QFY16 and 4.28 in 4QFY15). All in, we expect 2QFY17 net profit of RM40 million to RM50 million, with an implied earnings per share (EPS) of 19.1 sen to 23.8 sen. We note that management does not typically disclose the impact of unrealised foreign exchange movements in its books.

We take the opportunity to raise our FY17 to FY19 EPS forecasts by 9% to 13% as we revise our US dollar and ringgit estimate to 4.15 (from 3.80 to 3.90). The full impact, in our view, would be partly offset by higher average selling price erosion, as we expect MPI's customers to push for more competitive pricing.

Among the local outsourced semiconductor assembly and testing players under our coverage, MPI has the highest exposure to the automotive segment, at over 24% of its 1QFY17 revenue. While the qualification process for new products is typically longer — 12 to 24 months versus smartphone components' three to six months — we see positivity in its relatively less cyclical demand and long product shelflife to propel growth in the long run.

Industry experts expect the automotive semiconductor market to record a compound annual growth rate (2017 to 2022) of 5% to 7%, reaching over US\$50 billion by 2022. This, in our view, would be driven by the rising trend of vehicle electrification and growing demand for advanced features for both safety and comfort purposes.

On a positive note, MPI's net cash pile remained sturdy, with its gross cash or debt closing at RM359.8 million/RM24.9 million as at September 2016.

In addition, the group has accumulated treasury shares of 20 million units. These could imply that there is potential for more generous dividends going forward in the form of cash or share distribution. We are currently forecasting a decent yield of 3.7% to 4.2% per annum, pegged at a payout ratio of 37% to 39%.

Key risks to our earnings estimate include further strengthening of the US dollar against the ringgit and a potential global economic slowdown, which would affect consumer spending on technology products.

We revise our TP to RM9.31, based on an unchanged 12 times 2017 price-earnings ratio following our earnings revision. — *RHB Research Institute, Jan 12*